

JD.com, Inc.  
Form 20-F  
April 15, 2019  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 20-F**

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(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, 2018.

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

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**JD.com, Inc.**

(Exact Name of Registrant as Specified in its Charter)

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N/A

(Translation of Registrant's Name Into English)

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**Cayman Islands**

(Jurisdiction of Incorporation or Organization)

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**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**

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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 depository shares (one American depository share representing two Class A ordinary shares, par value US\$0.00002 per share)	The NASDAQ Stock Market LLC  (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 depository shares.

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

**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:

2,449,222,672 Class A ordinary shares (excluding the 58,250,658 Class A ordinary shares issued to the depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plan) and 458,342,517 Class B ordinary shares, par value US\$0.00002 per share, as of December 31, 2018.

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See 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.

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



Table of Contents

**TABLE OF CONTENTS**

<u>INTRODUCTION</u>		1
<u>FORWARD-LOOKING INFORMATION</u>		1
<u>PART I</u>		2
<u>Item 1.</u>	<u>Identity of Directors, Senior Management and Advisers</u>	2
<u>Item 2.</u>	<u>Offer Statistics and Expected Timetable</u>	2
<u>Item 3.</u>	<u>Key Information</u>	2
<u>Item 4.</u>	<u>Information on the Company</u>	53
<u>Item 4A.</u>	<u>Unresolved Staff Comments</u>	93
<u>Item 5.</u>	<u>Operating and Financial Review and Prospects</u>	93
<u>Item 6.</u>	<u>Directors, Senior Management and Employees</u>	116
<u>Item 7.</u>	<u>Major Shareholders and Related Party Transactions</u>	126
<u>Item 8.</u>	<u>Financial Information</u>	131
<u>Item 9.</u>	<u>The Offer and Listing</u>	132
<u>Item 10.</u>	<u>Additional Information</u>	133
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	145
<u>Item 12.</u>	<u>Description of Securities Other than Equity Securities</u>	146
<u>PART II</u>		148
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	148
<u>Item 14.</u>	<u>Modifications to the Rights of Security Holders and Use of Proceeds</u>	148
<u>Item 15.</u>	<u>Controls and Procedures</u>	148
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>	149
<u>Item 16B.</u>	<u>Code of Ethics</u>	149
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>	149
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	149
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	149
<u>Item 16F.</u>	<u>Change in Registrant's Certifying Accountant</u>	150
<u>Item 16G.</u>	<u>Corporate Governance</u>	150
<u>Item 16H.</u>	<u>Mine Safety Disclosure</u>	150
<u>PART III</u>		151
<u>Item 17.</u>	<u>Financial Statements</u>	151
<u>Item 18.</u>	<u>Financial Statements</u>	151
<u>Item 19.</u>	<u>Exhibits</u>	151
<u>SIGNATURES</u>		156

Table of Contents

**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;
- **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. 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 and their subsidiaries.

**FORWARD-LOOKING INFORMATION**

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 like*

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



Table of Contents

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.

Our reporting currency is Renminbi, or RMB. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report are made at a rate of RMB6.8755 to US\$1.00, the exchange rate in effect as of December 31, 2018 as set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve System. 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.

**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 operated by Beijing Jingdong Financial Technology Holding Co., Ltd. (now known as Beijing Jingdong Digital Technology Co., Ltd., or JD Digits), as a result of the reorganization of JD Digits. Accordingly, the historical financial results of JD Digits 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, 2016, 2017 and 2018, selected consolidated balance sheets data as of December 31, 2017 and

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2018 and selected consolidated cash flow data for the years ended December 31, 2016, 2017 and 2018 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. JD Digits is reflected as discontinued operations in these selected consolidated financial statements, as applicable. The selected consolidated statements of operations data for the years ended December 31, 2014 and 2015, selected consolidated balance sheets data as of December 31, 2014, 2015 and 2016 and selected consolidated cash flow data for the years ended December 31, 2014 and 2015 have been derived from our audited consolidated financial statements not included in this annual report, and the cash flow data for the years ended December 31, 2014 and 2015 has been retrospectively adjusted as a result of the new accounting guidance adopted on January 1, 2018 (see note (6) below for more details). JD Digits is not reflected as discontinued operations in the selected consolidated statements of operations data for the year ended December 31, 2014, selected consolidated balance sheets data as of December 31, 2014 and 2015 and selected consolidated cash flow data for the years ended December 31, 2014 as the impact of JD Digits 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.

Table of Contents

	For the Year Ended December 31,					2018	US\$
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	RMB		
(in millions, except for share, per share and per ADS data)							
<b>Selected Consolidated Statements of Operations Data:</b>							
<b>Net revenues:</b>							
Net product revenues (formerly known as online direct sales)	108,549	167,936	237,944	331,824	416,109		60,521
Net service revenues (formerly known as services and others)	6,453	13,106	20,346	30,508	45,911		6,677
<b>Total net revenues</b>	<b>115,002</b>	<b>181,042</b>	<b>258,290</b>	<b>362,332</b>	<b>462,020</b>		<b>67,198</b>
<b>Operating expenses(1)(2)(3):</b>							
Cost of revenues	(101,631)	(158,960)	(222,935)	(311,517)	(396,066)		(57,606)
Fulfillment	(8,067)	(12,367)	(18,560)	(25,865)	(32,010)		(4,656)
Marketing	(4,010)	(7,233)	(10,159)	(14,918)	(19,237)		(2,798)
Technology and content	(1,836)	(2,902)	(4,453)	(6,652)	(12,144)		(1,766)
General and administrative	(5,260)	(2,188)	(3,436)	(4,215)	(5,160)		(750)
Impairment of goodwill and intangible assets		(2,750)			(22)		(3)
<b>Total operating expenses</b>	<b>(120,804)</b>	<b>(186,400)</b>	<b>(259,543)</b>	<b>(363,167)</b>	<b>(464,639)</b>		<b>(67,579)</b>
<b>Loss from operations</b>	<b>(5,802)</b>	<b>(5,358)</b>	<b>(1,253)</b>	<b>(835)</b>	<b>(2,619)</b>		<b>(381)</b>
<b>Other income/(expense):</b>							
Share of results of equity investees		(2,852)	(2,782)	(1,927)	(1,113)		(162)
Interest income	638	673	1,227	2,530	2,118		308
Interest expense	(29)	(73)	(619)	(964)	(855)		(124)
Others, net	216	(147)	1,544	1,317	95		14
Income/(loss) before tax	(4,977)	(7,757)	(1,883)	121	(2,374)		(345)
Income tax benefits/(expenses)	(19)	15	(166)	(140)	(427)		(62)
<b>Net loss from continuing operations</b>		<b>(7,742)</b>	<b>(2,049)</b>	<b>(19)</b>	<b>(2,801)</b>		<b>(407)</b>
<b>Net income/(loss) from discontinued operations, net of tax</b>		<b>(1,376)</b>	<b>(1,365)</b>	<b>7</b>			
<b>Net loss</b>	<b>(4,996)</b>	<b>(9,118)</b>	<b>(3,414)</b>	<b>(12)</b>	<b>(2,801)</b>		<b>(407)</b>
Net loss from continuing operations attributable to non-controlling interests shareholders		(10)	(48)	(135)	(311)		(45)
Net loss from discontinued operations attributable to non-controlling interests shareholders			(4)	(5)			
Net income from continuing operations attributable to mezzanine classified non-controlling interests shareholders					2		0
Net income from discontinued operations			445	281			

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attributable to mezzanine classified non-controlling interests shareholders						
Preferred shares redemption value accretion	(7,958)					
Net income/(loss) from continuing operations attributable to ordinary shareholders		(7,732)	(2,001)	116	(2,492)	(362)
Net loss from discontinued operations attributable to ordinary shareholders		(1,376)	(1,806)	(269)		
<b>Net loss attributable to ordinary shareholders</b>	<b>(12,954)</b>	<b>(9,108)</b>	<b>(3,807)</b>	<b>(153)</b>	<b>(2,492)</b>	<b>(362)</b>

Table of Contents

	For the Year Ended December 31,					
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2018 RMB	US\$
(in millions, except for share, per share and per ADS data)						
Net income/(loss) per share						
Basic						
Continuing operations		(2.83)	(0.71)	0.04	(0.87)	(0.13)
Discontinued operations		(0.50)	(0.64)	(0.09)		
Net loss per share	(5.35)	(3.33)	(1.36)	(0.05)	(0.87)	(0.13)
Diluted						
Continuing operations		(2.83)	(0.71)	0.04	(0.87)	(0.13)
Discontinued operations		(0.50)	(0.64)	(0.09)		
Net loss per share	(5.35)	(3.33)	(1.36)	(0.05)	(0.87)	(0.13)
Net income/(loss) per ADS(4)						
Basic						
Continuing operations		(5.65)	(1.43)	0.08	(1.73)	(0.25)
Discontinued operations		(1.01)	(1.29)	(0.19)		
Net loss per ADS	(10.71)	(6.66)	(2.71)	(0.11)	(1.73)	(0.25)
Diluted						
Continuing operations		(5.65)	(1.43)	0.08	(1.73)	(0.25)
Discontinued operations		(1.01)	(1.29)	(0.18)		
Net loss per ADS	(10.71)	(6.66)	(2.71)	(0.11)	(1.73)	(0.25)
Weighted average number of shares:						
Basic	2,419,668,247	2,735,034,034	2,804,767,889	2,844,826,014	2,877,902,678	2,877,902,678
Diluted	2,419,668,247	2,735,034,034	2,804,767,889	2,911,461,817	2,877,902,678	2,877,902,678

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

	For the Year Ended December 31,					
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2018 RMB	US\$
(in millions)						
Cost of revenues		(8)	(17)	(28)	(72)	(10)
Fulfillment	(129)	(164)	(332)	(426)	(419)	(61)
Marketing	(24)	(48)	(87)	(136)	(190)	(28)
Technology and content	(79)	(209)	(470)	(671)	(1,163)	(169)
General and administrative	(4,018)	(648)	(1,154)	(1,520)	(1,816)	(264)

(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.

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	2014 RMB	2015 RMB	For the Year Ended December 31,		2018 RMB	US\$
			2016 RMB	2017 RMB		
	(in millions)					
Fulfillment	(21)	(10)	(93)	(164)	(168)	(24)
Marketing	(925)	(1,225)	(1,222)	(1,222)	(1,232)	(179)
Technology and content	(19)	(24)	(46)	(84)	(98)	(14)
General and administrative	(146)	(180)	(248)	(308)	(308)	(45)

(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 year ended December 31, 2014 were not reclassified to cost of revenues as the impact was not material.

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

Table of Contents

	2014 RMB	2015 RMB	As of December 31,		2018 RMB	2018 US\$
			2016 RMB	2017 RMB		
(in millions, except for share data)						
<b>Selected Consolidated Balance Sheets Data:</b>						
Cash and cash equivalents	16,915	17,864	15,567	25,688	34,262	4,983
Restricted cash	3,038	2,115	2,294	4,110	3,240	471
Short-term investments	12,162	2,780	6,548	8,588	2,036	296
Inventories, net	12,191	20,540	28,909	41,700	44,030	6,404
Accounts receivable, net	2,301	8,194	16,141	16,359	11,110	1,616
Investment in equity investees	587	8,713	14,629	18,551	31,357	4,561
Total assets	66,493	85,015	160,374	184,055	209,165	30,422
Accounts payable	16,364	29,819	46,036	74,338	79,985	11,633
Nonrecourse securitization debt		3,334	11,549	17,160	4,398	640
Unsecured senior notes			6,831	6,447	6,786	987
Total liabilities	28,995	54,294	119,154	131,666	132,337	19,248
Total mezzanine equity(5)			7,057		15,961	2,321
Total JD.com, Inc. shareholders equity	37,498	30,583	33,893	52,041	59,771	8,693
Number of outstanding ordinary shares	2,731,718,357	2,741,990,486	2,836,444,397	2,852,663,429	2,894,296,355	2,894,296,355

(5) In February 2018, we raised financing for JD Logistics from third-party investors in the total amount of US\$2.5 billion by issuing series A preferred shares of JD Logistics. Upon the completion of the financing, the third-party investors own approximately 19% of the equity interests of JD Logistics on a fully diluted basis. We determined that the series A preferred shares should be classified as mezzanine equity upon their issuance since they were contingently redeemable.

	2014 RMB	2015 RMB	For the Year Ended December 31,		2018 RMB	2018 US\$
			2016 RMB	2017 RMB		
(in millions)						
<b>Selected Consolidated Cash Flows Data:</b>						
Net cash provided by continuing operating activities		4,122	9,467	29,342	20,881	3,037
Net cash used in discontinued operating activities		(1,349)	(1,227)	(2,486)		
Net cash provided by operating activities(6)	1,980	2,773	8,240	26,856	20,881	3,037
Net cash used in continuing investing activities		(9,809)	(17,069)	(21,944)	(26,079)	(3,793)
Net cash provided by/(used in) discontinued investing activities		2,018	(28,412)	(17,871)		
Net cash used in investing activities(6)	(13,017)	(7,791)	(45,481)	(39,815)	(26,079)	(3,793)
Net cash provided by continuing financing activities		3,835	8,649	5,180	11,220	1,632
		865	32,050	14,055		

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Net cash provided by discontinued financing activities						
Net cash provided by financing activities	18,392	4,700	40,699	19,235	11,220	1,632
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(101)	344	727	(642)	1,682	244
Net increase in cash, cash equivalents and restricted cash	7,254	26	4,185	5,634	7,704	1,120
Cash, cash equivalents and restricted cash at beginning of year	12,699	19,953	19,979	24,164	29,798	4,334
Cash, cash equivalents and restricted cash at end of year	19,953	19,979	24,164	29,798	37,502	5,454
Less: Cash, cash equivalents and restricted cash of discontinued operations at end of year		3,882	6,303			
Cash, cash equivalents and restricted cash of continuing operations at end of year		16,097	17,861	29,798	37,502	5,454



Table of Contents

(6) As a result of new accounting guidance adopted on January 1, 2018, the consolidated statements of cash flows were retrospectively adjusted to include restricted cash in cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The impact of the retrospective reclassification on cash flows of operating activities for the years ended December 31, 2014, 2015, 2016 and 2017 was an increase of RMB690 million, an increase of RMB1,077 million, a decrease of RMB527 million, and an increase of RMB2,035 million, respectively. The impact on cash flows of investing activities for the years ended December 31, 2014, 2015, 2016 and 2017 was an increase of RMB461 million, a decrease of RMB2,000 million, an increase of RMB2,787 million, and a decrease of RMB2,317 million, respectively.

**B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

**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 continued to grow in recent years, and we expect continued growth in our business and revenues. We plan to further expand our fulfillment infrastructure and technology platform and increase our product offerings. For example, we plan to continue to build our warehouses. We have already launched our warehousing facilities in 11 cities. In addition, we are in the process of constructing warehousing facilities in 16 other cities. We also plan to continue to establish new fulfillment facilities in additional locations across China, including smaller, less developed areas. In 2018, we recruited new 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 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.

Table of Contents

***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 RMB2,049 million, RMB19 million and RMB2,801 million (US\$407 million) in 2016, 2017 and 2018, respectively. We had accumulated deficits of RMB21,860 million, RMB22,235 million and RMB24,038 million (US\$3,496 million) as of December 31, 2016, 2017 and 2018, 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 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.

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, 2018, we had a total of 12,482 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.



Table of Contents

*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 and mobile apps 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.

*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, or AI, 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 and mobile apps 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 and mobile apps 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 and mobile apps at attractive prices, they may lose interest in us and visit our websites and mobile apps less frequently or even stop visiting our websites and mobile apps 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 business prospects 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, 2018, we operated regional fulfillment centers in seven major cities, front distribution centers in 28 cities and other additional warehouses in 46 cities in China. Our comprehensive fulfillment facilities covered almost all the counties and districts across China, and we had 124,277 warehouse and delivery personnel as of December 31, 2018. We are constructing our warehouses to increase our storage capacity and to restructure and reorganize our fulfillment workflow and processes.

Table of Contents

In April 2017, we 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 and after-sales service. In October 2018, JD Logistics opened up its leading logistics network to consumers, offering parcel delivery service to users in certain regions. Leveraging our extensive delivery network, users in these areas can conveniently send items intra-city and throughout most of mainland China with our same fast and reliable delivery service. 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. In addition, the development of logistics business is capital intensive. To address such capital requirement, 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\$2.5 billion from third-party investors, who owned an aggregate of approximately 19% 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. Despite such arrangement and capital injection, JD Logistics may require additional capital resources due to further developments or changed business conditions. JD Logistics 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 equity stake in JD Logistics, and the investors may have a strategy or objective different from ours with respect to JD Logistics or impose conditions that could restrict the operations of JD Logistics. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financial covenants that would restrict its operations. It is uncertain whether financing will be available in amounts or on terms acceptable, if at all. In addition, JD Logistics may from time to time need to adjust certain elements of its operations in response to evolving economic conditions and business needs. For example, JD Logistics recently announced that it will make certain adjustments to the compensation structure of its warehouse and delivery personnel. These adjustments, however, may not be sufficient to allow JD Logistics to address the various challenges it faces or improve its results of operations and financial performance as expected. Furthermore, if the compensation package offered is not competitive in the market, JD Logistics may not be able to provide sufficient incentives to or maintain stable and dedicated warehousing, delivery and other labor support, which may result in disruption to or delay in its delivery services. Any failure to address these risks and uncertainties could materially and adversely affect JD Logistics' results of operations and financial performance and its prospects of achieving profitability, which could have a material adverse impact on our business development, financial conditions and results of operations.

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.

*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.



Table of Contents

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 apparel and footwear, bags, jewelry, household goods, cosmetics, personal care products, baby and maternity products, food and beverages, fresh produce, fitness equipment, autoparts, nutritional supplements, and books and virtual goods. 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.

Our net inventories have increased significantly in recent periods, from RMB28,909 million as of December 31, 2016 to RMB41,700 million as of December 31, 2017 and further to RMB44,030 million (US\$6,404 million) as of December 31, 2018. Our annual inventory turnover days were 37.6 days in 2016, 38.1 days in 2017 and 37.3 days in 2018. 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.

Table of Contents

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. 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 RMB10,159 million, RMB14,918 million and RMB19,237 million (US\$2,798 million) of marketing expenses in 2016, 2017 and 2018, 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.

***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 19,000 suppliers as of December 31, 2018. 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 52.0 days in 2016, 59.1 days in 2017 and 58.1 days in 2018. 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.

Table of Contents

***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 other than in connection with the fixed business premises of our 7FRESH business, 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 significant resources in expanding and will continue to expand our fulfillment infrastructure and upgrade our technology platform. In connection with our expansion of our fulfillment infrastructure, we had paid an aggregate of approximately RMB14.2 billion (US\$2.1 billion) for the acquisition of land use rights, building of warehouses and purchase of warehousing equipment as of December 31, 2018. We also paid significant amounts for upgrading our technology platform during the same periods. We expect to continue to invest in our fulfillment and technology capabilities for a number of years. We also intend to continue to add resources to our fulfillment infrastructure and upgrade our 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.

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

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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.

Table of Contents

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

As of December 31, 2018, there were over 210,000 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 and mobile apps. If any third-party seller does not control the quality of the products that it sells on our websites and mobile apps, 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 and mobile apps, 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.

***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.





Table of Contents

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 our investments in Bitauto Holdings Limited, or Bitauto, an NYSE-listed provider of internet content and marketing services for China's fast-growing automotive industry, Yixin Group Limited, or Yixin, a HKEx-listed company that operates a leading online automobile retail transaction platform and subsidiary of Bitauto, and Dada Nexus Limited, or Dada, China's largest crowdsourcing delivery company, our acquisition of Yihaodian marketplace platform assets from Wal-Mart Stores, Inc., or Walmart, an NYSE-listed company, including the Yihaodian brand, websites and mobile apps, and our investments in Yonghui Superstores Co., Ltd, or Yonghui, a company listed on the Shanghai Stock Exchange and a leading hypermarket and supermarket operator in China, Farfetch.com Limited, or Farfetch, an NYSE-listed leading global e-commerce platform for the fashion industry, China United Network Communications Limited, or China Unicom, a company listed on the Shanghai Stock Exchange and a Chinese telecommunications operator, Vipshop Holdings Limited, or Vipshop, an NYSE-listed online discount retailer for brands in China, and Dalian Wanda Commercial Properties Co., Ltd., or Wanda Commercial Properties, a leading developer, owner and operator of commercial properties in China. See Item 4. Information on the Company A. History and Development of the Company Our Major Investments.

Table of Contents

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.

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. 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 2018, our share of results of equity investees was a loss of RMB1.1 billion (US\$0.2 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. In addition, changes in accounting principles relating to recognition and measurement of our investments may have a significant impact on our financial results. For instance, in January 2016, the Financial Accounting Standards Board, or the FASB, issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. With the adoption of ASU 2016-01 beginning January 1, 2018, we measure long-term investments other than equity method investments at fair value through earnings, which could vary significantly quarter to quarter. For investments without readily determinable fair values, we elect to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. The adoption of ASU 2016-01 has had a significant impact on our earnings, and we recorded a loss of RMB1.5 billion (US\$0.2 billion) resulting from the fair value change in long-term investments in 2018.

*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 the majority 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 mobile apps and to improve the online shopping experience of our customers in response to trends and consumer requirements, may adversely affect our net revenues and business prospects.

Table of Contents

Furthermore, the retail industry is very sensitive to macroeconomic changes, and retail purchases tend to decline during recessionary periods. The majority 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. In addition, we do not have key-man insurance for any of our executive officers or other key personnel. Events or activities attributed to our executive officers or other key personnel, and related publicity, whether or not justified, may affect their ability or willingness to continue to serve our company or dedicate their full time and efforts to our company, resulting in an adverse effect on our business, operating results and financial condition.

***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, 2018, we employed a total of 124,277 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. Therefore, to maintain and enhance our competitiveness, we may from time to time need to adjust certain elements of our operations in response to evolving economic conditions and business needs. For example, JD Logistics recently announced that it will make certain adjustments to the compensation structure of its warehouse and delivery personnel. These adjustments, however, may not be sufficient to allow JD Logistics to address the various challenges it faces or improve its results of operations and financial performance as expected. Furthermore, if the compensation package offered is not competitive in the market, JD Logistics may not be able to provide sufficient incentives to or maintain stable and dedicated warehousing, delivery and other labor support. Any failure to address these risks and uncertainties could materially and adversely affect JD Logistics' results of operations and financial performance and its prospects of achieving profitability, which could have a material adverse impact on our business development, financial

conditions and results of operations. 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.

Table of Contents

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

We sourced our products from over 19,000 suppliers as of December 31, 2018. Third-party sellers on our online marketplace are separately responsible for sourcing the products they sell on our websites and mobile apps. As of December 31, 2018, we had over 210,000 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 mobile apps 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 and mobile apps or infringing content is posted on our websites and mobile apps, 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.

***The proper functioning of our technology platform is essential to our business. Any failure to maintain the satisfactory performance of our websites, mobile apps 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 and mobile apps. 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.

Table of Contents

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 and mobile apps 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 and mobile apps. 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 receive 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.

***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 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.



Table of Contents

***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.

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 came into 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. In addition, we may need to comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data in the U.S., Europe and elsewhere. For example, the European Union adopted the General Data Protection Regulation, or the GDPR, which became effective on May 25, 2018. The GDPR imposes additional obligations on companies regarding the handling of personal data and provides certain individual privacy rights to persons whose data is stored. Compliance with existing, proposed and recently enacted laws (including implementation of the privacy and process enhancements called for under GDPR) and regulations can be costly; any failure to comply with these regulatory standards could subject us to legal and reputational risks.

Table of Contents

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, and misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against us by governmental authorities or other authorities, damage to our reputation and credibility and could have a negative impact on revenues and profits.

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 and UnionPay. 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.

Table of Contents

***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.

***The offline fresh food markets operated under our 7FRESH brand rely heavily on sales of perishable products, and ordering errors or product supply disruptions may have an adverse impact on the profitability and operating results.***

Our offline fresh food markets rely on various suppliers and vendors to provide and deliver our perishable product inventory promptly on an ongoing basis. We could suffer significant product inventory losses in the event of the loss of a major supplier or vendor, disruption of our distribution network, extended power outages, natural disasters or other catastrophic occurrences. We have implemented certain systems to ensure our ordering is in line with demand. We cannot assure you, however, that our ordering system will always work efficiently, in particular in connection with the opening of new stores, which have no, or a limited, ordering history. If we were to over-order, we could suffer inventory losses, which would negatively impact our operating results.

***We may experience negative impact on our reputation due to real or perceived quality or health issues with the food products sold at our offline fresh food markets, which could have an adverse impact on our operating results.***

Customers of our offline fresh food markets expect us to provide them with fresh, high-quality food products. Concerns regarding the safety of our food products or the safety and quality of our food supply chain could cause shoppers to avoid purchasing certain products from us, or to seek alternative sources of food, even if the basis for the concern is outside of our control. Negative publicity about these concerns, whether or not ultimately based on facts, and whether or not involving products sold at our stores, could discourage consumers from buying our products and have an adverse impact on our operating results. Furthermore, sales of food products entails inherent risks of product liability claims, product recall and the resulting negative publicity. Food products containing contaminants could be inadvertently distributed by us and, if processed by the consumers level does not eliminate them, these contaminants could result in illness or death. We cannot assure you that product liability claims will not be asserted against us or that we will not be obligated to perform product recalls or held liable in the future.

Table of Contents

Any loss in confidence on the part of our customers would be difficult and costly to reestablish. Any such adverse impact could be exacerbated by our position in the market as a purveyor of fresh, high-quality food products and could significantly reduce our brand value. Issues regarding the safety of any food items sold by us, regardless of the cause, could have a material and adverse impact on our sales and operating results.

***If JD Digits is unable to successfully manage its business or conflicts that could arise between us and JD Digits 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 Digits was deconsolidated from our company as a result of the reorganization of JD Digits. After the reorganization, we do not have legal ownership or effective control of JD Digits. Mr. Richard Qiangdong Liu, our chairman and chief executive officer, has a majority of the voting interests in JD Digits through his equity stake and voting arrangements. See Item 4. Information on the Company A. History and Development of the Company and Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Agreements and Transactions Relating to JD Digits for further information.

JD Digits currently provides us with certain payment services on a non-exclusive basis and may provide additional services to us in the future. If JD Digits will not be 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 Digits 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 Digits may arise relating to commercial or strategic opportunities or initiatives. Although we and JD Digits have each agreed to certain non-competition undertakings after the reorganization, we cannot assure you that JD Digits would not pursue opportunities to provide services to our competitors or other opportunities that would conflict with our interests. If JD Digits is unable to successfully manage its business or conflicts of interest that could arise between us and JD Digits are not resolved in our favor, our business, financial condition, results of operations and prospectus could be materially and adversely affected.

In addition, we continue to license certain of our intellectual properties, including our JD brand and related trademarks and domain names, to JD Digits in exchange for the right to receive a portion of the pre-tax profit of JD Digits, subject to certain conditions and potential proportional dilution as a result of any future equity financings and ESOP pool increases of JD Digits. While we do not control JD Digits, because of JD Digits's ability to continue to use our brand, our close association with JD Digits and overlapping user base, events that negatively affect JD Digits, 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 Digits.***

The Framework Agreement we entered into with JD Digits in connection with the reorganization of JD Digits provides for future potential equity issuances of up to 40% of equity interest in JD Digits to us in the event that JD Digits applies for and receives certain PRC regulatory approvals in the future. In addition, upon a qualified IPO or other liquidity event of JD Digits, if our total ownership of equity interests in JD Digits, 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 Digits. If we acquire equity interests in JD Digits in an aggregate amount less than the full 40% equity interest, then the percentage of JD Digits's equity value used to calculate the liquidity event payment will be reduced proportionately. The above-mentioned maximum percentages of JD Digits's equity interest that may be issued to us and JD Digits'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 Digits, and have been diluted to approximately 36% in connection with JD Digits's additional round of financing in 2018.

If JD Digits does not receive the required PRC regulatory approvals mentioned above, we will not be able to acquire a direct equity ownership interest in JD Digits, 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 Digits. Our inability to reap the benefits of any appreciation in equity value of JD Digits, including in connection with a qualified IPO or other liquidity event of JD Digits, 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 Digits, which is subject to potential proportional dilution as a result of any future financings or ESOP pool increases of JD Digits and has been diluted to approximately 36% in connection with JD Digits' s additional round of financing in 2018, immediately prior to a qualified IPO or other liquidity event of JD Digits, it is possible that JD Digits 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 Digits.

Table of Contents

***Our 7FRESH brand may be unable to keep existing store locations or open new stores in desirable places on favorable terms, which could materially and adversely affect its results of operations.***

We compete with other retailers and businesses for suitable locations for our offline fresh food stores. Local land use and zoning regulations, environmental regulations and other regulatory requirements may affect our ability to find suitable locations and have an impact on the cost of constructing, renovating and operating our stores. In addition, real estate, zoning, construction and other delays may adversely affect store openings and renovations and increase our costs. Furthermore, changing local demographics at existing store locations may adversely affect revenue and profitability levels at those stores. The termination or expiration of leases at existing store locations may adversely affect us if the renewal terms of those leases are unacceptable to us and we are forced to close or relocate stores. If we determine to close or relocate a store subject to a lease, we may remain obligated under the lease for the remainder of the lease term. If we are unable to maintain our existing store locations or open new locations in desirable places and on favorable terms, the results of operations of our 7 FRESH brand could be materially and adversely affected.

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

Approximately 3.8% of the lessors of our leased warehouses, approximately 13.6% 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 (including the lessors of our 7FRESH offline fresh food stores) 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.

***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.



Table of Contents

*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 State Administration for Market Regulation (formerly known as the State Administration for Industry and Commerce), the National Development and Reform Commission, the Ministry of Commerce, the Ministry of Industry and Information Technology, or MIIT, the Cyberspace Administration of China, 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 448 cities in China. As of December 31, 2018, Jingbangda and its 37 subsidiaries had obtained Courier Service Operation Permits. As of the same date, Xi'an Jingdong Xuncheng and its 11 branches, and Jingbangda and its 33 subsidiaries had obtained Road Transportation Operation Permits that allow these entities to provide road freight transportation services. We are in the process of making filings with local postal administrations for express delivery terminal outlets of Jingbangda and its branches. 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 and mobile apps. Due to licensing requirements, 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.

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.

Table of Contents

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 and mobile apps. 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 and mobile apps, 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. For example, in August 2018, the Standing Committee of the National People's Congress promulgated the E-Commerce Law, which became effective on January 1, 2019. The E-Commerce Law imposes a number of new requirements and obligations on e-commerce platform operators. As no detailed interpretation and implementation rules have been promulgated, it remains uncertain how the newly adopted E-Commerce Law will be interpreted and implemented. We have adopted a series of measures to comply with such requires under the E-Commerce Law. We cannot assure you, however, that our current business operations meet the requirements under the E-Commerce Law in all respects. If the PRC governmental authorities determine that we are not in compliance with all the requirements under the E-Commerce Law and other applicable laws and rules, we may be subject to fines and/or other sanctions. 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 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 RMB318 million, RMB227 million and RMB167 million (US\$24 million) in connection with this grant of option to Mr. Liu in 2016, 2017 and 2018, respectively. In addition, JD Logistics adopted its own share incentive plan in 2018, which permits the granting of stock options, restricted share units and other types of awards of JD Logistics to its employees, directors and consultants, and granted 187,844,000 share options in 2018. For the years ended December 31, 2016, 2017 and 2018, we recorded an aggregate of RMB2,061 million, RMB2,780 million and RMB3,660 million (US\$532 million), respectively, in share-based compensation expenses. As of December 31, 2018, 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 118,575,638 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 41,747,736 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.

Table of Contents

***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, and our term and revolving credit facilities we entered into in 2017 contain covenants that impose certain minimum financial performance requirements on us and that restrict our ability to raise additional debt. 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 6.9% in 2017 to 6.6% in 2018. 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.



Table of Contents

***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.



Table of Contents

***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 16 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 other than in connection with the fixed business premises of our 7FRESH business, 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, 2019, Mr. Liu beneficially owned 79.0% of the aggregate voting power of our company, including the 6.1% 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 35,539,060 Class B ordinary shares, representing 6.1% 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 Share Incentive Plan, and administers the awards and acts according to our instruction. Fortune Rising Holdings Limited can exercise the 6.1% of the aggregate voting power of our company following our instruction. Mr. Liu, as the representative of Fortune Rising Holdings Limited, can exercise this 6.1% 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.

***Changes in U.S. and international trade policies, particularly with regard to China, may adversely impact our business and operating results.***

The U.S. government has recently made statements and taken certain actions that may lead to potential changes to U.S. and international trade policies, including imposing several rounds of tariffs affecting certain products manufactured in China. It is unknown whether and to what extent new tariffs (or other new laws or regulations) will be adopted, or the effect that any such actions would have on us or our industry and customers. While cross-border business may not be an area of our focus, any unfavorable government policies on international trade, such as

capital controls or tariffs, may affect the demand for our products and services, impact the competitive position of our products or prevent us from selling products in certain countries. If any new tariffs, legislation and/or regulations are implemented, or if existing trade agreements are renegotiated or, in particular, if the U.S. government takes retaliatory trade actions due to the recent U.S.-China trade tension, such changes could have an adverse effect on our business, financial condition and results of operations.

*Disruptions in the financial markets and economic conditions could affect our ability to raise capital.*

Global economies could suffer dramatic downturns as the result of a deterioration in the credit markets and related financial crisis as well as a variety of other factors including, extreme volatility in security prices, severely diminished liquidity and credit availability, ratings downgrades of certain investments and declining valuations of others. In the past, governments have taken unprecedented actions in an attempt to address and rectify these extreme market and economic conditions by providing liquidity and stability to the financial markets. If these actions are not successful, the return of adverse economic conditions may cause a significant impact on our ability to raise capital, if needed, on a timely basis and on acceptable terms or at all.

Table of Contents

***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, 2018. 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.

Table of Contents

***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 is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with applicable professional standards. Our independent registered public accounting firm is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB has been 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. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. However, it remains unclear what further actions, if any, the SEC and PCAOB will take to address the problem.

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. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms were to receive matching Section 106 requests, and were required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they failed to meet the specified criteria during a period of four years starting from the settlement date, the SEC retained authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Under the terms of the settlement, the underlying proceeding against the four China-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. While we cannot predict if the SEC will further challenge the four China-based accounting firms' compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions. If additional remedial measures are imposed on the Chinese affiliates of the big four accounting firms, including our independent registered public accounting firm, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.



Table of Contents

In the event that the Chinese affiliates of the “big four” become subject to additional legal challenges by the SEC or PCAOB, 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.

***We are subject to changing law and regulations regarding regulatory matters, corporate governance and public disclosure that have increased both our costs and the risk of non-compliance.***

We are subject to rules and regulations by various governing bodies, including, for example, the SEC, which is charged with the protection of investors and the oversight of companies whose securities are publicly traded, and the various regulatory authorities in China and the Cayman Islands, and to new and evolving regulatory measures under applicable law. Our efforts to comply with new and changing laws and regulations have resulted in and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, we may be subject to penalty and our business may be harmed.

***Our international expansion strategy and ability to conduct business in international markets may be adversely affected by legal, regulatory, political and economic risks.***

International expansion is a significant component of our growth strategy and may require significant capital investment, which could strain our resources and adversely impact current performance, while adding complexity to our current operations. We are subject to PRC law in addition to the laws of the foreign countries in which we operate. If any of our overseas operations, or our associates or agents, violate such laws, we could become subject to sanctions or other penalties, which could negatively affect our reputation, business and operating results.

In addition, we may face operational issues that could have a material adverse effect on our reputation, business and results of operations, if we fail to address certain factors including, but not limited to, the following:

- difficulties in developing, staffing and simultaneously managing a foreign operation as a result of distance, language and cultural differences;
- challenges in formulating effective local sales and marketing strategies targeting users from various jurisdictions and cultures, who have a diverse range of preferences and demands;
- challenges in identifying appropriate local business partners and establishing and maintaining good working relationships with them;
- dependence on local platforms in marketing our international products and services overseas;
- challenges in selecting suitable geographical regions for international business;
- longer customer payment cycles;
- currency exchange rate fluctuations;
- political or social unrest or economic instability;
- compliance with applicable foreign laws and regulations and unexpected changes in laws or regulations;
- exposure to different tax jurisdictions that may subject us to greater fluctuations in our effective tax rate and potentially adverse tax consequences; and
- increased costs associated with doing business in foreign jurisdictions.

One or more of these factors could harm our overseas operations and consequently, could harm our overall results of operations.





Table of Contents

**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 telecommunication 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, 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 distribute 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 and their subsidiaries in PRC, including Jingdong 360, Jiangsu Yuanzhou, Xi'an Jingdong Xincheng and Jingbangda. Jingdong 360 holds our ICP license as an internet information provider. Jiangsu Yuanzhou primarily conducts the distribution of books and audio and video products. Xi'an Jingdong Xincheng primarily provides courier services through Jingbangda and its subsidiaries.

Jingdong 360, Jiangsu Yuanzhou, Xi'an Jingdong Xincheng and all of our other variable interest entities that have business activities in PRC are 45% owned by Mr. Richard Qiangdong Liu, our chairman and chief executive officer, 30% owned by Ms. Yayun Li, our chief compliance officer, and 25% owned by Ms. Pang Zhang, 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.

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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. 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:

Table of Contents

- 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 any of our financing outside China 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 distribution 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.

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.

Table of Contents

***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, including their subsidiaries, hold our necessary licenses and permits, including ICP licenses, Courier Service Operation Permits 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 the majority 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 that have business activities, 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.

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.

Table of Contents

***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.

***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 Xi'an Jingxundi and Shanghai Shengdayuan, is RMB1,920 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.

Table of Contents

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.

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.

Table of Contents***Our current corporate structure and business operations may be affected by the newly enacted Foreign Investment Law***

On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law or the FIL, which will take effect on January 1, 2020, and replace the existing laws regulating foreign investment in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, or Existing FIE Laws, together with their implementation rules and ancillary regulations. The FIL 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. See Item 4. Information on the Company B. Business Overview Regulation Regulation on Foreign Investment.

However, uncertainties still exist in relation to interpretation and implementation of the FIL, especially in regard to, including, among other things, the nature of variable interest entities contractual arrangements, the promulgation schedule of both the negative list under the FIL and specific rules regulating the organization form of foreign-invested enterprises within the five-year transition period. While FIL does not define contractual arrangements as a form of foreign investment explicitly, we cannot assure you that future laws and regulations will not provide for contractual arrangements as a form of foreign investment. Therefore, there can be no assurance that our control over our VIEs through contractual arrangements will not be deemed as foreign investment in the future. In the event that any possible implementing regulations of the FIL, any other future laws, administrative regulations or provisions deem contractual arrangements as a way of foreign investment, or if any of our operations through contractual arrangements is classified in the restricted or prohibited industry in the future negative list under the FIL, our contractual arrangements may be deemed as invalid and illegal, and we may be required to unwind the variable interest entity contractual arrangements and/or dispose of any affected business. Also, if future laws, administrative regulations or provisions mandate further actions to be taken with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Furthermore, under the FIL, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance with the requirements. In addition, the FIL provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within a five-year transition period, which means that we may be required to adjust the structure and corporate governance of certain of our PRC subsidiaries in such transition period. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

Table of Contents

**Risks Related to Doing Business in China**

*Changes in China's or global 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.

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.

In addition, the global macroeconomic environment is facing challenges. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa and over the conflicts involving Ukraine, Syria and North Korea. There have also been concerns on the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes, and the possibility of a trade war between the United States and China. In addition, the U.K. held a referendum on June 23, 2016 on its membership in the E.U., in which a majority of voters in the U.K. voted to exit the E.U. (commonly referred to as "Brexit"). The U.K.'s departure from the E.U. remains uncertain. Brexit could adversely affect European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term.

*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.

Table of Contents

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 mobile apps 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.

***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.

Table of Contents

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* 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.

***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 market regulation bureau at the place where the premises are located and obtain business licenses for them as branch offices. As of December 31, 2018, our comprehensive fulfillment facilities cover almost all the 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.





Table of Contents

***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 came into effect 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 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. While appreciating approximately by 7% against the U.S. dollar in 2017, the RMB depreciated approximately by 5% against the U.S. dollar in 2018. 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. With the development of the foreign exchange market and progress towards interest rate liberalization and RMB 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.

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 a foreign currency.



Table of Contents

***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.

Table of Contents

***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.

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.

Table of Contents

***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 RMB722 million, RMB843 million and RMB615 million (US\$123 million) in financial incentives from local governments relating to our business operations in 2016, 2017 and 2018, 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.

***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 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 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.

Table of Contents

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 (Circular No. 9) to replace Circular 601, which came into effect on April 1, 2018. 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%.



Table of Contents

*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.

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.

Table of Contents

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\$19.21 to US\$50.68 per ADS in 2018. 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.

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;

Table of Contents

- 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;
- any actual or alleged illegal acts of our senior management or other key employees;
- any share repurchase program; and
- proceedings instituted by the SEC against PRC-based accounting firms, including our independent registered public accounting firm.

*We cannot guarantee that any share repurchase program will be fully consummated or that any share repurchase program will enhance long-term shareholder value, and share repurchases could increase the volatility of the price of our ADSs and could diminish our cash reserves.*

On December 25, 2018, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$1.0 billion of our ADSs or ordinary shares over the next 12 months through December 25, 2019. As of December 31, 2018, we had repurchased approximately 1.4 million ADSs at an average price of US\$21.48 per ADS under this program. Our share repurchase program could affect the price of our stock and increase volatility and may be suspended or terminated at any time.

*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.

Table of Contents

***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, 2019, we had 2,907,939,381 ordinary shares outstanding, comprising of (i) 2,450,892,898 Class A ordinary shares (excluding the 57,876,466 Class A ordinary shares issued to our depository 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) 457,046,483 Class B ordinary shares. Among these shares, 1,792,588,288 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 depository 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 depository 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 depository 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 depository to vote your ADSs. Furthermore, the depository 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 depository 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 depository will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have instructed the depository that we do not wish a discretionary proxy to be given;
- we have informed the depository 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
- 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.

Table of Contents

***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.



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.

Table of Contents

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, 2019, Mr. Liu beneficially owned 79.0% of the aggregate voting power of our company, including 6.1% 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.



Table of Contents

*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 2018. 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.

*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.

Table of Contents

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, 25% or more (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, 2018 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, 2018 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.

**Item 4. Information on the Company**

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

**Our History and Development**

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.

Table of Contents

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; and
- Xi'an Jingxundi Supply Chain Technology Co., Ltd., or Xi'an Jingxundi, which was established in May 2017 and provides primarily technology and consulting services relating to logistics services.

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

- 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 technology and consulting services relating to logistics services.



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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.

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 Icton, 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 Icton 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 and an affiliate of Tencent, 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.

Table of Contents

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, representing approximately 5% of our total issued and outstanding shares on a fully diluted basis at the time. As of February 28, 2019, Walmart held Class A ordinary shares representing approximately 9.9% of our total issued and outstanding shares. 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, as well as 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 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, including those beyond e-commerce. JD Logistics provides business partners with comprehensive supply chain solutions, including warehousing management, transportation, delivery, after-sales service, and 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\$2.5 billion from the third-party investors, who owned an aggregate of approximately 19% 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.

As of June 30, 2017, we had completed the reorganization of our finance business operated by Beijing Jingdong Financial Technology Holding Co., Ltd. (now known as Beijing Jingdong Digital Technology Co., Ltd., or JD Digits). Pursuant to the agreements we entered into with JD Digits and certain other parties in March 2017. Immediately prior to the reorganization, we owned 68.6% of JD Digits. As a result of the reorganization, we disposed of all of our 68.6% equity interest in JD Digits and deconsolidated the financial results of JD Digits from ours since then. Pursuant to the agreements relating to the reorganization, we received approximately RMB14.3 billion in cash with an economic gain of RMB14.2 billion. As JD Digits 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 Digits, we will receive 40% of the future pre-tax profit of JD Digits when JD Digits 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 Digits into 40% of JD Digits's equity interest, subject to applicable regulatory approvals. The above percentage of profit sharing and maximum equity interest issuance to us, which we refer to as the Maximum Interest, is subject to potential proportional dilution as a result of any future equity financings or ESOP increases of JD Digits. In connection with JD Digits's additional round of financing in 2018, the Maximum Interest has been diluted to approximately 36%.

In June 2018, Google invested \$550 million in us as part of a new strategic partnership, under which Google and we will work together to explore a broad range of possibilities, leveraging our supply chain and logistics expertise and Google's technology strengths. In early 2019, we joined Google Shopping to offer a curated selection of high-quality products to consumers in the United States, which is our early efforts in joint development of retail solutions in overseas markets.

In 2018, we established a property management group, or JDPM, which owns, develops and manages our logistics facilities and other real estate properties, to support JD Logistics and other third parties. In February 2019, JDPM established JD Logistics Properties Core Fund, L.P., or JD LPC Fund, together with GIC, Singapore's sovereign wealth fund, for a total committed capital of over RMB4.8 billion. We serve as the general partner and have committed 20% of the total capital of JD LPC Fund, and GIC has committed the remaining 80%. The investment committee of JD LPC Fund, which comprise the representatives from us and GIC, will oversee the key operations of JD LPC Fund. Furthermore, in February 2019, we entered into a definitive agreement with JD LPC Fund, pursuant to which we will dispose of certain of our modern logistics facilities to

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JD LPC Fund for a total gross asset value of RMB10.9 billion, to unlock meaningful value from our balance sheet and recycle capital for our future growth initiatives. JD LPC Fund will use leverage to finance the purchase, and the closing of the purchase is subject to certain conditions, including the availability of debt financing. It is expected that the disposition of the majority of these logistics facilities will be completed in 2019. Subsequent to the disposition, we will lease back these facilities for operational purposes. JDPM will serve as the asset manager managing JD LPC Fund's assets.

Table of Contents

**Our Major Investments**

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 February 2015, 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 and currently listed on the Hong Kong Stock Exchange. In August 2016, we, together with Tencent, Baidu, Bitauto and other investors, entered into definitive agreements, pursuant to which we and the other investors invested an aggregate of US\$550 million in cash in Yixin. As of December 31, 2018, we held approximately 26% of Bitauto's issued and outstanding shares and approximately 11% 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* 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. As of December 31, 2018, we held approximately 20.4% of Tuniu's issued and 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 consideration of RMB4.23 billion (US\$616 million). In May 2018, we made an additional investment of RMB1.2 billion (US\$178 million) to acquire additional ordinary shares from the existing shareholders of Yonghui. As of December 31, 2018, we hold approximately 12% of Yonghui's issued and outstanding ordinary shares. 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 online-to-offline initiatives and other areas of potential strategic cooperation.

In April 2016, we completed the transaction with Dada Nexus Limited, or Dada, China's largest crowdsourcing delivery company, pursuant to which our online-to-offline 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. In August 2018, in conjunction of Dada's Series F round financing with Walmart, we further invested US\$180 million to acquire the newly issued preferred shares of Dada. As of December 31, 2018, we owned approximately 47.5% equity interest of Dada on a fully diluted basis.

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 September 2018, concurrent with Farfetch's initial public offering and listing on the NYSE, we made an additional investment of US\$27 million to purchase its newly issued ordinary shares.

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 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, an NYSE-listed online discount retailer for brands in China. In December 2017, we also entered into a business cooperation agreement with Vipshop. We also purchased the ADSs of Vipshop from open market. As of December 31, 2018, we cumulatively invested approximately US\$585 million in cash as consideration for Class A ordinary shares and ADSs of Vipshop.

In January 2018, we, along with 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 invested RMB5 billion to purchase the shares of Wanda Commercial Properties from its existing shareholders.

Table of Contents

**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 RMB258.3 billion, RMB362.3 billion and RMB462.0 billion (US\$67.2 billion) in 2016, 2017 and 2018, respectively. Our GMV increased from RMB939.2 billion in 2016 to RMB1,294.5 billion in 2017 and further to RMB1,676.9 billion (US\$243.9 billion) in 2018.

We believe we provide consumers with 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 4,485 million product reviews generated by our customers as of December 31, 2018. As a result of our superior customer experience, our business has grown rapidly. We had 226.6 million, 292.5 million and 305.3 million annual active customer accounts in 2016, 2017 and 2018, 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 over 550 warehouses with an aggregate gross floor area of approximately 12 million square meters in 81 cities as of December 31, 2018, and had 95,138 delivery personnel, 29,139 warehouse staff and 16,676 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, 2018, our comprehensive fulfillment facilities covered almost all the counties and districts across China, and we provided same-day and next-day delivery in 2,146 counties and districts in China.

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.

Table of Contents

**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 also demand more personalized and diversified scenarios and participation at the same time. 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 decade or so will be based on **Retail-as-a-Service**. On one hand, we will continue to expand our retail 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.

Table of Contents

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.

**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. The combination of our online direct sales and online marketplace, and our own nationwide fulfillment infrastructure and technology platform, make 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 infrastructure, 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 we now offer a wide range of categories through our online direct sales business model, 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 adding new products and services since then. As of December 31, 2018, there were more than 210,000 third-party sellers on our online marketplace. We provide transaction processing and billing services on all orders placed on our online marketplace and require third-party sellers to meet our strict standards for authenticity and reliability. We tag certain top stores on our platform as JD Haodian ( ), based on third-party merchants' quality of service during the entire purchase process. Such certification can help our top merchants improve their sales volumes on the platform. Furthermore, it sets a benchmark to encourage other merchants to improve their quality of service. We aim to offer customers the same high-quality customer experience regardless of the source of the products they choose.

*Marketing Services.* Leveraging our AI 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.

In 2017, we started to offer our suppliers and merchants a new fully-automated marketing platform that can make targeted product recommendations to users on *www.jd.com* and our mobile apps, and across our content partnership network, driving new customers and repeat purchases for advertisers automatically. Powered by AI, the platform only requires advertisers to input total budget, unit bid price and optimization goals to market to their targeted audiences, which enables advertisers to lower their operating costs and increase their returns.

Table of Contents

In order to provide our partners with better targeted marketing and broader access to advertisement resources, in addition to our successful partnership with Tencent, Baidu and ByteDance, we also formed strategic partnerships with other leading mobile internet companies such as Qutoutiao 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.

*JD Logistics Services.* In April 2017, leveraging our advanced technology and logistics expertise, we established JD Logistics, a business group under JD.com, to provide logistics services to businesses across a wide range of industries including those beyond e-commerce. We have opened up our technology-driven fulfillment infrastructure by offering comprehensive supply chain solutions to third-party sellers on our marketplace and to merchants that do not sell products on our online marketplace, including warehousing management, transportation, delivery, after-sale services, and logistics technology solutions, including cloud-based service and data analytics, or a combination of these services. Our logistics services to 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.

In the second quarter of 2018, to reduce product-to-customer distance and provide customers with innovative delivery options, JD Logistics launched the Flash Delivery initiative, offering delivery times ranging from several minutes to about one hour for selected merchandise in certain areas through optimally allocating merchandise across its distribution network, including front-line metropolitan distribution centers, delivery stations and partners' offline stores, based on its analysis of customer demands. Moreover, in October 2018, JD Logistics opened up its leading logistics network to consumers, offering parcel delivery service to users in certain regions. Leveraging JD Logistics' extensive delivery network, users in these areas can conveniently send items intra-city and throughout most of mainland China with JD Logistics' same fast and reliable delivery service.

*JD Property Management Group.* In 2018, we established our property management group, JDPM, which owns, develops and manages our logistics facilities and other real estate properties, to support JD Logistics and third parties. JDPM has unique advantages to secure scarce land resources as we continue to help boost economies across China through creating employment opportunities and contributing tax, among others. JDPM aims to develop its logistics assets portfolios while maintaining strong capital discipline. With the expansion of asset portfolios, we will adopt a capital recycling strategy through our fund management platform and other partnerships, such as our partnership with GIC, Singapore's sovereign wealth fund. See Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources. We believe this strategy will help further expand our asset portfolios, minimize our related future capital expenditures and enhance our returns.

*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 infrastructure, we believe we are well-positioned to create an enhanced shopping experience for consumers and improve efficiency for our business partners.

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We believe we are well-positioned to provide omni-channel 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 online-to-offline supermarket platform JD Daojia, which was JD's asset 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 a speedy premium shopping experience. As of December 31, 2018, our joint venture, Dada-JD Daojia, had partnered with more than 100,000 stores from leading supermarket brands, including Walmart, Yonghui, Carrefour and CR Vanguard, by leveraging Dada's crowd-sourcing delivery network. Dada-JD Daojia is China's leading on-demand logistics and omni-channel e-commerce platform.

In June 2016, we entered into a series of agreements in relation to our strategic alliance with Walmart. We have collaborated with Walmart on e-commerce, including launching a 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 experimented on other omni-channel opportunities, aiming at offering shoppers across China faster and more convenient access to high-quality products through multiple channels.

Table of Contents

To provide customers with a more dynamic and interactive integrated omni-channel shopping experience, we have enabled some of our offline partners with a variety of the 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 a 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. For instance, in August 2018, we launched a cooperation with China-based home furnishing retailer Qumei. Leveraging our extensive product selection, Qumei expanded its offering from furniture to a wide range of home products. Our ability to use big data to build accurate customer profiles has enabled Qumei to more effectively match its product selection with consumer demand. With the help of our cutting-edge technologies such as AI-based facial recognition and AR features, the cooperation enables Qumei to deliver a fully-interactive shopping experience in its traditional offline stores.

7FRESH, our offline fresh food market brand, is an example of a real-world trial of our Boundaryless Retail vision, the idea of enabling consumers to buy whatever they want, wherever and whenever they want it. In December 2017, we opened our first 7FRESH store in Beijing's Yizhuang suburban area. Integrating advanced supply chain management know-how and cutting-edge storage technologies, our 7FRESH store is able to deliver a unique shopping experience by offering many fresh products (including fruit, flowers, vegetables and quality fresh seafood), providing food preparation and catering services, and making available a 30-minute delivery service for customers within three kilometers of the store. As of March 31, 2019, we opened 13 7FRESH stores in 8 cities.

We believe our 7FRESH business model will continue to evolve as we strive to pursue an enhanced shopping experience for our consumers and partners by exploring a variety of omni-channel opportunities, integrating quality products with superior services and providing fresh produce supply chain solutions to our partners.

## **Strategic Cooperations**

### *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 social communications, online games and digital content and payment. Tencent has a large mobile internet user base, as evidenced by the combined monthly active user accounts of 1,098 million on Tencent's mobile apps Weixin and WeChat as of December 31, 2018 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.

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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 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 Ison E-Commerce Development Company Limited, or Shanghai Ison. 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.

Table of Contents

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 Icsen, logistics personnel and certain other assets. Paipai and QQ Wanggou, which we acquired from Tencent, were online marketplaces in China that brought 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 Icsen by March 10, 2017 at the higher of the then fair value of Shanghai Icsen or RMB800 million. In April 2016, we exercised the right paying RMB800 million and acquired the remaining equity interest in Shanghai Icsen. Shanghai Icsen operated 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 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 17.8% of our total issued and outstanding shares as of February 28, 2019.

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 communications 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.

The strategic cooperation agreement has a term of five years. We are discussing with Tencent to renew the strategic cooperation agreement. 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.

***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. 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. We also purchased the ADSs of Vipshop from the open market. As of December 31, 2018, we had accumulatively invested approximately US\$585 million in cash to purchase Class A ordinary shares and ADSs of Vipshop.

***Strategic Cooperation with Google***



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In June 2018, Google invested US\$550 million in us as part of a new strategic partnership, under which Google and we will work together to explore a broad range of possibilities, leveraging our supply chain and logistics expertise and Google's technology strengths. In early 2019, we joined Google Shopping to offer a curated selection of high-quality products to consumers in the United States, which is our early efforts in joint development of retail solutions in overseas markets.

Table of Contents

**Customer Experience**

Our operation principle is trust-based, customer-centric value creation, and we are committed to optimizing the 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 gear and fitness equipment;

- automobiles and accessories;
- maternal and childcare products, toys and musical instruments;
- food, beverage and fresh produce;
- gifts, flowers and plants;
- nutritional supplements;
- books, e-books, music, movies and other media products;
- virtual goods, including online travel agency, attraction tickets, and prepaid phone cards and game cards;
- industrial products; and
- installation and maintenance services.

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.

Table of Contents

*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 for 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 an enjoyable mobile shopping experience. Over 90% of orders fulfilled were placed through our mobile apps in 2018.

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

*Comprehensive product information to support prompt decision-making.* 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 merchants. When customers are browsing product pages, we display product highlights, reliable services available for this product and the post-discount price on the front page so as to support customers to make purchase decisions more efficiently.

*Interactive user community to enhance customer engagement and loyalty.* 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 4,485 million product reviews generated by our customers as of December 31, 2018, which benefits our customers, suppliers and third-party sellers.

*Targeted product recommendations to satisfy personalized demands.* In 2018, we made progress in personalized recommendations, leveraging our cutting-edge technologies to provide an individualized shopping experience for each of our customers. We identify customers' demands and make more accurate recommendations based on comprehensive algorithms, which are derived from a large volume of data about customer behavior and preferences.

*Smart ordering process to further improve the shopping experience.* We continue to optimize the ordering process leveraging our technology, making the shopping experience more convenient and enjoyable. For example, when customers review their shopping carts, not only do we display the special offers at the time for the products in the customers' shopping

carts, but also we combine the existing coupons in our customers' accounts with special offers, and calculate the all-in benefits for customers to provide them maximum benefits.

*Real-time order tracking and order information revision system to provide convenient shopping experience.* Customers can log into their accounts to check the status of their orders. Each package in our system is given a unique identification number and its location is updated each time it is handled by one of our warehouse or delivery personnel or one of our contracted third-party couriers. 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. Furthermore, we provide customers with the option to adjust their order information such as changing the shipping address or the preferred delivery date or time slot.

### *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. We continue optimizing our customer service to guarantee the best possible shopping experience.

In October 2018, we initiated a comprehensive service offering for selected categories with our direct sales business covering the entire purchase process, which includes nearly 30 types of services such as instant refund, repair by exchange program, and home-delivery of replacements, among others. The service offering aims to facilitate consumers' purchase decisions by providing trustworthy and guaranteed services. Leveraging our optical character recognition technology, we can automatically process a lot of information such as order number, product link, historical queries and recent reviews, to pre-identify potential inquiries from customers, and to develop answers in advance. We seamlessly allocate various customer inquiries to customer service representatives with different qualifications based on our AI technologies, so that we can improve our customer service representatives' service quality and the customer satisfaction ratio.

Table of Contents

*24-7 customer service centers.* We operate 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 on Weixin and Weibo, and emails. As of December 31, 2018, we had a total of 12,482 full-time customer service representatives at the Suqian, Yangzhou and Chengdu centers. In January 2018, we launched our brand new customer service hot line 950618 nationwide, which is more concise and easier to remember.

*Returns and exchanges.* We accept unconditional returns or exchanges within seven days of purchase. Defective merchandise can be returned for exchange within 15 days of purchase. For customers with good credit, we provide instant refund service, that is, customers are refunded as soon as they submit their return requests. If customers report defects more than 15 days after receipt but are 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, customers 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 a five-tier membership structure to the Jing Xiang Zhi ( ) value system, which takes into account various indicators, such as consumer behavior, interaction, credit ratings, and risk level, among others, to determine a comprehensive score for each consumer. We believe the upgraded membership system will be able to effectively enhance the 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 2018, we had attracted more than 10 million JD Plus members and continued to introduce new benefits to JD Plus members. JD Plus members enjoy benefits related to merchandises such as, extra rebates, free shipping coupons, exclusive prices on selected product offerings, RMB100 cross-category coupons on monthly basis, VIP customer services, free return services and PLUS DAY promotion events designed specifically for JD Plus members. JD Plus members can also enjoy content and lifestyle service benefits, such as iQIYI VIP benefits, E-books on Zhihu.com Reading, dining, education, entertainment, and travel benefits, among others. JD Plus members can also receive priority access to purchase new products or hot sales products across JD.com.

**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 and mobile apps before or after 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. We also continue to enrich our product offerings and service while maintaining low prices.

*Special promotions.* We offer a selection of discounted products on special occasions, such as our 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 and mobile apps regularly.

Table of Contents

***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 deliver products directly to customers in almost all counties and districts across China. 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. Customers who need to reschedule a delivery can log into their account on our websites or mobile apps 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 two-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. In addition, JD Logistics has launched a new premium logistics service with China Railway Corporation, leveraging domestic high-speed trains for secure, long-distance transportation of high-end goods and JD Luxury Express for the last-mile delivery. The combination has created a seamless network allowing customers to enjoy same-day delivery for high-end goods originating from non-local warehouses. As of December 31, 2018, our same-day and next-day delivery services covered 2,146 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 the spot.

*Continuous expansion of delivery service.* We have established and are making continuous efforts to further expand our cold-chain logistics and cross-border logistics capabilities, and in new business areas, to expand product offerings 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 6% of the time in 2018.

Table of Contents

*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 and UnionPay. Customers chose online payment approximately 94% of the time in 2018.

*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 19,000 suppliers as of December 31, 2018. 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 2018. In addition, we had over 210,000 third-party sellers on our online marketplace as of December 31, 2018.

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 enable us to provide high-quality products, better procurement terms 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, and we are gaining significant traction in related categories like home electronics, where we are one of the largest online channels in China. In April 2018, we launched our C2M (Customer-to-Manufacturer) strategy for our Pingou business, our group purchase business model. Direct cooperation with manufacturers enables us to increase the supply chain efficiency by minimizing supply chain costs and to give customers comfort over product quality. 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 our suppliers and third-party sellers and the products they provide 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, business scale, 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. We have a strict zero-tolerance policy for counterfeit products.

**Fulfillment**

## Edgar Filing: JD.com, Inc. - Form 20-F

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.

Table of Contents

***Nationwide Fulfillment Infrastructure***

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

We had established regional fulfillment centers in seven major cities in China as of December 31, 2018: 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 28 cities stocking products that are in high demand and other additional warehouses in 46 cities in China as of December 31, 2018. We operated over 550 warehouses with an aggregate gross floor area of approximately 12 million square meters in 81 cities as of December 31, 2018, 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 warehouses on land where we have obtained land use rights. As of December 31, 2018, we had launched our warehousing facilities in 11 cities. In addition, we are in the process of constructing warehousing facilities in 16 other cities and plan to construct additional such warehouses in the future. We believe that building our own warehouses will not only increase our storage capacity but will also allow us to restructure and reorganize our fulfillment workflow and processes.

Table of Contents

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 the logistics industry. We are also in the process of experimenting with 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.

**Technology Platform**

Technology is 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 AI technologies.

As of December 31, 2018, we employed 16,380 research and development professionals to design, develop and operate our technology platform, develop and post content, and improve our AI, big data and cloud technologies and services. At the same time, we have built up a global team of AI 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 innovative omni-channel technology to support our retail ecosystem with new customer interfaces, such as our 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.

Table of Contents

***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.

***Artificial Intelligence Technology to Drive Business Upgrades***

We are making continuous efforts to develop our technology strength in AI, 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. In April 2018, we launched our open AI platform, NeuHub, offering a set of AI services ranging from natural language processing, speech recognition, computer vision, and machine learning. One of the platform's successful applications is the new sentiment analysis API on NeuHub. This API, developed fully in-house by us, leverages a large volume of historical data on our platform, allowing JIMI, our automated customer service assistant, to more precisely identify customers' emotions and express the appropriate sentiment when replying through online chat. The new functionality has significantly increased user satisfaction on our online chat service. As of the date of this annual report, our applications of AI technologies 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. We have launched a series of successful joint marketing campaigns such as Super Brand Days, Super Category Days and Super New Product Days. We will continue to leverage our data-driven customer insights to provide customized marketing tools and campaigns for business partners and help them to develop brand recognition in China. We have also made progress in social e-commerce innovations. In particular, Pingou, our group



purchase business model, has benefitted from the access points of Weixin and QQ, both of which have a large mobile internet user base. Through our Pingou promotions, customized SNS interactive activities, and other activities, we can help brands on the platform increase exposure, drive traffic and achieve deeper penetration into lower-tier cities.

With the increasing popularity of mobile internet-enabled devices, over 90% of our orders fulfilled were placed through our mobile apps in 2018. 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, Baidu and ByteDance, we also formed strategic partnerships with Qutoutiao 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 RMB10,159 million, RMB14,918 million and RMB19,237 million (US\$2,798 million) of marketing expenses in 2016, 2017 and 2018, respectively.

Table of Contents

**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 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.

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 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 impact of seasonality on our business has been relatively mild due to our rapid growth but we have seen an upward trend and such a trend may continue 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, 2018, we owned 651 computer software copyrights in China relating to various aspects of our operations and maintained 7,664 trademark registrations inside China and 1,184 trademark registrations outside China. We had approximately 5,984 trademark applications inside China and 2,127 outside China. As of December 31, 2018, we had 1,672 patents granted in China, 7,443 patent applications pending in China and 415 patent applications pending outside China. As of December 31, 2018, we had registered approximately 5,362 domain names. Our registered domain names include *jd.com*, *360buy.com*, *360buy.com.cn* and *360buy.cn*, among others.

Table of Contents

**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 16 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 other than in connection with the fixed business premises of our 7FRESH business, 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.

**Enterprise Social Responsibility**

It is an integral part of our business to have a positive impact on the communities in which we operate, and we maintain that our core values, including our commitment to partners, customers, investors, our employees and broader society, are the foundation upon which we build a healthy, vibrant and sustainable ecosystem. Combined with an unrelenting focus on developing our technology capabilities to improve efficiency and service, 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 core foci in social responsibility includes environmental sustainability, employee care, poverty alleviation and more. In 2014, we also established the JD Foundation to manage charity- related projects.

*Environmental 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 is gradually upgrading its nationwide fleet of delivery trucks, as well as those of its third party partners, to new energy vehicles. JD Logistics has also partnered with several brands to promote reusable packaging across the entire supply chain.

We proactively participate 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 2.8 billion digital invoices across China and replaced paper invoices with digital invoices for all direct sales orders. Meanwhile, we launched the Recycling Plan in many cities in China. As of the end of 2018, the Recycling Plan had helped recycle more than 1.9 million items of clothing, toys and expired medications to reduce carbon emissions and environmental pollution through donation or professional recycling.

*Employee Care.* We have always striven to provide employees with full social benefits, a diverse work environment and

a wide range of career development opportunities. As of December 31, 2018, we had a total of 178,927 full-time employees. We have invested significant resources in employee career development and training. 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 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 approximately 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.

Table of Contents

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 for front-line employees, a special fund for families of employees suffering major illnesses or facing disasters, maternity and paternity leave, and educational resources for children of employees, among others. In October 2018, JD ranked 131st on the Forbes World's Best Employers 2018 list, a significant increase from the 251st in 2017.

*Poverty alleviation.* Leveraging our strong supply chain, cutting-edge technologies and logistics network, we participated in 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. As of the end of 2018, we had over 3 million SKUs from over 800 impoverished counties in China on our online platform. We operate China's trusted online donation platform, through which our hundreds of millions of customers can purchase products and donate them directly to non-profit organizations and groups in need across China, leveraging our in-house logistics network. To ensure the transparency of the process, we allow customers to track the delivery status of their donations online to make sure their donation reaches the recipient.

*Disaster relief assistance.* In July 2018, we deployed a team of drone engineers as well as drones and ancillary vehicles to support the Beijing municipal government's storm relief efforts. This was our first disaster relief effort using drones following our establishment of China's first nationwide drone rescue team in May 2018. Our drones have been used to transport emergency medicines and daily necessities to a remote cliff village in Sichuan province.

## **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***

Investment activities in the PRC by foreign investors are principally governed by the Catalogue for the Guidance of Foreign Investment Industry, or the Catalogue, which was promulgated and is amended from time to time by the Ministry of Commerce, or MOFCOM, and the National Development and Reform Commission, or NDRC, and together with Existing FIE Laws and their respective implementation rules and ancillary regulations. The Catalogue lays out the basic framework for foreign investment in China, classifying businesses into three categories with regard to foreign investment: encourage, restricted and prohibited. Industries not listed in the catalog are generally deemed as falling into a fourth category – permitted – unless specifically restricted by other PRC laws. In addition, on June 28, 2018, MOFCOM and the NDRC jointly promulgated the Special Management Measures (Negative List) for the Access of Foreign Investment, or the 2018 Negative List, which became effective on July 28, 2018 to amend the Guidance Catalog and 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. 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 market regulation 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 market

regulation bureau.

Pursuant to the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises, or FIE Record-filing Interim Measures, promulgated by the Ministry of Commerce in October 2016 and amended in July 2017, 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.

Table of Contents

On March 15, 2019, the National People's Congress promulgated the FIL, which will come into effect on January 1, 2020 and upon then the FIL will replace the Existing FIE Laws. The FIL embodies an expected regulatory trend in PRC 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. The FIL, by means of legislation, establishes the basic framework for the access, promotion, protection and administration of foreign investment in view of investment protection and fair competition.

According to the FIL, foreign investment shall enjoy pre-entry national treatment, except for those foreign invested entities that operate in industries deemed to be either restricted or prohibited in the negative list. The FIL provides that foreign invested entities operating in foreign restricted or prohibited industries will require entry clearance and other approvals. However, it is unclear whether the negative list will differ from the 2018 Negative List. In addition, the FIL does not comment on the concept of de facto control or contractual arrangements with variable interest entities, however, it has a catch-all provision under definition of foreign investment to include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to provide for contractual arrangements as a form of foreign investment. See Item 3. Key Information D. Risk Factors Our current corporate structure and business operations may be affected by the newly enacted Foreign Investment Law.

The FIL also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to the foreign investors; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriate or requisition the investment of foreign investors is prohibited; mandatory technology transfer is prohibited, allows foreign investors' funds to be freely transferred out and into the territory of PRC, which run through the entire lifecycle from the entry to the exit of foreign investment, and provide an all-around and multi-angle system to guarantee fair competition of foreign-invested enterprises in the market economy. In addition, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance with the requirements. Furthermore, the FIL provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the FIL, which means that foreign invested enterprises may be required to adjust the structure and corporate governance in accordance with the current PRC Company Law and other laws and regulations governing the corporate governance.

***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* website, owns the relevant domain names and registered trademarks and has the necessary personnel to operate the website.

Table of Contents*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. Pursuant to the Administrative Measures on Internet Information Services promulgated by the State Counsel in 2000 and amended in 2011, 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 replaced the Administrative Measures on Telecommunications Business Operating Licenses promulgated in 2009 by promulgating the Administrative Measures on Telecommunications Business Operating Licenses, 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.

***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 GAPPRT, 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 (as amended in 2017) 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.

Table of Contents

**Internet Drug Information Service Qualification Certificate.** In July 2004, the former State Food and Drug Administration, or the SFDA, promulgated the Administrative Measures on Internet Drug Information Service (amended in November 2017). These measures, together with certain implementing rules and notices promulgated by the SFDA, 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 market regulation. Jingdong 360 has obtained the ICP License and the Aviation Transport Sales Agency Certificate (which remains valid until October 2021) for sales of air passengers transport tickets for both domestic and international air routes. In addition, Beijing Yuanyi, a subsidiary of our another consolidated variable interest entity, has obtained the Aviation Transport Sales Agency Certificate (which remains valid until April 2021) for sales of air freight transport tickets for domestic air routes.

**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. In addition, pursuant to the Interim Regulations of Courier which came into 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. As of December 31, 2018, Jingbangda had obtained one cross-provincial Courier Service Operation Permit, and its 37 subsidiaries had obtained Courier Service Operation Permits. We are in the process of making filings with local postal administrations for express delivery terminal outlets of Jingbangda and its branches. 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, 2018, Xi'an Jingdong Xuncheng and its 11 branches, Jingbangda and its 33 subsidiaries had obtained Road Transportation Operation Permits that allow these entities to provide road freight transportation services. 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.

Table of Contents

**Unmanned Aerial Vehicle Business License.** In March 2018, Civil Aviation Administration promulgated the Administrative Measures for Profit-oriented Flight Activities of Civil Unmanned Aerial Vehicles (for Provisional Implementation), pursuant to which a Unmanned Aerial Vehicle Business License shall be obtained for the use of unmanned aerial vehicles for commercial flight activities, and no commercial flight activities shall be conducted without a Unmanned Aerial Vehicle Operation Permit. Two subsidiaries of Xi'an Jingdong Xincheng, have obtained the Unmanned Aerial Vehicle Operation Permit.

**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.

**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 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 and mobile apps. 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.

Table of Contents

*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.

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.

On August 31, 2018, the Standing Committee of the National People's Congress promulgated the E-Commerce Law, which became effective on January 1, 2019. Pursuant to the E-Commerce Law, an e-commerce platform operator shall (i) collect, verify and register the truthful information submitted by the merchants that apply to sell products or provide services on its platform, including the identities, addresses, contacts and licenses, establish registration archives and update such information on a regular basis; (ii) submit the identification information of the merchants on its platform to market regulatory administrative department as required and remind the merchants to complete the registration with market regulatory administrative department; (iii) submit identification information and tax-related information to tax authorities as required in accordance with the laws and regulations regarding the administration of tax collection and remind the individual merchants to complete the tax registration; (iv) record and retain the information of the products and information on its platform and the sales information for no less than 3 years; (v) display the platform service agreement and the transaction rules or links to such information on the homepage of the platform; (vi) display the noticeable labels regarding the products or services provided by the platform operator itself on its platform, and take liabilities for such products and services; (vii) establish a credit evaluation system, display the credit evaluation rules, provide consumers with accesses to make comments on the products and services provided on its platform, and restrain from deleting such comments; and (viii) establish intellectual property protection rules, and take necessary measures when any intellectual property holder notify the platform operator that his intellectual property rights have been infringed. An e-commerce platform operator shall take joint liabilities with the relevant merchants on its platform and may be subject to warnings and fines up to RMB2,000,000 where (i) it fails to take necessary measures when it knows or should have known that the products or services provided by the merchants on its platform do not meet the personal or property safety requirements or such merchants' other acts may infringe on the lawful rights and interests of the consumers; or (ii) it fails to take necessary measures,



such as deleting and blocking information, disconnecting, terminating transactions and services, when it knows or should have known that the merchants on its platform infringe any intellectual property rights of any other third party. With respect to products or services affecting the consumers' life and health, if an e-commerce platform operator fails to verify the merchants' qualification or fails to fulfill its obligations to safeguard the safety of consumers, which results in damages to the consumers, it shall take corresponding liabilities and may be subject to warnings and fines up to RMB2,000,000.

Table of Contents

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 came into 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.

***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.

Table of Contents

***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 strengthens 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.

Table of Contents

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. In addition, the MIIT issued the Circular of the Ministry of Industry and Information Technology on the Official Commercial Use of Mobile Communication Resale Business, pursuant to which the mobile communication resale business will be transferred from the pilot to the formal commercial use, and the enterprise that has already approved to be a pilot to conduct the mobile telecommunications resale business, and intends to continue the business, the commercial contract shall be renewed in accordance with the provisions of this circular and shall apply for a renew its telecommunications business license. 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.

Table of Contents

***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 Market Regulation 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 Market Regulation 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 Market Regulation or its local branches may revoke the violators' licenses or permits for their advertising business operations.

In July 2016, the State Administration of Industry and Commerce 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

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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.

Table of Contents

***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 of National Intellectual Property Administration is responsible for examining and approving patent applications. As of December 31, 2018, we had 1,672 patents granted in China, 7,443 patent applications pending in China and 415 patent applications pending outside China.

***Trademark.*** The Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Office of National Intellectual Property Administration 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, 2018, we had 8,848 registered trademarks in different applicable trademark categories and had approximately 5,984 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.

*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.

Table of Contents

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 PRC Value Added Tax***

On March 23, 2016, the MOF and the SAT jointly issued the Circular on the Pilot Program for Overall Implementation of the Collection of Value Added Tax Instead of Business Tax, or Circular 36, which took effect on May 1, 2016. Pursuant to the Circular 36, all of the companies operating in construction, real estate, finance, modern service or other sectors which were required to pay business tax are required to pay VAT, in lieu of business tax. The VAT rate is 6%, except for rate of 11% for real estate sale, land use right transferring and providing service of transportation, postal sector, basic telecommunications, construction, real estate lease; rate of 17% for providing lease service of tangible property; and rate of zero for specific cross-bond activities.

On April 4, 2018, MOF and SAT jointly promulgated the Circular of the Ministry of Finance and the State Administration of Taxation on Adjustment of Value-Added Tax Rates, or Circular 32, according to which, (i) for VAT taxable sales or importation of goods originally subject to value-added tax rates of 17% and 11% respectively, such tax rates shall be adjusted to 16% and 10%, respectively; (ii) for purchase of agricultural products originally subject to deduction rate of 11%, such deduction rate shall be adjusted to 10%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 16%, the input VAT will be calculated at a 12% deduction rate; (iv) for exported goods originally subject to tax rate of 17% and export tax refund rate of 17%, the export tax refund rate shall be adjusted to 16%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 11% and export tax refund rate of 11%, the export tax refund rate shall be adjusted to 10%. Circular 32 became effective on May 1, 2018 and shall supersede any previously existing provisions in the case of any inconsistency.

Further, On March 20, 2019, the MOF, the SAT and the General Administration of Customs jointly issued the Announcement on Policies for Deepening the VAT Reform, or Announcement 39, to further slash value-added tax rates. According to the Announcement 39, (i) for general VAT payers sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively; (ii) for the agricultural products purchased by taxpayers to which an existing 10% deduction rate is applicable, the deduction rate is adjusted to 9%; (iii) for the agricultural products purchased by taxpayers for production or commissioned processing, which are subject to VAT at 13%, the input VAT will be calculated at a 10% deduction rate; (iv) for the exportation of goods or labor services that are subject to VAT at 16%, with the applicable export refund at the same rate, the export refund rate is adjusted to 13%; and (v) for the exportation of goods or cross-border taxable activities that are subject to VAT at 10%, with the export refund at the same rate, the export refund rate is adjusted to 9%. The Announcement 39 came into effect on April 1, 2019 and shall prevail in case of any conflict with existing provisions.



Table of Contents***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, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. 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. According to the Circular on Several Issues regarding the Beneficial Owner in Tax Treaties, or Circular No. 9, which was issued on February 3, 2018 by the SAT, effective as of April 1, 2018, when determining the applicant's status of the beneficial owner regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the beneficial owner shall submit the relevant documents to the relevant tax bureau according to the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties. 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, 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, 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.

***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 effect 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.

Table of Contents

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.

**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:

Table of Contents

Notes:

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(1) JD Assets Holding Limited has 22 subsidiaries that hold non-logistics properties.

(2) 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 chief compliance officer, and 25% owned by Ms. Pang Zhang, our employee. We effectively control these entities

through contractual arrangements.

(3) Jingdong Century has 63 subsidiaries that engage in retail business. 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. Jiangsu Jingdong Bangneng owns Suqian Sanhong, Suqian Jingdong Mingfeng Enterprise Management Co., Ltd., Suqian Jingdong Jinyi Enterprise Management Co., Ltd. and Hengqin Junze Management and Consulting Co., Ltd., each of which constitutes a significant subsidiary.

(4) JD.com Investment Limited has 54 subsidiaries that engage in investment business.

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

#### **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.



Table of Contents

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. We have entered into a series of contractual arrangements with each of these variable interest entities and their respective shareholders.

The contractual arrangements relating to our variable interest entities 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 and their subsidiaries in our consolidated financial statements in accordance with U.S. GAAP. The external revenues of our consolidated variable interest entities and their subsidiaries collectively contributed 1.6%, 2.5% and 3.8% of our consolidated total net revenues for the years ended December 31, 2016, 2017 and 2018, 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.

Table of Contents

**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.

***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 the equity pledge for our variable interest entities with the relevant office of the administration for market regulation 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.

Table of Contents

*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 exclusive technology consulting and services agreement, which supersedes the version entered into in May 2012. Pursuant to the 2016 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.

In June 2016, Jingdong Century and Jiangsu Yuanzhou entered into an exclusive technology consulting and services agreement, which supersedes the version entered into in May 2012. The 2016 agreement between Jingdong Century and Jiangsu Yuanzhou contains terms substantially similar to the exclusive technology consulting and services agreement relating to Jingdong 360 as 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.

Table of Contents

**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.

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.



Table of Contents

**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 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 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 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 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 have acquired land use rights in Beijing to build our headquarters. The phase one construction of the office buildings was completed in the third quarter of 2015. As of December 31, 2018, we had paid an aggregate of approximately RMB8.5 billion (US\$1.2 billion) for the acquisition of land use rights and construction of the office buildings.

We lease our other offices in Beijing and regional offices in 34 other cities with an aggregate floor area of approximately 253,000 square meters.

We own our national customer service center and our data center in Suqian, which have an aggregate floor area of approximately 183,000 and 60,000 square meters, respectively. We lease our customer service centers in Chengdu and Yangzhou with an aggregate floor area of approximately 45,000 square meters.

As of December 31, 2018, we operated regional fulfillment centers in seven cities, including Beijing, Shanghai, Wuhan, Guangzhou, Chengdu, Shenyang and Xi'an.

Table of Contents

In addition, we also operated front distribution centers in 28 cities for stocking products that are in high demand, as well as other additional warehouses in 46 cities in China as of December 31, 2018. Our comprehensive fulfillment facilities can cover almost all the counties and districts across China.

As of December 31, 2018, we had launched our warehousing facilities in 11 cities and we are in the process of constructing warehousing facilities in 16 other cities. As of December 31, 2018, we had land use rights in 30 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 RMB14.2 billion (US\$2.1 billion) for the acquisition of land use rights, building of warehouses and purchase of warehousing equipment as of December 31, 2018.

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 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 Digits as a result of the reorganization of JD Digits. Accordingly, JD Digits' 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.

**A. Operating Results**

**Overview**

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We are a leading technology-driven e-commerce company and retail infrastructure service provider in China. We generated total net revenues of RMB258.3 billion, RMB362.3 billion and RMB462.0 billion (US\$67.2 billion) in 2016, 2017 and 2018, 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 226.6 million, 292.5 million and 305.3 million active customer accounts in 2016, 2017 and 2018, respectively. In addition to our online direct retail business, our online marketplace and other services generated net revenues of RMB20.3 billion, RMB30.5 billion and RMB45.9 billion (US\$6.7 billion) in 2016, 2017 and 2018, respectively.

Table of Contents

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 ten 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, the amendments to the Consumer Protection Law have not had a significant impact on 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.

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, 2018, the amount restricted, including paid-in capital and statutory reserve funds, as determined in accordance with PRC

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accounting standards and regulations, was approximately RMB25,856 million (US\$3,761 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.

Table of Contents

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 226.6 million in 2016 to 292.5 million in 2017 and further to 305.3 million in 2018. 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 retain 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, 30.2 in 2017 and 31.5 in 2018.

***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 RMB20.3 billion in 2016 to RMB30.5 billion in 2017 and further to RMB45.9 billion (US\$6.7 billion) in 2018. 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.



Table of Contents

As of December 31, 2018, our nationwide fulfillment infrastructure employed a total of 124,277 warehouse and delivery personnel, and we also employed 16,380 research and development professionals to design, develop and operate the technology platform, develop and post content, and improve our AI, big data and cloud technologies and services, 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 2016, 2017 and 2018, while the fulfillment expenses as a percentage of our total net revenues decreased from 7.2% in 2016 to 7.1% in 2017 and further to 6.9% in 2018. 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 covers almost all counties and districts across China, which, as of December 31, 2018, included a warehousing network of over 550 warehouses with an aggregate gross floor area of approximately 12 million square meters in 81 cities. We have acquired land use rights to over 10 million square meters of land in 32 cities in China. We plan to continue to build large scale 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 RMB14.2 billion (US\$2.1 billion) for the acquisition of land use rights, building of warehouses and purchase of warehousing equipment as of December 31, 2018. 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 enhance our technology platform, we intend to further invest in technology, including initiatives to provide innovative features, solutions and services to customers and suppliers, while increasing our operational efficiency.

***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. Moreover, we share the results of the investments which we account for as equity method investments. In 2018, our share of results of equity investees was a loss of RMB1.1 billion (US\$0.2 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. Net service revenues are further divided into revenues from marketplace and advertising and revenues from logistics and other services. The following table breaks down our total net revenues by these categories, by amounts and as percentages of total net revenues:

Table of Contents

	For the Year Ended December 31,										
	2016			2017			2018				
	RMB		%	RMB		%	RMB		US \$		%
	(in millions, except for percentages)										
Electronics and home appliances revenues	179,822		69.6	236,269		65.2	280,059		40,733		60.6
General merchandise revenues	58,122		22.5	95,555		26.4	136,050		19,788		29.5
Net product revenues (formerly known as online direct sales)	237,944		92.1	331,824		91.6	416,109		60,521		90.1
Marketplace and advertising revenues	17,074		6.6	25,391		7.0	33,532		4,877		7.2
Logistics and other service revenues	3,272		1.3	5,117		1.4	12,379		1,800		2.7
Net service revenues (formerly known as services and others)	20,346		7.9	30,508		8.4	45,911		6,677		9.9
<b>Total net revenues</b>	<b>258,290</b>		<b>100.0</b>	<b>362,332</b>		<b>100.0</b>	<b>462,020</b>		<b>67,198</b>		<b>100.0</b>

We expect net revenues from all categories to continue to increase in the foreseeable future. As we have been continually expanding our product categories and value-added service offerings, sales of electronics and home appliances products may decrease as a percentage of our total net revenues and service revenues 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.

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

***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:

	For the Year Ended December 31,								
	2016		2017			2018			
	RMB	%	RMB	%	RMB	US\$		%	
	(in millions, except for percentages)								

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Cost of revenues(1)	222,935	86.3	311,517	86.0	396,066	57,606	85.8
Fulfillment	18,560	7.2	25,865	7.1	32,010	4,656	6.9
Marketing	10,159	3.9	14,918	4.1	19,237	2,798	4.2
Technology and content	4,453	1.7	6,652	1.8	12,144	1,766	2.6
General and administrative	3,436	1.3	4,215	1.2	5,160	750	1.1
Impairment of goodwill and intangible assets					22	3	0.0
Total	259,543	100.4	363,167	100.2	464,639	67,579	100.6

(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 RMB2,561 million for the year ended December 31, 2016.

Table of Contents

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 consist primarily of (i) expenses incurred in operating our fulfillment centers, customer service centers and physical stores, 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, and physical stores. The costs related to logistics services provided to third parties are classified in cost of revenues. 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. 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 advertising costs, public relations expenditures, and payroll and related expenses for employees involved in marketing and business development 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.

Our technology and content expenses consist primarily of payroll and related expenses for research and development professionals involved in designing, developing and operating our technology platform, developing and posting content, and improving our AI, big data and cloud technologies and services, and technology infrastructure costs. Technology infrastructure costs include servers and other equipment depreciation, bandwidth and data center costs, rent, utilities and other expenses necessary to support our internal and external business. We expect spending in technology and content to increase over time as we add more experienced research and development 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 (i) payroll and related expenses for employees involved in general corporate functions, including accounting, finance, tax, legal and human relations and (ii) costs associated with use by these functions of facilities and equipment, such as depreciation expenses, rental and other general corporate related expenses. 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 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong for the years of assessment 2015/2016, 2016/2017 and 2017/2018. Commencing from the year of assessment 2018/2019, the first HK\$2 million of profits earned by our subsidiaries incorporated in Hong Kong will be taxed at half the current tax rate (i.e., 8.25%) while the remaining profits will continue to be taxed at the existing 16.5% tax rate. Under the Hong Kong tax laws, we are exempted from the Hong Kong income tax on our foreign-derived income. In addition, payments of dividends from our incorporated in Hong Kong to us are not subject to any Hong Kong withholding tax.

Table of Contents**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 any entity that qualifies as a software enterprise is entitled to an exemption from income tax for the first two years and 50% reduction for the next three years from such entity's first profitable year. Besides, some small profit enterprises whose annual taxable income amount is RMB1 million or less in 2018, are entitled to the incentive of computing 50% of their income as their taxable income amount, and subject to a reduced enterprise income tax rate of 20%. Furthermore, our certain entities in China engaging in research and development activities in China were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year of 2016 and 2017, and to claim 175% of their research and development expenses as Super Deduction for the year of 2018 ( Super Deduction ) according to the relevant laws and regulations in the PRC. 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, 11% from July 1, 2017 to April 30, 2018 and 10% since May 1, 2018 on sales of books, audio and video products, at a rate of 17% prior to May 1, 2018 and 16% since May 1, 2018 on sales of other products, at a rate of 6% or 11%/10% (11% prior to May 1, 2018 and 10% since May 1, 2018) on logistics services and at a rate of 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 other regulations including Circular No. 9, 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.

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.





Table of Contents

	2016		For the Year Ended December 31, 2017			2018	
	RMB	%	RMB	%	RMB	US\$	%
(in millions, except for percentages)							
<b>Net revenues:</b>							
Net product revenues (formerly known as online direct sales)	237,944	92.1	331,824	91.6	416,109	60,521	90.1
Net service revenues (formerly known as services and others)	20,346	7.9	30,508	8.4	45,911	6,677	9.9
Total net revenues	258,290	100.0	362,332	100.0	462,020	67,198	100.0
<b>Operating expenses(1)</b>							
Cost of revenues	(222,935)	(86.3)	(311,517)	(86.0)	(396,066)	(57,606)	(85.8)
Fulfillment	(18,560)	(7.2)	(25,865)	(7.1)	(32,010)	(4,656)	(6.9)
Marketing	(10,159)	(3.9)	(14,918)	(4.1)	(19,237)	(2,798)	(4.2)
Technology and content	(4,453)	(1.7)	(6,652)	(1.8)	(12,144)	(1,766)	(2.6)
General and administrative	(3,436)	(1.3)	(4,215)	(1.2)	(5,160)	(750)	(1.1)
Impairment of goodwill and intangible assets					(22)	(3)	(0.0)
Total operating expenses	(259,543)	(100.4)	(363,167)	(100.2)	(464,639)	(67,579)	(100.6)
Loss from operations	(1,253)	(0.4)	(835)	(0.2)	(2,619)	(381)	(0.6)
<b>Other income/(expense):</b>							
Share of results of equity investees	(2,782)	(1.1)	(1,927)	(0.5)	(1,113)	(162)	(0.2)
Interest income	1,227	0.5	2,530	0.7	2,118	308	0.5
Interest expense	(619)	(0.2)	(964)	(0.3)	(855)	(124)	(0.2)
Others, net	1,544	0.5	1,317	0.4	95	14	0.0
Loss before tax	(1,883)	(0.7)	121	0.0	(2,374)	(345)	(0.5)
Income tax benefits/(expenses)	(166)	(0.1)	(140)	0.0	(427)	(62)	(0.1)
Net loss from continuing operations	(2,049)	(0.8)	(19)	0.0	(2,801)	(407)	(0.6)
Net income/(loss) from discontinued operations, net of tax	(1,365)	(0.5)	7	0.0			
Net Loss	(3,414)	(1.3)	(12)	0.0	(2,801)	(407)	(0.6)

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

	For the Year Ended December 31,			
	2016 RMB	2017 RMB	2018 RMB	US\$
(in millions)				
Cost of revenues	(17)	(28)	(72)	(10)
Fulfillment	(332)	(426)	(419)	(61)
Marketing	(87)	(136)	(190)	(28)
Technology and content	(470)	(671)	(1,163)	(169)
General and administrative	(1,154)	(1,520)	(1,816)	(264)

**Segment Information**

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We have two operating segments, namely JD Retail (formerly known as JD Mall) and New Businesses. JD Retail represents our core e-commerce business, and New Businesses include logistics services provided to third parties, technology services, overseas business, and online-to-offline which has been deconsolidated since its merger with Dada in April 2016. JD Digits was previously included in New Businesses, but had been deconsolidated from our financial statements since June 30, 2017 as a result of its reorganization.

Table of Contents

The table below provides a summary of our operating segment results for the years ended December 31, 2016, 2017 and 2018:

	2016 RMB	For the Year Ended December 31,		US\$
		2017 RMB	2018 RMB	
	(in millions)			
<b>Net revenues:</b>				
JD Retail	254,397	356,020	447,502	65,086
New Businesses	3,297	6,022	14,665	2,133
Inter-segment*	(223)	(547)	(1,103)	(160)
Total segment net revenues	257,471	361,495	461,064	67,059
Unallocated items**	819	837	956	139
Total consolidated net revenues	258,290	362,332	462,020	67,198
<b>Operating income/(loss):</b>				
<b>Operating income/(loss):</b>				
JD Retail	2,269	4,956	7,049	1,025
New Businesses	(670)	(2,070)	(5,137)	(747)
Total segment operating income/(loss)	1,599	2,886	1,912	278
Unallocated items**	(2,852)	(3,721)	(4,531)	(659)
Total consolidated operating loss	(1,253)	(835)	(2,619)	(381)

\* The inter-segment eliminations mainly consist of revenues from services provided by JD Retail to overseas business, and services provided by JD Logistics to the vendors of JD Retail, 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 Retail were 12.6%, 12.9% and 13.1% for the years ended December 31, 2016, 2017 and 2018, respectively, which were lower than our major offline industry peers due to our high operating efficiency.

**Years Ended December 31, 2018 and 2017**

**Net Revenues.** Our total net revenues increased by 27.5% from RMB362,332 million in 2017 to RMB462,020 million (US\$67,198 million) in 2018, with increases in both categories of net revenues. Net product revenues increased by 25.4% from RMB331,824 million in 2017 to RMB416,109 million (US\$60,521 million) in 2018. Net service revenues increased by 50.5% from RMB30,508 million in 2017 to RMB45,911 million (US\$6,677 million) in 2018.

The increase in our total net revenues was primarily due to our ability to expand our customer base and enhance customer engagement in 2018. Our annual active customer accounts increased from 292.5 million in 2017 to 305.3 million in 2018. 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, 30.2 in 2017 and 31.5 in 2018. The increase in our net service revenues was also due to the increasing penetration of our logistics services among our merchants and other third parties.

*Operating Expenses.* Our total operating expenses increased by 27.9% from RMB363,167 million in 2017 to RMB464,639 million (US\$67,579 million) in 2018. This increase was due to increases in our cost of revenues, fulfillment expenses, marketing expenses, technology and content expenses, general and administrative expenses and impairment of goodwill and intangible assets.

Table of Contents

- *Cost of revenues.* Our cost of revenues increased by 27.1% from RMB311,517 million in 2017 to RMB396,066 million (US\$57,606 million) in 2018. This increase was primarily due to the growth of our online direct sales business. Costs related to the logistics services provided to merchants and other partners also increased rapidly along with the expansion of our logistics business.
- *Fulfillment expenses.* Our fulfillment expenses increased by 23.8% from RMB25,865 million in 2017 to RMB32,010 million (US\$4,656 million) in 2018. This increase was primarily due to an increase in compensation costs relating to fulfillment personnel from RMB12,233 million in 2017 to RMB14,564 million (US\$2,118 million) in 2018, which was due in turn to the increase in the number of our fulfillment employees from 136,088 as of December 31, 2017 to 149,474 as of December 31, 2018, 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 RMB4,395 million in 2017 to RMB5,823 million (US\$847 million) in 2018 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 the rental expenses for our fulfillment infrastructure from RMB2,359 million in 2017 to RMB2,991 million (US\$435 million) in 2018, which was primarily due to the increase in the aggregate gross floor area leased in 2018, and (iii) an increase in payment processing charges from RMB2,504 million in 2017 to RMB3,517 million (US\$511 million) in 2018 as our volume of sales increased. Fulfillment expenses as a percentage of net revenues, were 6.9% in 2018, as compared to 7.1% in 2017.
- *Marketing expenses.* Our marketing expenses increased by 28.9% from RMB14,918 million in 2017 to RMB19,237 million (US\$2,798 million) in 2018. This increase was primarily due to an increase in our advertising expenditures on both online and offline channels from RMB12,376 million in 2017 to RMB15,970 million (US\$2,323 million) in 2018, 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 82.6% from RMB6,652 million in 2017 to RMB12,144 million (US\$1,766 million) in 2018. This increase was primarily due to the increase in the headcount of our technology employees and our continued investment in technology infrastructure. Our technology employees increased from 11,938 as of December 31, 2017 to 16,380 as of December 31, 2018, 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 22.4% from RMB4,215 million in 2017 to RMB5,160 million (US\$750 million) in 2018. This increase was primarily due to an increase in staff cost from RMB1,324 million in 2017 to RMB1,637 million (US\$238 million) in 2018, and an increase in share-based compensation expenses from RMB1,520 million in 2017 to RMB1,816 million (US\$264 million) in 2018, which were attributable to an increase in the number of employees along with business expansion.

*Share of results of equity investees.* Share of results of equity investees was a loss of RMB1,113 million (US\$162 million) in 2018, compared to a loss of RMB1,927 million last year. In 2018, our share of results of equity investees was primarily attributable to losses picked up from our equity method investments in Dada and Bitauto.

*Others, Net.* Others, net was RMB1,317 million income in 2017 and RMB95 million (US\$14 million) income in 2018. In 2018, others, net mainly contains loss from fair value change of long-term investments and the realized gain from disposals of long-term investments.

*Net Loss.* As a result of the foregoing, we had a net loss of RMB2,801 million (US\$407 million) in 2018, as compared to a net loss from continuing operations of RMB19 million in 2017.

Table of Contents*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 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 in 2017.

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 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 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 in 2017. This increase was primarily due to an increase in compensation costs from RMB9,059 million in 2016 to RMB12,233 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 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 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 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 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 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 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 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 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.



Table of Contents

**Share of results of equity investees.** Share of results of equity investees was a loss of RMB1,927 million in 2017, compared to a loss of RMB2,782 million 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 in 2017, primarily due to the increase of loans provided to JD Digits 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 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 in 2017, as compared to a net loss from continuing operations of RMB2,049 million in 2016.

**Gain from Disposition of JD Digits.** As of June 30, 2017, the reorganization of JD Digits had been completed, and we disposed all of our equity interest in JD Digits. As part of the transaction, we received approximately RMB14.3 billion in cash with an economic gain of RMB14.2 billion in 2017. As JD Digits 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 Digits when JD Digits has a positive pre-tax income on a cumulative basis. In connection with JD Digits' additional round of financing in 2018, the percentage of profit sharing has been diluted to approximately 36%.

**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 consolidated 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.

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, Jingdong Bangneng 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.

Table of Contents

***Investment in Equity Investees***

Investment in equity investees represents our investments in privately held companies, publicly traded companies and private equity funds. 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.

Under the equity method, our share of the post-acquisition profits or losses of the equity investees are recorded in share of results of equity investees in our consolidated statements of operations and comprehensive income/(loss) and our share of post-acquisition movements are recorded in accumulated other comprehensive income/(loss) as a component of shareholders' equity. We record our share of the results of equity investments in publicly listed companies and certain privately held companies on 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 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, or we hold other investments in the equity investee.

We continually reviews our investment in equity investees under equity method to determine whether a decline in fair value to below the carrying value is other-than-temporary. The primary factors we consider are 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 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.

Private equity funds pursue various investment strategies, including event driven and multi-strategy. Investments in private equity generally are not redeemable due to the closed-ended nature of these funds. Beginning on January 1, 2018, these private equity funds, over which we do not have the ability to exercise significant influence, are accounted for under the existing practical expedient in ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820) to estimate fair value using the net asset value per share (or its equivalent) of the investment (NAV practical expedient).

Beginning on January 1, 2018, our equity investments without readily determinable fair values, which do not qualify for NAV practical expedient and over which we do not have the ability to exercise significant influence through the investments in common stock or in substance common stock, are accounted for under the measurement alternative upon the adoption of Accounting Standards Update (ASU) 2016-01 (the Measurement Alternative). Under the Measurement Alternative, the carrying value is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. All gains and losses on these investments, realized and unrealized, are recognized in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss). We make assessment of whether an investment is impaired at each reporting date, and recognizes an impairment loss equal to the difference between the carrying value and fair value in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss) if there is any. Prior to January 1, 2018, the cost method of accounting was used.

**Revenue**

We engage primarily in the sale of electronics and home appliance 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 Digits. 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.

Table of Contents

We adopted ASC topic 606, *Revenue from Contracts with Customers* ( ASC 606 ), from January 1, 2018, using the modified retrospective transition method. Revenues for the year ended December 31, 2018 were presented under ASC 606, and revenues for the years ended December 31, 2017 and 2016 were not adjusted and continue to be presented under ASC topic 605, *Revenue Recognition* ( ASC 605 ). Our revenue recognition policies effective on the adoption date of ASC 606 are presented as below.

Consistent with the criteria of ASC 606, we recognize revenues when we satisfy a performance obligation by transferring a promised good or service (that is, an asset) to a customer. An asset is transferred when the customer obtains control of that asset.

In accordance with ASC 606, 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 acting as a principal, that we obtain control of the specified goods or services before they are transferred to the customers, the revenues should be recognized in the gross amount of consideration to which it expects to be entitled in exchange for the specified goods or services transferred. When we are acting as an agent and our obligation is to facilitate third parties in fulfilling their performance obligation for specified goods or services, revenues should be recognized in the net amount for the amount of commission which we earn in exchange for arranging for the specified goods or services to be provided by other parties. Revenue is recorded net of value-added taxes.

We recognize revenue net of discounts and return allowances when the products are delivered and title passes to customers. Significant judgement is required to estimate return allowances. For online direct sales business with return conditions, we reasonably estimate the possibility of return based on the historical experience, changes in judgments on these assumptions and estimates could materially impact the amount of net revenues recognized.

We also sell prepaid cards which can be redeemed to purchase products sold on the website *www.jd.com* and mobile apps. In accordance with ASC 606, 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. While the portion estimated unredeemed is recognized as revenues over the expected customer redemption periods, rather than waiting until prepaid cards expire or when the likelihood of redemption becomes remote.

Revenue arrangements with multiple deliverables are divided into separate units of accounting based on the stand-alone selling price ( SSP ) of each separate unit. In instances where SSP is not directly observable, such as we do not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables, considerations are allocated using estimated selling prices. Determining the SSP of each separate unit may require significant judgments, and significant assumptions and estimates have been made in estimating the relative selling price of each single-element.

***Inventories***

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. We take ownership, risks and rewards 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 Income/(Loss). As a measure of sensitivity, for every 1% of additional inventory valuation allowance as of December 31, 2018, we would have recorded an

additional cost of sales of approximately RMB449 million (US\$65 million).

We also provide fulfillment-related services in connection with our online marketplace. Third-party sellers maintain ownership of their inventories and therefore these products are not included in our inventories.

### ***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 have the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test in accordance with ASC 350-20, *Intangibles - Goodwill and Other: Goodwill*, ( ASC 350-20 ). If we believe, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit. If the carrying amount of each reporting unit exceeds its fair value, a second step is performed to compute the amount of impairment as the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill. 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.

Table of Contents

During the years ended December 31, 2016, 2017 and 2018, management monitored the actual performance of the business relative to the fair value assumptions used during our annual goodwill impairment test. The goodwill impairment charges during the years ended December 31, 2016, 2017 and 2018 are nil, nil and RMB7 million (US\$1 million), respectively.

***Nonrecourse 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 Digits, 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, 2017 and 2018, the collateralized accounts receivables were RMB11,702 million and RMB3,116 million (US\$453 million), respectively, and the collateralized loans receivables were RMB4,513 million and RMB1,281 million (US\$186 million), respectively. The weighted average interest rate for the outstanding nonrecourse securitization debt as of December 31, 2017 and 2018 was approximately 5.33% and 5.81% per annum, respectively. The interest expenses in relation to the nonrecourse securitization debt were charged back to JD Digits.

Beginning October 2017, we have revised certain structural arrangements to relinquish our continuing involvement right when setting up the new securitization vehicles. In 2018, RMB17,500 million (2017: RMB8,000 million) consumer credit receivables financial assets were derecognized through the sales type arrangements, including accounts receivable of RMB12,632 million (2017: RMB5,693 million) and loan receivables of RMB4,868 million (2017: RMB2,307 million). Proceeds from the derecognition were RMB17,500 million (2016: Nil, 2017: RMB8,000 million), and JD Digits acted as the servicer and purchased the subordinate tranche of the securitization vehicles in these transactions. The investors, including JD Digits, have no recourse to us when the underlying consumers fail to pay

amounts contractually on due. The gain/loss recorded upon the sale accounting was immaterial in 2017 and 2018.



Table of Contents

*Share-Based Compensation*

We grant restricted share units and share options of our company and our subsidiaries to eligible employees and non-employee consultants. We account for these share-based awards issued to employees in accordance with ASC 718 *Compensation – Stock Compensation*. We early adopted ASU 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting* beginning July 1, 2018, before then, we accounted for share-based awards issued to non-employees and in accordance with ASC 505-50 *Equity-Based Payments to Non-Employees*.

Employees' share-based awards, non-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.

*Restricted share units*

Prior to our initial public offering, the fair value of the 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. 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.
  
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.

Table of Contents

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.

*Our subsidiaries' share-based compensation*

Determination of estimated fair value of our subsidiaries before they were publicly listed requires complex and subjective judgments due to their limited financial and operating history, unique business risks and limited public information on companies in China similar to our subsidiaries. We estimate our subsidiaries' enterprise value for purposes of recording stock-based compensation, and the information considered by us mainly include but are not limited to the pricing of recent rounds of financing, future cash flow forecasts, and liquidity factors. We recognize the fair value of our subsidiaries' stock-based payment awards on the grant date is affected by the fair value of our subsidiaries' ordinary shares as well as assumptions regarding a number of complex and subjective variables. These variables include the expected value volatility of the our subsidiaries over the expected term of the awards, actual and projected employee stock option exercise behaviors, a risk-free interest rate and expected dividends, if any.

***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 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. 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 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.

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 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 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, 2016, 2017 and 2018, we did not have any significant unrecognized uncertain tax positions.

***Recent Accounting Pronouncements***

For a summary of recently issued accounting pronouncements, see Note 2 to the consolidated financial statements of JD.com, Inc. and its subsidiaries pursuant to Item 17 of Part III of this annual report.

Table of Contents

**B. Liquidity and Capital Resources**

Our primary sources of liquidity have been proceeds from operating activities, issuances of equity securities in our initial public offering and private placements, 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, 2018, the total carrying value and estimated fair value were US\$497.3 million and US\$482.2 million, respectively, with respect to the notes due in 2021, and US\$491.4 million and US\$447.8 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, 2018. 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 2018, 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\$1,000 million 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, 2018, we had an undrawn balance of US\$550 million under the credit facilities agreement, which will expire one month prior to the final maturity date, which is sixty months after the date of this credit facilities agreement.

In February 2018, we entered into definitive agreements with certain third-party investors for financing for JD Logistics and raised approximately US\$2.5 billion from this round of financing. After the completion of this financing, the third-party investors own approximately 19% of the equity interests of JD Logistics on a fully diluted basis.

In June 2018, we received US\$550 million from Google by issuing 27,106,948 Class A ordinary shares to Google.

In 2018, we established a property management group, or JDPM, to manage the expanding logistics facilities and other real estate properties. JDPM develops and manages these properties, and may seek opportunistic dispositions to optimize our capital structure. In February 2019, JDPM established JD Logistics Properties Core Fund, L.P., or JD LPC Fund, together with GIC, Singapore's sovereign wealth fund, for a total committed capital of over RMB4.8 billion. We serve as the general partner and have committed 20% of the total capital of JD LPC Fund, and GIC has committed the remaining 80%. The investment committee of JD LPC Fund, which comprise the representatives from us and GIC, will oversee the key operations of JD LPC Fund. Furthermore, on February 27, 2019, we entered into a definitive agreement with JD LPC Fund, pursuant to which we will dispose of certain of our modern logistics facilities to JD LPC Fund for a total gross asset value of RMB10.9 billion, to unlock meaningful value from our balance sheet and recycle capital for our future growth initiatives. JD LPC Fund will use leverage to finance the purchase, and the closing of the purchase is subject to certain conditions, including the availability of debt financing. It is expected that the disposition of the majority of these logistics facilities will be completed in 2019. Subsequent to the disposition, we will lease back these

facilities for operational purposes. JDPM will serve as the asset manager managing JD LPC Fund's assets.

As of December 31, 2018, we had a total of RMB39.5 billion (US\$5.8 billion) in cash and cash equivalents, restricted cash and short-term investments. This included primarily RMB15.4 billion and US\$2.5 billion in China, RMB2.2 billion, HK\$9 million and US\$469 million in Hong Kong. Our cash and cash equivalents generally consist of bank deposits and liquid investments with maturities of three months or less. As of December 31, 2018, we had revolving lines of credit for an aggregate amount of RMB60.9 billion (US\$8.9 billion) from several commercial banks. We had RMB19.0 billion (US\$2.8 billion) used under these revolving lines of credit as of December 31, 2018.

Table of Contents

As of December 31, 2018, we were at a net current liability position of RMB16.0 billion (US\$2.3 billion). 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 years, from RMB28.9 billion as of December 31, 2016 to RMB41.7 billion as of December 31, 2017 and further to RMB44.0 billion (US\$6.4 billion) as of December 31, 2018. These increases reflected the additional inventory required to support our substantially expanded sales volumes. Our annual inventory turnover days were 37.6 days in 2016, 38.1 days in 2017 and 37.3 days in 2018. 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.

Our accounts payable primarily include accounts payable to suppliers associated with our direct sales business. As of December 31, 2016, 2017 and 2018, our accounts payable amounted to RMB46.0 billion, RMB74.3 billion and RMB80.0 billion (US\$11.6 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. Our annual accounts payable turnover days for direct sales business were 52.0 days in 2016, 59.1 in 2017 and 58.1 days in 2018. 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, 2016, 2017 and 2018, our accounts receivable amounted to RMB16.1 billion, RMB16.4 billion and RMB11.1 billion (US\$1.6 billion), respectively. The decrease in 2018 was primarily due to our derecognition of accounts receivable related to consumer financing through the sales type arrangements serviced by JD Digits. From early 2014, JD Digits started to provide consumer financing to our customers. As of December 31, 2016, 2017 and 2018, the balances of current portion of financing provided to our customers that affected accounts receivable balances amounted to RMB14.8 billion, RMB14.3 billion and RMB6.3 billion (US\$0.9 billion), respectively. Our accounts receivable turnover days excluding the impact from consumer financing were 1.3 days in 2016, 1.4 days in 2017 and 2.7 days in 2018. 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 RMB 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.



Table of Contents

RMB 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 RMB 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.

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

	2016 RMB	For the Year Ended December 31, 2017		2018	US\$
		RMB	RMB		
		(in millions)			
<b>Summary Consolidated Cash Flows Data:</b>					
Net cash provided by continuing operating activities	9,467	29,342	20,881		3,037
Net cash used in discontinued operating activities	(1,227)	(2,486)			
Net cash provided by operating activities	8,240	26,856	20,881		3,037
Net cash used in continuing investing activities	(17,069)	(21,944)	(26,079)		(3,793)
Net cash used in discontinued investing activities	(28,412)	(17,871)			
Net cash used in investing activities	(45,481)	(39,815)	(26,079)		(3,793)
Net cash provided by continuing financing activities	8,649	5,180	11,220		1,632
Net cash provided by discontinued financing activities	32,050	14,055			
Net cash provided by financing activities	40,699	19,235	11,220		1,632
Effect of exchange rate changes on cash, cash equivalents and restricted cash	727	(642)	1,682		244
Net increase in cash, cash equivalents and restricted cash	4,185	5,634	7,704		1,120
Cash, cash equivalents and restricted cash at beginning of year	19,979	24,164	29,798		4,334
Cash, cash equivalents and restricted cash at end of year	24,164	29,798	37,502		5,454
Less: Cash, cash equivalents and restricted cash of held for sale	6,303				
Cash, cash equivalents and restricted cash of continuing operations at end of period	17,861	29,798	37,502		5,454

As a result of new accounting guidance adopted on January 1, 2018, the consolidated statements of cash flows were retrospectively adjusted to include restricted cash in cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The impact of the retrospective reclassification on cash flows of operating activities for the years ended December 31, 2016 and 2017 was a decrease of RMB527 million and an increase of RMB2,035 million, respectively. The impact on cash flows of investing activities for the years ended December 31, 2016 and 2017 was an increase of RMB2,787 million and a decrease of RMB2,317 million,

respectively.

### *Continuing Operating Activities*

Net cash provided by operating activities in 2018 was RMB20,881 million (US\$3,037 million). In 2018, 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 RMB5,560 million (US\$809 million), share of results of equity investees of RMB1,113 million (US\$162 million) and share-based compensation of RMB3,660 million (US\$532 million), and changes in certain working capital accounts, principally an increase in accounts payable of RMB5,467 million (US\$795 million), an increase in accrued expenses and other current liabilities of RMB5,158 million (US\$750 million), a decrease of accounts receivable of RMB4,287 million (US\$624 million) and a decrease in amount due from related parties of RMB1,770 million (US\$257 million), partially offset by an increase in inventories of RMB2,342 million (US\$341 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 our sales of prepaid cards. The decrease in accounts receivable was due to the derecognition of consumer financing related accounts receivable through sales type arrangements. The increase in our inventories was due to the growth of our business.

Table of Contents

Net cash provided by operating activities in 2017 was RMB29,342 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, share of results of equity investees of RMB1,927 million, share-based compensation of RMB2,780 million, and changes in certain working capital accounts, principally an increase in accounts payable of RMB26,106 million, an increase in advance from customers of RMB2,139 million, an increase in accrued expenses and other current liabilities of RMB4,624 million and a decrease in amount due from related parties of RMB2,457 million, partially offset by an increase in inventories of RMB12,788 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 RMB9,467 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 Digits.

***Continuing Investing Activities***

Net cash used in investing activities in 2018 was RMB26,079 million (US\$3,793 million), consisting primarily of the purchase of short-term investments, investment in equity investees, investment securities, purchases of property, equipment and software and cash paid for construction in progress, partially offset by the maturity of short-term investments and cash received from repayments of loans to JD Digits.

Net cash used in investing activities in 2017 was RMB21,944 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 Digits, and increase in loans to JD Digits, 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 Digits.

Table of Contents

Net cash used in investing activities in 2016 was RMB17,069 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 Digits 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 Digits.

***Continuing Financing Activities***

Net cash provided by financing activities in 2018 was RMB11,220 million (US\$1,632 million), consisting primarily of proceeds from issuance of equity securities by us and JD Logistics and long-term borrowings, 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 2017 was RMB5,180 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.

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.

***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, 2018, the amount restricted, including paid-in capital and statutory reserve funds, as determined in accordance with PRC accounting standards and regulations, was approximately RMB25,856 million (US\$3,761 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 RMB4,229 million, RMB11,356 million and RMB21,369 million (US\$3,108 million) in 2016, 2017 and 2018, respectively. Our capital expenditures for 2016, 2017 and 2018 consisted primarily of expenditures related to the expansion of our fulfillment infrastructure, technology platform, logistics equipment as well as our 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 16,380 research and development professionals to design, develop and operate our technology platform and to improve our AI, big data and cloud technologies and services as of December 31, 2018.

Table of Contents

In the three years ended December 31, 2016, 2017 and 2018, our technology and content expenses, including share-based compensation expenses for research and development staff, were RMB4,453 million, RMB6,652 million and RMB12,144 million (US\$1,766 million), respectively. Our technology and content expenses consist primarily of payroll and related expenses for research and development professionals involved in designing, developing and operating our technology platform, developing and posting content, and improving our AI, big data and cloud technologies and services, and technology infrastructure costs. Technology infrastructure costs include servers and other equipment depreciation, bandwidth and data center costs, rent, utilities and other expenses necessary to support our internal and external business. 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.

**D. Trend Information**

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, 2018 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, 2018:

	Total	Less than 1 year	Payment Due by Period		More than 5 years
			1-3 years (in RMB thousands)	3-5 years	
Operating lease commitments for offices and fulfillment infrastructures	10,014,358	3,596,926	4,006,156	1,366,458	1,044,818
Commitments for internet data center service fee	755,615	656,427	86,502	9,419	3,267
Capital commitments(1)	10,041,618	10,041,618			
Long-term debt obligations(2)	9,874,583		3,413,264	3,088,440	3,372,879

Total	30,686,174	14,294,971	7,505,922	4,464,317	4,420,964
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(1) 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.

(2) Our long-term debt obligations are mainly unsecured senior notes and long-term borrowings. The amounts exclude the corresponding interest payable.

Table of Contents**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.

<b>Directors and Executive Officers</b>	<b>Age</b>	<b>Position/Title</b>
Richard Qiangdong Liu	46	Chairman of the Board of Directors and Chief Executive Officer
Martin Chiping Lau	46	Director
Ming Huang	55	Independent Director
Louis T. Hsieh	54	Independent Director
Dingbo Xu	56	Independent Director
Lei Xu	44	Chief Executive Officer of JD Retail
Zhenhui Wang	44	Chief Executive Officer of JD Logistics
Sidney Xuande Huang	53	Chief Financial Officer
Yayun Li	38	Chief Compliance Officer

*Richard Qiangdong Liu* has been our chairman and chief executive officer since our inception. Mr. Liu has over 20 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 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 the Hong Kong Stock Exchange. 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 director of Vipshop Holdings Limited, an online discount retailer listed on the NYSE, a director of Tencent Music Entertainment Group, an online music entertainment platform in China listed on the NYSE, a director of Leju Holdings Limited, an online-to-offline real estate services provider in China listed on the NYSE, a non-executive director of Meituan Dianping, an e-commerce platform for service listed on the Hong Kong Stock Exchange, and a non-executive director of Kingsoft Corporation Limited, an internet based software developer, distributor and software service provider listed on the Hong Kong Stock Exchange. 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 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.

Table of Contents

*Louis T. Hsieh* has served as our independent director since May 2014. Mr. Hsieh has been the group chief financial officer of NIO Inc., a pioneer in China's premium electric vehicle market listed on the NYSE (NYSE: NIO) 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 2005 to 2015 and its president from 2008 to 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. He was also the chief financial officer of ARIIO 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.

*Dingbo Xu* has served as our independent director since May 2018. Professor Xu has served as a faculty member and professor in highly-respected universities for more than two decades. He is currently Essilor Chair Professor in Accounting and an associate dean at China Europe International Business School in Shanghai. Before joining China Europe International Business School in 2004, he was an assistant professor of accounting at the Hong Kong University of Science and Technology from 1996 to 2003. In addition to his academic positions, Professor Xu serves as the executive director of the editorial board of China Management Accounting Review, the founding chairman of Chartered Global Management Accountant (CGMA) 100 North Asia Leaders Think Tank, and the chairman of the expert panel of China Social Poverty Alleviation Network. Professor Xu has contributed his knowledge and expertise to the board of directors of several public companies. He was a member of the board of directors of The People's Insurance Company (Group) of China Limited (PICC), a company listed on the Hong Kong Stock Exchange, from September 2009 to April 2018. He currently serves on the board of directors of China Cinda Asset Management Co. Ltd, listed on the Hong Kong Stock Exchange, as well as SANY Heavy Industry, Kweichow Moutai Company Limited and Shanghai Shyndec Pharmaceutical Co., Ltd., all of which are listed on the Shanghai Stock Exchange. Professor Xu received his Ph.D in accounting from the University of Minnesota, as well as a master's degree in management and a bachelor's degree in mathematics, both from Wuhan University.

*Lei Xu* is chief executive officer of JD Retail, responsible for the development, operation and strategy of our retail business, both online and offline. Since joining us in 2009, Mr. Xu has held several leadership roles within the sales and marketing divisions of our retail business, including head of marketing and branding, head of JD Wireless, and head of our marketing and platform operations. Under his leadership, we successfully rebranded ourselves from 360buy to JD.com and launched our popular mascot, Joy. Mr. Xu was responsible for the launch of JD Plus, the first paid membership service in China's e-commerce industry, as well as our Super Brand Day strategic marketing program. He also leads our Kepler open platform, a key pillar of our Retail as a Service strategy that leverages our strengths in logistics, marketing, financial services, and other areas to help partners to expand their online businesses. Before joining us, Mr. Xu held several senior management roles in marketing and operations at Lenovo, Allyes and Belle E-Commerce. Mr. Xu holds an EMBA degree from China Europe International Business School.

*Zhenhui Wang* is chief executive officer of JD Logistics, an integrated supply chain management solutions provider. He joined us in April 2010. Under his leadership, JD Logistics has expanded rapidly both in terms of scale and breadth of operations. JD Logistics covers a wide range of services and solutions, including supply chain management, cold chain, express and after-sales service, as well as cross-border logistics. Mr. Wang previously served as a senior vice president and the head of our fulfillment operations. Prior to that, he led our smart devices business, where he built the JD+ smart ecosystem, the predecessor of our current smart services platform, Alpha. Prior to that, Mr. Wang served as regional head, in charge of logistics operations in North China. Prior to joining us, Mr. Wang served as head of national business operations at Eternal Asia Supply Chain Co. from 2008 to 2010, and as general manager of business sales at Lenovo from 1999 to 2007. Mr. Wang holds a bachelor's degree in engineering from the University of Science and Technology Beijing and an EMBA from China Europe International Business School.

Table of Contents

*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 master's degree in 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.

*Yayun Li* is our chief compliance officer, overseeing compliance, legal affairs and internal audits, as well as information security. She joined us in December 2007. Prior to her current role, Ms. Li served as vice president of our compliance department, where she developed a strong ethics and compliance program predicated on a zero-tolerance policy towards counterfeits and promoted a companywide culture of integrity by launching fraud prevention training, a whistle-blower program and an internal fraud investigation framework. She has also been responsible for establishing effective compliance and internal controls to meet U.S. listing requirements. Prior to her role in compliance, Ms. Li served as the head of our legal team. Ms. Li holds a master's degree in law from Renmin University and an EMBA from China Europe International Business School.

**B. Compensation**

In 2018, we paid an aggregate of approximately RMB9.3 million (US\$1.4 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.

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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.

Table of Contents

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.

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 525,896,116 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 419,045,206 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.

Table of Contents

*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.

*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.



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As of December 31, 2018, 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 118,575,638 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 41,747,736 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 February 28, 2019. 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.

Table of Contents

In addition, JD Logistics adopted its own share incentive plan in 2018, which permits JD Logistics to grant stock options, restricted share units and other types of awards of JD Logistics to its employees, directors and consultants, and granted 187,844,000 share options in 2018.

**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.

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 Dingbo Xu. Mr. Hsieh is the chairman of our audit committee. We have determined that Mr. Hsieh, Mr. Huang and Mr. Xu 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.

Table of Contents

*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;
- 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 Dingbo Xu and Louis T. Hsieh. Mr. Xu is the chairperson of our nominating and corporate governance committee. Mr. Xu 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.

Table of Contents**D. Employees**

As of December 31, 2016, 2017 and 2018, we had a total of 116,343, 157,831 and 178,927 full-time employees, respectively.

The following tables give breakdowns of our employees as of December 31, 2018, by function:

<b>Function</b>	<b>Number</b>
Procurement	8,521
Warehouses	29,139
Delivery	95,138
Customer Service	16,676
Technology	16,380
Sales and Marketing	7,894
General and Administrative	5,179
<b>TOTAL</b>	<b>178,927</b>

With so many employees, we place great emphasis on our corporate culture to ensure that we maintain consistently high standards everywhere we operate.

We invest resources in the recruitment of employees in support of our fast-growing business operations. In 2018, 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 employee training and development systems that cover such topics as leadership, general competence, innovative skills, language skills, business capabilities, our corporate culture, the supply chain supporting business development, AI, big data, retail, marketing, finance, technology, fashion and art. We have an innovative dedicated training facility and have established a talent supply chain department to further strengthen our internal business-driven personnel training and development. As of December 31, 2018, over 640 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 worldwide.

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 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, 2019 by:

- each of our directors and executive officers; and

Table of Contents

- 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 2,907,939,381 ordinary shares outstanding as of February 28, 2019, comprising of (i) 2,450,892,898 Class A ordinary shares, excluding the 57,876,466 Class A ordinary shares issued to our depository 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) 457,046,483 Class B ordinary shares.

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 Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares	% of Total Ordinary Shares	% of Aggregate Voting Power
<b>Directors and Executive Officers:</b>					
Richard Qiangdong Liu	27,800,000(1)	421,507,423(1)	449,307,423(1)	15.4(1)	79.0(2)
Martin Chiping Lau(3)					
Ming Huang(4)	*		*	*	*
Louis T. Hsieh(5)	*		*	*	*
Dingbo Xu(6)	*		*	*	*
Lei Xu	*		*	*	*
Zhenhui Wang	*		*	*	*
Sidney Xuande Huang	*		*	*	*
Yayun Li	*		*	*	*
All Directors and Executive Officers as a Group	32,715,953	421,507,423	454,223,376	15.6	79.1(2)
<b>Principal Shareholders:</b>					
Max Smart Limited(7)	20,000,000	421,507,423	441,507,423	15.2	72.9
Huang River Investment Limited(8)	517,065,413		517,065,413	17.8	4.5
Walmart(9)	289,053,746		289,053,746	9.9	2.5
Fortune Rising Holdings Limited(10)		35,539,060	35,539,060	1.2	6.1

\* Less than 1% of our total outstanding ordinary shares.

\*\* Except for Mr. Martin Chiping Lau, Mr. Ming Huang, Mr. Louis T. Hsieh, and Mr. Dingbo Xu, 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) 7,800,000



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, 2019. 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 35,539,060 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 35,539,060 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 48/F, South Tower, Tencent Binhai Building, Haitian 2nd Road, Nanshan District, Shenzhen, People's Republic of China.

Table of Contents

(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 Tower 2,37-B, I Austin Road West, Kowloon, Hong Kong.

(6) The business address of Professor Xu is China Europe International Business School, 699 Hongfeng Road, Pudong, Shanghai 201206, 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.

(8) Represents (i) 486,245,393 Class A ordinary shares held by Huang River Investment Limited, and (ii) 15,410,010 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 the 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) Represents (i) 144,952,250 Class A ordinary shares and (ii) 72,050,748 ADSs, representing 144,101,496 Class A ordinary shares owned 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. 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 35,539,060 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, 2019, a total of 1,877,571,705 class A ordinary shares were held by five record holders in the United States, representing approximately 63.3% of our total outstanding shares on an as-converted basis (including the 57,876,466 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 73.8% Class A ordinary shares on record, representing approximately 62.4% of our total outstanding shares on record as of February 28, 2019 (including the 57,876,466 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.

Table of Contents

**Item 7. Major Shareholders and Related Party Transactions**

**A. Major Shareholders**

Please refer to Item 6.E. Directors, Senior Management and Employees Share Ownership.

**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 for the holders except for Huang River Investment Limited since May 28, 2016, the second anniversary after the completion of our initial public offering, and we have ceased to have effect any obligation to any registration for Huang River Investment Limited since March 10, 2019.

**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 Icson.

*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 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 payment processing 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 commission services revenues from cooperation on advertising business with Tencent, and also purchased a total amount of RMB675 million advertising resources and payment processing services from Tencent and also generated a total amount of RMB32 million fulfillment and commission services revenues from logistics and online marketplace services provided to Tencent. In 2018, we generated a total amount of RMB345 million (US\$50 million) commission services revenues from cooperation on advertising business with Tencent, and also purchased a total amount of RMB1,176 million (US\$171 million) advertising resources and payment processing services from Tencent and also generated a total amount of RMB277 million (US\$40 million) fulfillment and commission services revenues from logistics and online marketplace services provided to Tencent. As of December 31, 2018, we had a total amount of RMB863 million (US\$125 million) due from Tencent.

Table of Contents**Agreements and Transactions Relating to JD Digits**

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 Digits IPLA, with JD Digits, 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 Digits had been completed. As a result, we disposed of all of our 68.6% equity interest in JD Digits and deconsolidated the financial results of JD Digits from ours since then. Pursuant to the agreements, we received approximately RMB14.3 billion in cash upon transaction closing with an economic gain of RMB14.2 billion and 40% of the future pre-tax profit of JD Digits when JD Digits has a positive pre-tax income on a cumulative basis. In addition, we will be able to convert our profit sharing right with respect to JD Digits into 40% of JD Digits' s equity interest, subject to applicable regulatory approvals. The above percentage of profit sharing and maximum equity interest issuance to us, which we refer to as the Maximum Interest, is subject to potential proportional dilution as a result of any future equity financings or ESOP increases of JD Digits. In connection with JD Digits' s additional round of financing in 2018, the Maximum Interest has been diluted to approximately 36%. Please see Item 4. Information on the Company A. History and Development of the Company for further information.

***Framework Agreement***

The Framework Agreement, as amended, contains the following major provisions:

***Liquidity Event Payment***

Under the Framework Agreement, in the event of a liquidity event of JD Digits, if our total ownership of equity interests in JD Digits, if any, acquired as described under Potential Equity Interest below, has not reached the Maximum Interest, we would be entitled, at our election, to receive a one-time payment up to the Maximum Interest percentage of the equity value, immediately prior to such liquidity event of JD Digits. If we acquire equity interests in JD Digits in an aggregate amount less than the Maximum Interest, then the percentage of JD Digits' s equity value used to calculate the liquidity event payment will be reduced proportionately. The above-mentioned maximum percentage of JD Digits' s equity interest that may be issued to us and JD Digits' 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 Digits, and have been diluted from 40% to approximately 36% in connection with JD Digits' s additional round of financing in 2018.

In lieu of receiving the liquidity event payment, we may elect to receive payments under the profit sharing provision of the JD Digits 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 Digits. If we so elect, in connection with such a liquidity event, JD Digits must use its commercially reasonable efforts to obtain such regulatory approvals. If such approvals are not obtained, then JD Digits 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 Digits, (ii) a change of control transaction, (iii) an issuance of approximately 36% or more of the securities of JD Digits (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 Digits, and (v) a liquidation, dissolution or winding up of JD Digits.

*Potential Equity Interest*

The Framework Agreement provides for future potential equity issuances to us by JD Digits. Under the Framework Agreement, in the event that JD Digits applies for and receives certain PRC regulatory approvals in the future, JD Digits will issue and we will purchase newly issued equity interests in JD Digits, 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 Digits, and has been diluted to approximately 36% in connection with JD Digits's additional round of financing in 2018.

Table of Contents

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 Digits, in the event JD Digits 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 Digits 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 Digits, then our right to acquire up to the Maximum Interest will continue after such liquidity event.

The consideration to be paid by us to acquire any equity interest in JD Digits up to the Maximum Interest will be fully funded by payments from JD Digits in respect of certain intellectual property and software technology services we will provide to JD Digits.

To the extent we acquire the Maximum Interest pursuant to the provisions of the Framework Agreement, the liquidity event payment and the profit sharing arrangement under the JD Digits IPLA described in *JD Digits Intellectual Property License and Software Technology Services Agreement* below will automatically terminate. If we acquire less than the Maximum Interest in JD Digits pursuant to the provisions of the Framework Agreement, the liquidity event payment amount and the profit sharing arrangement under the JD Digits 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 Digits would be difficult to obtain. There can be no assurance that such applicable regulatory rules and practices will change in the near future.

*Certain Restrictions on the Transfer of JD Digits 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 Digits, including:

- prior to our acquisition of the Maximum Interest, none of Suqian Linghang, Suqian Dongtai or JD Digits may transfer or issue, as applicable, any equity interest in JD Digits to a non-PRC person or entity, and JD Digits shall cause its other shareholders not to do so; and
- in the event that we acquire any equity interest in JD Digits, any transfer of equity interest in JD Digits 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 Digits 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 Digits 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 Digits 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.

Table of Contents

*Corporate Governance Provisions*

Pursuant to the Framework Agreement, we and JD Digits mutually recommended one person who JD Digits nominated as a member of its board of directors.

In addition, prior to our acquisition of the Maximum Interest, without the prior written consent of the audit committee of our board, JD Digits will not:

- issue any equity securities other than in a qualified IPO, unless the pre-money valuation of JD Digits on a consolidated basis implied by such issuance of equity securities is not less than the valuation of JD Digits 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 Digits other than a qualified IPO; or
- undertake or consummate, and neither Suqian Linghang nor Suqian Dongtai will otherwise permit, any liquidity event of JD Digits involving a related party as a counter-party.

***JD Digits Intellectual Property License and Software Technology Services Agreement***

Under the terms of the JD Digits IPLA, we have agreed to license to JD Digits certain intellectual property rights and provide various software technology services to JD Digits.

Under the JD Digits IPLA, we will receive, in addition to a service fee, royalty streams related to JD Digits 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 the Maximum Interest percentage of the consolidated pre-tax income of JD Digits on a cumulative basis (subject to certain adjustments). The percentage of the consolidated pre-tax income of JD Digits 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 Digits.

In addition, if we acquire any equity interest in JD Digits 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 Digits will make a payment to us in consideration for the reduction in profit sharing payments. This payment by JD Digits will effectively fund our subscription for equity interest of JD Digits, and will result in our acquiring equity interests in JD Digits with effectively no cash impact to us, subject to applicable taxes.

The JD Digits IPLA will terminate (i) after our total equity interest ownership in JD Digits has reached the Maximum Interest, when a qualified IPO of JD Digits occurs; (ii) after a qualified IPO of JD Digits has occurred, when our total equity interest ownership in JD Digits reaches the Maximum Interest, each percentage above being subject to potential dilution as a result of any future equity financings or ESOP pool increases of JD Digits; or (iii) when the liquidity event payment as described above under Framework Agreement Liquidity Event Payment becomes payable.

*Business Transactions with JD Digits and Its Subsidiaries*

JD Digits is a related party controlled by our chairman of the board of directors and chief executive officer, Mr. Richard Qiangdong Liu, through his equity stake and voting arrangements in JD Digits. In 2016, 2017 and 2018, we provided services and sold goods to JD Digits in a total amount of RMB192 million, RMB181 million and RMB403 million (US\$59 million), respectively. During the same periods, we provided traffic support, marketing and promotion services to JD Digits in a total amount of RMB101 million, RMB91 million and RMB46 million (US\$7 million), respectively. In 2016, 2017 and 2018, we received payment processing and other services provided by JD Digits in the amount of RMB1,670 million, RMB2,936 million and RMB3,931 million (US\$572 million), respectively. In 2016, 2017 and 2018, interest income in the amount of RMB533 million, RMB871 million and RMB180 million (US\$26 million) was recognized in relation to the financial support provided to JD Digits by us. Based on a series of agreements signed on January 1, 2016, JD Digits will perform the credit risk assessment services and earn fees for providing such services, and JD Digits 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 Digits were RMB423 million, RMB497 million and RMB242 million (US\$35 million) for the years ended December 31, 2016, 2017 and 2018, respectively.

Table of Contents

We also transferred certain financial assets to JD Digits with or without recourse at fair value. The amount of accounts receivables transferred with recourse in 2017 and 2018 were RMB168 million and RMB1,388 million (US\$202 million) and were not derecognized, while the amount of accounts receivables transferred without recourse in 2017 and 2018 were RMB1,584 million and RMB9,854 million (US\$1,433 million) and were derecognized.

As of December 31, 2018, we had a total amount of RMB3,902 million (US\$568 million) due from JD Digits.

As of June 30, 2017, the reorganization of JD Digits had been completed, and we disposed all of our equity interest in JD Digits. As part of the transaction, we received approximately RMB14.3 billion in cash with an economic gain of RMB14.2 billion in 2017. As JD Digits 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 Digits when JD Digits has a positive pre-tax income on a cumulative basis. In connection with JD Digits' additional round of financing in 2018, the percentage of profit sharing has been diluted to approximately 36%.

**Transactions with Our Equity Investees**

*Business Transactions with Shanghai Icson and its subsidiaries, or Shanghai Icson Group.* As part of our transactions with Tencent in March 2014, we acquired a 9.9% stake in Shanghai Icson. In 2016, we purchased and received services from Shanghai Icson Group in a total amount of RMB21 million. As we acquired the remaining equity interest in Shanghai Icson from Tencent in April 2016, we have consolidated its financial results since then.

*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 2016, 2017 and 2018, net service revenues in the amount of RMB611 million, RMB609 million and RMB609 million (US\$89 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, 2018, we had a total amount of RMB771 million (US\$112 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 2016, 2017 and 2018, net service revenues in the amount of RMB132 million, RMB132 million and RMB132 million (US\$19 million) had been recognized, respectively. As of December 31, 2018, we had a total amount of RMB215 million (US\$31 million) deferred revenues in relation to traffic support, marketing and promotion services to be provided to Tuniu Group. As of December 31, 2018, we had an amount of RMB585 thousand (US\$85 thousand) 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, 2017 and 2018, net service revenues in the amount of RMB41 million, RMB62 million and RMB62 million (US\$9 million) and other income in the amount of RMB53 million, RMB80 million and RMB79 million (US\$11 million) had been recognized, respectively. As of December 31, 2018, we had a total amount of RMB269 million (US\$39 million) deferred revenues in relation to traffic support, marketing and promotion services to be provided to Dada Group and a total amount of RMB354 million (US\$52 million) other liabilities in relation to non-compete obligation with Dada Group.

Table of Contents

*Business Transactions with Dada and its subsidiaries, or Dada Group.* In 2016, 2017 and 2018, we provided services and sold goods to Dada Group in a total amount of RMB124 million, RMB38 million and RMB60 million (US\$9 million), respectively, and in the same periods, we also received services from Dada Group in a total amount of RMB137 million, RMB694 million and RMB939 million (US\$137 million), respectively. As of December 31, 2018, we had a total amount of RMB118 million (US\$17 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 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.

**Others**

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 all periods presented.

**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.

Table of Contents

**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.

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 depository, as the registered holder of such ordinary shares, and the depository 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.

**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.

Table of Contents

**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.

**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.

Table of Contents

*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.

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.

Table of Contents

*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:

- 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.

Table of Contents

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.

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);

Table of Contents

- 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.

*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;

Table of Contents

- *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.
- *Transfer restrictions.* Walmart agreed to certain lock-up, standstill, rights of first refusal and other transfer restrictions provided in the investor rights agreement.

**Certain Agreements with Google**

In June 2018, we entered into a series of agreements with Google in relation to our strategic partnership with Google. Set forth below is a summary of certain of the agreements.

*Share Subscription Agreement.* On June 18, 2018, we entered into a share subscription agreement with Google LLC, pursuant to which Google LLC subscribed for 27,106,948 of our newly issued Class A ordinary shares, representing approximately 0.93% of our total outstanding shares (prior to the issuance of such shares) as of May 31, 2018.

*Investor Rights Agreement.* On June 18, 2018, we entered into an investor rights agreement with Google LLC, pursuant to which:

- *Observer right.* So long as Google LLC and certain wholly-owned subsidiaries of Google LLC hold at least 10% of our outstanding share capital on a fully diluted basis, Google LLC has the right to designate one senior executive to attend all meetings of our board of directors in a non-voting observer capacity;

- *Registration rights.* After the expiration of a period of 12 months following June 18, 2018, Google LLC 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 18, 2018, so long as Google LLC does not transfer or otherwise dispose of any of the Class A ordinary shares it acquired pursuant to the share subscription agreement, if we propose to issue certain new securities, Google LLC or a wholly-owned subsidiary of Google LLC designated by Google LLC pursuant to the investor rights agreement has the right to purchase such number of new securities under the same terms and conditions at its election so as to enable Google LLC 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 Google LLC.
- *Transfer restrictions.* Google LLC agreed to certain lock-up 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.

Table of Contents

**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.

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.

Table of Contents

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, investors required to accelerate the recognition of any item of gross income with respect to our ADSs or ordinary shares as a result of such income being recognized on an applicable financial statement 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.

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.



Table of Contents

**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.

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, 25% or more (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, 2018 and in future taxable years.

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, 2018 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:

Table of Contents

- 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. Holder 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.

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.

Table of Contents

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, 2018 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.

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.

Table of Contents

***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.

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.



Table of Contents

We will furnish Deutsche Bank Trust Company Americas, the depository 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 depository 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 depository 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.

**Foreign Exchange Risk**

All of our revenues and substantially all of our expenses are denominated in RMB. 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 RMB because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the RMB 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 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. While appreciating approximately by 7% against the U.S. dollar in 2017, the RMB in 2018 depreciated approximately by 5% 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. With the development of the foreign exchange market and progress towards interest rate liberalization and RMB 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.

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 receive from the conversion. Conversely, if we decide to convert RMB 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 RMB would have a negative effect on the U.S. dollar amounts available to us.

Table of Contents

As of December 31, 2018, we had RMB-denominated cash and cash equivalents, restricted cash and short-term investments of RMB17.7 billion, and U.S. dollar-denominated cash, cash equivalents and short-term investments of US\$3.2 billion. Assuming we had converted RMB17.7 billion into U.S. dollars at the exchange rate of RMB6.8755 for US\$1.00 as of December 31, 2018, our U.S. dollar cash balance would have been US\$5.7 billion. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$5.5 billion instead. Assuming we had converted US\$3.2 billion into RMB at the exchange rate of RMB6.8755 for US\$1.00 as of December 31, 2018, our RMB cash balance would have been RMB39.4 billion. If the RMB had depreciated by 10% against the U.S. dollar, our RMB cash balance would have been RMB41.8 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 2016, 2017 and 2018 were increases of 2.1%, 1.8% and 1.9%, 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.

**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):

<b>Service</b>	<b>Fees</b>
<ul style="list-style-type: none"> <li>• 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)</li> </ul>	Up to US\$0.05 per ADS issued
<ul style="list-style-type: none"> <li>• Surrendering ADSs for cancellation and withdrawal of deposited securities</li> </ul>	Up to US\$0.05 per ADS surrendered
<ul style="list-style-type: none"> <li>• Distribution of cash dividends</li> </ul>	Up to US\$0.05 per ADS held
<ul style="list-style-type: none"> <li>• Distribution of cash entitlements (other than cash dividends) and/or cash proceeds, including proceeds from the sale of rights, securities and other entitlements</li> </ul>	Up to US\$0.05 per ADS held
<ul style="list-style-type: none"> <li>• Distribution of ADSs pursuant to exercise of rights</li> </ul>	Up to US\$0.05 per ADS held
<ul style="list-style-type: none"> <li>• Operation and maintenance costs</li> </ul>	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:

Table of Contents

- 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.

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 2018, we were entitled to receive approximately US\$10.9 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.

Table of Contents

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. 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, 2018, 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.

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, 2018 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, 2018.

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, 2018, as stated in its report, which appears on page F-2 of this annual report on Form 20-F.



Table of Contents**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**

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>2017</b>		<b>2018</b>
Audit fees(1)	US\$	4,291,709	US\$	4,074,302
Audit-related fees(2)	US\$	41,324	US\$	1,205,401
All other fees(3)	US\$	228,015	US\$	207,103

(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 2017 and 2018, the audit refers to financial audit and audit pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

(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**

On December 25, 2018, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$1.0 billion of our ADSs or ordinary shares over the next 12 months from December 26, 2018 through December 25, 2019. The share repurchase program was publicly announced on December 26, 2018.

Table of Contents

As of December 31, 2018, we had repurchased approximately 1.4 million ADSs under this share repurchase program. The table below is a summary of the shares repurchased by us in 2018. All shares were repurchased in the open market pursuant to the share repurchase program announced on December 26, 2018.

Period		Total Number of ADSs Purchased	Average Price Paid Per ADS	Total Number of ADSs Purchased as Part of the Publicly Announced Plan	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plan
December 26	December 31, 2018	1,396,200	US\$ 21.48	1,396,200	US\$ 970,001,386
<b>Total</b>		1,396,200	US\$ 21.48	1,396,200	US\$ 970,001,386

**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 2018. 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.

Table of Contents**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>
4.3	

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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 (incorporated herein by reference to Exhibit 4.4 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)

Table of Contents

Exhibit Number	Description of Document
4.5	<u>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 the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u>
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 the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u>
4.7*	<u>English translation of the Second 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 June 15, 2016</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 the annual report on Form 20-F filed by the Registrant 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 (incorporated herein by reference to Exhibit 4.11 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</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 the annual report on Form 20-F filed by the Registrant 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 the annual report on Form 20-F filed by the Registrant 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 the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u>
4.15*	<u>English translation of the Second Amended and Restated Exclusive Technology Consulting and Service Agreement between Beijing Jingdong Century Trade Co., Ltd. and Jiangsu Yuanzhou E-Commerce Co., Ltd., dated June 15, 2016</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>

Table of Contents

Exhibit Number	Description of Document
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 the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u>
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 August 25, 2016 (incorporated herein by reference to Exhibit 4.18 to the annual report on Form 20-F filed by the Registrant 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>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>
4.21	<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>
4.22*	<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>
4.23*	<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>
4.24*	<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>
4.25*	<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>
4.26*	<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>
4.27*	<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>
4.28	<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 the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u>
4.29	<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>
4.30	<u>Investor Rights Agreement between the Registrant and Newheight Holdings Ltd., dated June 20, 2016 (incorporated herein by reference to Exhibit 4.35 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u>



Table of Contents

Exhibit Number	Description of Document
4.31	<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 the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u>
4.32	<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 the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u>
4.33	<u>English translation of Conditional Share Subscription Agreement by and between Suqian Jingdong Sanhong Enterprise Management Center (L.P.) and China United Network Communications Limited, dated August 16, 2017 (incorporated herein by reference to Exhibit 4.38 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</u>
4.34	<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>
4.35	<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>
4.36	<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 (incorporated herein by reference to Exhibit 4.41 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</u>
4.37	<u>Series A Preference Shares Subscription Agreement by and between Jingdong Express Group Corporation and purchasers listed therein, dated February 14, 2018 (incorporated herein by reference to Exhibit 4.42 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</u>
4.38	<u>Shareholders Agreement of Jingdong Express Group Corporation, dated March 7, 2018 (incorporated herein by reference to Exhibit 4.43 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</u>
4.39	<u>US\$1,000,000,000 Term and Revolving Credit Facilities Agreement dated between the Registrant and other parties thereto, dated December 21, 2017 (incorporated herein by reference to Exhibit 4.44 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</u>
4.40*	<u>Investor Rights Agreement, by and between the Registrant and Google LLC, dated as of June 18, 2018</u>
4.41*	<u>Subscription Agreement, by and between the Registrant and Google LLC, dated as of June 18, 2018</u>
4.42*	<u>Subscription Agreement relating to the offering of limited partnership interests in JD Logistics Properties Core Fund, L.P.</u>
4.43*	<u>Share Purchase Agreement, by and between Jingdong E-Commerce (Logistics) Hong Kong Corporation Limited, as sellers, and JD Star Development X (HK) Limited, as purchaser, dated as of February 27, 2019</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>

Table of Contents

<b>Exhibit Number</b>	<b>Description of Document</b>
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>
15.2*	<u>Consent of Zhong Lun Law Firm</u>
99.1***	Consolidated Financial Statements of Dada Nexus Limited as of December 31, 2016, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018
99.2***	Consolidated Financial Statements of Bitauto Holdings Limited as of December 31, 2016, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018
99.3***	Consolidated Financial Statements of Tuniu Corporation as of December 31, 2016, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018
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, 2018

Portions of this exhibit have been omitted pursuant to Rule 406 under the Securities Act.

Table of Contents

**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 15, 2019

Table of Contents

**JD.com, Inc.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page(s)</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2017 and 2018</u>	F-3 ~ F-5
<u>Consolidated Statements of Operations and Comprehensive Income/(Loss) for the years ended December 31, 2016, 2017 and 2018</u>	F-6~ F-7
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2017 and 2018</u>	F-8 ~ F-10
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2016, 2017 and 2018</u>	F-11
<u>Notes to Consolidated Financial Statements</u>	F-12 ~ F-81

Table of Contents

**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, 2018 and 2017, and the related consolidated statements of operations and comprehensive income/(loss), of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 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, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

***Change in Accounting Principles***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue from contracts with customers and the manner in which it accounts for investments in equity securities in 2018.

***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 15, 2019

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)

	2017	As of December 31,	2018	US\$
	RMB	RMB		Note 2(g)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	25,688,327	34,262,445		4,983,266
Restricted cash	4,110,210	3,239,613		471,182
Short-term investments	8,587,852	2,035,575		296,062
Accounts receivable, net	16,359,147	11,109,988		1,615,881
Advance to suppliers	394,574	477,109		69,393
Inventories, net	41,700,379	44,030,084		6,403,910
Loan receivables, net	5,132,698	2,716,475		395,095
Prepayments and other current assets	2,258,904	3,848,225		559,699
Amount due from related parties	10,796,561	3,136,265		456,151
<b>Total current assets</b>	<b>115,028,652</b>	<b>104,855,779</b>		<b>15,250,639</b>
<b>Non-current assets</b>				
Property, equipment and software, net	12,574,178	21,082,838		3,066,372
Construction in progress	3,196,516	6,553,712		953,198
Intangible assets, net	6,692,717	5,011,706		728,922
Land use rights, net	7,050,809	10,475,658		1,523,621
Goodwill	6,650,570	6,643,669		966,282
Investment in equity investees	18,551,319	31,356,616		4,560,631
Investment securities	10,027,813	15,901,573		2,312,788
Deferred tax assets	158,250	103,158		15,004
Other non-current assets	2,227,942	5,283,948		768,518
Amount due from related parties	1,896,200	1,896,200		275,791
<b>Total non-current assets</b>	<b>69,026,314</b>	<b>104,309,078</b>		<b>15,171,127</b>
<b>Total assets</b>	<b>184,054,966</b>	<b>209,164,857</b>		<b>30,421,766</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)

	2017 RMB	As of December 31, RMB	2018	US\$ 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 RMB7,577,086 and RMB9,234,523 as of December 31, 2017 and 2018, respectively. Note 1)				
Short-term borrowings	200,000	147,264		21,419
Nonrecourse securitization debt	12,684,881	4,397,670		639,615
Accounts payable	74,337,708	79,985,018		11,633,338
Advance from customers	13,605,298	13,017,603		1,893,332
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB813,525 and RMB863,480 as of December 31, 2017 and 2018, respectively)	1,592,332	1,980,489		288,050
Taxes payable	658,220	825,677		120,090
Amount due to related parties	54,342	215,614		31,360
Accrued expenses and other current liabilities	15,117,840	20,292,680		2,951,448
<b>Total current liabilities</b>	<b>118,250,621</b>	<b>120,862,015</b>		<b>17,578,652</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 RMB1,273,545 and RMB463,153 as of December 31, 2017 and 2018, respectively)	1,273,545	463,153		67,363
Nonrecourse securitization debt	4,475,238			
Unsecured senior notes	6,447,357	6,786,143		987,004
Deferred tax liabilities	882,248	828,473		120,496
Long-term borrowings		3,088,440		449,195
Other non-current liabilities	337,254	308,489		44,868
<b>Total non-current liabilities</b>	<b>13,415,642</b>	<b>11,474,698</b>		<b>1,668,926</b>
<b>Total liabilities</b>	<b>131,666,263</b>	<b>132,336,713</b>		<b>19,247,578</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)

	2017 RMB	As of December 31, RMB	2018	US\$ Note 2(g)
<b>Commitments and contingencies (Note 33)</b>				
<b>MEZZANINE EQUITY</b>				
Convertible redeemable non-controlling interests (Note 23)		15,961,284		2,321,472
<b>SHAREHOLDERS EQUITY:</b>				
<b>JD.com, Inc. shareholders equity</b>				
Ordinary shares (US\$0.00002 par value; 100,000,000,000 shares authorized; 2,477,346,590 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; 2,507,473,330 Class A ordinary shares issued and 2,447,926,638 outstanding, 458,342,517 Class B ordinary shares issued and 446,369,717 outstanding as of December 31, 2018.)	377	380		55
Additional paid-in capital	76,254,607	82,832,895		12,047,545
Statutory reserves	635,966	1,400,412		203,681
Treasury stock	(4,457,608)	(3,783,729)		(550,321)
Accumulated deficit	(22,234,609)	(24,038,081)		(3,496,194)
Accumulated other comprehensive income	1,842,081	3,359,096		488,560
<b>Total JD.com, Inc. shareholders equity</b>	<b>52,040,814</b>	<b>59,770,973</b>		<b>8,693,326</b>
Non-controlling interests	347,889	1,095,887		159,390
<b>Total shareholders equity</b>	<b>52,388,703</b>	<b>60,866,860</b>		<b>8,852,716</b>
<b>Total liabilities, mezzanine equity and shareholders equity</b>	<b>184,054,966</b>	<b>209,164,857</b>		<b>30,421,766</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)

	2016 RMB	For the year ended December 31, 2017		2018	US\$ Note 2(g)
		RMB	RMB		
<b>Net revenues</b>					
Net product revenues (formerly known as online direct sales)	237,943,632	331,824,410	416,108,746		60,520,507
Net service revenues (formerly known as services and others)	20,346,315	30,507,344	45,911,013		6,677,480
<b>Total net revenues</b>	<b>258,289,947</b>	<b>362,331,754</b>	<b>462,019,759</b>		<b>67,197,987</b>
<b>Operating expenses</b>					
Cost of revenues	(222,934,637)	(311,516,831)	(396,066,126)		(57,605,429)
Fulfillment	(18,559,691)	(25,865,128)	(32,009,658)		(4,655,612)
Marketing	(10,158,686)	(14,918,107)	(19,236,740)		(2,797,868)
Technology and content	(4,452,708)	(6,652,374)	(12,144,383)		(1,766,327)
General and administrative	(3,435,878)	(4,214,790)	(5,159,666)		(750,442)
Impairment of goodwill and intangible assets			(22,317)		(3,246)
<b>Total operating expenses</b>	<b>(259,541,600)</b>	<b>(363,167,230)</b>	<b>(464,638,890)</b>		<b>(67,578,924)</b>
<b>Loss from operations</b>	<b>(1,251,653)</b>	<b>(835,476)</b>	<b>(2,619,131)</b>		<b>(380,937)</b>
<b>Other income/(expense)</b>					
Share of results of equity investees	(2,781,909)	(1,926,720)	(1,113,105)		(161,894)
Interest income	1,226,852	2,530,490	2,117,921		308,039
Interest expense	(618,567)	(963,742)	(854,538)		(124,287)
Others, net	1,543,376	1,316,408	95,175		13,843
<b>Income/(loss) before tax</b>	<b>(1,881,901)</b>	<b>120,960</b>	<b>(2,373,678)</b>		<b>(345,236)</b>
Income tax expenses	(166,391)	(139,593)	(426,872)		(62,086)
<b>Net loss from continuing operations</b>	<b>(2,048,292)</b>	<b>(18,633)</b>	<b>(2,800,550)</b>		<b>(407,322)</b>
Net income/(loss) from discontinued operations, net of tax	(1,365,432)	6,915			
<b>Net loss</b>	<b>(3,413,724)</b>	<b>(11,718)</b>	<b>(2,800,550)</b>		<b>(407,322)</b>
Net loss from continuing operations attributable to non-controlling interests shareholders	(47,848)	(135,452)	(311,409)		(45,293)
Net loss from discontinued operations attributable to non-controlling interests shareholders	(3,743)	(5,030)			
Net income from continuing operations attributable to mezzanine classified non-controlling interests shareholders			2,492		362
Net income from discontinued operations attributable to mezzanine classified non-controlling interests shareholders	444,657	281,021			
<b>Net loss attributable to ordinary shareholders</b>	<b>(3,806,790)</b>	<b>(152,257)</b>	<b>(2,491,633)</b>		<b>(362,391)</b>
<b>Including: Net loss from discontinued operations attributable to ordinary shareholders</b>					
	(1,806,346)	(269,076)			
<b>Net income/(loss) from continuing operations attributable to ordinary shareholders</b>	<b>(2,000,444)</b>	<b>116,819</b>	<b>(2,491,633)</b>		<b>(362,391)</b>

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

F-6

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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)

	2016 RMB	For the year ended December 31, 2017		2018	US\$ Note 2(g)
		RMB	RMB		
<b>Net loss</b>	(3,413,724)	(11,718)	(2,800,550)		(407,322)
Other comprehensive income:					
Foreign currency translation adjustments	943,616	(822,052)	2,696,784		392,231
Net change in unrealized gains/(losses) on available-for-sale securities:					
Unrealized gains/(losses), nil of tax	(78,792)	1,473,014	237,585		34,555
Reclassification adjustment for (gains)/losses recorded in net income, nil of tax	123,743	(352,274)	(260,712)		(37,919)
Net unrealized gains/(losses) on available-for-sale securities	44,951	1,120,740	(23,127)		(3,364)
Total other comprehensive income	988,567	298,688	2,673,657		388,867
<b>Total comprehensive income/(loss)</b>	(2,425,157)	286,970	(126,893)		(18,455)
Total comprehensive loss attributable to non-controlling interests shareholders	(51,591)	(140,482)	(311,409)		(45,293)
Total comprehensive income attributable to mezzanine classified non-controlling interests shareholders	444,657	281,021	2,492		362
<b>Total comprehensive income/(loss) attributable to ordinary shareholders</b>	(2,818,223)	146,431	182,024		26,476
<b>Net income/(loss) per share</b>					
Basic					
Continuing operations	(0.71)	0.04	(0.87)		(0.13)
Discontinued operations	(0.64)	(0.09)			
Net loss per share	(1.36)	(0.05)	(0.87)		(0.13)
Diluted					
Continuing operations	(0.71)	0.04	(0.87)		(0.13)
Discontinued operations	(0.64)	(0.09)			
Net loss per share	(1.36)	(0.05)	(0.87)		(0.13)
<b>Weighted average number of shares</b>					
Basic	2,804,767,889	2,844,826,014	2,877,902,678		2,877,902,678
Diluted	2,804,767,889	2,911,461,817	2,877,902,678		2,877,902,678

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)

	2016 RMB	For the year ended December 31, 2017		2018	US\$ Note2(g)
		RMB	RMB		
<b>Cash flows from operating activities:</b>					
Net loss	(3,413,724)	(11,718)	(2,800,550)		(407,322)
(Income)/loss from discontinued operation, net of income tax	1,365,432	(6,915)			
Adjustments to reconcile net loss to net cash provided by operating activities:					
Depreciation and amortization	3,420,289	4,192,716	5,560,034		808,673
Share-based compensation	2,061,432	2,780,062	3,659,989		532,323
(Gains)/losses from disposal of property, equipment and software	18,478	11,591	(11,166)		(1,624)
Deferred income tax	(34,782)	(221,010)	(10,454)		(1,520)
Amortization of discounts and issuance costs of the unsecured senior notes	8,622	13,426	13,649		1,985
Impairment of goodwill and intangible assets			22,317		3,246
Impairment of investments	542,946	139,823	593,138		86,268
Fair value change of long-term investments			1,512,979		220,054
Gains from business and investment disposals	(1,232,853)	(74,965)	(1,320,266)		(192,025)
Share of results of equity investees	2,781,909	1,926,720	1,113,105		161,894
Foreign exchange (gains)/losses	143,125	(213,482)	192,491		27,997
Changes in operating assets and liabilities:					
Accounts receivable	(8,703,383)	(545,991)	4,287,004		623,519
Inventories	(8,372,953)	(12,788,337)	(2,342,058)		(340,638)
Advance to suppliers	341,817	(137,457)	(75,370)		(10,962)
Prepayments and other current assets	(472,714)	(328,041)	(899,139)		(130,774)
Amount due from related parties	(1,496,349)	2,456,933	1,769,930		257,426
Other non-current assets	178,815	(372,576)	44,990		6,544
Accounts payable	14,518,806	26,106,191	5,466,698		795,096
Advance from customers	4,365,280	2,138,964	(745,854)		(108,480)
Deferred revenues	(725,788)	(374,042)	(603,464)		(87,770)
Taxes payable	445,585	92,932	166,120		24,161
Accrued expenses and other current liabilities	3,710,000	4,624,014	5,158,390		750,257
Amount due to related parties	16,907	(66,370)	128,909		18,749
<b>Net cash provided by continuing operating activities</b>	<b>9,466,897</b>	<b>29,342,468</b>	<b>20,881,422</b>		<b>3,037,077</b>
<b>Net cash used in discontinued operating activities</b>	<b>(1,226,526)</b>	<b>(2,485,741)</b>			
<b>Net cash provided by operating activities</b>	<b>8,240,371</b>	<b>26,856,727</b>	<b>20,881,422</b>		<b>3,037,077</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)

	2016	For the year ended December 31,		2018	US\$
	RMB	2017	RMB	RMB	Note2(g)
<b>Cash flows from investing activities:</b>					
Purchase of short-term investments	(16,148,733)	(9,288,743)	(2,518,000)	(366,228)	
Maturity of short-term investments	12,128,500	7,211,608	9,053,087	1,316,717	
Purchases of investment securities	(50,000)	(7,824,277)	(4,562,283)	(663,557)	
Cash received from disposal of investment securities	16,440		317,975	46,248	
Prepayments and investments in equity investees	(7,146,498)	(6,207,880)	(17,398,204)	(2,530,463)	
Cash received from disposal of equity investment	29,558	202,774	1,606,338	233,632	
Cash paid for loan originations	(14,003,737)	(24,379,691)	(36,432,214)	(5,298,846)	
Cash received from loan repayments	11,093,692	23,019,358	38,984,140	5,670,008	
Purchase of property, equipment and software	(2,140,802)	(3,294,286)	(9,743,453)	(1,417,126)	
Cash paid for construction in progress	(1,359,364)	(3,267,277)	(7,358,939)	(1,070,313)	
Purchase of intangible assets	(50,438)	(8,774)	(130,797)	(19,024)	
Purchase of land use rights	(678,328)	(4,785,538)	(4,136,305)	(601,601)	
Cash paid for business combination, net of cash acquired (Note 8)	(615,849)	(160,658)	(19,578)	(2,848)	
Loans (provided to)/settled by JD Digits	1,856,144	(6,187,891)	6,259,241	910,369	
Proceeds from JD Digits reorganization (Note 6)		13,027,155			
<b>Net cash used in continuing investing activities</b>	<b>(17,069,415)</b>	<b>(21,944,120)</b>	<b>(26,078,992)</b>	<b>(3,793,032)</b>	
<b>Net cash used in discontinued investing activities</b>	<b>(28,412,020)</b>	<b>(17,871,171)</b>			
<b>Net cash used in investing activities</b>	<b>(45,481,435)</b>	<b>(39,815,291)</b>	<b>(26,078,992)</b>	<b>(3,793,032)</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)

	2016	For the year ended December 31,		2018	US\$
	RMB	2017	RMB	RMB	Note 2(g)
<b>Cash flows from financing activities:</b>					
Proceeds from issuance of ordinary shares				3,531,870	513,689
Repurchase of ordinary shares	(5,338,274)			(205,886)	(29,945)
Purchase of capped call options	(2,007,100)				
Proceeds from settlement of capped call options	1,463,218	737,501			
Proceeds from issuance of ordinary shares pursuant to stock plans	82,396	135,745		48,555	7,062
Proceeds from issuance of convertible redeemable preferred shares of JD Logistics, net				15,958,792	2,321,110
Capital injection from non-controlling interest shareholders	173,550	209,725		805,561	117,164
Proceeds from short-term borrowings	3,029,576	700,000		1,179,422	171,540
Repayment of short-term borrowings	(3,491,500)	(2,356,888)		(1,200,000)	(174,533)
Proceeds from long-term borrowings				2,890,575	420,417
Proceeds from unsecured senior notes, net of discount and debt issuance costs	6,355,969				
Proceeds from nonrecourse securitization debt	9,302,000	16,500,000			
Repayment of nonrecourse securitization debt	(920,510)	(10,889,371)		(11,960,194)	(1,739,538)
Proceeds from other financing activities, net		143,653		171,233	24,905
<b>Net cash provided by continuing financing activities</b>	<b>8,649,325</b>	<b>5,180,365</b>		<b>11,219,928</b>	<b>1,631,871</b>
<b>Net cash provided by discontinued financing activities</b>	<b>32,050,146</b>	<b>14,054,620</b>			
<b>Net cash provided by financing activities</b>	<b>40,699,471</b>	<b>19,234,985</b>		<b>11,219,928</b>	<b>1,631,871</b>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	726,462	(641,534)		1,681,163	244,515
<b>Net increase in cash, cash equivalents, and restricted cash</b>	<b>4,184,869</b>	<b>5,634,887</b>		<b>7,703,521</b>	<b>1,120,431</b>
Cash, cash equivalents, and restricted cash at beginning of year	19,978,781	24,163,650		29,798,537	4,334,017
Cash, cash equivalents, and restricted cash at end of year	24,163,650	29,798,537		37,502,058	5,454,448
Less: Cash, cash equivalents, and restricted cash of discontinued operations at end of year	6,302,974				
<b>Cash, cash equivalents, and restricted cash of continuing operations at end of year</b>	<b>17,860,676</b>	<b>29,798,537</b>		<b>37,502,058</b>	<b>5,454,448</b>
<b>Supplemental cash flow disclosures of continuing operations:</b>					
Cash paid for income taxes	(110,498)	(240,899)		(666,305)	(96,910)
Cash paid for interest	(515,234)	(577,306)		(421,035)	(61,237)
<b>Supplemental disclosures of non-cash investing and financing activities:</b>					
	9,592,258				

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Issuance of ordinary shares in connection with Walmart  
Transactions, net

Equity investments obtained through commitment of future services and contribution of certain business	2,164,050	181,228	26,359
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The accompanying notes are an integral part of these consolidated financial statements.

F-10

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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 paid-in capital RMB	Statutory reserves RMB	Accumulated other comprehensive income/(loss) RMB	Accumulated deficit RMB
	Shares	Amount RMB	Shares	Amount RMB				
<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 awards			8,812,582	78,903	2,264,882			
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)
Change of the capital from non-controlling interest 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)			

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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)
Change of the capital from non-controlling interest shareholders									
Gain from JD Digits 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)
Cumulative effect of changes in accounting principles related to revenue recognition and financial instruments								(1,156,642)	1,452,607
Issuance of ordinary shares	27,106,948	3			3,531,867				
Repurchase of ordinary shares			(2,792,400)	(205,886)					
Accretion of convertible redeemable non-controlling interests									(2,492)
Exercise of share-based awards			1,077,036	67,982	(30,792)				
Share-based compensation and vesting of share-based awards			16,241,342	811,783	2,447,238				
Net loss									(2,489,141)
Foreign currency translation adjustment								2,696,784	
Net change in unrealized gains on available-for-sale								(23,127)	

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debt securities									
Statutory reserves						764,446			(764,446)
Change of the capital from non-controlling interest shareholders									
Share of changes in the equity investee's capital accounts						629,975			
<b>Balance as of December 31, 2018</b>	2,965,815,847	380	(71,519,492)	(3,783,729)	82,832,895	1,400,412		3,359,096	(24,038,081)

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, primarily including warehousing, transportation, delivery and after-sales service 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 Digits, formerly known as JD Finance), which was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Digits (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, 2018, the Company's major subsidiaries, consolidated VIEs and VIEs subsidiaries are as follows:

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)**

	Equity interest held	Place and date of incorporation
<b>Subsidiaries</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 ( Jingdong Express )	100%	Cayman Islands, January 2012
JD.com E-Commerce (Technology) Hong Kong Co., Ltd.	100%	Hong Kong, China, February 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 Co., Ltd.	100%	Hong Kong, China, July 2013
JD.com American Technologies Corporation	100%	Delaware, USA, August 2013
Chongqing Jingdong Haijia E-commerce Co., Ltd. ( Chongqing Haijia )	100%	Chongqing, China, June 2014
JD.com Overseas Innovation Limited	100%	Hong Kong, China, October 2014
JD.com International (Singapore) Pte. Ltd.	100%	Singapore, November 2014
JD.com Investment Limited	100%	British Virgin Islands, January 2015
JD.com Asia Investment Corporation	100%	Cayman Islands, March 2015
Suqian Hanbang Investment Management Co., Ltd.	100%	Jiangsu, China, January 2016
Xi'an Jingxundi Supply Chain Technology Co., Ltd. ( Xi'an Jingxundi )	100%	Xi'an, China, May 2017
Xi'an Jingdong Xuncheng Logistics Co., Ltd.	100%	Xi'an, China, June 2017
Jingdong Express International Limited	100%	British Virgin Islands, November 2017
Beijing Jinghong Logistics Co., Ltd.	100%	Beijing, China, November 2017
JD Assets Holding Limited	100%	Cayman Islands, March 2018
JD Logistics Holding Limited	100%	Cayman Islands, March 2018
		<b>Place and date of incorporation</b>
<b>Consolidated VIEs</b>		
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. ( Jingdong Bangneng )		Jiangsu, China, August 2015
Xi'an Jingdong Xincheng Information Technology Co., Ltd. ( Xi'an Jingdong Xincheng )		Xi'an, China, June 2017
<b>Consolidated VIEs Subsidiaries</b>		
Beijing Jingbangda Trade Co., Ltd. ( Beijing Jingbangda )		Beijing, China, August 2012
Hengqin Junze Management Consulting Co., Ltd.		Guangdong, China, April 2017

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Suqian Jingdong Mingfeng Enterprise Management Co., Ltd.	Jiangsu, China, July 2017
Suqian Jingdong Jinyi Enterprise Management Co., Ltd.	Jiangsu, China, August 2017
Suqian Jingdong Sanhong Enterprise Management Center (limited partnership)	Jiangsu, China, August 2017

F-13

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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)**

**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, August 2015 and June 2017, Jingdong 360, Jiangsu Yuanzhou, Jingdong Bangneng 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, Jiangsu Yuanzhou and Jingdong Bangneng 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, Jiangsu Yuanzhou and Jingdong Bangneng, 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.



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)**

• ***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.

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)**

• *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 the VIEs' 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 the VIEs' general manager, chief financial officer and other senior executives.



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)**

• *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, cash equivalents, and restricted cash of the consolidated VIEs structured by the Contractual Agreements and their subsidiaries taken as a whole, which were included in the Group's consolidated financial statements with intercompany transactions eliminated:

	As of December 31,		
	2017	2018	
	RMB	RMB	
Total assets	19,281,227	23,878,253	
Total liabilities	19,547,831	26,717,946	

  

	For the year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Total net revenues	4,338,450	15,926,297	37,561,128
Net loss	(8,366)	(115,318)	(2,646,122)

  

	For the year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Net cash provided by/(used in) operating activities	118,007	1,188,220	(1,144,849)
Net cash used in investing activities	(4,708,901)	(10,117,516)	(7,596,181)
Net cash provided by financing activities	4,499,914	9,626,497	8,902,074
Net increase/(decrease) in cash, cash equivalents, and restricted cash	(90,980)	697,201	161,044
Cash, cash equivalents, and restricted cash at beginning of year	112,939	21,959	719,160
Cash, cash equivalents, and restricted cash at end of year	21,959	719,160	880,204

As of December 31, 2017 and 2018, 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, intangible assets and other non-current assets. As of December 31, 2017 and 2018, the total liabilities of the consolidated VIEs and VIEs' subsidiaries were mainly consisting of accounts payable, advance from customers, deferred revenues, 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 RMB1,067,537 as of December 31, 2018. 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 RMB266,604 and RMB2,839,693 as of December 31, 2017 and 2018, 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.

The Group periodically securitized consumer financing receivables through the transfer of those assets to securitization vehicles, which was considered as variable interest entities of the Group when the Group held the subordinate tranche of such securitization vehicles. The Group consolidated such variable interest entities when the Group or any subsidiary was considered as the primary beneficiary, please refer to Note 2(v).

JD Digits, which was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Digits (Note 6), is a VIE of the Group while the Group or any subsidiary is not considered the primary beneficiary.



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**

**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 the Contractual Arrangements, bear the risks of, and enjoy 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 amounts presented in the consolidated financial statements of 2016 and 2017 have been reclassified to conform to the current period presentation to facilitate comparison, including the addition of restricted cash to cash and cash equivalents in the Group's Consolidated

Statements of Cash Flows as a result of the adoption of new accounting guidance.

*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, fair value of certain equity investees, 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.

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)**

*f. Foreign currency translation*

The Group's reporting currency is Renminbi ( RMB ). The functional currency of the Group's entities incorporated in Cayman Islands, BVI, Hong Kong, Singapore and the United States of America is U.S. dollars ( US\$ ). The Group's PRC subsidiaries, consolidated VIEs and VIEs subsidiaries determined their functional currency to be RMB. The Group's entities incorporated in the Republic of Indonesia, Japan, France, Australia and other jurisdictions generally use their respective local currencies as their functional currencies. 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 RMB143,125, a gain of RMB213,482 and a loss of RMB192,491 for the years ended December 31, 2016, 2017 and 2018, 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 RMB943,616, a loss of RMB822,052 and a gain of RMB2,696,784 for the years ended December 31, 2016, 2017 and 2018, 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, 2018 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=RMB6.8755, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 31, 2018. 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, 2018, 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 included in the total cash, cash equivalents, and restricted cash in the Consolidated Statements of Cash Flows. The Group's restricted cash mainly represents security deposits held in designated bank accounts for issuance of bank acceptance and letter of guarantee.

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)**

*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. For equity classified securities, the investments are recorded at fair market value with fair value change gains or losses recorded in interest income in the Consolidated Statements of Operations and Comprehensive Income/(Loss). The Company also holds debt classified securities, and such investments are recorded as available-for-sale debt securities and held-to-maturity securities.

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 Digits performs the related credit assessment.

JD Digits 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 finance business, the Group remained as the legal owner of the consumer financing receivables, including such loan receivables, where JD Digits 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 in 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 Digits 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, 2017 and 2018. As of December 31, 2017 and 2018, the loan receivables with the collection period over one year with the amount of RMB243,624 and RMB105,455 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:

<b>Category</b>	<b>Estimated useful lives</b>
Electronic equipment	3-5 years
Office equipment	5 years
Vehicles	5 years
Logistic and warehouse equipment	5-10 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).



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)*****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, 2017 and 2018, the balances of construction in progress were RMB3,196,516 and RMB6,553,712, 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
Strategic Cooperation	5 years

Non-compete	5-8 years
Technology	2-7 years
Domain names and trademarks	5-20 years
Others	2-10 years

*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.

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)**

*s. Investment in equity investees*

Investment in equity investees represents the Group's investments in privately held companies, publicly traded companies and private equity funds. 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.

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 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, or the Group holds other investments in the equity investee.

The Group continually reviews its investment in equity investees under equity method 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.

Private equity funds pursue various investment strategies, including event driven and multi-strategy. Investments in private equity generally are not redeemable due to the closed-ended nature of these funds. Beginning on January 1, 2018, these private equity funds, over which the Group does not have the ability to exercise significant influence, are accounted for under the existing practical expedient in ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820) to estimate fair value using the net asset value per share (or its equivalent) of the investment (NAV practical expedient).

Beginning on January 1, 2018, the Group's equity investments without readily determinable fair values, which do not qualify for NAV practical expedient and over which the Group does not have the ability to exercise significant influence through the investments in common stock or in substance common stock, are accounted for under the measurement alternative upon the adoption of Accounting Standards Update (ASU) 2016-01 (the Measurement Alternative). Under the Measurement Alternative, the carrying value is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. All gains and losses on these investments, realized and unrealized, are recognized in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss). The Group makes assessment of whether an investment is impaired at each reporting date, and recognizes an impairment loss equal to the difference between the carrying value and fair value in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss) if there is any. Prior to January 1, 2018, the cost method of accounting was used.

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)**

*t. Investment securities*

The Group invests in marketable equity securities to meet business objectives. Beginning on January 1, 2018, these marketable securities are classified as investments with readily determinable fair values, which are reported at fair value in the Consolidated Balance Sheets, the unrealized gains and losses on equity securities are recorded in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss) upon the adoption of ASU 2016-01. Prior to January 1, 2018, the unrealized gains and losses on marketable securities were recorded in accumulated other comprehensive income/(loss) as a component of shareholders' equity, net of income taxes.

*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 Digits, 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.

The securitization vehicles are considered variable interest entities pursuant to ASC 810. The Group 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 Group 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 Group will not consolidate the securitization vehicles when no economic interests are retained by the Group, and the Group 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.

Due to the Group's continuing involvement right in securitization vehicles prior to October 2017, the Group 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 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, 2017 and 2018, the collateralized accounts receivable were RMB11,701,973 and RMB3,116,309, respectively, and the collateralized loan receivables were RMB4,512,764 and RMB1,281,361, respectively. The weighted average interest rate for the outstanding nonrecourse securitization debt as of December 31, 2017 and 2018 was approximately 5.33% and 5.81% per annum, respectively. The interest expenses in relation to the nonrecourse securitization debt were charged back to JD Digits.

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)**

**v. *Nonrecourse securitization debt and transfer of financial assets (Continued)***

Beginning October 2017, the Group revised certain structural arrangements to relinquish its continuing involvement right when setting up the new securitization vehicles. In 2018, RMB17,500,000 (2017: RMB8,000,000) consumer credit receivables financial assets were derecognized through the sales type arrangements, including accounts receivable of RMB12,632,342 (2017: RMB5,693,223) and loan receivables of RMB4,867,658 (2017: RMB2,306,777). Proceeds from the derecognition were RMB17,500,000 (2016:Nil, 2017: RMB8,000,000), and JD Digits acted as the servicer and purchased the subordinate tranche of the securitization vehicles in these transactions. The investors, including JD Digits, have no recourse to the Group when the underlying consumers fail to pay amounts contractually on due. The gain/loss recorded upon the sale accounting was immaterial in 2017 and 2018.

**w. *Unsecured senior notes and long-term borrowings***

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.

Long-term borrowings are recognized at carrying amount. Interest expense is accrued over the estimated term of the facilities and recorded in the Consolidated Statements of Operations and Comprehensive Income/(Loss).

**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.

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The Group measures certain financial assets, including the investments under the Measurement Alternative 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.



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)**

**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 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 JD Logistics. 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 Digits (Note 6). Customers place their orders for products or services online primarily through the Group's websites and mobile apps. Payment for the purchased products or services is generally made either before delivery or upon delivery.

The Group adopted ASC topic 606, *Revenue from Contracts with Customers* (ASC 606), from January 1, 2018, using the modified retrospective transition method. Revenues for the year ended December 31, 2018 were presented under ASC 606, and revenues for the years ended December 31, 2017 and 2016 were not adjusted and continue to be presented under ASC topic 605, *Revenue Recognition* (ASC 605). The Group's revenue recognition policies effective on the adoption date of ASC 606 are presented as below.

Consistent with the criteria of ASC 606, the Group recognizes revenues when the Group satisfies a performance obligation by transferring a promised good or service (that is, an asset) to a customer. An asset is transferred when the customer obtains control of that asset.

In accordance with ASC 606, 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 a principal, that the Group obtains control of the specified goods or services before they are transferred to the customers, the revenues should be recognized in the gross amount of consideration to which it expects to be entitled in exchange for the specified goods or services transferred. When the Group is an agent and its obligation is to facilitate third parties in fulfilling their performance obligation for specified goods or services, revenues should be recognized in the net amount for the amount of commission which the Group earns in exchange for arranging for the specified goods or services to be provided by other parties. Revenue is recorded net of value-added taxes.

The Group recognizes revenue net of discounts and return allowances when the products are delivered and title passes to customers. Significant judgement is required to estimate return allowances. For online direct sales business with return conditions, the Group reasonably estimate the possibility of return based on the historical experience, changes in judgments on these assumptions and estimates could materially impact the amount of net revenues recognized. As of December 31, 2018, liabilities for return allowances was RMB363,191, included in Accrued expenses and other current liabilities . The rights to recover products from customers associated with the Group s liabilities for return allowances are the Group s assets, which was RMB381,165 as of December 31, 2018, and included in Prepayments and other current assets .

The Group also sells prepaid cards which can be redeemed to purchase products sold on the website www.jd.com and mobile apps. In accordance with ASC 606, 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. While the portion estimated unredeemed is recognized as revenues over the expected customer redemption periods, rather than waiting until prepaid cards expire or when the likelihood of redemption becomes remote.

Revenue arrangements with multiple deliverables are divided into separate units of accounting based on the stand-alone selling price ( SSP ) of each separate unit. In instances where SSP is not directly observable, such as the Group does not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables, considerations are allocated using estimated selling prices. Determining the SSP of each separate unit may require significant judgments, and significant assumptions and estimates have been made in estimating the relative selling price of each single-element.

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)**

**y. Revenue (Continued)**

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 acting as a principal in these transactions and is responsible for fulfilling the promise to provide the specified goods. Revenues from the sales of electronics and home appliance products were RMB179,821,655, RMB236,268,621 and RMB280,059,089, and revenues from the sales of general merchandise products were RMB58,121,977, RMB95,555,789 and RMB136,049,657, for the years ended December 31, 2016, 2017 and 2018, respectively. The Group's net product revenues were mainly generated by the JD Retail (formerly known as JD Mall) segment.

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 acting as agent and its performance obligation is to arrange for the provision of the specified goods or services by those third-party sellers, is not responsible for fulfilling the promise to provide the specified goods or services, and does not have the ability to control the related shipping services when utilized by the third-party sellers. Upon successful sales, 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 third-party sellers 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 third-party sellers 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. 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, primarily including warehousing,

transportation, delivery and after-sales service. Revenues resulting from these services are recognized when the Group satisfies performance obligation by transferring services to customers, 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 Digits before June 30, 2017. Revenues resulting from these financing services are recognized in accordance with the contractual terms, and were reflected in discontinued operation results as JD Digits was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Digits (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.

Revenues from marketplace and advertising services were RMB17,074,605, RMB25,390,981 and RMB33,531,862, respectively, which were mainly generated by the JD Retail segment. Revenues from logistics and other services were RMB3,271,710, RMB5,116,363 and RMB12,379,151, for the years ended December 31, 2016, 2017 and 2018, respectively, which were mainly generated by the New Businesses segment.

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)**

**z. *Contract balances***

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represents amounts invoiced and revenue recognized prior to invoicing when the Group has satisfied the Group's performance obligation and has the unconditional right to payment. The allowance for doubtful accounts and authorized credits is estimated based upon the Group's assessment of various factors including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect the Group's customers' ability to pay. The balance of accounts receivable, net of allowance for doubtful accounts were RMB16,359,147 and RMB11,109,988 as of December 31, 2017 and 2018, respectively.

Unearned revenue consists of payments received or awards to customers related to unsatisfied performance obligations at the end of the period, included in current and non-current deferred revenues and advance from customers in the Group's Consolidated Balance Sheets. As of December 31, 2017, the Group's total unearned revenue was RMB16,471,175, of which RMB13,502,223 was recognized as revenue for the year ended December 31, 2018. The Group's total unearned revenue was RMB15,461,245 as of December 31, 2018.

The Group applied a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. These costs include certain partner sales incentive programs. The Group has no material incremental costs of obtaining contracts with customers that the Group expects the benefit of those costs to be longer than one year which need to be recognized as assets.

**aa. *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 606, 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.

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)**

*aa. 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 606, 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, 2016, 2017 and 2018, 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, 2016, 2017 and 2018, the amount of expired J Beans was not material.

*bb. 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.

*cc. 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.

*dd. Fulfillment*

Fulfillment expenses consist primarily of (i) expenses incurred in operating the Group's fulfillment centers, customer service centers and physical stores, 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 the Group's products and (iii) rental expenses of leased warehouses, delivery and pickup stations, and physical stores. 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 RMB9,329,269, RMB12,691,013 and RMB15,216,351 for the years ended December 31, 2016, 2017 and 2018, respectively.



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)**

*ee. 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 RMB7,789,906, RMB12,375,922 and RMB15,970,433 for the years ended December 31, 2016, 2017 and 2018, respectively.

*ff. Technology and content*

Technology and content expenses consist primarily of payroll and related expenses for research and development employees involved in designing, developing and maintaining technology platform, developing and posting content, and improving AI, big data and cloud technologies and services, and technology infrastructure costs. Technology infrastructure costs include servers and other equipment depreciation, bandwidth and data center costs, rent, utilities and other expenses necessary to support the Group's internal and external business. 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.

*gg. General and administrative*

General and administrative expenses consist primarily 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.

*hh. Share-based compensation*

The Company grants restricted share units ( RSUs ) and share options of the Company and its subsidiaries to eligible employees and non-employee consultants. The Group accounts for share-based awards issued to employees in accordance with ASC 718 *Compensation - Stock Compensation*. The Group early adopted ASU 2018-07, *Compensation-Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting* beginning July 1, 2018, before then, the Group accounted for share-based awards issued to non-employees in accordance with ASC 505-50 *Equity-Based Payments to Non-Employees*.

Employees' share-based awards, non-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.

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)**

***hh. Share-based compensation (Continued)***

The Group uses the binominal option-pricing model to estimate the fair value of stock options. The determination of estimated fair value of stock-based payment awards on the grant date is affected by the fair value of the Company's ordinary shares as well as assumptions regarding a number of complex and subjective variables. These variables include the expected value volatility of the Company over the expected term of the awards, actual and projected employee stock option exercise behaviors, a risk-free interest rate and expected dividends, if any.

Determination of estimated fair value of the Company's subsidiaries before they were publicly listed requires complex and subjective judgments due to their limited financial and operating history, unique business risks and limited public information on companies in China similar to the Company's subsidiaries. The Company estimates the Company's subsidiaries' enterprise value for purposes of recording stock-based compensation, and the information considered by the Company mainly include but are not limited to the pricing of recent rounds of financing, future cash flow forecasts, discount rates, and liquidity factors.

The Group recognizes the estimated compensation cost of restricted share units based on the fair value of its ordinary shares on the date of the grant. The Group recognizes the compensation cost, net of estimated forfeitures, over a vesting term for service-based restricted share units.

The Group also recognizes the compensation cost of performance-based share awards, net of estimated forfeitures, if it is probable that the performance condition will be achieved at the end of each reporting period.

Forfeitures are estimated at the time of grant and revised in the subsequent periods if actual forfeitures differ from those estimates.

***ii. 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, 2016, 2017 and 2018, the Group did not have any significant unrecognized uncertain tax positions.

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)*****jj. 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 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.

***kk. 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-sale debt securities, foreign currency translation adjustments, and share of change in other comprehensive income/(loss) of equity investees. Comprehensive income/(loss) also included changes in unrealized gains/(losses) on available-for-sale equity securities for the years ended December 31, 2016 and 2017, before the adoption of ASU 2016-01.

***ll. 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.

*mm. 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 s principal operations are organized into two major business segments, the JD Retail segment and the New Businesses segment, which are defined based on the products and services provided. JD Retail represents core e-commerce business. New Businesses include O2O (deconsolidated since its merger with Dada Nexus Limited on April 26, 2016), technology initiatives, and overseas business as well as logistics services provided to third parties. JD Digits was included in New Businesses before June 30, 2017, which was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Digits (Note 6).

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)**

*nn. 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.

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, 2016, 2017 and 2018, profit appropriation to statutory surplus fund for the Group's entities incorporated in the PRC was approximately RMB77,378, RMB503,028 and RMB764,446 respectively. No appropriation to other reserve funds was made for any of the periods presented.

*oo. Recent accounting pronouncements*

Recently adopted accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in ASC 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. The Group adopted the new revenue standard beginning January 1, 2018 using the modified retrospective transition method that increased retained earnings by approximately RMB256,994 rather than retrospectively adjusting prior periods. The Group began to recognize revenue from estimated unredeemed prepaid cards over the expected customer redemption periods, 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. The Group applied 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 2018, the Group measured 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 Group elected 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 were reported in current earnings. The Group adopted this ASU beginning January 1, 2018 and the impacts in its consolidated financial statements please refer to Note 5 and Note 7.



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)***oo. Recent accounting pronouncements (Continued)*

In August 2016, the FASB issued 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 adopted this ASU beginning January 1, 2018 with no material impact in 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 on a retrospective basis, then cash, cash equivalents, and restricted cash presented in the Group's Consolidated Statements of Cash Flows are equal to the sum of cash and cash equivalents and restricted cash in the Consolidated Balance Sheets. The table below presents the impacts of adoption of ASU 2016-18 to the Group's Consolidated Statements of Cash Flows:

<b>Year ended December 31, 2016</b>	<b>Previously reported RMB</b>	<b>Adjustments RMB</b>	<b>As Revised RMB</b>
Net cash provided by operating activities	8,767,017	(526,646)	8,240,371
Net cash used in investing activities	(48,268,577)	2,787,142	(45,481,435)
Net cash provided by financing activities	40,699,471		40,699,471
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	709,916	16,546	726,462
Net increase in cash, cash equivalents, and restricted cash	1,907,827	2,277,042	4,184,869

<b>Year ended December 31, 2017</b>	<b>Previously reported RMB</b>	<b>Adjustments RMB</b>	<b>As Revised RMB</b>
Net cash provided by operating activities	24,821,273	2,035,454	26,856,727
Net cash used in investing activities	(37,498,092)	(2,317,199)	(39,815,291)
Net cash provided by financing activities	19,234,985		19,234,985
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(641,534)		(641,534)
Net increase in cash, cash equivalents, and restricted cash	5,916,632	(281,745)	5,634,887

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 adopted this ASU beginning January 1, 2018 with no material impact in its 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)

**2. Summary of significant accounting policies (Continued)**

*oo. Recent accounting pronouncements (Continued)*

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 with no material impact in its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation (Topic 718)*, which simplifies the accounting for non-employee share-based payment transactions by expanding the scope of ASC Topic 718, *Compensation - Stock Compensation*, to include share-based payment transactions for acquiring goods and services from non-employees. Under the new standard, most of the guidance on stock compensation payments to non-employees would be aligned with the requirements for share-based payments granted to employees. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods, with early adoption permitted. The Group early adopted this ASU beginning July 1, 2018 with no material impact in its consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

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. In July 2018, the FASB issued ASU 2018-11, and provided another transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Group adopted the new lease standard beginning January 1, 2019 using the optional transition method through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients. During 2018, the Group has performed a detailed assessment of the impact of the new lease standard. The adoption of this standard has a material impact in the Group's Consolidated Balance Sheets, but the impact in the Group's Consolidated Statements of Operations and Comprehensive Income/(Loss) is negligible based on the lease portfolio as of December 31, 2018. Adoption of the standard resulted in recognition of additional ROU assets and lease liabilities by approximately RMB7 billion and RMB7 billion as of January 1, 2019, respectively.

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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 in its consolidated financial statements.

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 in its 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)**

**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, 2016, 2017 and 2018.

*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, 2017 and 2018, 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 the 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 mainly 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 processes of outstanding balances. Besides, JD Digits performs the related credit assessment of the consumer financing receivables recorded in the Group's Consolidated Balance Sheets. JD Digits will purchase the consumer financing receivables past due over certain agreed period of time from the Group at carrying values without recourse and also agree to bear other cost directly related to the consumer financing business to absorb the risks.

*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 RMB27,566,040 and RMB15,443,123 as of December 31, 2017 and 2018, 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 appreciation of the RMB against the US\$ was approximately 7% in 2017. The depreciation of the RMB against the US\$ was approximately 5% in 2018. 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**

To meet the requirements of specific business operations, primarily including secured deposits held in designated bank accounts for issuance of bank acceptance and letter of guarantee, the Group held restricted cash of RMB4,110,210 and RMB3,239,613 as of December 31, 2017 and 2018, respectively.

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, 2017 and 2018, information about inputs into the fair value measurement of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

Description	Fair value as of December 31, 2017 RMB	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) RMB	Significant Other Observable Inputs (Level 2) RMB	Significant Unobservable Inputs (Level 3) RMB
Assets:				
Cash equivalents				
Money market funds	1,372,182	1,372,182		
Restricted cash	4,110,210		4,110,210	
Short-term investments				
Wealth management products	8,582,754		8,582,754	
Investment securities				
Listed equity securities	10,027,813	10,027,813		
Total assets	24,092,959	11,399,995	12,692,964	

Description	Fair value as of December 31, 2018 RMB	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) RMB	Significant Other Observable Inputs (Level 2) RMB	Significant Unobservable Inputs (Level 3) RMB
Assets:				
Cash equivalents				
Money market funds	1,373	1,373		
Restricted cash	3,239,613		3,239,613	
Short-term investments				
Wealth management products	1,934,820		1,934,820	
Investment securities				
Listed equity securities	15,901,573	15,901,573		
Total assets	21,077,379	15,902,946	5,174,433	

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**

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.

**Restricted cash**

Restricted cash are valued based on the pervasive interest rates 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, 2017 and 2018, gross unrealized gains of RMB23,755 and RMB627 were recorded on wealth management products, respectively. No impairment charges were recorded for the years ended December 31, 2016, 2017 and 2018, respectively.



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)****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. Prior to January 1, 2018, the Group accounted for the investment securities at fair value with unrealized gains and losses recognized in accumulated other comprehensive income on the Consolidated Balance Sheets. Realized gains and losses on marketable equity securities sold or impaired were recognized in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss). Starting from January 1, 2018, upon adoption of ASU 2016-01, unrealized gains and losses during the year are recognized in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss), and the Group recognized a cumulative-effect adjustment for the net unrealized gains related to marketable equity securities of RMB1,156,642 from accumulated other comprehensive income to the opening balance of retained earnings in the period of adoption.

The following table summarizes the carrying value and fair value of the investment securities:

	<b>Cost Basis RMB</b>	<b>Gross Unrealized Gains RMB</b>	<b>Gross Unrealized Losses RMB</b>	<b>Provision for decline in value RMB</b>	<b>Fair Value RMB</b>
December 31, 2017	9,087,935	1,476,834	(513,047)	(23,909)	10,027,813
December 31, 2018	16,071,098	3,952,704	(4,122,229)		15,901,573

In 2017, the Group 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. As of December 31, 2018, the unrealized loss related to the investment in China Unicom was RMB1,215,227 (as of December 31, 2017: RMB366,032).

In 2017, the Group invested in Vipshop Holdings Ltd. ( Vipshop ) with a total consideration of RMB2,794,547 and held approximately 5.5% of Vipshop s equity interest. In 2018, the Group purchased additional shares with a total amount of RMB1,016,858. As of December 31, 2018, the unrealized loss related to the investment in Vipshop was RMB2,004,447 (as of December 31, 2017: RMB37,064).

In 2017, the Group invested in Farfetch.com Limited ( Farfetch ) with the total consideration of RMB2,713,285, this investment was accounted as cost method investment as of December 31, 2017. On September 21, 2018, Farfetch completed its initial public offering on New York Stock Exchange. Concurrently with Farfetch s IPO, the Group purchased additional shares with a total amount of RMB186,155, and started to account for the investment at fair value. As of December 31, 2018, the unrealized gain related to the investment in Farfetch was RMB2,250,113.

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)**

**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.

**Time deposits.** Time deposits with original maturities of three month or less and longer than three months but less than one year have been classified as cash equivalents and short-term investments, respectively, in the Consolidated Balance Sheets. The fair value of the Group's time deposits are determined based on the prevailing interest rates in the market, which has been categorized as Level 2 in the fair value hierarchy. As of December 31, 2017 and 2018, the fair value of time deposits classified as cash equivalents amounted to RMB5,081,748 and RMB12,050,507, respectively.

**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. As of December 31, 2017 and 2018, the fair value of unsecured senior notes amounted to RMB6,527,960 and RMB6,382,604, respectively.

**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. The Group classifies the valuation techniques that use these inputs as Level 2 fair value measurement.

**Short-term borrowings and long-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 and long-term borrowings 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 amount of nonrecourse securitization debt approximates its fair value 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 without readily determinable fair value were measured using significant unobservable inputs (Level 3) as of December 31, 2016, 2017 and 2018, with impairment charges of RMB341,984, RMB59,987 and RMB593,138 were recorded in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss) for the years ended December 31, 2016, 2017 and 2018, 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 .

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 Digits reorganization**

In the first half of 2017, the Group entered into a series of definitive agreements relating to the reorganization of JD Digits. Pursuant to the definitive agreements, the Group disposed of all its equity stake of 68.6% in JD Digits so that it holds neither legal ownership nor effective control of JD Digits, 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 Digits when JD Digits 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 Digits into 40% of JD Digits'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 Digits, and purchased an equity stake of JD Digits 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 Digits 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 Digits when JD Digits has a positive pre-tax income on a cumulative basis, and therefore the Group is considered to have a variable interest in JD Digits even though the Group has no equity interest in JD Digits. As the Group shares a large portion of JD Digits's expected residual returns, it limits the right of holders of the equity investment at risk to receive JD Digits's expected residual returns, hence, JD Digits is a VIE of the Group.

Mr. Richard Qiangdong Liu holds a minority equity stake in JD Digits, and obtains majority voting rights in JD Digits through his equity stake and voting arrangements, possesses the power to direct the activities of JD Digits that would most significantly impact its economic performance, and also exposes to benefits and losses of JD Digits. As a result, JD Digits is an unconsolidated VIE of the Group as the Group is not considered the primary beneficiary of JD Digits.

Hence upon the completion of the transaction on June 30, 2017, JD Digits was deconsolidated from the Group as a result of the reorganization. The Group and JD Digits are both controlled by Mr. Richard Qiangdong Liu before and after the transaction, so the disposal of JD Digits was achieved through an under the common control transaction, accordingly, the gain of RMB14,193,481 from the disposal of JD Digits 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 Digits.

The disposal of JD Digits 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 Digits 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 Digits 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:

	<b>As of December 31, 2016 RMB</b>
<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 Digits 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 financial products depends on the performance of the underlying assets. The issuers of these products generally attempt to maintain a relatively

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fixed expected interest rate throughout the terms of such structured products. The financial products are used by JD Digits 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 Digits 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 Digits, therefore, the elimination entries were recorded in discontinued operations/held for sales assets/liabilities.



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 Digits reorganization (Continued)**

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2017(***)</b>
	<b>RMB</b>	<b>RMB</b>
<b>Net revenues</b>	1,831,698	2,392,903
<b>Operating expenses</b>	(2,724,942)	(2,067,622)
<b>Income/(Loss) from operations of discontinued operations</b>	(893,244)	325,281
<b>Other expenses</b>	(459,079)	(316,245)
<b>Income/(Loss) from discontinued operations before tax</b>	(1,352,323)	9,036
Income tax expenses	(13,109)	(2,121)
<b>Net income/(loss) from discontinued operations, net of tax</b>	(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>	(1,806,346)	(269,076)

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2017(***)</b>
	<b>RMB</b>	<b>RMB</b>
Net cash used in discontinued operating activities	(1,226,526)	(2,485,741)
Net cash used in discontinued investing activities	(28,412,020)	(17,871,171)
Net cash provided by discontinued financing activities	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 Digits reorganization as JD Digits was in a loss position on a cumulative basis.

According to the JD Digits reorganization arrangements, upon certain redemption events of JD Digits, and on the premise that JD Digits 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 Digits 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 Digits if the Group becomes a shareholder of JD Digits or the liquidity payment the Group would receive upon the liquidity events. As the Group and JD Digits are under common control of Mr. Richard Qiangdong Liu, the Group is therefore exempted from recording a guarantee liability in its 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 and 2018.

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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 Digits 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 Digits relates to net amounts due from JD Digits were RMB12,076,035 and RMB3,902,238 as of December 31, 2017 and 2018, respectively (Note 29).

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**

**Measurement Alternative and NAV practical expedient**

Equity investments measured at fair value without readily determinable fair value were accounted as cost method investments prior to adopting ASU 2016-01. As of December 31, 2017, the carrying amount of the Group's cost method investments was RMB9,750,726. After adoption of ASU 2016-01, as of December 31, 2018, the carrying amount of the Group's equity investments measured at fair value using the Measurement Alternative was RMB17,104,784, the carrying amount of the Group's investments under NAV practical expedient was RMB944,378. For the years ended December 31, 2017 and 2018, the Group invested RMB6,217,682 and RMB12,108,139 in multiple private companies and private equity funds accounted for under Measurement Alternative and NAV practical expedient respectively, which may have operational synergy with the Group's core business. During the year ended December 31, 2018, investment consideration for the top two investees were RMB4,990,531 and RMB1,952,325, respectively. During the year ended December 31, 2018, fair value changes recognized for certain equity investments which were measured using the Measurement Alternative and NAV practical expedient were not significant.

**Equity method**

As of December 31, 2018, the Group's investments accounted for under the equity method totaled RMB13,307,454 (as of December 31, 2017: RMB8,800,593), which mainly included the investment in Yonghui Superstores Co., Ltd, (Yonghui) amounting to RMB5,450,209, the investment in Bitauto Holdings Limited (Bitauto) amounting to RMB2,544,367, the investment in Tuniu Corporation (Tuniu) amounting to RMB858,566 and investment in Yixin Group Limited (Yixin) amounting to RMB1,044,537. 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. On May 23, 2018, the Company acquired additional ordinary shares from the existing shareholders of Yonghui, the Company's interest in Yonghui's issued and outstanding ordinary shares increased from 10% to 12% accordingly. 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 RMB5,458,074

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. The Group received dividend of RMB114,845 and RMB143,557 for the years ended December 31, 2017 and 2018, respectively, which have 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 August 11, 2016 RMB	As of December 31, 2017 RMB	As of December 31, 2018 RMB
Carrying value of investment in Yonghui	4,234,929	4,245,001	5,450,209
Proportionate share of Yonghui's net tangible and intangible assets	1,869,905	1,946,349	2,122,874
Excess of carrying value of the investment over proportionate share of Yonghui's net tangible and intangible assets	2,365,024	2,298,652	3,327,335
The excess of carrying value has been primarily assigned to:			
Goodwill	1,270,190	1,270,190	1,989,726
Amortizable intangible assets (*)	1,459,779	1,371,283	1,783,478
Deferred tax liabilities	(364,945)	(342,821)	(445,869)
	2,365,024	2,298,652	3,327,335
Cumulative gains in equity interest in Yonghui		124,917	250,538

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)**

(\*) As of December 31, 2018, the weighted average remaining life of the intangible assets not included in Yonghui's consolidated financial statements was 16 years.

As of December 31, 2017 and 2018, the market value of the Group's investment in Yonghui was approximately RMB9,666,167 and RMB8,609,614 based on its quoted closing price, respectively.

The proportionate share of Yonghui's net income/(loss) recorded in share of results of equity investees in the Consolidated Statements of Operations and Comprehensive Income/(Loss) was a loss of RMB84, a gain of RMB122,893 and a gain of RMB96,558 for the years ended December 31, 2016, 2017 and 2018, respectively. The following table includes the summarized financial information of Yonghui since the date when it was invested by the Group.

	During the period from August 11, 2016 to December 31, 2016 RMB	For the year ended December 31, 2017 RMB	For the year ended December 31, 2018 RMB
Revenue	6,248,703	55,524,229	67,975,691
Gross profit	1,230,057	11,319,620	14,912,887
Income from operations	95,453	2,065,795	1,296,271
Net income	71,130	1,721,628	1,189,513
Net income attributable to shareholders	72,905	1,818,910	1,548,833
Percentage of ownership in Yonghui	10%	10%	12%
Proportionate share of Yonghui's net income, before basis adjustments	7,291	181,891	160,630
Basis adjustments	(7,375)	(58,998)	(64,072)
Proportionate share of Yonghui's net income	(84)	122,893	96,558

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.

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 Bitauto is accounted for using the equity method with the investment cost allocated as follows:

	As of February 16, 2015 RMB	As of December 31, 2017 RMB	As of December 31, 2018 RMB
Carrying value of investment in Bitauto (*)	5,496,188	2,128,409	2,544,367
Proportionate share of Bitauto's net tangible and intangible assets	2,119,109	2,228,925	2,619,609
Excess of carrying value of the investment over proportionate share of Bitauto's net tangible and intangible assets	3,377,079	(100,516)	(75,242)
The excess of carrying value has been primarily assigned to:			
Goodwill (*)	2,846,260		
Amortizable intangible assets (**)	707,758	(100,516)	(75,242)
Deferred tax liabilities	(176,939)		
	3,377,079	(100,516)	(75,242)
Cumulative losses in equity interest in Bitauto		(3,696,754)	(3,280,796)

(\*) In the fourth quarter of 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 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, 2016.

(\*\*) As of December 31, 2018, the weighted average remaining life of the intangible assets not included in Bitauto's consolidated financial statements was 3 years.

As of December 31, 2017 and 2018, the market value of the Group's investment in Bitauto was approximately RMB3,773,634 and RMB3,087,400 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 six with the founder of Dada holding the casting vote after the transaction.

With the assistance of an independent appraiser, the Group estimated the fair value of the assets/investments received as follows:

F-46

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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)****7. Investment in equity investees (Continued)**

	<b>As of April 26, 2016 RMB</b>
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
	<b>3,508,200</b>

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 ordinary shares is accounted for using the equity method with the investment cost allocated as follows:

	<b>As of April 26, 2016 RMB</b>	<b>As of December 31, 2017 RMB</b>	<b>As of December 31, 2018 RMB</b>
Carrying value of investment in Dada's ordinary shares	2,164,050	139,147	
Proportionate share of Dada's net tangible and intangible assets	424,140	(1,579,323)	(1,709,458)
Excess of carrying value of the investment over proportionate share of Dada's net tangible and intangible assets	1,739,910	1,718,470	1,709,458
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	150,105	138,089
Deferred tax liabilities	(44,673)	(37,526)	(34,522)
	<b>1,739,910</b>	<b>1,718,470</b>	<b>1,709,458</b>
Cumulative losses in equity interest in Dada's ordinary shares		(2,024,903)	(2,164,050)

(\*) As of December 31, 2018, the weighted average remaining life of the intangible assets not included in Dada's consolidated financial statements was 7 years.

The investment in Dada's preferred shares is accounted for under the Measurement Alternative as the underlying preferred shares were not considered in-substance common stock and had no readily determinable fair value as of December 31, 2018. The warrant is a freestanding financial instrument and was recorded at fair value of RMB45,450 upon initial recognition. On December 28, 2017, the Group exercised the warrant in entirety in cash and purchased additional preferred shares of Dada, at the pre-determined price with the total consideration of RMB983,820. On August 9, 2018, the Group further invested RMB1,230,808 to acquire the newly issued preferred shares of Dada. The Group's investment in Dada's ordinary shares has been reduced to zero in 2018. According to ASC 323-10-35-25, as the Group's total investments in Dada includes the preferred shares investments, the Company should continue to recognize Dada's losses up to the Group's carrying value in the preferred shares investment. As a result, in 2018, the Group further recognized a loss of RMB766,690 against the investment in Dada's preferred shares based on the ownership level and seniority of preferred shares investment the Group held in Dada. As of December 31, 2018, the carrying amount of preferred shares of Dada was RMB2,922,725.

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 7% 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 May 22, 2015 RMB	As of December 31, 2017 RMB	As of December 31, 2018 RMB
Carrying value of investment in Tuniu (*)	2,494,145	947,500	858,566
Proportionate share of Tuniu's net tangible and intangible assets	1,014,296	779,525	714,009
	1,479,849	167,975	144,557

Excess of carrying value of the investment over proportionate share of Tuniu's net tangible and intangible assets

The excess of carrying value has been primarily assigned to:

Goodwill (*)	1,212,149	23,899	23,899
Amortizable intangible assets (**)	356,933	192,101	160,877
Deferred tax liabilities	(89,233)	(48,025)	(40,219)
	1,479,849	167,975	144,557

Cumulative losses in equity interest in Tuniu		(1,546,645)	(1,635,579)
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(\*) 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 fair value of RMB1,454,578, based on quoted closing price of Tuniu as of June 30, 2016.

(\*\*) As of December 31, 2018, the weighted average remaining life of the intangible assets not included in Tuniu's financial statements was 6 years.

As of December 31, 2017 and 2018, the market value of the Group's investment in Tuniu was approximately RMB1,304,082 and RMB867,921 based on quoted closing price, respectively.

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 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 11% 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:

	As of November 16, 2017 RMB	As of December 31, 2017 RMB	As of December 31, 2018 RMB
Carrying value of investment in Yixin	860,992	860,992	1,044,537
Proportionate share of Yixin's net tangible and intangible assets	1,703,448	1,703,448	1,641,276
Total negative basis difference	(842,456)	(842,456)	(596,739)
Cumulative gains in equity interest in Yixin			183,545

The negative basis difference is amortized into net income over the remaining useful lives of the underlying assets, which is estimated to be 3 years. As of December 31, 2017 and 2018, the market value of the Group's investment in Yixin was approximately RMB3,586,393 and 1,049,246 based on quoted closing price, respectively.

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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,		
	2016 RMB	2017 RMB	2018 RMB
<b>Operating data:</b>			
Revenue	37,122,299	72,206,753	94,099,295
Gross profit	4,829,228	19,162,739	26,893,544
Loss from operations	(3,126,138)	(2,200,140)	(1,471,960)
Net loss	(3,369,075)	(2,549,137)	(1,722,715)
Net loss attributable to shareholder	(3,729,119)	(2,977,210)	(1,748,305)

	As of December 31,		
	2016 RMB	2017 RMB	2018 RMB
<b>Balance sheet data:</b>			
Current assets	47,136,935	78,125,211	110,276,278
Non-current assets	26,244,217	62,806,104	78,546,934
Current liabilities	27,103,212	58,734,790	80,643,552
Non-current liabilities	4,559,231	16,703,429	22,755,496
Redeemable stock	4,795,473	5,877,854	9,897,962
Non-controlling interests	4,072,998	717,106	431,498

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)**

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.

Audited financial statements of Bitauto, Tuniu and Dada 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 Measurement Alternative 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 Measurement Alternative investments of RMB341,984, RMB59,987 and RMB593,138 were recorded in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss) for the years ended December 31, 2016, 2017 and 2018, respectively. As of December 31, 2018, the accumulated impairment of the Group's Measurement Alternative investments was RMB846,243. Impairment charges in connection with the equity method investments of RMB1,416,801, nil 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, 2016, 2017 and 2018, respectively.

**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 Icon E-Commerce Development Group Limited ( Shanghai Icon ), 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 Ison ( Investment in Shanghai Ison ); (iii) a call option ( Call Option ) to acquire the remaining equity interest of Shanghai Ison, 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 Ison.

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 RMB	Amortization 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	



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)**

**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 mobile apps ( 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.

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)****Transaction with Walmart (Continued)**

**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 participant's 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.

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:

	Amount RMB	
Fair value of the Company's shares issued	9,592,258	
	Amount RMB	Amortization Years
Non-compete Agreement	1,019,816	8
YHD marketplace		
Goodwill	5,755,826	
Domain names and trademark	3,099,958	20
Technology	537,785	7
Property, plant and equipment, net	65,887	
Customer relationship	29,896	10
Deferred tax liability	(916,910)	
Total Purchase price	9,592,258	

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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:

	As of December 31,	
	2017 RMB	2018 RMB
Online direct sales and online marketplace receivables	14,819,862	7,756,808
Advertising receivables	572,495	534,410
Logistics receivables	1,020,771	2,997,163
Accounts receivable	16,413,128	11,288,381
Allowance for doubtful accounts	(53,981)	(178,393)
Accounts receivable, net	16,359,147	11,109,988

The movements in the allowance for doubtful accounts were as follows:

	For the year ended December 31,		
	2016 RMB	2017 RMB	2018 RMB
Balance at beginning of the year	(38,633)	(36,993)	(53,981)
Additions		(16,988)	(124,412)
Reverse	1,640		
Balance at end of the year	(36,993)	(53,981)	(178,393)

For the accounts receivable in relation to consumer financing business, as JD Digits 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:

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	As of December 31,	
	2017 RMB	2018 RMB
Products	41,840,945	44,678,983
Packing materials and others	358,207	219,961
Inventories	42,199,152	44,898,944
Inventory valuation allowance	(498,773)	(868,860)
Inventories, net	41,700,379	44,030,084

F-53

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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)****11. Property, equipment and software, net**

Property, equipment and software, net consist of the following:

	As of December 31,	
	2017 RMB	2018 RMB
Electronic equipment	7,172,694	13,780,685
Building and building improvement	5,855,920	9,118,708
Logistic and warehouse equipment	2,693,969	3,912,356
Vehicles	1,164,376	1,240,001
Leasehold improvement	827,408	1,318,735
Office equipment	287,282	406,534
Software	203,848	250,920
Total	18,205,497	30,027,939
Less: Accumulated depreciation	(5,631,319)	(8,945,101)
Net book value	12,574,178	21,082,838

Depreciation expenses were RMB1,751,086, RMB2,310,065 and RMB3,533,483 for the years ended December 31, 2016, 2017 and 2018, respectively.

**12. Land use rights, net**

Land use rights, net consist of the following:

	As of December 31,	
	2017 RMB	2018 RMB
Land use rights	7,254,974	10,860,924
Less: Accumulated amortization	(204,165)	(385,266)
Net book value	7,050,809	10,475,658

Amortization expenses for land use rights were RMB48,528, RMB84,405 and RMB181,101 for the years ended December 31, 2016, 2017 and 2018, respectively.

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As of December 31, 2018, amortization expenses related to the land use rights for future periods are estimated to be as follows:

	For the year ending December 31,					2024 and thereafter
	2019 RMB	2020 RMB	2021 RMB	2022 RMB	2023 RMB	RMB
Amortization expenses	218,729	218,729	218,729	218,729	218,729	9,382,013

F-54

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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, 2017					
	Weighted-Average Amortization Period Year	Gross Carrying Amount RMB	Accumulated Amortization RMB	Impairment Amount RMB	Net Carrying Amount RMB
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

As of December 31, 2018					
	Weighted-Average Amortization Period Year	Gross Carrying Amount RMB	Accumulated Amortization RMB	Impairment Amount RMB	Net Carrying Amount RMB
Strategic Cooperation	5.0	6,075,289	(5,779,015)		296,274
Non-compete	8.0	2,467,005	(1,194,067)		1,272,938
Technology	6.6	802,221	(271,698)	(69,922)	460,601
Domain names and trademark	19.3	3,305,413	(453,423)	(27,124)	2,824,866
Others	5.6	363,678	(131,572)	(75,079)	157,027
Total	9.3	13,013,606	(7,829,775)	(172,125)	5,011,706

Amortization expenses for intangible assets were RMB1,620,675, RMB1,798,246 and RMB1,845,450 for the years ended December 31, 2016, 2017 and 2018, respectively. The Group recorded an impairment charge of nil, nil and RMB15,416 for the years ended December 31, 2016, 2017 and 2018, respectively.

As of December 31, 2018, amortization expenses related to the intangible assets for future periods are estimated to be as follows:

For the year ending December 31,				
2019	2020	2021	2022	2023

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	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>2024 and thereafter RMB</b>
Amortization expenses	930,990	624,849	614,610	455,693	337,344	2,048,220

F-55

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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:

	JD Retail RMB	New Businesses RMB	Total RMB
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
Transaction in 2018			
Impairment	(6,901)		(6,901)
Balance as of December 31, 2018			
Goodwill	6,650,570	2,593,420	9,243,990
Accumulated impairment loss	(6,901)	(2,593,420)	(2,600,321)
	6,643,669		6,643,669

The Group recorded an impairment charge of nil, nil and RMB6,901 for the years ended December 31, 2016, 2017 and 2018, respectively.

**15. Short-term borrowings**

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Short-term borrowings as of December 31, 2017 and 2018 amounted to RMB200,000 and RMB147,264, respectively, which consisted of borrowings from financial institutions. All of these borrowings were repayable within one year. The weighted average interest rate for the outstanding borrowings as of December 31, 2017 and 2018 was approximately 7.00% and 4.15 % per annum, respectively.

### 16. Accounts payable

Accounts payable consists of the following:

	As of December 31,	
	2017	2018
	RMB	RMB
Vendor payable	62,548,717	66,701,380
Shipping charges payable and others	11,788,991	13,283,638
Total	74,337,708	79,985,018

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:

	As of December 31,	
	2017 RMB	2018 RMB
Deposits	9,787,387	12,870,155
Salary and welfare	3,131,752	3,952,163
Payable related to employees' exercise of share-based awards	152,177	42,979
Rental fee payables	400,632	653,105
Internet data center fee	212,143	387,478
Professional fee	59,802	122,930
Vehicle fee	69,042	114,576
Others	1,304,905	2,149,294
Total	15,117,840	20,292,680

**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 and 2018:

	Amounts		Effective interest rate
	As of December 31,		
	2017 RMB	2018 RMB	
US\$500,000 3.125% notes due 2021	3,242,565	3,413,264	3.37%
US\$500,000 3.875% notes due 2026	3,204,792	3,372,879	4.15%
Carrying value	6,447,357	6,786,143	
Unamortized discount and debt issuance costs	86,843	77,057	
Total principal amounts of unsecured senior notes	6,534,200	6,863,200	

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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 in 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 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, 2018, the principal of the unsecured senior notes of RMB3,431,600 and RMB3,431,600 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. Long-term borrowings**

In December 2017, the Company entered into a 5-year US\$1,000,000 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 was intended for general corporate purposes. In June 2018, the Company drew down US\$450,000 under the facility commitment, and the borrowings will be due in 2022.

**20. Interest income and interest expense**

Interest income and interest expense consist of the following:

	2016 RMB	For the year ended December 31, 2017 RMB	2018 RMB
<b>Interest income:</b>			
Interest income in relation to nonrecourse securitization debt charged to JD Digits	371,579	702,147	527,025
Interest income in relation to loans provided to JD Digits	161,601	569,395	119,047
Interest income in relation to bank deposits, wealth management products and others	693,672	1,258,948	1,471,849
<b>Total</b>	<b>1,226,852</b>	<b>2,530,490</b>	<b>2,117,921</b>
<b>Interest expense:</b>			
Interest expense in relation to nonrecourse securitization debt	(371,579)	(702,147)	(527,025)
Others	(246,988)	(261,595)	(327,513)
<b>Total</b>	<b>(618,567)</b>	<b>(963,742)</b>	<b>(854,538)</b>

**21. Others, net**

Others, net consist of the following:

	For the year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Gains from business and investment disposals	1,232,853	74,965	1,320,266
Government financial incentives	721,564	843,447	614,658
Impairment of investments	(542,946)	(139,823)	(593,138)
Foreign exchange gains/(losses), net	(143,125)	213,482	(192,491)
Loss from fair value change of long-term investments			(1,512,979)
Others	275,030	324,337	458,859
Total	1,543,376	1,316,408	95,175

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.

## 22. Taxation

### a) *Value added tax*

The Group is subject to statutory VAT rate of 13% prior to July 1, 2017, 11% from July 1, 2017 to April 30, 2018, and 10% from May 1, 2018 for revenues from sales of audio, video products and books, and 17% prior to May 1, 2018 and 16% from May 1, 2018 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, 2018.



Table of Contents

**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**22. Taxation (Continued)**

**a) Value added tax (Continued)**

The Group is subject to VAT at the rate of 6% or 11%/10% (11% prior to May 1, 2018, 10% from May 1, 2018) for revenues from logistics services, and 6% for 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.

**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, and enjoyed a preferential income tax rate of 12.5% in 2018.

Certain enterprises will benefit from a preferential tax rate of 15% under the EIT Law if they are located in applicable PRC regions as specified in the Catalogue of Encouraged Industries in Western Regions (initially effective through the end of 2010 and further extended to 2020), or the Western Regions Catalogue, subject to certain general restrictions described in the EIT Law and the related regulations. In 2016, 2017 and 2018, 4, 4 and 14 entities of the Group were qualified as the enterprises within the Catalogue of Encouraged Industry in the Western Region and enjoyed 15% preferential income tax rate, respectively.

Table of Contents

**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**22. Taxation (Continued)**

**b) *Income tax (Continued)***

The Group's other PRC subsidiaries, consolidated VIEs and VIEs' subsidiaries are subject to the statutory income tax rate of 25%.

According to the relevant laws and regulations in the PRC, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ( Super Deduction ). The State Taxation Administration of the PRC announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020.

*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 on the retained earnings of its FIEs in the PRC, as the Company intends to reinvest all earnings in China to further expand its business in China, and its FIEs do not intend to declare dividends on the retained earnings to their immediate foreign holding companies.

The components of income/(loss) before tax are as follows:

	For the year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Income/(loss) before tax			
Income/(loss) from China operations	1,730,549	3,681,735	(578,300)
Loss from non-China operations	(3,612,450)	(3,560,775)	(1,795,378)
Total income/(loss) before tax	(1,881,901)	120,960	(2,373,678)
Income tax benefits/(expenses) applicable to China operations			
Current income tax expenses	(201,173)	(360,603)	(437,326)
Deferred tax benefits	34,782	221,010	10,454
Subtotal income tax expenses applicable to China operations	(166,391)	(139,593)	(426,872)
Total income tax expenses	(166,391)	(139,593)	(426,872)

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**22. 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, 2016, 2017 and 2018 is as follows:

	2016	For the year ended December 31, 2017	2018
Statutory income tax rate	25.0%	25.0%	25.0%
Tax effect of preferential tax treatments	45.3%	(942.7)%	8.3%
Tax effect of tax-exempt entities	(36.1)%	588.6%	(1.9)%
Effect on tax rates in different tax jurisdiction	(3.6)%	30.5%	2.2%
Tax effect of non-deductible expenses	(28.1)%	536.0%	(42.4)%
Tax effect of non-taxable income	0.1%	(14.0)%	3.8%
Tax effect of Super Deduction and others			53.9%
Changes in valuation allowance	(11.4)%	(120.8)%	(66.7)%
Expiration of loss carry forwards	0.0%	12.8%	(0.2)%
Effective tax rates	(8.8)%	115.4%	(18.0)%

The following table set forth the effect of tax holiday:

	2016 RMB	For the year ended December 31, 2017 RMB	2018 RMB
Tax holiday effect	852,776	1,140,251	198,118
Effect of tax holiday on basic net loss per share	0.30	0.40	0.07
Effect of tax holiday on diluted net loss per share	0.30	0.39	0.07

**c) Deferred tax assets and deferred tax liabilities**

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	As of December 31,	
	2017 RMB	2018 RMB
Deferred tax assets		
- Net operating loss carry forwards	1,162,287	2,028,350
- Deferred revenues	299,723	283,824
- Inventory valuation allowance	124,693	217,215
- Allowance for doubtful accounts	52,117	88,036
- Unrealized fair value loss for certain investments		482,027
Less: valuation allowance	(1,480,570)	(2,996,294)
Net deferred tax assets	158,250	103,158
Deferred tax liabilities		
- Intangible assets arisen from business combination	882,248	819,032
- Others		9,441
Total deferred tax liabilities	882,248	828,473

As of December 31, 2018, the accumulated net operating loss of RMB3,794,138 of the Company's subsidiaries incorporated in Singapore and Hong Kong can be carried forward indefinitely to offset future taxable income, the remaining accumulated net operating loss of RMB6,174,368 mainly arose from the Company's subsidiaries, consolidated VIEs and VIEs' subsidiaries established in PRC and Indonesia, which can be carried forward to offset future taxable income and will expire during the period from 2019 to 2023.

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.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**22. Taxation (Continued)****c) *Deferred tax assets and deferred tax liabilities (Continued)***

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 2018) 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, 2016, and the amount of valuation allowance offset in deferred tax assets as of December 31, 2017 and 2018 was RMB1,480,570 and RMB2,996,294 respectively.

*Movement of valuation allowance*

	<b>2016</b>	<b>As of December 31,</b>	<b>2018</b>
	<b>RMB</b>	<b>2017</b>	<b>RMB</b>
		<b>RMB</b>	
Balance at beginning of the period	1,299,200	1,626,680	1,480,570
Additions	1,324,793	807,558	2,755,222
Reversals	(997,313)	(953,668)	(1,239,498)
Balance at end of the period	1,626,680	1,480,570	2,996,294

**23. Convertible redeemable non-controlling interests**

In 2018, the Group entered into definitive agreements with third-party investors to raise financing for Jingdong Express, the parent company of JD Logistics, with the total amount of US\$2,510,000 by issuance of the series A preferred shares of Jingdong Express ( Jingdong Express Series A Preferred Shares ), representing approximately 19% of the ownership of Jingdong Express on a fully diluted basis.

The Group determined that the Jingdong Express Series A Preferred Shares should be classified as mezzanine equity upon their issuance since they were contingently redeemable by the holders 5 years from the issuance date in the event that a qualified initial public offering ( Qualified IPO ) has not occurred and the Jingdong Express Series A Preferred Shares have not been converted. The Qualified IPO is defined as an IPO that (i) has been approved by the Board of Directors of Jingdong Express or (ii) with the offering price per share that values Jingdong Express at no less than US\$20,000,000 on a fully diluted basis immediately following the completion of such offering.

The Group records accretion on the Jingdong Express Series A Preferred Shares, where applicable, to the redemption value from the issuance dates to the earliest redemption dates.

The Group determined that there were no embedded derivatives requiring bifurcation as the economic characteristics and risks of the embedded conversion and redemption features are clearly and closely related to that of the Jingdong Express Series A Preferred Shares. The Preferred Shares are not readily convertible into cash as there is not a market mechanism in place for trading of Jingdong Express's shares.

The Group has determined that there was no embedded beneficial conversion feature attributable to the Jingdong Express Series A Preferred Shares because the initial effective conversion prices were higher than the fair value of Jingdong Express's ordinary shares determined by the Group with the assistance from an independent valuation firm.

The rights, preferences and privileges of the Jingdong Express Series A Preferred Shares are as follows:

*Dividend Rights*

As regards dividends, the Jingdong Express Series A Preferred Shares shall rank pari passu with the ordinary shares and the holders of the Jingdong Express Series A Preferred Shares shall be entitled to the same amount of dividends as holders of the ordinary shares on an as converted basis as if they were a single class. No dividend or distribution shall be payable except out of any funds legally available.



Table of Contents

**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**23. Convertible redeemable non-controlling interests (Continued)**

*Voting Rights*

The holder of each ordinary share issued and outstanding should have one vote in respect of each ordinary share held and the holder of each Jingdong Express Series A Preferred Shares shall carry such number of votes as is equal to the number of votes of ordinary shares then issuable upon the conversion of such Jingdong Express Series A Preferred Shares. The holders of the Jingdong Express Series A Preferred Shares and the holders of ordinary shares shall vote together and not as a separate class.

*Liquidation Preferences*

In the event of any voluntary or involuntary liquidation, dissolution or winding up of Jingdong Express, all assets and funds of Jingdong Express legally available for distribution (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed ratably among the holders according to their relative number of ordinary shares held by such holders (all the Jingdong Express Series A Preferred Shares as if they had been converted into ordinary shares immediately prior to such liquidation, dissolution or winding up of Jingdong Express).

*Redemption Rights*

From and after the fifth anniversary of the Jingdong Express Series A Preferred Shares original issue date, and prior to the consummation of a Qualified IPO, each holder of the Jingdong Express Series A Preferred Shares shall have the right at any time to require and demand Jingdong Express to redeem all or any portion of the Jingdong Express Series A Preferred Shares held by such holder.

The initial redemption price payable on each Jingdong Express Series A Preferred Shares is the total of:

- (i) any dividend relating to each Jingdong Express Series A Preferred Shares which has been declared by Jingdong Express but unpaid, to be calculated up to and including the date of the redemption; plus

(ii) the Jingdong Express Series A Preferred Shares purchase price, that is US\$2.50 per Jingdong Express Series A Preferred Shares, subject to appropriate adjustments in the event of any share dividend, share combination or similar recapitalization events.

Jingdong Express accretes changes in the redemption value over the period from the date of issuance to the earliest redemption date of the Jingdong Express Series A Preferred Shares using effective interest method. Changes in the redemption value are considered to be changes in accounting estimates. The accretion is recorded against retained earnings, or in the absence of retained earnings, by charges against additional paid-in-capital. Once additional paid-in-capital has been exhausted, additional charges are recorded by increasing the accumulated deficit.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****23. Convertible redeemable non-controlling interests (Continued)***Conversion Rights*

Each Jingdong Express Series A Preferred Shares shall be convertible, at the option of the holder of the Jingdong Express Series A Preferred Shares, at any time after the date of issuance of such Jingdong Express Series A Preferred Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Jingdong Express Series A Preferred Shares purchase price by the conversion price then applicable to such Jingdong Express Series A Preferred Shares. The conversion price of each Jingdong Express Series A Preferred Shares is the same as its original issuance price if no adjustments to conversion price have occurred. As of December 31, 2018, each Jingdong Express Series A Preferred Shares is convertible into one ordinary share.

Each Jingdong Express Series A Preferred Shares shall automatically be converted into ordinary shares (i) upon the consummation of a Qualified IPO; or (ii) in the event that the Shareholders of the Jingdong Express Series A Preferred Shares holding at least 50% of the Jingdong Express Series A Preferred Shares in issue elect to convert the Jingdong Express Series A Preferred Shares.

The convertible redeemable non-controlling interests for the years ended December 31, 2017 and 2018 are summarized below:

	Number of shares	Amount RMB
Balance as of December 31, 2017		
Issuance	1,004,000,000	15,973,564
Less: preferred shares issuance costs		(14,772)
Net income from continuing operations attributable to mezzanine classified non-controlling interests shareholders		2,492
Balance as of December 31, 2018	1,004,000,000	15,961,284

**24. Ordinary shares**

Upon inception, 1 ordinary share was issued at a par value of US\$0.00002 per share.

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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).

In June 2018, the Company issued 27,106,948 Class A ordinary shares to Google LLC, and received a consideration of US\$549,836 (RMB3,531,870) after deducting financing charges.

The ordinary shares reserved for future exercise of the RSUs and share options were 149,369,486 and 160,323,374 as of December 31, 2017 and 2018, respectively.

Table of Contents

**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**25. 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.

During the year ended December 31, 2016, the Company had repurchased 31,065,784 ADSs for US\$800,000 (RMB5,338,276) 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 (RMB2,007,100). 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.

In December 2018, 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 12 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.

During the year ended December 31, 2018, the Company had repurchased 1,396,200 ADSs for US\$29,999 (RMB205,886) on the open market, at a weighted average price of US\$21.48 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.



Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**26. Other comprehensive income/(loss)**

Changes in the composition of accumulated other comprehensive income/(loss) attributable to ordinary shareholders for the years ended December 31, 2016, 2017 and 2018 are as follows:

	Foreign currency translation adjustments RMB	Net unrealized gains/(losses) on available-for-sale securities RMB	Total RMB
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
Cumulative effect of changes in accounting principles related to financial instruments		(1,156,642)	(1,156,642)
Other comprehensive income/(loss)	2,696,784	(23,127)	2,673,657
Balances as of December 31, 2018	3,358,469	627	3,359,096

Amounts included in accumulated other comprehensive loss are recorded net of their related income tax effects.

**27. Share-based compensation**

For the years ended December 31, 2016, 2017 and 2018, total share-based compensation expenses recognized were RMB2,061,432, RMB2,780,062 and RMB3,659,989, respectively. The table below sets forth the allocation of share-based compensation expenses:

	For the year ended December 31,		
	2016 RMB	2017 RMB	2018 RMB
Cost of revenues	17,485	27,513	71,983
Fulfillment	332,383	425,706	418,895
Marketing	87,261	135,749	190,499
Technology and content	470,234	670,612	1,162,579
General and administrative	1,154,069	1,520,482	1,816,033
Total	2,061,432	2,780,062	3,659,989

**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 governed 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, 2018, the Group had reserved 112,823,383 ordinary shares available to be granted as share-based awards under the Share Incentive Plan.



Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**27. Share-based compensation (Continued)****(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.

Upon JD Digits reorganization, the employees' status of JD Digits 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 Digits and share-based awards granted by JD Digits 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, 2016, 2017 and 2018 is presented below:

	Number of RSUs	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2016	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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Granted	40,383,436	18.95
Vested	(16,137,554)	12.47
Forfeited	(11,795,682)	15.16
Unvested at December 31, 2018	118,496,092	15.58

As of December 31, 2017 and 2018, 5,719,884 and 5,798,970 outstanding RSUs were held by non-employees including employees of JD Digits, respectively.

For the years ended December 31, 2016, 2017 and 2018, total share-based compensation expenses recognized by the Group for the service-based RSUs granted were RMB1,613,204, RMB2,462,881 and RMB2,968,468, respectively.

As of December 31, 2018, there were RMB7,187,657 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 5.2 years.

The total fair value and intrinsic value of RSUs vested was US\$111,956, US\$213,155 and US\$295,632 during the years ended December 31, 2016, 2017 and 2018, respectively.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**27. Share-based compensation (Continued)****(1) Employee and non-employee awards (Continued)***b) Performance-based RSUs*

A summary of activities of the performance-based RSUs for the years ended December 31, 2016, 2017 and 2018 is presented below:

	Number of RSUs	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2016	876,364	6.33
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
Granted		
Vested	(103,788)	6.33
Forfeited	(30,152)	6.33
Unvested at December 31, 2018	79,546	6.33

For the years ended December 31, 2016, 2017 and 2018, total share-based compensation expenses recognized by the Group for the performance-based RSUs granted were RMB4,334, RMB1,157 and RMB520, respectively.

As of December 31, 2018, there were RMB61 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 0.1 years.

The total fair value and intrinsic value of RSUs vested was US\$1,524, US\$1,371 and US\$2,555 during the years ended December 31, 2016, 2017 and 2018, respectively.

*Share options*

A summary of activities of the service-based share options for the years ended December 31, 2016, 2017 and 2018 is presented below:

F-68

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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)

**27. Share-based compensation (Continued)****(1) Employee and non-employee awards (Continued)**

Share options	Number of share options	Weighted Average Exercise Price US\$	Weighted Average Remaining Contractual Term Year	Aggregate Intrinsic Value US\$
Outstanding as of January 1, 2016	27,434,622	6.10	8.1	275,040
Granted				
Exercised	(2,820,648)	3.97		
Forfeited or cancelled	(2,954,958)	7.21		
Expired				
Outstanding as of December 31, 2016	21,659,016	6.23	7.3	142,433
Granted				
Exercised	(4,116,816)	5.20		
Forfeited or cancelled	(432,092)	5.92		
Expired				
Outstanding as of December 31, 2017	17,110,108	6.49	6.2	243,327
Granted				
Exercised	(1,077,036)	5.23		
Forfeited or cancelled	(285,336)	7.68		
Expired				
Outstanding as of December 31, 2018	15,747,736	6.55	5.3	72,658
Vested and expected to vest as of December 31, 2018	15,130,922	6.46	5.3	70,845
Exercisable as of December 31, 2018	11,003,010	5.57	5.1	58,713

As of December 31, 2017 and 2018, 1,379,780 and 1,211,214 outstanding share options were held by non-employees mainly including employees of JD Digits, respectively.

There was no option granted during the years ended December 31, 2016, 2017 and 2018.

The total intrinsic value of options exercised during the years ended December 31, 2016, 2017 and 2018 was US\$23,796, US\$55,278 and US\$15,326, respectively. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the share options. Cash received from the exercises of share options of the Company

during the years ended December 31, 2016, 2017 and 2018 was US\$12,454, US\$19,942 and US\$7,382, respectively. Cash receivable from the exercises of share options of the Company as of December 31, 2017 and 2018 was US\$2,201 and US\$449, respectively.

For the years ended December 31, 2016, 2017 and 2018, total share-based compensation expenses recognized by the Group for the share options granted were RMB125,225, RMB60,739 and RMB32,558, respectively. As of December 31, 2018, there were RMB38,946 of unrecognized share-based compensation expenses related to the share options granted. The expenses are expected to be recognized over a weighted-average period of 2.9 years.

Table of Contents

**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**27. Share-based compensation (Continued)**

**(2) Founder awards**

*Share options*

In May 2015, the board of directors approved a 10-year compensation plan for the Founder, Mr. Richard Qiangdong Liu. Under this plan, Mr. Richard Qiangdong Liu will receive RMB0.001 per year in cash salary and zero cash bonus during the 10-year period. Mr. Richard Qiangdong Liu was granted an option to acquire a total of 26,000,000 Class A ordinary shares of the Company with an exercise price of US\$16.70 per share (or US\$33.40 per ADS) under the Company's Share Incentive Plan, subject to a 10-year vesting schedule with 10% of the awards vesting on each anniversary of the grant date. The Company will not grant any additional equity incentive to Mr. Liu during the 10-year period.

For the years ended December 31, 2016, 2017 and 2018, total share-based compensation expenses recognized for the Founder's share options granted were RMB318,156, RMB227,326 and RMB167,184, respectively.

As of December 31, 2018, there were RMB432,847 of unrecognized share-based compensation expenses related to the Founder's share options granted. The expenses are expected to be recognized over a weighted-average period of 6.4 years.

**(3) Share-based compensation of subsidiaries**

In 2018, JD Logistics granted share-based awards to eligible employees (the JD Logistics Plan) to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of JD Logistics. The Plan consists of share options, RSU and other types of awards. JD Logistics granted 187,844,000 share options of Jingdong Express to its employees for the year ended December 31, 2018. The weighted average grant date fair value of options granted for the year ended December 31, 2018 was US\$1.39 per share. For the year ended December 31, 2018, total share-based compensation expenses recognized by JD Logistics for the share options granted was RMB400,968. As of December 31, 2018, there were RMB1,177,382 of unrecognized share-based compensation expenses related to the share options granted. The expenses were expected to be recognized over a weighted-average period of 6.1 years.

F-70

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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)

**28. Net income/(loss) per share**

Basic and diluted net income/(loss) per share for each of the years presented are calculated as follows:

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
<b>Numerator:</b>			
Net income/(loss) from continuing operations attributable to ordinary shareholders	(2,000,444)	116,819	(2,491,633)
Net loss from discontinued operations attributable to ordinary shareholders	(1,806,346)	(269,076)	
Net loss attributable to ordinary shareholders	(3,806,790)	(152,257)	(2,491,633)
<b>Denominator:</b>			
Weighted average number of shares basic	2,804,767,889	2,844,826,014	2,877,902,678
Adjustments for dilutive options and RSUs		66,635,803	
Weighted average number of shares diluted	2,804,767,889	2,911,461,817	2,877,902,678
Basic net income/(loss) per share from continuing operations attributable to ordinary shareholders	(0.71)	0.04	(0.87)
Basic net loss per share from discontinued operations attributable to ordinary shareholders	(0.64)	(0.09)	
Basic net loss per share attributable to ordinary shareholders	(1.36)	(0.05)	(0.87)
Diluted net income/(loss) per share from continuing operations attributable to ordinary shareholders	(0.71)	0.04	(0.87)
Diluted net loss per share from discontinued operations attributable to ordinary shareholders	(0.64)	(0.09)	
Diluted net loss per share attributable to ordinary shareholders	(1.36)	(0.05)	(0.87)

Generally, basic net loss per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the respective year. The potentially dilutive ordinary shares that were not included in the calculation of diluted net loss per share in the periods presented where their inclusion would be anti-dilutive include RSUs and options to purchase ordinary shares of 117,014,016, 146,268,314 and 160,431,097 for the years ended December 31, 2016, 2017 and 2018 on a weighted average basis, respectively. For the year ended December 31, 2018, as JD Logistics was in a loss position, the effect of redemption feature of Jingdong Express Series A Preferred Shares was anti-dilutive and excluded from the calculation of diluted net loss per share.



Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**29. Related party transactions**

The table below sets forth the major related parties and their relationships with the Group as of December 31, 2018:

<b>Name of related parties</b>	<b>Relationship with the Group</b>
Tencent and its subsidiaries ( Tencent Group )	A shareholder of the Group
Shanghai Icsen and its subsidiaries ( Shanghai Icsen Group )	An investee of the Group and has been fully acquired since April 2016
Lexin and its subsidiaries ( Lexin Group )(*)	An investee of the Group
Bitauto and its subsidiaries ( Bitauto Group )	An investee of the Group
Tuniu and its subsidiaries ( Tuniu Group )	An investee of the Group
Dada and its subsidiaries ( Dada Group )	An investee of the Group
JD Digits	An entity and its subsidiaries controlled by the Founder
Yixin and its subsidiaries ( Yixin Group )	An investee of the Group

(\*) As the Group was no longer the major vendor of Lexin Group and the Group had no significant influence on it, Lexin Group was not recognized as the Group's related party in the year of 2018.

(a) The Group entered into the following transactions with the major related parties:

<b>Transactions</b>	<b>For the year ended December 31,</b>		
	<b>2016 RMB</b>	<b>2017 RMB</b>	<b>2018 RMB</b>
<b>Revenues:</b>			
Services and sales of goods to Lexin Group	667,495	543,304	
Commission service revenue from cooperation on advertising business with Tencent Group	184,241	260,572	345,186
Services to Tencent Group	52	31,505	276,728
Services and sales of goods to Dada Group	124,092	38,165	60,197
Traffic support, marketing and promotion services provided to Bitauto Group	610,722	609,055	608,844
Traffic support, marketing and promotion services provided to Tuniu Group	132,405	132,042	132,008
Traffic support, marketing and promotion services provided to Dada Group	41,409	62,195	62,129
Services and sales of goods to JD Digits	191,524	181,307	403,487

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Traffic support, marketing and promotion services provided to JD Digits	101,114	90,506	45,606
Operating expenses:			
Services and purchases from Shanghai Icson Group	20,871		
Services and purchases from Tencent Group	244,644	674,727	1,175,849
Services from Dada Group	136,515	694,207	938,627
Payment processing and other services from JD Digits	1,669,840	2,936,416	3,930,847
Other income:			
Income from non-compete agreement with Dada Group	53,186	80,447	78,771
Interest income from loans provided to JD Digits	533,180	871,014	179,556

Revenues from related parties, excluding those from the major related parties as stated above, represented approximately 0.02%, 0.01% and 0.06% of total net revenues of the Group for the years ended December 31, 2016, 2017, and 2018, respectively. Transactions with related parties included in operating expenses, excluding those with the major related parties as stated above, represented 0.03%, 0.07% and 0.14% of total operating expenses of the Group for the years ended December 31, 2016, 2017, and 2018, respectively.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****29. Related party transactions (Continued)**

(b) The Group had the following balances with the major related parties:

	As of December 31,	
	2017 RMB	2018 RMB
Due from Tencent Group	595,105	862,781
Due from JD Digits		
Loans provided to JD Digits(**)	11,747,066	4,427,907
Other receivables from/(payables to) JD Digits	328,969	(525,669)
Total	12,671,140	4,765,019
Due to Lexin Group	(1,367)	
Due to Tuniu Group	(5,451)	(585)
Due to Dada Group	(7,378)	(118,135)
Total	(14,196)	(118,720)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Bitauto Group	(1,379,965)	(771,121)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Tuniu Group	(346,568)	(214,560)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Dada Group	(331,354)	(269,225)
Total	(2,057,887)	(1,254,906)
Other liabilities in relation to non-compete obligation to Dada Group	(415,082)	(354,236)
Total	(415,082)	(354,236)

(\*\*) In relation to the loans provided to JD Digits, the Group charged JD Digits based on fair market interest rate, and cash flows resulted from the loans were presented within investing activities in the Consolidated Statements of Cash Flows.

As of December 31, 2017 and 2018, the Group recorded amount due from related parties other than the major related parties as stated above of RMB21,621 and RMB267,446, which represented approximately 0.12% and 1.79% of the Group's total accounts receivable, net and prepayments and other current assets, respectively. As of December 31, 2017 and 2018, the Group recorded amount due to related parties other than the major related parties and deferred revenues in relation to traffic support, marketing and promotion services to be provided to related parties as stated above of RMB69,329 and RMB168,621, which represented approximately 0.07% and 0.15% of the Group's total accounts payable, advance from customers, accrued expenses and other current liabilities, deferred revenues and other non-current liabilities,

respectively.

F-73

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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)**

**29. Related party transactions (Continued)**

(c) Other information related to related party transactions:

On October 27, 2017, to provide a temporary bridging finance to Yixin Group, the Group entered into an entrusted loan agreement with Yixin Group and an independent third-party PRC commercial bank whereby the Group lent a total of RMB1,000,000 to Yixin Group. The bridge loan was on normal commercial terms and Yixin Group repaid the loan and associated interest before December 31, 2017.

Based on a series of agreements signed on January 1, 2016, JD Digits will perform the credit risk assessment and other related services in relation to consumer financing business and obtain the rewards from such services, thus JD Digits will purchase the consumer financing receivables past due over certain agreed period of time from the Group at carrying values without recourse and also agree to bear other cost in direct relation to the consumer financing business to absorb the risks. In connection with the agreements, the total amount of over-due consumer financing receivable related to the consumer financing business transferred from the Group to JD Digits were RMB423,356, RMB497,239 and RMB242,473 for the years ended December 31, 2016, 2017 and 2018, respectively. In connection with the consumer financing business, JD Digits charged the Group RMB553,612, RMB793,218, and RMB1,055,239, for the years ended December 31, 2016, 2017, and 2018 for payment processing services provided to the Group, which are included in payment processing and other services from JD Digits stated above.

In 2017 and 2018, the Group also transferred certain financial assets to JD Digits with or without recourse at fair value. The accounts receivables transferred with recourse were RMB167,897 and RMB1,387,774 for the years ended December 31, 2017 and 2018, which were not derecognized, while the accounts receivables transferred without recourse were RMB1,583,968 and RMB9,854,493, and were derecognized.

Mr. Richard Qiangdong Liu, the Group's Chairman of the Board 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 the Group, and the Group has 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 all periods presented.

The terms of the agreements with the related parties are determined based on contracted prices negotiated with other parties in normal commercial terms.





Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****30. Segment reporting**

The Group has determined that it operates in two operating segments: (1) JD Retail, (2) New Businesses. JD Retail represents core e-commerce business. New Businesses include O2O (deconsolidated since its merger with Dada Nexus on April 26, 2016), logistics services provided to third parties, technology initiatives and overseas business. JD Digits was included in New Businesses before June 30, 2017, which was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Digits (Note 6).

The Group derives the results of the segments directly from its internal management reporting system. The CODM measures the performance of each segment based on metrics of revenue and earnings from operations and uses these results to evaluate the performance of, and to allocate resources to, each of the segments. The Group currently does not allocate assets, share-based compensation expenses and certain operating expenses to its segments, as the CODM does not use such information to allocate resources to or evaluate the performance of the operating segments. As most of the Group's long-lived assets are located in the PRC and most of the Group's revenues are derived from the PRC, no geographical information is presented.

The table below provides a summary of the Group's operating segment results for the years ended December 31, 2016, 2017 and 2018.

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
<b>Net revenues:</b>			
JD Retail	254,396,326	356,020,374	447,502,173
New Businesses	3,297,434	6,021,508	14,665,281
Inter-segment(*)	(223,300)	(546,667)	(1,103,943)
<b>Total segment net revenues</b>	<b>257,470,460</b>	<b>361,495,215</b>	<b>461,063,511</b>
Unallocated items(**)	819,487	836,539	956,248
<b>Total consolidated net revenues</b>	<b>258,289,947</b>	<b>362,331,754</b>	<b>462,019,759</b>
<b>Operating income/(loss):</b>			
JD Retail	2,269,500	4,956,264	7,049,222
New Businesses	(670,430)	(2,070,668)	(5,136,657)
<b>Total segment operating income</b>	<b>1,599,070</b>	<b>2,885,596</b>	<b>1,912,565</b>
Unallocated items(**)	(2,850,723)	(3,721,072)	(4,531,696)
<b>Total consolidated operating loss</b>	<b>(1,251,653)</b>	<b>(835,476)</b>	<b>(2,619,131)</b>
<b>Total other income/(expense)</b>	<b>(630,248)</b>	<b>956,436</b>	<b>245,453</b>
<b>Income/(loss) before tax</b>	<b>(1,881,901)</b>	<b>120,960</b>	<b>(2,373,678)</b>

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(\*) The inter-segment eliminations mainly consisted of services provided by JD Retail to overseas business, and services provided by JD Logistics to the vendors of JD Retail, which the Group 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.

F-75

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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)**

**31. Employee benefit**

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to the employees. Chinese labor regulations require that the PRC subsidiaries, consolidated VIEs and VIEs subsidiaries of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions made. The total amounts for such employee benefit expenses, which were expensed as incurred, were approximately RMB2,575,150, RMB3,546,241 and RMB5,290,925 for the years ended December 31, 2016, 2017 and 2018, respectively.

**32. Lines of credit and loan facilities**

As of December 31, 2018, the Group had agreements with commercial banks for unsecured revolving lines of credit, and increased its revolving lines of credit to RMB60,850,936. The Group was in compliance with the financial covenants, if any, under those lines of credit as of December 31, 2018.

As of December 31, 2018, under the lines of credit, the Group had RMB10,000 used for the liquidity loans, RMB17,742,759 reserved for the issuance of bank acceptance, RMB1,229,346 reserved for the bank guarantee and RMB5,331 used for other facilities.

In December 2017, the Group entered into a 5-year US\$1,000,000 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 was intended for general corporate purposes. As of December 31, 2018, the Group had an undrawn balance of US\$550,000 under the credit facilities agreement, with a commitment fee of 0.2% per annum on the undrawn portion, which will be expired one month prior to the final maturity date, which is sixty months after the date of this credit facilities agreement.

**33. Commitments and contingencies**

*Operating lease commitments for offices and fulfillment infrastructures*

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The Group leases office, fulfillment infrastructures under non-cancelable operating lease agreements. The rental expenses were RMB2,269,259, RMB3,086,709 and RMB4,571,036 for the years ended December 31, 2016, 2017 and 2018, respectively, and were charged to Consolidated Statements of Operations and Comprehensive Income/(Loss) when incurred.

Future minimum lease payments under these non-cancelable operating lease agreements with initial terms of one year or more consist of the following:

	As of December 31, 2018
	RMB
2019	3,596,926
2020	2,553,344
2021	1,452,812
2022	907,116
2023	459,342
2024 and Thereafter	1,044,818
	10,014,358

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****33. Commitments and contingencies (Continued)***Commitments for internet data center (IDC) service fee*

The Group entered into non-cancelable internet data center (IDC) service agreements. The related expenses were RMB558,094, RMB805,656 and RMB1,498,935 for the years ended December 31, 2016, 2017 and 2018, respectively, and were charged to Consolidated Statements of Operations and Comprehensive Income/(Loss) when incurred.

Future minimum payments under these non-cancelable agreements with initial terms of one year or more consist of the following:

	<b>As of December 31, 2018</b>
	<b>RMB</b>
2019	656,427
2020	76,015
2021	10,487
2022	7,636
2023	1,783
2024 and Thereafter	3,267
	<b>755,615</b>

*Capital commitments*

The Group's capital commitments primarily relate to commitments on construction and purchase of office building and warehouses. Total capital commitments contracted but not yet reflected in the consolidated financial statements amounted to RMB10,041,618 as of December 31, 2018.

All of these capital commitments will be fulfilled in the following years according to the construction progress.

*Long-term debt obligations*

The Group's long-term debt obligations include unsecured senior notes and long-term borrowings. The amounts exclude the corresponding interest payable. The expected repayment schedule of the unsecured senior notes and long-term

borrowings have been disclosed in Note 18 and Note 19, respectively.

*Legal proceedings*

From time to time, the Group is subject to legal proceedings and claims in the ordinary course of business. Third parties assert patent infringement claims against the Group from time to time in the form of letters, lawsuits and other forms of communication. In addition, from time to time, the Group receives notification from customers claiming that they are entitled to indemnification or other obligations from the Group related to infringement claims made against them by third parties. Litigation, even if the Group is ultimately successful, can be costly and divert management's attention away from the day-to-day operations of the Group.

The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group reviews the need for any such liability on a regular basis. The Group has not recorded any material liabilities in this regard as of December 31, 2016, 2017 and 2018.

**34. Restricted net assets**

The Group's ability to pay dividends is primarily dependent on the Group receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Group's subsidiaries, consolidated VIEs and VIEs' subsidiaries incorporated in PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Group's subsidiaries.

Table of Contents

**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**34. Restricted net assets (Continued)**

In accordance with the PRC Regulations on Enterprises with Foreign Investment, a foreign invested enterprise established in the PRC is required to provide certain statutory reserve funds, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profits as reported in the enterprise's PRC statutory financial statements. A foreign invested enterprise is required to allocate at least 10% of its annual after-tax profits to the general reserve fund until such reserve fund has reached 50% of its registered capital based on the enterprise's PRC statutory financial statements. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserved funds can only be used for specific purposes and are not distributable as cash dividends.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide statutory surplus fund at least 10% of its annual after-tax profits until such statutory surplus fund has reached 50% of its registered capital based on the enterprise's PRC statutory financial statements. A domestic enterprise is also required to provide discretionary surplus fund, at the discretion of the board of directors, from the net profits reported in the enterprise's PRC statutory financial statements. The aforementioned reserve funds can only be used for specific purposes and are not distributable as cash dividends.

As a result of these PRC laws and regulations that require annual appropriations of 10% of net after-tax profits to be set aside prior to payment of dividends as general reserve fund or statutory surplus fund, the Group's PRC subsidiaries, consolidated VIEs and VIEs' subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company.

Amounts restricted include paid-in capital and statutory reserve funds, as determined pursuant to PRC GAAP, totaling approximately RMB25,856,343 as of December 31, 2018; therefore in accordance with Rules 4-08 (e) (3) of Regulation S-X, the condensed parent company only financial statements as of December 31, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018 are disclosed in Note 36.

**35. Subsequent events**

In 2018, the Group established a property management group ( JDPM ) to manage the expanding logistics facilities and other real estate properties. JDPM develops and manages these properties, and the Group may seek opportunistic dispositions to optimize the Company's capital structure. In February 2019, JDPM established JD Logistics Properties Core Fund, L.P. ( JD LPC Fund ) together with GIC, Singapore's sovereign wealth fund, for a total committed capital of over RMB4.8 billion. The Group serves as the general partner and has committed 20% of the total capital of JD LPC Fund, and GIC has committed the remaining 80%. The investment committee of JD LPC Fund, which comprise the representatives from the Group and GIC, will oversee the key operations of JD LPC Fund. Furthermore, on February 27, 2019, the Group entered into a definitive agreement with JD LPC Fund, pursuant to which the Group will dispose of certain of its modern logistics facilities to JD LPC Fund, valuing at RMB10.9 billion, to unlock meaningful value from its balance sheet and recycle capital for its future growth initiatives. JD LPC Fund will use leverage to finance the purchase, and the closing of the purchase is subject to certain conditions, including the availability of debt financing. Subsequent to the disposition, the Group will lease back these facilities for operational purposes. JDPM will serve as the asset manager managing JD LPC Fund's assets. As of the report date, the Group has received part of the total consideration of RMB2.3 billion from JD LPC Fund. It is expected that the disposition of the majority of these logistics facilities will be completed in 2019. The Group is evaluating the accounting impact of this transaction.



Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**36. Parent company only condensed financial information**

The Company performed a test on the restricted net assets of consolidated subsidiaries, VIEs and VIEs subsidiaries in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), General Notes to Financial Statements and concluded that it was applicable for the Company to disclose the financial information for the parent company only.

The subsidiaries did not pay any dividend to the Company for the years presented. Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures contain supplemental information relating to the operations of the Company, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company.

As of December 31, 2018, the Company did not have significant capital commitments and other significant commitments, or guarantees, except for those which have been separately disclosed in the consolidated financial statements.

**Condensed Balance Sheets**

	2017 RMB	As of December 31, RMB	2018 US\$ Note 2(g)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	8,964,809	2,196,796	319,511
Short term investment		755	110
Prepayments and other current assets	63,853	121,822	17,718
Amount due from related parties	715,671	1,555,288	226,207
<b>Total current assets</b>	<b>9,744,333</b>	<b>3,874,661</b>	<b>563,546</b>
<b>Non-current assets:</b>			
Investment in equity investees	7,514		
Investments in subsidiaries, consolidated VIEs and VIEs subsidiaries	45,675,625	64,127,171	9,326,910
Investment securities	35,893	12,978	1,888
Intangible assets, net	3,092,549	1,569,483	228,272
Other non-current assets		121,453	17,664
<b>Total non-current assets</b>	<b>48,811,581</b>	<b>65,831,085</b>	<b>9,574,734</b>
<b>Total assets</b>	<b>58,555,914</b>	<b>69,705,746</b>	<b>10,138,280</b>
<b>LIABILITIES</b>			

**Current liabilities:**

Accrued expenses and other liabilities	67,743	60,190	8,755
<b>Total current liabilities</b>	<b>67,743</b>	<b>60,190</b>	<b>8,755</b>

**Non-current liabilities:**

Long-term borrowings		3,088,440	449,195
Unsecured senior notes	6,447,357	6,786,143	987,004
<b>Total non-current liabilities</b>	<b>6,447,357</b>	<b>9,874,583</b>	<b>1,436,199</b>
<b>Total liabilities</b>	<b>6,515,100</b>	<b>9,934,773</b>	<b>1,444,954</b>

**SHAREHOLDERS EQUITY:**

**Ordinary shares** (US\$0.00002 par value; 100,000,000,000 shares authorized; 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; 2,507,473,330 Class A ordinary shares issued and 2,447,926,638 outstanding, 458,342,517 Class B ordinary shares issued and 446,369,717 outstanding as of December 31, 2018)

	377	380	55
Additional paid-in capital	76,254,607	82,832,895	12,047,545
Statutory reserves	635,966	1,400,412	203,681
Treasury stock	(4,457,608)	(3,783,729)	(550,321)
Accumulated deficit	(22,234,609)	(24,038,081)	(3,496,194)
Accumulated other comprehensive income	1,842,081	3,359,096	488,560
<b>Total shareholders equity</b>	<b>52,040,814</b>	<b>59,770,973</b>	<b>8,693,326</b>
<b>Total liabilities and shareholders equity</b>	<b>58,555,914</b>	<b>69,705,746</b>	<b>10,138,280</b>

Table of Contents

## JD.com, Inc.

## Notes to the Consolidated Financial Statements

(All amounts in thousands, except for share and per share data)

**36. Parent company only condensed financial information (Continued)****Condensed Statements of Operations and Comprehensive Income/(Loss)**

	For the year ended December 31,			
	2016	2017	2018	US\$
	RMB	RMB	RMB	Note 2(g)
<b>Operating expenses</b>				
Marketing	(1,218,760)	(1,215,222)	(1,218,920)	(177,285)
General and administrative	(577,350)	(556,534)	(495,835)	(72,116)
<b>Loss from operations</b>	(1,796,110)	(1,771,756)	(1,714,755)	(249,401)
Share of income/(loss) of subsidiaries, consolidated				
VIEs and VIEs subsidiaries	(1,948,761)	1,717,151	(653,408)	(95,034)
Interest income	55,373	66,848	220,186	32,025
Interest expense	(164,910)	(260,756)	(315,683)	(45,914)
Others, net	47,618	96,256	(27,973)	(4,067)
<b>Net loss</b>	(3,806,790)	(152,257)	(2,491,633)	(362,391)
<b>Net loss attributable to ordinary shareholders</b>	(3,806,790)	(152,257)	(2,491,633)	(362,391)
<b>Net loss</b>	(3,806,790)	(152,257)	(2,491,633)	(362,391)
Other comprehensive income:				
Foreign currency translation adjustments	943,616	(822,052)	2,696,784	392,231
Net change in unrealized gains/(losses) on available-for-sale securities:				
Unrealized gains/(losses), nil of tax	(78,792)	1,473,014	237,585	34,555
Reclassification adjustment for (gains)/losses recorded in net income, nil of tax	123,743	(352,274)	(260,712)	(37,919)
Net unrealized gains/(losses) on available-for-sale securities	44,951	1,120,740	(23,127)	(3,364)
Total other comprehensive income	988,567	298,688	2,673,657	388,867
<b>Total comprehensive income/(loss)</b>	(2,818,223)	146,431	182,024	26,476

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**36. Parent company only condensed financial information (Continued)****Condensed Statements of Cash Flows**

	For the year ended December 31,			
	2016	2017	2018	US\$
	RMB	RMB	RMB	Note 2(g)
Net cash used in operating activities	(33,756)	(105,219)	(233,195)	(33,917)
Cash flows from investing activities:				
Purchases of investment securities			(755)	(110)
Cash received from disposal of investment securities	16,440		7,893	1,148
Receipts from/(prepayments and investments in) subsidiaries, consolidated VIEs and VIEs subsidiaries	(3,364,402)	2,359,092	(12,425,233)	(1,807,175)
Prepayments and investments in equity investees		(7,646)		
Loans provided to JD Digits	(369,570)	(31,161)	(839,617)	(122,117)
Net cash provided by/(used in) investing activities	(3,717,532)	2,320,285	(13,257,712)	(1,928,254)
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares, net			3,531,870	513,689
Repurchase of ordinary shares	(5,338,274)		(205,886)	(29,945)
Purchase of capped call options	(2,007,100)			
Proceeds from long-term borrowings			2,890,575	420,417
Proceeds from settlement of capped call options	1,463,218	737,501		
Proceeds from issuance of ordinary shares pursuant to stock plans	82,396	135,745	48,555	7,062
Proceeds from unsecured senior notes, net of discount and debt issuance costs	6,355,969			
Upfront fee payment for long-term borrowings			(81,581)	(11,865)
Net cash provided by financing activities	556,209	873,246	6,183,533	899,358
Effect of exchange rate changes on cash, cash equivalents, and restricted cash				
	369,104	(240,077)	539,361	78,447
Net increase/(decrease) in cash, cash equivalents, and restricted cash	(2,825,975)	2,848,235	(6,768,013)	(984,366)
Cash, cash equivalents, and restricted cash at beginning of year	8,942,549	6,116,574	8,964,809	1,303,877
Cash, cash equivalents, and restricted cash at end of year	6,116,574	8,964,809	2,196,796	319,511

*Basis of presentation*

The Company's accounting policies are the same as the Group's accounting policies with the exception of the accounting for the investments in subsidiaries, consolidated VIEs and VIEs' subsidiaries.

For the Company only condensed financial information, the Company records its investments in subsidiaries, consolidated VIEs and VIEs' subsidiaries under the equity method of accounting as prescribed in ASC 323, Investments-Equity Method and Joint Ventures. Such investments are presented in the Condensed Balance Sheets as Investments in subsidiaries, consolidated VIEs and VIEs' subsidiaries and shares in the subsidiaries, consolidated VIEs and VIEs' subsidiaries. Financial results are presented as Share of income/(loss) of subsidiaries, consolidated VIEs and VIEs' subsidiaries in the Condensed Statements of Operations and Comprehensive Income/(Loss). The parent company only condensed financial information should be read in conjunction with the Group's consolidated financial statements.