JD.COM

JD.com, Inc.

(A company controlled through weighted voting rights and
incorporated in the Cayman Islands with limited liability)

Stock Code: 9618

Global Offering

JD.COM

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

BofA SECURITIES UBS CITIC SECURITIES

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

BOC INTERNATIONAL 建银国际 CCB International China Renaissance 华兴资本 Jefferies

Joint Bookrunners and Joint Lead Managers

農銀國際 ABC INTERNATIONAL 交銀國際 BOCOM International 招银国际 CMB INTERNATIONAL 國泰君安國際 GUOTAI JUNAN INTERNATIONAL 海通國際 HAITONG 华泰国际 HUATAI INTERNATIONAL ICBC 工银国际 MIZUHO NOMURA

IMPORTANT

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

京东

JD.com, Inc.
京東集團股份有限公司

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**133,000,000 Offer Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**6,650,000 Offer Shares (subject to adjustment)**
Number of International Offer Shares	:	**126,350,000 Offer Shares (subject to adjustment and the Over-allotment Option)**
Maximum Public Offer Price	:	**HK$236.00 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Par Value	:	**US$0.00002 per Share**
Stock Code	:	**9618**

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

A copy of this document, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available for Inspection—Documents Delivered to the Registrar of Companies" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any of the other documents referred to above.

We expect to determine the pricing of the Offer Shares by agreement with the Joint Representatives (for themselves and on behalf of the Underwriters) on or about Thursday, June 11, 2020 and, in any event, not later than Wednesday, June 17, 2020. The Public Offer Price will be not more than HK$236.00 per Offer Share, unless otherwise announced. If, for any reason, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Wednesday, June 17, 2020, the Global Offering will not proceed and will lapse.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on Nasdaq on the last trading day on or before the Price Determination Date (on a per Class A ordinary share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process. If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

The Joint Representatives (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this document.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this document, including the risk factors set out in the section headed "Risk Factors" in this document. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) if certain events occur prior to 8:00 a.m. on the Listing Date. See "Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination" in this document. It is important that you refer to that section for further details.

Our ADSs, each of which represents two Class A ordinary shares, are listed for trading on Nasdaq under the symbol "JD". The last reported sale price of the ADSs on Nasdaq on June 2, 2020 was US$55.62 per ADS. In connection with the Global Offering, we have filed a registration statement on Form F-3ASR and a preliminary prospectus supplement and plan to file a final prospectus supplement with the SEC to register the sale of Shares under the U.S. Securities Act.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS DOCUMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Company is controlled through weighted voting rights. Prospective investors should be aware of the potential risks of investing in a company with a WVR structure, in particular that the WVR beneficiary, whose interests may not necessarily be aligned with those of our Shareholders as a whole, will be in a position to exert significant influence over the outcome of Shareholders' resolutions, irrespective of how other Shareholders vote. For further information about the risks associated with our WVR structure, please refer to the section headed "Risk Factors—Risks Related to Our Corporate Structure." Prospective investors should make the decision to invest in the Company only after due and careful consideration.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at http://ir.jd.com. If you require a printed copy of this document, you may download and print from the website addresses above.

June 8, 2020

IMPORTANT NOTICE TO INVESTORS:
FULLY ELECTRONIC APPLICATION PROCESS

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This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at http://ir.jd.com. If you require a printed copy of this document, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

(1) apply online through the **White Form eIPO** service at **www.eipo.com.hk**;

(2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

 (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

 (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, both at +852 2862 8646 on the following dates:

Monday, June 8, 2020 — 9:00 a.m. to 9:00 p.m.
Tuesday, June 9, 2020 — 9:00 a.m. to 9:00 p.m.
Wednesday, June 10, 2020 — 9:00 a.m. to 9:00 p.m.
Thursday, June 11, 2020 — 9:00 a.m. to 12:00 noon

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this document are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

Please refer to the section headed "How to Apply for Hong Kong Offer Shares" in this document for further details of the procedures through which you can apply for the Hong Kong Offer Shares electronically.

Your application must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK$		HK$		HK$		HK$
50	11,918.91	900	214,540.35	9,000	2,145,403.55	400,000	95,351,268.80
100	23,837.82	1,000	238,378.17	10,000	2,383,781.72	500,000	119,189,086.00
150	35,756.73	1,500	357,567.26	20,000	4,767,563.44	600,000	143,026,903.20
200	47,675.63	2,000	476,756.34	30,000	7,151,345.16	700,000	166,864,720.40
250	59,594.54	2,500	595,945.43	40,000	9,535,126.88	800,000	190,702,537.60
300	71,513.45	3,000	715,134.52	50,000	11,918,908.60	900,000	214,540,354.80
350	83,432.36	3,500	834,323.60	60,000	14,302,690.32	1,000,000	238,378,172.00
400	95,351.27	4,000	953,512.69	70,000	16,686,472.04	1,500,000	357,567,258.00
450	107,270.18	4,500	1,072,701.77	80,000	19,070,253.76	2,000,000	476,756,344.00
500	119,189.09	5,000	1,191,890.86	90,000	21,454,035.48	2,500,000	595,945,430.00
600	143,026.90	6,000	1,430,269.03	100,000	23,837,817.20	3,000,000	715,134,516.00
700	166,864.72	7,000	1,668,647.20	200,000	47,675,634.40	3,325,000[(1)]	792,607,421.90
800	190,702.54	8,000	1,907,025.38	300,000	71,513,451.60		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

If there is any change in the following expected timetable, the Company will issue an announcement on the respective websites of the Company at **http://ir.jd.com**[6] and the Hong Kong Stock Exchange at **www.hkexnews.hk**.

Hong Kong Public Offering commences	9:00 a.m. on Monday, June 8, 2020
Latest time to complete electronic applications under the **White Form eIPO** service through the designated website at **www.eipo.com.hk**[2]	11:30 a.m. on Thursday, June 11, 2020
Application lists open[3]	11:45 a.m. on Thursday, June 11, 2020
Latest time for (a) completing payment for **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (b) giving **electronic application instructions** to HKSCC[4]	12:00 noon on Thursday, June 11, 2020

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close[3]	12:00 noon on Thursday, June 11, 2020
Expected Price Determination Date[5]	Thursday, June 11, 2020
Announcement of the Public Offer Price and the International Offer Price on our website at **http://ir.jd.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** on or around	Thursday, June 11, 2020
Announcement of the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on our website at **http://ir.jd.com**[6] and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** on or before	Wednesday, June 17, 2020
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable) to be available through a variety of channels, including:	
• in the announcement to be posted on our website at **http://ir.jd.com**[6] and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**, respectively.	Wednesday, June 17, 2020
• from the designated results of allocations website at www.iporesults.com.hk (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function	Wednesday, June 17, 2020
• from the allocation results telephone enquiry by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from	Wednesday, June 17, 2020 to Friday, June 19, 2020 and Monday, June 22, 2020
Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before[7][9]	Wednesday, June 17, 2020
White Form e-Refund payment instructions/refund checks in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be dispatched on or before[8][9]	Wednesday, June 17, 2020
Dealings in the Class A ordinary shares on the Hong Kong Stock Exchange expected to commence on	9:00 a.m. on Thursday, June 18, 2020

Notes:

(1) All times and dates refer to Hong Kong local times and dates unless otherwise stated.

(2) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application money) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is/are a "black" rainstorm warning signal, a tropical cyclone warning signal number 8 or above and/or Extreme Conditions is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, June 11, 2020, the application lists will not open on that day. For further information please refer to "How to Apply for Hong Kong Offer Shares—10. Effect of Bad Weather on the Opening of the Application Lists" in this document.

(4) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to "How to Apply for Hong Kong Offer Shares—6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this document.

(5) The Price Determination Date is expected to be on or around Thursday, June 11, 2020, and in any event will not be later than Wednesday, June 17, 2020. If, for any reason, the Offer Price is not agreed among the Joint Representatives (for themselves and on behalf of the Underwriters) and us on or before Wednesday, June 17, 2020, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

(6) None of the website or any of the information contained on the website forms part of this document.

(7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting—Underwriting Agreement and Expenses—Hong Kong Public Offering—Grounds for Termination" in this document has not been exercised. Investors who trade Class A ordinary shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

(8) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund check. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund check.

(9) Applicants who have applied on **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares may collect any refund checks (where applicable) and/or share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, June 17, 2020 or such other date as notified by us as the date of dispatch/collection of share certificates/ e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through CCASS EIPO service should refer to the section headed "How to Apply for Hong Kong Offer Shares—G. Dispatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks—Personal Collection—If you apply through CCASS EIPO service" in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk.

Share certificates and/or refund checks for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected share certificates and/or refund checks will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for Hong Kong Offer Shares—F. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares—G. Dispatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks" in this prospectus.

For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this document, respectively.

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IMPORTANT NOTICE TO INVESTORS

This document is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this document pursuant to the Hong Kong Public Offering. This document may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this document. Any information or representation not made in this document must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Representatives, Joint Global Coordinators, Joint Bookrunners, and Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

CONTENTS

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full prospectus. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed "Risk Factors" of this document. You should read that section carefully before you decide to invest in the Offer Shares.

OUR MISSION

Powered by Technology for a More Productive and Sustainable World.

OVERVIEW

We are a leading technology driven e-commerce company transforming to become a leading supply chain-based technology and service provider. We generated total net revenues of RMB362.3 billion, RMB462.0 billion and RMB576.9 billion (US$82.9 billion) in 2017, 2018 and 2019, respectively. We incurred net losses from continuing operations of RMB19 million and RMB2,801 million in 2017 and 2018, respectively, and generated net income from continuing operations of RMB11,890 million (US$1,708 million) in 2019.

Overview of Our E-commerce Business

We are the largest retail company in China by total revenues in 2019, according to Fortune Global 500. We believe our scale and market leadership are built upon our competitive edge in customer experience and operational efficiency, as well as our commitment to strategically invest in technology and logistics infrastructure for the long term.

Providing superior customer experience is our top priority. Our e-commerce business offers customers a wide selection of authentic products at competitive prices. We have built and operate our own nationwide fulfillment infrastructure that supports our e-commerce business. Our speedy, efficient and reliable fulfillment services ensure a high degree of customer satisfaction. We offer an enjoyable online shopping experience mainly through our content-rich, user-friendly and highly personalized mobile apps and website www.jd.com. We also provide comprehensive customer services and convenient payment options. Owing to the superior customer experience we provide, our loyal customer base has expanded rapidly. We had 292.5 million, 305.3 million and 362.0 million annual active customer accounts in 2017, 2018 and 2019, respectively.

We operate online retail and marketplace e-commerce businesses. In our online retail business, we purchase products from suppliers and sell them directly to our customers. We offer a wide range of product categories through our online retail business, including electronics products, home appliances and a large variety of other general merchandise categories. We have established strong relationships with our suppliers as our online retail business grows rapidly over time. As of December 31, 2019, we sourced products from over 24,000 suppliers.

Timely and reliable fulfillment is critical to our success. We believe we have the largest fulfillment infrastructure of any e-commerce company in China. Leveraging this nationwide fulfillment capability, we deliver a majority of the orders to customers by ourselves. In 2019, we further improved our efficiency in more cities, especially the less developed areas, as we continued to expand our same day and next day delivery service in these areas. Our fulfillment services have been proven to be highly reliable in response to customer needs, particularly in the event of business disruptions, such as during the recent COVID-19 outbreak.

We launched our online marketplace in October 2010, and have since then been continually adding third-party merchants and introducing new products and services, including premium international brands, to our customers. As of December 31, 2019, our online marketplace had over 270,000 third-party merchants, who are held to high standards for transacting with our customers. We aim to offer our customers with consistently high-quality online shopping experience regardless they purchase from us or third-party merchants. To this end, we require all third-party merchants to meet our strict standards for product authenticity and service reliability, and closely monitor their performance and activities on our online marketplace.

We provide a variety of digital marketing services to marketers on our e-commerce platform, including suppliers to our online retail business, third-party merchants on our online marketplace and other partners. Powered by AI technology, our digital marketing platform provides our marketing customers with comprehensive digital branding and performance-based marketing solutions and various effective measurement tools, which help them reach targeted audiences, attract and retain customers and improve their returns. Our digital marketing platform also features automatic marketing operation including online marketing message creation, targeting, bidding, deployment and budget allocation, which enables marketers to manage their digital marketing strategy and spending in a convenient and efficient manner.

We are exploring a variety of omni-channel initiatives to meet our customers' ever-growing demand. We believe we are well-positioned to empower traditional offline retailers by capitalizing on our strong online presence, industry know-how and omni-channel technology and systems. We collaborate with Walmart on e-commerce by launching Walmart and Sam's Club Flagship Stores on our platform and providing fulfillment solutions to them. Through our strategic partnership with Dada Nexus Limited, or Dada Group, a leading platform for local on-demand retail and delivery in China, Dada Group has been cooperating with JD Logistics to provide our customers with on-demand and last-mile delivery services of a wide selection of grocery and other fresh products through JD-Daojia. We are also exploring in the offline retail market through 7FRESH, our offline fresh food markets, experimenting on the omni-channel model.

Our proprietary and scalable technology platform enhances user experience, improves operating efficiency and supports the growth in our e-commerce business. Leveraging machine-learning technology and massive data sets amassed from online purchase behaviors, we curate personalized product recommendations and push targeted promotions. We utilize AI technology to refine our merchandise sourcing strategy, allowing us to efficiently manage our inventory and control cost. With consumer insights generated from big data analytics, we provide tailor-made products through customer-to-manufacturer production, which increase sales and enhance customer satisfaction.

Overview of Our Supply Chain-based Technologies and Services

Today, we are transforming to become a leading supply chain-based technology and service provider. We take a holistic view on the supply chain covering from upstream manufacturing and procurement, logistics, distribution and retail to end customers.

With our leading position in the retail industry, we have established strong relationships with numerous suppliers, brands and partners. We leverage such relationships and our retail technology capability to provide them with a variety of service solutions. Over the past decade, we have also built a highly scalable and reliable logistics infrastructure and technology platform for our retail business.

We are opening up logistics infrastructure and technology platform to third parties with comprehensive logistic services and technology solutions.

Technology is crucial to our achievements today and continued success in the future. It enables better customer experience, more customer cost savings and higher efficiency, while it also serves as a foundation to export our capabilities to enhance productivity and innovation across a multitude of industries in China.

Logistics Services

We made our strategic decision in 2007 to invest in and build our own nationwide fulfillment infrastructure. As of December 31, 2019, our nationwide fulfillment infrastructure covered almost all counties and districts across China, with a network of over 700 warehouses with an aggregate gross floor area of approximately 16.9 million square meters in 89 cities, including warehouse space managed under the JD Logistics Open Warehouse Platform. In addition, we had a team of over 132,200 delivery personnel and 43,700 warehouse staff as of December 31, 2019. Our fulfillment infrastructure is powered by proprietary smart logistics and automation technologies, such as intelligent hardware, robotics, voice recognition, computer vision and deep learning, which allow us to continuously improve our operational efficiency. With full control of the logistics network and associated data flow, we are able to optimize operations and modularize processes so as to ensure scalability and efficiency.

Over the past decade, we have consistently provided superior fulfillment services to our online retail customers, which has been well supported by our self-operated integrated logistics infrastructure and technology platform. We also open up our leading logistics infrastructure to our third-party merchants and partners beyond our e-commerce business. We are expanding our logistics services to partners across various industries, as well as individual users. We provide services relating to almost all aspects of logistics operation, including warehousing management, storage, long-haul transportation, express and on-demand delivery and cold-chain and cross-border services, among others. We offer integrated supply chain management solutions to customers in various vertical markets. We also provide technology solutions for logistics operations to enable customers to transparently and effectively monitor, manage and optimize their logistic workflows.

Our Retail Technology Services and Other Technology Initiatives

Capitalizing on our retail data, infrastructure and technology, we commercialize our retail capability into services we offer to brands and partners in the retail industry. Through such services, we believe we can create, together with our partners, a more advanced and comprehensive retail ecosystem to reach and serve more consumers, wherever and whenever they shop.

We operate a technology service platform Kepler which provides comprehensive services for our partners to conduct online retail leveraging traffic on third-party channels. For example, we help brands set up Mini Programs on Tencent's Weixin and provide one-stop services including mini-program creation, product selection and pricing, digital marketing, inventory management, fulfillment and customer services. Such services are especially valuable for brands with less sophisticated online retail experience but wish to boost sales through emerging mobile internet channels. In addition, powered by predictive analytics utilizing AI and big data, we also offer services to traditional brick-and-mortar retailers to optimize offline stores' operation by recommending product selection based on local consumers' preferences while managing stocks at optimum inventory level.

We have developed robust supply-chain based technology in three key areas, namely AI, Big data analytics and Cloud computing. We have world-class scientists and a large team of AI engineers. Our technology achievements have been well recognized globally and we strive to deliver best-in-class services to our customers and become the most trusted technology service provider in the industry. For example, we built a smart supply-chain platform NeuHub in April 2018, which consists of cloud-based AI infrastructure. It also includes application-level products supporting many use cases that are applicable to our business and ecosystem, as well as customers across industries.

OUR COMPETITIVE STRENGTHS

"Customer-first" is our most important business philosophy. We believe our superior customer experience, cost saving and operational efficiency are the core of our strengths, which differentiate us from competitors in customers' minds and have helped us establish our market leadership over the years. These core strengths are fundamentally supported by our technology and team, and include:

- China's largest retailer with substantial economies of scale;
- Superior customer experience;
- Relentless focus on operational efficiency;
- Proprietary supply chain-based technology platform with strong service capabilities; and
- Experienced management team and strong corporate culture.

OUR GROWTH STRATEGIES

Our strategies are centered on sustainable and quality growth, which we expect to achieve by further solidifying the market leadership of our e-commerce business, and developing our supply chain-based technology service capabilities to empower the players across the industry value chain. Our team, organization structure and corporate culture undergird the successful execution of our growth strategies. These strategies include:

- Further grow our scale and reinforce economies of scale;
- Further boost customer experience through improved user engagement and grow our customer base;
- Enhance our supply chain-based technology service capabilities; and
- Strengthen our team, organization and culture.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following summary of our financial condition and results of operations (including the selected consolidated financial data set forth below) during the Track Record Period is based upon and should be read in conjunction with our consolidated financial statements and the related notes, extracted from the Accountants' Reports in Appendix IA and IB to this document. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

The summary of historical financial information set forth below includes translations of financial data in Renminbi into U.S. dollars for the convenience of the reader. These translations were made at a rate of RMB6.9618 to US$1.00, the exchange rate in effect as of December 31, 2019 as set forth in the H.10 statistical release of the Federal Reserve Board.

Selected Consolidated Statements of Operations

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions)			
Net revenues[1]:				
Net product revenues	331,824	416,109	510,734	73,362
Net service revenues	30,508	45,911	66,154	9,503
Total net revenues	**362,332**	**462,020**	**576,888**	**82,865**
Cost of revenues	(311,517)	(396,066)	(492,467)	(70,738)
Fulfillment	(25,865)	(32,010)	(36,968)	(5,310)
Marketing	(14,918)	(19,237)	(22,234)	(3,194)
Research and development	(6,652)	(12,144)	(14,619)	(2,100)
General and administrative	(4,215)	(5,160)	(5,490)	(789)
Impairment of goodwill and intangible assets	—	(22)	—	—
Gain on sale of development properties	—	—	3,885	558
Income/(loss) from operations[2][3]	**(835)**	**(2,619)**	**8,995**	**1,292**
Other income/(expense):				
Share of results of equity investees	(1,927)	(1,113)	(1,738)	(250)
Interest income	2,530	2,118	1,786	257
Interest expense	(964)	(855)	(725)	(104)
Others, net	1,317	95	5,375	772
Income/(loss) before tax	121	(2,374)	13,693	1,967
Income tax expenses	(140)	(427)	(1,803)	(259)
Net income/(loss) from continuing operations	**(19)**	**(2,801)**	**11,890**	**1,708**
Net income from discontinued operations, net of tax[4]	**7**	—	—	—
Net income/(loss)[5]	**(12)**	**(2,801)**	**11,890**	**1,708**
Non-GAAP Measures:				
Non-GAAP net income from continuing operations attributable to ordinary shareholders[6]	4,968	3,460	10,750	1,544
Non-GAAP EBITDA from continuing operations[7]	5,301	5,667	13,811	1,984

Notes:

(1) Our net revenues include net product revenues and net service revenues. Product sales is further divided into sales of electronics and home appliances products and sales of 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 revenues from general merchandise products mainly include revenues from sales of food, beverage and fresh produce, baby and maternity products, furniture and household goods, cosmetics and other personal care items, pharmaceutical and healthcare products, books, automobiles and accessories, apparel and footwear, bags and jewelry. Net service revenues are further divided into revenues from online marketplace and marketing 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, during the Track Record Period:

	For the Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US$	%
	(in millions, except for percentages)						
Electronics and home appliances revenues	236,269	65.2	280,059	60.6	328,703	47,215	57.0
General merchandise revenues	95,555	26.4	136,050	29.5	182,031	26,147	31.5
Net product revenues	331,824	91.6	416,109	90.1	510,734	73,362	88.5
Marketplace and marketing revenues	25,391	7.0	33,532	7.2	42,680	6,131	7.4
Logistics and other service revenues	5,117	1.4	12,379	2.7	23,474	3,372	4.1
Net service revenues	30,508	8.4	45,911	9.9	66,154	9,503	11.5
Total net revenues	362,332	100.0	462,020	100.0	576,888	82,865	100.0

(2) Includes share-based compensation expenses as follows:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
		(in millions)		
Cost of revenues	(28)	(72)	(82)	(12)
Fulfillment	(426)	(419)	(440)	(63)
Marketing	(136)	(190)	(259)	(37)
Research and development	(671)	(1,163)	(1,340)	(193)
General and administrative	(1,520)	(1,816)	(1,573)	(226)

(3) Includes amortization of business cooperation arrangement and intangible assets resulting from assets and business acquisitions as follows:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
		(in millions)		
Fulfillment	(164)	(168)	(165)	(24)
Marketing	(1,222)	(1,232)	(637)	(92)
Research and development	(84)	(98)	(99)	(14)
General and administrative	(308)	(308)	(308)	(44)

(4) As of June 30, 2017, we deconsolidated our finance business operated by Beijing Jingdong Financial Technology Holding Co., Ltd. (now known as Jingdong Digits Technology Holding Co., Ltd., or JD Digits), as a result of the reorganization of JD Digits. Accordingly, with respect to the Track Record Period, the historical financial results of JD Digits are reflected as discontinued operations in our consolidated financial statements for the period from January 1, 2017 to June 30, 2017. Please see "History and Corporate Structure—Our Strategic Cooperations and Other Developments—JD Digits" for more information.

(5) We had a net income of RMB11,890 million (US$1,708 million) in 2019, as compared to a net loss of RMB2,801 million in 2018. The change was primarily attributable to (i) the increase in our total net revenues (by 24.9%) outpacing the increase in our fulfillment, marketing, research and development, and general and administrative expenses (by 15.5%, 15.6%, 20.4% and 6.4%, respectively); (ii) the gain of RMB3,885 million (US$558 million) in 2019 on sale of development properties in 2019, as compared with nil in 2018 and (iii) an increase in others, net from an income of RMB95 million in 2018 to an income of RMB5,375 million (US$772 million) in 2019. In 2019, others, net mainly consisted of an unrealized gain from fair value change of long-term investments, the realized gain from disposals of our business, and government financial incentives.

We had a net loss of RMB2,801 million in 2018, as compared to a net loss of RMB12 million in 2017. The change was primarily attributable to (i) the increase in our fulfillment, marketing, research and development, and general and administrative expenses (by 23.8%, 28.9%, 82.6% and 22.4%, respectively) on average outpacing the increase in our total net revenues (by 27.5%) and (ii) a decrease in others, net from an income of RMB1,317 million in 2017 to an income RMB95 million in 2018. In 2018, others, net mainly consisted of loss from fair value change of long-term investments and the realized gain from disposals of long-term investments.

As shown above, gain on sale of development properties and others, net significantly affected our results of operations during the Track Record Period. We recorded a gain of RMB3,885 million (US$558 million) on sale of development properties in 2019, as compared with nil and nil in 2018 and 2017. Others, net during the Track Record Period primarily consisted of the following:

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
		(in thousands)		
Gain from business and investment disposals	74,965	1,320,266	1,199,407	172,284
Government financial incentives	843,447	614,658	2,222,223	319,202
Impairment of investments	(139,823)	(593,138)	(1,954,031)	(280,679)
Foreign exchange gains/(losses), net	213,482	(192,491)	124,070	17,822
Gains/(losses) from fair value change of long-term investments	—	(1,512,979)	3,495,709	502,127
Others	324,337	458,859	287,931	41,359
Total	1,316,408	95,175	5,375,309	772,115

See "Financial Information—Results of Operations" for a detailed analysis of our results of operations during the Track Record Period.

(6) We define non-GAAP net income/(loss) from continuing operations attributable to ordinary shareholders as net income/(loss) from continuing operations attributable to ordinary shareholders excluding share-based compensation, amortization of intangible assets resulting from assets and business acquisitions, effects of business cooperation arrangements and non-compete agreements, gain/(loss) on disposals/deemed disposals of investments, reconciling items on the share of equity method investments, loss/(gain) from fair value change of long-term investments, impairment of goodwill, intangible assets and investments, gain and foreign exchange impact in

relation to sale of development properties and tax effects on non-GAAP adjustments. See "Financial Information—Non-GAAP Financial Measures" for details.

(7) We define non-GAAP EBITDA from continuing operations as income/(loss) from operations from continuing operations excluding share-based compensation, depreciation and amortization, effects of business cooperation arrangements, gain on sale of development properties and impairment of goodwill and intangible assets. See "Financial Information—Non-GAAP Financial Measures" for details.

Selected Consolidated Balance Sheets Data

	As of December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions)			
Cash and cash equivalents	25,688	34,262	36,971	5,311
Restricted cash	4,110	3,240	2,941	422
Short-term investments	8,588	2,036	24,603	3,534
Inventories, net	41,700	44,030	57,932	8,321
Accounts receivable, net	16,359	11,110	6,191	889
Property, equipment and software, net	12,574	21,083	20,654	2,967
Land use rights, net	7,051	10,476	10,892	1,565
Operating lease right-of-use assets	—	—	8,644	1,242
Investment in equity investees	18,551	31,357	35,576	5,110
Investment securities	10,028	15,902	21,417	3,076
Total assets	184,055	209,165	259,724	37,307
Accounts payable	74,338	79,985	90,428	12,989
Accrued expenses and other current liabilities	15,118	20,293	24,656	3,542
Nonrecourse securitization debt	17,160	4,398	—	—
Unsecured senior notes	6,447	6,786	6,912	993
Long-term borrowings	—	3,088	3,139	451
Operating lease liabilities	—	—	8,717	1,252
Total liabilities	131,666	132,337	159,099	22,853
Total mezzanine equity(8)	—	15,961	15,964	2,293
Total JD.com, Inc. shareholders' equity	52,041	59,771	81,856	11,758

Note:

(8) 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.

Selected Consolidated Cash Flows Data

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
		(in millions)		
Net cash provided by continuing operating activities	29,342	20,881	24,781	3,560
Net cash used in discontinued operating activities	(2,486)	—	—	—
Net cash provided by operating activities	26,856	20,881	24,781	3,560
Net cash used in continuing investing activities	(21,944)	(26,079)	(25,349)	(3,641)
Net cash used in discontinued investing activities	(17,871)	—	—	—
Net cash used in investing activities	(39,815)	(26,079)	(25,349)	(3,641)
Net cash provided by continuing financing activities	5,180	11,220	2,572	370
Net cash provided by discontinued financing activities	14,055	—	—	—
Net cash provided by financing activities	19,235	11,220	2,572	370
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(642)	1,682	406	57
Net increase in cash, cash equivalents and restricted cash	5,634	7,704	2,410	346
Cash, cash equivalents and restricted cash at beginning of year	24,164	29,798	37,502	5,387
Cash, cash equivalents and restricted cash at end of year	29,798	37,502	39,912	5,733
Free cash flow from continuing operations(9)	17,697	(7,857)	19,453	2,794

Note:

(9) We define free cash flow from continuing operations as operating cash flow from continuing operations adjusting the impact from JD Baitiao receivables included in the operating cash flow from continuing operations and capital expenditures, net of proceeds from sale of development properties. Capital expenditures include purchase of property, equipment and software, cash paid for construction in progress, purchase of intangible assets and land use rights. See "Financial Information—Non-GAAP Financial Measures" for details.

Non-GAAP Financial Measures

In evaluating our business, we consider and use non-GAAP measures, such as non-GAAP net income/(loss) attributable to ordinary shareholders, non-GAAP EBITDA and free cash flow, as supplemental measures to review and assess our operating performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. We define non-GAAP net income/(loss) from continuing operations attributable to ordinary shareholders as net income/(loss) from continuing operations attributable to ordinary shareholders excluding share-based compensation, amortization of intangible assets resulting from assets and business acquisitions, effects of business cooperation arrangements and non-compete agreements, gain/(loss) on disposals/deemed disposals of investments, reconciling items on the share of equity method investments, loss/(gain) from fair value change of long-term investments, impairment of goodwill, intangible assets and investments, gain and foreign exchange impact in relation to sale of development properties and tax effects on non-GAAP adjustments. We define non-GAAP EBITDA from continuing operations as income/(loss) from operations from continuing operations excluding share-based compensation, depreciation and amortization, effects of business cooperation arrangements, gain on sale of development properties and impairment of goodwill and intangible assets. We define free cash flow from continuing operations as operating cash flow from continuing operations adjusting the impact from JD Baitiao receivables included in the operating cash flow from continuing operations and capital expenditures, net of proceeds from sale of development properties. Capital expenditures include purchase of property, equipment and software, cash paid for construction in progress, purchase of intangible assets and land use rights.

We present non-GAAP financial measures because they are used by our management to evaluate our operating performance and formulate business plans. By excluding certain expenses, gain/(loss) and other items that are not expected to result in future cash payments or that are non-recurring in nature or may not be indicative of our core operating results and business outlook, we also believe that the non-GAAP financial measures provide useful information to management and investors about our core business operations, which can then be used to evaluate our operating results, evaluate strategic investments and assess our ability and need to incur and service debt.

Non-GAAP net income/(loss) from continuing operations attributable to ordinary shareholders and non-GAAP EBITDA from continuing operations reflect the company's ongoing business operations in a manner that allows more meaningful period-to-period comparisons. Free cash flow from continuing operations takes into account the impact of the expansion of our fulfillment infrastructure and technology platform on our financial resources and excludes the impact from JD Baitiao receivables included in the operating cash flow from continuing operations. The cash flow associated with JD Baitiao receivables represents the changes in JD Baitiao receivables on our reported operating cash flow. As JD Digits provides customers who use JD Baitiao with credit assessment services and repayment management services to facilitate the origination and repayment of the receivables, and essentially absorbs the credit risk of the Baitiao receivables, our management does not consider cash flow from those JD Baitiao receivables to be indicative of the performance of our core business operations or ongoing operating results. Excluding this item allows investors to better understand cash flow from our core business operations and provides a meaningful basis of comparison between periods.

The presentation of non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. The non-GAAP financial measures have limitations as analytical tools. Our non-GAAP financial measures do not reflect all items of income and expense that affect our operations or not represent the residual cash flow available for discretionary expenditures. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore their comparability may be limited. We compensate for these limitations by reconciling each of the non-GAAP financial measures to the nearest U.S. GAAP performance measure, all of which should be considered when evaluating our performance. We encourage you to review our financial information in its entirety and not rely on a single financial measure. The following tables set forth the reconciliations of our non-GAAP financial measures for each of the periods shown to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP.

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions)			
Reconciliation of Net Income/(Loss) from Continuing Operations Attributable to Ordinary Shareholders to Non-GAAP Net Income from Continuing Operations Attributable to Ordinary Shareholders:				
Net income/(loss) from continuing operations attributable to ordinary shareholders	116	(2,492)	12,184	1,750
Share-based compensation	2,781	3,660	3,695	531
Amortization of intangible assets resulting from assets and business acquisitions	1,778	1,806	885	127
Reconciling items on the share of equity method investments	1,071	582	456	66
Impairment of goodwill, intangible assets, and investments	140	615	2,751	395
Loss/(gain) from fair value change of long-term investments	—	1,513	(3,496)	(502)
Gain and foreign exchange impact in relation to sale of development properties	—	—	(3,997)	(574)
Gain on disposals/deemed disposals of investments	—	(1,320)	(1,237)	(178)
Effects of business cooperation arrangements and non-compete agreements	(918)	(1,035)	(904)	(130)
Tax effects on non-GAAP adjustments	—	131	413	59
Non-GAAP net income from continuing operations attributable to ordinary shareholders	4,968	3,460	10,750	1,544

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions)			
Reconciliation of Income/(Loss) from Operations from Continuing Operations to Non-GAAP EBITDA:				
Income/(loss) from operations from continuing operations	(835)	(2,619)	8,995	1,292
Share-based compensation	2,781	3,660	3,695	531
Depreciation and amortization	4,193	5,560	5,828	837
Effects of business cooperation arrangements	(838)	(956)	(822)	(118)
Gain on sale of development properties	—	—	(3,885)	(558)
Impairment of goodwill and intangible assets	—	22	—	—
Non-GAAP EBITDA from continuing operations	5,301	5,667	13,811	1,984

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
		(in millions)		
Reconciliation of Net Cash Provided by Operating Activities from Continuing Operations to Free Cash Flow from Continuing Operations:				
Net cash provided by operating activities from continuing operations	29,342	20,881	24,781	3,560
Less: Impact from JD Baitiao receivables included in the operating cash flow	(289)	(7,369)	(4,233)	(609)
Add/(less): Capital expenditures				
Capital expenditures for development properties, net of related sales proceeds*	(3,849)	(8,857)	2,420	348
Other capital expenditures**	(7,507)	(12,512)	(3,515)	(505)
Free cash flow from continuing operations	17,697	(7,857)	19,453	2,794

Notes:

* Including logistics facilities and other real estate properties developed by JD Property, which may be sold under various equity structures. For the year ended December 31, 2019, approximately RMB7.9 billion proceeds from the sale of development properties were included in this line.

** Including capital expenditures related to our headquarters in Beijing and all other capital expenditures.

We recorded a net current liability position of RMB3.2 billion, RMB16.0 billion and RMB922.5 million (US$132.5 million), respectively, as of December 31, 2017, 2018 and 2019. For a detailed discussion on our cash position, being the balance sheet items that have material impact on our liquidity, as well as material changes in the various working capital items, see "Financial Information — Liquidity and Capital Resources." As of March 31, 2020, we had net current assets of RMB8.0 billion (US$1.1 billion).

For the three months ended March 31, 2020, our net cash used in operating activities was RMB1,542 million compared to the net cash provided by operating activities of RMB3,323 million in the three months ended March 31, 2019 and our free cash outflow was RMB2,974 million compared to the free cash inflow of RMB1,280 million in the three months ended March 31, 2019. The fluctuation of our operation cash flow and free cash flow from positive in the first quarter of 2019 to negative in the first quarter of 2020 was mainly due to the impact of COVID-19. See "Recent Development — Impact of COVID-19 on Our Operations" and "Financial Information — Impact of COVID-19 on Our Operations" for further information.

OUR SHAREHOLDING AND CORPORATE STRUCTURE

Our Major Shareholders and Relationship with Controlling Shareholders

Mr. Richard Qiangdong Liu, our chairman and chief executive officer, is interested in and controls, through Max Smart Limited, a company beneficially owned by him through a trust and of which he is the sole director, 14,000,000 Class A ordinary shares in the form of ADSs and 421,507,423 Class B ordinary shares. In addition, as of the Latest Practicable Date, Fortune Rising Holdings Limited, of which Mr. Richard Qiangdong Liu is the sole shareholder and the sole director, holds 29,373,658 Class B ordinary shares for the purpose of transferring such shares to the plan participants according to awards under our Share Incentive Plan, and administers the awards and acts according to our instruction. As of the Latest Practicable Date, Mr. Liu controlled 78.4% of the aggregate voting power of our Company, including 5.1% of the aggregate voting power of our Company that he may exercise on behalf of Fortune Rising Holdings Limited.

For further details, please see "Major Shareholders" and "Relationship with the Controlling Shareholders".

Weighted Voting Rights Structure and WVR Beneficiary

Under our weighted voting rights structure, our share capital comprises Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share entitles the holder to exercise one vote, and each Class B ordinary share entitles the holder to exercise 20 votes, respectively, on any resolution tabled at the Company's general meetings, except as may otherwise be required by law or provided for in our Memorandum and Articles of Association. For further details, please see "Share Capital—Weighted Voting Rights Structure."

Prospective investors are advised to be aware of the potential risks of investing in companies with a WVR structure, in particular that the interests of the WVR beneficiary may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR beneficiary will be in a position to exert significant influence over the affairs of our Company and the outcome of Shareholders' resolutions, irrespective of how other Shareholders vote. Prospective investors should make the decision to invest in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by the Company, please refer to "Risk Factors—Risks Related to Our Corporate Structure".

Our VIE Structure

Due to legal restrictions on certain of our businesses including value-added telecommunication services, we operate certain of our businesses in which foreign investment is restricted or prohibited in the PRC through various contractual arrangements with variable interest entities that are incorporated in the PRC and 100% owned by PRC citizens. As a result, we conduct or will conduct such business activities through our variable interest entities and their subsidiaries in the PRC. We have entered into certain contractual arrangements, as described in more detail in "History and Corporate Structure—Contractual Arrangements" and "Risk Factors—Risks Related to our Corporate Structure", which collectively enable us to exercise effective control over the variable interest entities and realize substantially all of the economic benefits arising from the variable interest entities. As a result, we include the financial results of each of the variable interest entities in our consolidated financial statements in accordance with U.S. GAAP as if they were our wholly-owned subsidiaries.

RISK FACTORS

Our business and the Global Offering involve certain risks and uncertainties, some of which are beyond our control and may affect your decision to invest in us and/or the value of your investment. See "Risk Factors" for details of our risk factors, which we strongly urge you to read in full before making an investment in our Shares. Some of the major risks we face include:

- If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected;
- We incurred significant net losses in the past and we may not be able to maintain profitability in the future;
- If we are unable to provide superior customer experience, our business and reputation may be materially and adversely affected;

- Any harm to our JD brand or reputation may materially and adversely affect our business and results of operations; and
- If we are unable to offer products that attract purchases from new and existing customers, our business, financial condition and results of operations may be materially and adversely affected.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$30,988 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon an indicative offer price of HK$236.00 per Offer Share for both Hong Kong Public Offering and International Offering, and assuming the Over-allotment Option is not exercised, or HK$35,649 million if the Over-allotment Option is exercised in full. We plan to use the net proceeds we will receive from the Global Offering to invest in key supply chain based technology initiatives to further enhance customer experience whilst improving operating efficiency. The supply chain based technologies can be applied to our key business operations including retail, logistics, and customer engagement. For example, we will (i) continue to invest in a series of key operational systems, such as smart pricing and inventory management system, intelligent customer service solutions and Omni-Channel smart retail platform; (ii) endeavor to digitalize our logistic capabilities through building a wide range of in-house systems such as warehouse automation system, optimal route planning system, as well as intelligent hardware; and (iii) continue attracting and nurturing world-class software engineers, data scientists, AI experts and other R&D talents as well as expanding our intellectual property portfolio.

See "Use of Proceeds" for further details.

THE LISTING

Our ADSs have been listed and traded on Nasdaq since May 22, 2014. Dealings in our ADSs on Nasdaq have been conducted in U.S. dollars. We have applied for a listing of our Shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers) as well as Chapter 8A (Weighted Voting Rights) of the Hong Kong Listing Rules. Dealings in our Shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars. Our Shares will be traded on the Hong Kong Stock Exchange in board lots of 50 Class A ordinary shares. For additional information, see "Information about This Document and the Global Offering."

EXCEPTIONS AND WAIVERS

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the SFO and a ruling under the Takeovers Codes. For additional information, see "Waivers from Strict Compliance with the Hong Kong Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance" of this document.

Among the various waivers that we have applied for, we have applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the requirements in paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules such that we are able to spin-off a subsidiary entity and list it on the Hong Kong Stock Exchange within three years of the Listing. While we do not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as at the date of this document, we continue to explore the ongoing financing requirements for our various businesses and may consider a spin-off listing on the Hong Kong Stock Exchange for one or more of those businesses within the three-year period subsequent to the Listing. As of the Latest Practicable Date, we have not identified any target for a potential spin-off; as a result we do not have any information relating to the identity of any spin-off target or any other details of any spin off and accordingly, there is no material omission of any information relating to any possible spin-off in this document. The waiver granted by the Hong Kong Stock Exchange is conditional upon us confirming to the Hong Kong Stock Exchange in advance of any spin-off that it would not render our Company, excluding the businesses to be spun off, incapable of fulfilling either the eligibility or suitability requirements under Rules 19C.02 and 19C.05 of the Hong Kong Listing Rules based on the financial information of the entity or entities to be spun-off at the time of the Company's Listing (calculated cumulatively if more than one entity is spun-off). We cannot assure you that any spin-off will ultimately be consummated, whether within the three-year period after the Listing or otherwise, and any such spin-off will be subject to market conditions at the time. In the event that we proceed with a spin-off, the Company's interest in the entity to be spun-off (and its corresponding contribution to the financial results of our Group) will be reduced accordingly.

We enjoy exemptions from certain obligations under U.S. securities laws and Nasdaq rules as a foreign private issuer as defined under the U.S. Exchange Act. Investors should exercise care when investing in our Shares and/or ADSs. See "Information about the Listing—Summary of Exemptions as a Foreign Private Issuer in the U.S."

ARTICLES OF ASSOCIATION

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Articles of Association, the Cayman Companies Law, as well as the common law of the Cayman Islands. The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of requirement as set out in Rule 19C.07(3) of the Hong Kong Listing Rules that the appointment, removal and remuneration of auditors must be approved by a majority of a Qualifying Issuer's members or other body that is independent of the issuer's board of directors. Therefore, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules. We have also applied for, and the Stock Exchange has granted, a waiver from strict compliance with the Rule 19C.07(7) of the Hong Kong Listing Rules, subject to the conditions that: (i) we put forth a resolution at or before our next annual general meeting after the Listing which is expected to be held around mid-2021 to revise our Articles of Association, so that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda will be 10% of the voting rights, on a one vote per share basis, in our share capital; and (ii) we will seek irrevocable undertaking from our Controlling Shareholder(s) prior to the Listing to vote in favor of the proposed resolution outlined above with view to ensuring that there may be adequate votes in favor of such resolution. See "Risk Factors—Risks Related to our Shares, ADSs and the Listing—Since we are a Cayman Islands exempted company, the rights of our shareholders may be more limited than those of shareholders of a company organized in the United States or Hong Kong." See

"Information about This Document and the Global Offering" and "Waivers from Strict Compliance with the Hong Kong Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance—Shareholder Protection" for further details.

In addition, under our current 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. See "Information about the Listing—Our Articles of Association" for further details about the proposed amendment to our Articles of Association after the Listing, so that the quorum necessary for the transaction of the business of the directors shall be a majority of the members of our board of directors.

Under our Articles of Association, the appointment of director to fill a casual vacancy arising from the resignation of a former director or as an addition to the existing board may be approved by the majority of the board (which shall include the affirmative vote of Mr. Richard Qiangdong Liu for so long as he is a director).

OFFERING STATISTICS

	Based on the indicative offer price per Offer Share of HK$236.00 for Both Hong Kong Public Offering and International Offering
Our market capitalization(1)	HK$729,328 million
Unaudited pro forma adjusted net tangible assets per Share(2)	RMB32.60 or HK$35.42

Notes:

(1) The calculation of market capitalization is based on 3,090,371,009 Shares that will be in issue immediately following the Global Offering, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make.

(2) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 3,057,315,263 Shares that will be in issue assuming that the Global Offering have been completed on December 31, 2019, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares that we may make.

DETERMINATION OF OFFER PRICE

We will determine the pricing for the Offer Shares for the purpose of the various offerings under the Global Offering on the Price Determination Date, which is expected to be on or about June 11, 2020 and, in any event, no later than June 17, 2020, by agreement with the Joint Representatives (for themselves and on behalf of the Underwriters).

The Public Offer Price will be determined by reference to, among other factors, the closing price of the ADSs on Nasdaq on the last trading day on or before the Price Determination Date (which is accessible to the Shareholders and potential investors at **www.nasdaq.com/market-activity/stocks/jd**), and the Public Offer Price will not be more than HK$236.00 per Hong Kong Offer Share.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on Nasdaq on the last trading day on or before the Price Determination Date (on a per-Class A ordinary share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the book-building process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

LISTING EXPENSES

We expect to incur listing expenses of approximately RMB368 million after December 31, 2019 (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK$236.00 for both Hong Kong Public Offering and International Offering and the Over-allotment Option is not exercised). We expect most of the listing expenses will be recorded as a deduction in equity directly.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of and save as disclosed in this document, there has been no material adverse change in our financial or trading position since December 31, 2019 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there has been no event since December 31, 2019 which would materially affect the information shown in our consolidated financial statements included in the Accountants' Reports in Appendices IA and IB to this document.

Summary of First Quarter 2020 Highlights

- **Net revenues** for the first quarter of 2020 were RMB146.2 billion (US$20.6 billion), an increase of 20.7% from the first quarter of 2019. Net revenues from the sales of general merchandise products for the first quarter of 2020 were RMB52.5 billion (US$7.4 billion), an increase of 38.2% from the first quarter of 2019. Net service revenues for the first quarter of 2020 were RMB16.1 billion (US$2.3 billion), an increase of 29.6% from the first quarter of 2019.
- **Income from operations** for the first quarter of 2020 was RMB2.3 billion (US$0.3 billion), compared to RMB1.2 billion for the same period last year.
- **Net income attributable to ordinary shareholders** for the first quarter of 2020 was RMB1.1 billion (US$0.2 billion), compared to RMB7.3 billion for the same period last year. **Non-GAAP net income attributable to ordinary shareholders*** for the first quarter of 2020 was RMB3.0 billion (US$0.4 billion), compared to RMB3.3 billion for the same period last year.
- **Diluted net income per ADS** for the first quarter of 2020 was RMB0.72 (US$0.10), compared to RMB4.96 for the first quarter of 2019.
- **Annual active customer accounts** increased by 24.8% to 387.4 million in the twelve months ended March 31, 2020 from 310.5 million in the twelve months ended March 31, 2019. Mobile daily active users in March 2020 increased by 46% as compared to March 2019. Mobile daily active users refer to the daily average number of unique mobile devices that used JD mobile app on a given day during a calendar month.

Unless otherwise stated, all translations of RMB into U.S. dollars in this "Recent Developments" section were made at RMB7.0808 to US$1.00, the exchange rate on March 31, 2020 as set forth in the H.10 statistical release of the Federal Reserve Board. Percentages are calculated based on the RMB amounts and there may be minor differences due to rounding.

Business Updates

JD Retail

In February 2020, we implemented a series of measures to support agricultural producers, many of whom had been significantly impacted due to transportation disruptions amid the COVID-19 outbreak. Leveraging our strong capabilities in supply chain and logistics and our marketing resources, including themed live streaming events and high-traffic "lightening sales channels," we provided one-stop solutions to connect agricultural merchants with our expansive customer base. In addition, in April 2020, we launched a promotion to drive the sales of specialty products from Hubei province, the epicenter of the outbreak, including crawfish, rice and lotus root.

On April 24, 2020, we entered into definitive agreements for the non-redeemable series A preferred share financing of JD MRO with investors, including GGV Capital, Sequoia Capital China and CPE among others. The total amount expected to be raised is US$230 million, representing 10.7% of the equity interest of JD MRO on a fully diluted basis, subject to closing conditions. JD MRO operates an e-commerce platform that specializes in industrial maintenance, repair and operations products and services, and provides intelligent purchasing platform and supply chain solutions for corporate customers.

Note:

* See "—Non-GAAP Financial Measures for the Three Months Ended March 31, 2019 and 2020."

JD Health

JD Health launched Android and iOS versions of its flagship app in March 2020 to offer pharmaceutical and healthcare products and services, including online sales of medicines and medical devices, online medical and psychological consultations, healthcare management services and special channels for purchasing COVID-19 control and prevention supplies. JD Health continues to explore opportunities to meet the needs of users and support medical institutions amid the outbreak, including (i) launching a Chronic Disease Medical Information Sharing Platform for Hubei province to help respond to medicine shortages, (ii) partnering with Peking University Sixth Hospital, the nation's leading mental health institution, to launch an online psychological consultation platform, and (iii) helping facilitate the digital transformation of virus prevention systems for various institutions, hospitals and enterprises.

JD Logistics

As of March 31, 2020, JD Logistics operated over 730 warehouses, which covered an aggregate gross floor area of approximately 17 million square meters, including warehouse space managed under the JD Logistics Open Warehouse Platform.

JD Property

After the successful completion of the first logistics properties fund (JD Logistics Properties Core Fund, L.P., "Core Fund"), in January 2020 JD Property established its second logistics properties fund (JD Logistics Properties Core Fund II, L.P., "Core Fund II") with GIC, the Singapore sovereign wealth fund, and entered into series of agreements to dispose of certain logistics facilities to Core Fund II for a total gross asset value of RMB4.6 billion. The majority of the proceeds are expected to be received in the second half of 2020.

Operational Metrics Update

As of March 31, 2020, we had approximately 220,000 employees (excluding part-time employees and interns).

Environment, Social and Governance

The cargo fleet of our fulfillment center in Wuhan was granted this year's prestigious China Youth Award, due to its significant contribution during the COVID-19 outbreak to support the transportation of daily necessities and supplies to needy areas.

Financial Updates

The unaudited consolidated statements of operations data and cash flow data presented below for the three months ended March 31, 2019 and 2020 and the unaudited consolidated balance sheet data as of March 31, 2020 have been derived from Appendix IC to this document. The unaudited interim financial information has been prepared on the same basis as our audited consolidated financial data, other than the adoption of ASU 2016-13, *"Financial Instruments-Credit Losses (Topic 326)"* and ASU 2017-04, *"Intangibles—Goodwill and Other (Topic 350)*." The adoption of these two standards does not have a material impact on our consolidated financial statements.

RECENT DEVELOPMENTS

The consolidated financial information below should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements for the three years ended December 31, 2019 and as of December 31, 2017, 2018 and 2019 and related notes included in Appendix IA and IB to this document. Our historical results do not necessarily indicate results expected for any future periods, and the results of operations for the three months ended March 31, 2020 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2020. Please refer to "Financial Information," "Risk Factors" and "Our Business" included elsewhere in this document for information regarding trends and other factors that may affect our results of operations.

	For the Three Months Ended March 31,		
	2019	2020	
	RMB	RMB	US$
	(in millions, except for share, per share and per ADS data)		
Selected Unaudited Consolidated Statements of Operations Data:			
Net revenues:			
Net product revenues	108,651	130,093	18,373
Net service revenues	12,430	16,112	2,275
Total net revenues	**121,081**	**146,205**	**20,648**
Cost of revenues	(102,897)	(123,670)	(17,465)
Fulfillment	(8,063)	(10,400)	(1,469)
Marketing	(3,940)	(4,468)	(631)
Research and development	(3,717)	(3,935)	(556)
General and administrative	(1,321)	(1,412)	(199)
Gain on sale of development properties	83	—	—
Income from operations(1)(2)	**1,226**	**2,320**	**328**
Other income/(expense):			
Share of results of equity investees	(717)	(1,120)	(158)
Interest income	312	523	74
Interest expense	(187)	(207)	(29)
Others, net	6,885	(132)	(20)
Income before tax	7,519	1,384	195
Income tax expenses	(279)	(327)	(46)
Net income	**7,240**	**1,057**	**149**
Net loss attributable to non-controlling interests shareholders	(80)	(17)	(3)
Net income attributable to mezzanine equity classified as non-controlling interests shareholders	1	1	0
Net income attributable to ordinary shareholders	**7,319**	**1,073**	**152**
Net income per share			
Basic	2.53	0.37	0.05
Diluted	2.48	0.36	0.05
Net income per ADS(3)			
Basic	5.06	0.73	0.10
Diluted	4.96	0.72	0.10
Weighted average number of shares:			
Basic	2,893,977,289	2,926,684,966	2,926,684,966
Diluted	2,952,050,583	2,998,786,445	2,998,786,445
Non-GAAP Measures:(4)			
Non-GAAP net income attributable to ordinary shareholders	3,294	2,972	420
Non-GAAP EBITDA	3,201	4,514	638

Notes:

(1) Includes share-based compensation expenses as follows:

	For the Three Months Ended March 31,		
	2019	2020	
	RMB	RMB (in millions)	US$
Cost of revenues	(13)	(21)	(3)
Fulfillment	(58)	(132)	(19)
Marketing	(39)	(77)	(11)
Research and development	(227)	(361)	(51)
General and administrative	(281)	(386)	(54)

(2) Includes amortization of business cooperation arrangement and intangible assets resulting from assets and business acquisitions as follows:

	For the Three Months Ended March 31,		
	2019	2020	
	RMB	RMB (in millions)	US$
Fulfillment	(42)	(41)	(6)
Marketing	(300)	(139)	(20)
Research and development	(25)	(25)	(3)
General and administrative	(77)	(77)	(11)

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

(4) See "—Non-GAAP Financial Measures for the Three Months Ended March 31, 2019 and 2020."

	As of March 31,	
	2020	
	RMB	US$
	(in millions, except for share data)	
Selected Unaudited Consolidated Balance Sheet Data:		
Cash and cash equivalents	43,529	6,148
Restricted cash	2,246	317
Short-term investments	29,364	4,147
Inventories, net	50,585	7,144
Accounts receivable, net	8,264	1,167
Property, equipment and software, net	17,488	2,470
Land use rights, net	10,432	1,473
Operating lease right-of-use assets	8,445	1,193
Investment in equity investees	36,773	5,193
Investment securities	20,781	2,935
Total assets	265,696	37,523
Accounts payable	76,485	10,802
Accrued expenses and other current liabilities	25,376	3,584
Unsecured senior notes	13,943	1,969
Long-term borrowings	3,188	450
Operating lease liabilities	8,733	1,233
Total liabilities	162,451	22,943
Total mezzanine equity	15,965	2,255
Total JD.com, Inc. shareholders' equity	84,290	11,904
Number of outstanding ordinary shares	2,926,331,475	

	For the Three Months Ended March 31,		
	2019	2020	
	RMB	RMB (in millions)	US$
Selected Unaudited Consolidated Cash Flows Data:			
Net cash provided by/(used in) operating activities	3,323	(1,542)	(218)
Net cash used in investing activities	(1,103)	(8,196)	(1,158)
Net cash provided by/(used in) financing activities	(2,556)	15,086	2,131
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(423)	609	86
Net increase/(decrease) in cash, cash equivalents and restricted cash	(759)	5,957	841
Cash, cash equivalents and restricted cash at beginning of the period	37,502	39,912	5,637
Cash, cash equivalents and restricted cash at end of the period	36,743	45,869	6,478
Non-GAAP Measures(5)			
Free cash flow	1,280	(2,974)	(420)

Note:

(5) See "—Non-GAAP Financial Measures for the Three Months Ended March 31, 2019 and 2020."

Non-GAAP Financial Measures for the Three Months Ended March 31, 2019 and 2020

The following table reconciles our non-GAAP net income attributable to ordinary shareholders for each of the periods shown to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is net income attributable to ordinary shareholders:

	For the Three Months Ended March 31,		
	2019	2020	
	RMB	RMB (in millions)	US$
Reconciliation of Net Income Attributable to Ordinary Shareholders to Non-GAAP Net Income Attributable to Ordinary Shareholders:			
Net income attributable to ordinary shareholders	7,319	1,073	152
Share-based compensation	618	977	138
Amortization of intangible assets resulting from assets and business acquisitions	444	147	21
Reconciling items on the share of equity method investments	163	(74)	(11)
Impairment of goodwill, intangible assets, and investments	818	422	60
Loss/(gain) from fair value change of long-term investments	(5,751)	670	95
Gain and foreign exchange impact in relation to sale of development properties	(83)	—	—
Gain on disposals/deemed disposals of investments	(3)	(15)	(2)
Effects of business cooperation arrangements and non-compete agreements	(252)	(209)	(30)
Tax effects on non-GAAP adjustments	21	(19)	(3)
Non-GAAP net income attributable to ordinary shareholders	3,294	2,972	420

The following table reconciles our non-GAAP EBITDA for each of the periods shown to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is income from operations:

	For the Three Months Ended March 31,		
	2019	2020	
	RMB	RMB (in millions)	US$
Reconciliation of Income from Operations to Non-GAAP EBITDA:			
Income from operations	1,226	2,320	328
Share-based compensation	618	977	138
Depreciation and amortization	1,672	1,405	199
Effects of business cooperation arrangements	(232)	(188)	(27)
Gain on sale of development properties	(83)	—	—
Non-GAAP EBITDA	3,201	4,514	638

The following table reconciles our free cash flow for each of the periods shown to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is net cash provided by operating activities:

	For the Three Months Ended March 31,		
	2019	2020	
	RMB	RMB (in millions)	US$
Reconciliation of Net Cash Provided by/(Used in) Operating Activities to Free Cash Flow:			
Net cash provided by/(used in) operating activities	3,323	(1,542)	(218)
Add/(less): Impact from JD Baitiao receivables included in the operating cash flow	(2,161)	576	81
Add/(less): Capital expenditures			
Capital expenditures for development properties, net of related sales proceeds*	1,091	(1,432)	(202)
Other capital expenditures**	(973)	(576)	(81)
Free cash flow	1,280	(2,974)	(420)

Notes:

* Including logistics facilities and other real estate properties developed by JD Property, which may be sold under various equity structures.

** Including capital expenditures related to our headquarters in Beijing and all other capital expenditures.

Set forth below is a discussion of our unaudited consolidated statements of operations data for the three months ended March 31, 2019 and 2020.

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Net Revenues. Our total net revenues increased by 20.7% from RMB121,081 million for the three months ended March 31, 2019 to RMB146,205 million (US$20,648 million) for the three months ended March 31, 2020, with increases in both categories of net revenues. Net product revenues increased by 19.7% from RMB108,651 million for the three months ended March 31, 2019 to RMB130,093 million (US$18,373 million) for the three months ended March 31, 2020. Net service revenues increased by 29.6% from RMB12,430 million for the three months ended March 31, 2019 to RMB16,112 million (US$2,275 million) for the three months ended March 31, 2020.

The increase in our total net revenues was primarily due to our ability to expand our customer base and enhance customer engagement. Our annual active customer accounts increased from 310.5 million in the twelve months ended March 31, 2019 to 387.4 million in the twelve months ended March 31, 2020. The following table breaks down our total net revenues by these categories:

	For the Three Months Ended March 31,		
	2019	2020	
	RMB	RMB	US$
		(in millions)	
Electronics and home appliances revenues	70,702	77,631	10,964
General merchandise revenues	37,949	52,462	7,409
Net product revenues	108,651	130,093	18,373
Marketplace and marketing revenues	8,144	9,527	1,345
Logistics and other service revenues	4,286	6,585	930
Net service revenues	12,430	16,112	2,275
Total net revenues	121,081	146,205	20,648

Cost of revenues. Our cost of revenues increased by 20.2% from RMB102,897 million for the three months ended March 31, 2019 to RMB123,670 million (US$17,465 million) for the three months ended March 31, 2020. This increase was primarily due to the growth of our online retail business. Costs related to the logistics services provided to third parties also increased along with the expansion of our logistics business.

Fulfillment expenses. Our fulfillment expenses increased by 29.0% from RMB8,063 million for the three months ended March 31, 2019 to RMB10,400 million (US$1,469 million) for the three months ended March 31, 2020. This increase was primarily due to the increase in compensation costs relating to fulfillment personnel, shipping charges, payment processing charges, and rental expenses for our fulfillment infrastructure and corresponding with the growth of our sales volume. Fulfillment expenses as a percentage of net revenues, were 7.1% for the three months ended March 31, 2020, as compared to 6.7% for the three months ended March 31, 2019, as the spread of COVID-19 caused a shift in product mix and incremental costs.

Marketing expenses. Our marketing expenses increased by 13.4% from RMB3,940 million for the three months ended March 31, 2019 to RMB4,468 million (US$631 million) for the three months ended March 31, 2020. This increase was primarily due to an increase in our advertising expenditures mainly on online channels from RMB2,992 million for the three months ended March 31, 2019 to RMB3,661 million (US$517 million) for the three months ended March 31, 2020.

Research and development expenses. Our research and development expenses increased by 5.9% from RMB3,717 million for the three months ended March 31, 2019 to RMB3,935 million (US$556 million) for the three months ended March 31, 2020 as we continued to invest in technology infrastructure. The increase in our research and development expenses was primarily attributable to the increase in the internet data center (IDC) expenses.

General and administrative expenses. Our general and administrative expenses kept relatively stable, amounting to RMB1,321 million and RMB1,412 million for the three months ended March 31, 2019 and 2020, respectively.

Share of results of equity investees. Share of results of equity investees was a loss of RMB1,120 million (US$158 million) for the three months ended March 31, 2020, compared to a loss of RMB717 million for the three months ended March 31, 2019. For the three months ended March 31, 2020, our share of results of equity investees was primarily attributable to losses picked up from our equity method investments in Jiangsu Five Star, Dada Group and Bitauto, and impairment losses recognized from our equity method investment in Yixin.

Others, net. Others are other non-operating income/(loss) including gains/(losses) from fair value change of long-term investments, gains from business and investment disposals, impairment of investments, government incentives, foreign exchange gains/(losses) and others. Others, net was RMB6,885 million income for the three months ended March 31, 2019 and RMB132 million (US$20 million) loss for the three months ended March 31, 2020. The substantial decrease was primarily due to the fair value change of investment securities, which had a loss of RMB670 million (US$95 million) for the three months ended March 31, 2020, as compared to a gain of RMB5,751 million for the three months ended March 31, 2019.

Net Income. As a result of the foregoing, we had a net income of RMB1,057 million (US$149 million) for the three months ended March 31, 2020, as compared to a net income of RMB7,240 million for the three months ended March 31, 2019.

Segment Information

We have two operating segments, namely JD Retail and New Businesses. JD Retail mainly consists of online retail, online marketplace and marketing services in China. New Businesses include logistics services provided to third parties, overseas business, technology initiatives, as well as asset management services to logistics property investors and sale of development properties by JD Property. Our product sales, marketplace and marketing services are mainly included in the JD Retail segment, and our logistics and other services are mainly included in the New Businesses segment.

The table below provides a summary of our operating segment results for the three months ended March 31, 2019 and 2020.

	Three Months Ended March 31,		
	2019	2020	
	RMB	RMB	US$
		(in millions)	
Net revenues:			
JD Retail	116,151	139,420	19,690
New Businesses	4,941	6,588	930
Inter-segment	(243)	(126)	(18)
Total segment net revenues	120,849	145,882	20,602
Unallocated items*	232	323	46
Total consolidated net revenues	121,081	146,205	20,648
Operating income/(loss):			
JD Retail	3,194	4,453	629
New Businesses	(1,139)	(1,197)	(169)
Including: gain on sale of development properties	*83*	—	—
Total segment operating income	2,055	3,256	460
Unallocated items*	(829)	(936)	(132)
Total consolidated operating income	1,226	2,320	328

Note:

* Unallocated items include share-based compensation, amortization of intangible assets resulting from assets and business acquisitions, effects of business cooperation arrangement 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 12.4% and 12.1% for the three months ended March 31, 2019 and 2020, respectively.

Cash Flows and Working Capital

As of March 31, 2020, we had a total of RMB75.1 billion (US$10.6 billion) in cash and cash equivalents, restricted cash and short-term investments. This included primarily RMB37.4 billion (US$5.3 billion) and US$3.7 billion in China, RMB0.9 billion (US$0.1 billion), HK$40.9 million (US$5.3 million) and US$1.3 billion in Hong Kong, US$6.8 million in the United States, and US$0.1 billion in Singapore. Our cash and cash equivalents generally consist of bank deposits and liquid investments with maturities of three months or less.

Our net inventories have decreased from RMB57.9 billion as of December 31, 2019 to RMB50.6 billion (US$7.1 billion) as of March 31, 2020 as the Chinese New Year in 2020 was relatively early, for which we reserved stock in advance during December 2019. Our inventory turnover days were 36.5 days and 35.4 days for the three months ended March 31, 2019 and 2020, respectively. Inventory turnover days are the quotient of average inventory over the immediately preceding five quarters, up to and including the last quarter of the period, to cost of revenues of retail business for the last twelve months, 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 retail business. As of December 31, 2019 and March 31, 2020, our accounts payable amounted to RMB90.4 billion and RMB76.5 billion (US$10.8 billion), respectively. The decrease is along with the decrease in inventories balance. Our accounts payable turnover days for retail business were 57.4 days and 51.7 days for the three months ended March 31, 2019 and 2020, respectively. Accounts payable turnover days are the quotient of average accounts payable for retail business over the immediately preceding five quarters, up to and including the last quarter of the period, to cost of revenues of retail business for the last twelve months, and then multiplied by 360 days.

Our accounts receivable primarily include amounts due from customers and online payment channels. As of December 31, 2019 and March 31, 2020, our accounts receivable amounted to RMB6.2 billion and RMB8.3 billion (US$1.2 billion), respectively. The increase was primarily due to the increase in accounts receivable related to consumer financing which was in line with the sales increase during the Chinese Spring Festival. The accounts receivable will be gradually derecognized through the sales type arrangements in collaboration with JD Digits. As of December 31, 2019 and March 31, 2020, the balances of current portion of financing provided to our customers that were included in accounts receivable balances amounted to RMB1.0 billion and RMB3.4 billion (US$0.5 billion), respectively. Our accounts receivable turnover days excluding the impact from consumer financing were 3.0 days and 3.1 days for the three months ended March 31, 2019 and 2020, respectively. Accounts receivable turnover days are the quotient of average accounts receivable over the immediately preceding five quarters, up to and including the last quarter of the period, to total net revenues for the last twelve months and then multiplied by 360 days.

Operating Activities

Net cash used in operating activities for the three months ended March 31, 2020 was RMB1,542 million (US$218 million). For the three months ended March 31, 2020, the principal items accounting for the difference between our net cash provided by operating activities and our net income were certain non-cash expenses, principally depreciation and amortization of RMB1,405 million (US$199 million), share of results of equity investees of RMB1,120 million (US$158 million), share-based compensation of RMB977 million (US$138 million), and loss from fair value change of long-term investments of RMB670 million (US$95 million), and changes in certain working capital accounts, principally an decrease in accounts payable of RMB13,429 million (US$1,897 million), and an increase of accounts receivable of RMB2,229 million (US$315 million), partially offset by a decrease in inventories of RMB7,361 million (US$1,040 million). The decrease in our accounts payable was due to (i) the decrease of inventories, as the Chinese New Year in 2020 was relatively early, for which we reserved stock in advance during December 2019 and (ii) a shorter payable cycle to suppliers we adopted to mitigate any negative impacts that COVID-19 may have on the operations of our suppliers. The increase in accounts receivable was primarily due to the increase in accounts receivable related to consumer financing, which was in line with the sales increase during the Chinese Spring Festival. The accounts receivable will be gradually derecognized through the sales type arrangements in collaboration with JD Digits.

Net cash provided by operating activities for the three months ended March 31, 2019 was RMB3,323 million. For the three months ended March 31, 2019, the principal items accounting for the difference between our net cash provided by operating activities and our net income were certain non-cash expenses, principally gain from fair value change of long-term investments of RMB5,751 million, depreciation and amortization of RMB1,673 million, share of results of equity investees of RMB717 million and share-based compensation of RMB618 million, and changes in certain working capital accounts, principally a decrease in accounts payable of RMB8,107 million, partially offset by a decrease in inventories of RMB5,781 million. The decrease in our accounts payable was in line with the decrease in inventories, as we usually reserve stock during December 2018.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2020 was RMB8,196 million (US$1,158 million), consisting primarily of the purchase of short-term investments, investment in equity investees, cash paid for construction in progress, partially offset by the maturity of short-term investments.

Net cash used in investing activities for the three months ended March 31, 2019 was RMB1,103 million, consisting primarily of the purchase of short-term investments, investment in equity investees, cash paid for construction in progress, partially offset by the maturity of short-term investments, cash received from sale of development properties, and loans settled by JD Digits.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2020 was RMB15,086 million (US$2,131 million), consisting primarily of proceeds from short-term debts and unsecured senior notes.

Net cash used in financing activities for the three months ended March 31, 2019 was RMB2,556 million, consisting primarily of repayment of short-term borrowings and nonrecourse securitization debt.

Capital Expenditures

We made capital expenditures of RMB2,396 million and RMB2,212 million (US$312 million) for the three months ended March 31, 2019 and 2020, respectively. Our capital expenditures for the three months ended March 31, 2019 and 2020 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. JD Property seeks to realize development profits and recycle capital from mature properties to fund new developments and scale the business.

Impact of COVID-19 on Our Operations

The majority of our net revenues are derived from online retail sales in China. Our results of operations and financial condition in 2020 will be affected by the spread of COVID-19. The extent to which COVID-19 impacts our results of operations in 2020 will depend on the future developments of the outbreak, including new information concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the Chinese economy in general.

In connection with the intensifying efforts to contain the spread of COVID-19, the Chinese government has taken a number of actions, which included extending the Chinese Spring Festival, quarantining individuals infected with or suspected of having COVID-19, prohibiting residents from free travel, encouraging employees of enterprises to work remotely from home and canceling public activities, among others. The COVID-19 has also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We have taken a series of measures in response to the outbreak, including, among others, remote working arrangements for some of our employees and temporarily allowing the government to utilize our fulfillment infrastructure and logistics services for crisis relief. These measures could reduce the capacity and efficiency of our operations and negatively impact the procurement of products, which in turn could negatively affect our results of operations.

The spread of COVID-19 has caused us to incur incremental costs, in particular, relating to our logistics business. In addition, we have seen a decrease in demand for big-ticket items, durable goods and discretionary products. However, leveraging our self-operated supply chain and logistics network, we were able to resume part of our operations after the Chinese Spring Festival and have seen an increase in demand for certain product categories, including consumer staples, such as groceries, fresh produce, healthcare and household products during this period. Furthermore, to mitigate any negative impacts that COVID-19 may have on the operations of our suppliers, we have implemented a variety of measures to support our suppliers, including adopting a shorter payable cycle and increasing advance payments to suppliers. As of the Latest Practicable Date, (i) most of our employees, including corporate office employees and field staff, had returned to work, (ii) our major operations, including JD Retail and JD Logistics, were resuming gradually around China and we plan to continue to do so as steadily and safely as we can, and (iii) customer demand across product and service categories on our platform was resuming gradually.

As of March 31, 2020, we had cash and cash equivalents of RMB43,529 million (US$6,148 million). Subsequently, we drew down the remaining US$550 million in April 2020 of the US$1.0 billion term and revolving credit facilities we entered into in 2017. We believe this level of liquidity is sufficient to successfully navigate an extended period of uncertainty. See also “Risk Factors—Risks Related to Our Business and Industry—We face risks related to natural disasters, health epidemics and other outbreaks, such as the outbreak of COVID-19, which could significantly disrupt our operations.”

U.S. Regulatory Update

On May 20, 2020, the U.S. Senate passed S. 945, the Holding Foreign Companies Accountable Act (the “Kennedy Bill”). If passed by the U.S. House of Representatives and signed by the U.S. President, the Kennedy Bill would amend the Sarbanes-Oxley Act of 2002 to direct the SEC to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges if the auditor of the registrant’s financial statements is not subject to PCAOB inspection for three consecutive years after the law becomes effective. For details of relevant regulatory risks, see “Risk Factors—Risks Related to Our Shares, ADSs and the Listing—Registered public accounting firms in China, including auditors of our consolidated financial statements in our prior annual reports on Form 20-F filed with the SEC, are not inspected by the U.S. Public Company Accounting Oversight Board, which deprives us and our investors of the benefits of such inspection.”

Issuance of Class A Ordinary Shares to Tencent

On May 27, 2020, we issued 2,938,584 Class A ordinary shares to Huang River Investment Limited, a wholly-owned subsidiary of Tencent Holdings Limited, pursuant to the share subscription agreement, dated May 10, 2019, between our company and Huang River Investment Limited. Huang River Investment Limited shall not, and shall cause its subsidiaries not to, without our prior written consent, transfer, pledge or otherwise dispose of any of these 2,938,584 Class A ordinary shares within a 12-month period following May 27, 2020, subject to certain limited exceptions.

Strategic Investment in Gome Retail

On May 28, 2020, we announced a strategic investment with GOME Retail Holdings Limited ("GOME"), one of the China's largest electronics chains, by subscription of the convertible bonds of GOME with the annual rate of 5% due 2023, in the aggregate principal amount of US$100 million.

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

"2019 PRC Foreign Investment Law"	the PRC Foreign Investment Law (《中華人民共和國外商投資法》), promulgated by the National People's Congress in March 2019, which became effective on January 1, 2020
"Accountants' Reports"	Accountant's report for the years ended December 31, 2017 and 2018 in Appendix IA to this document and accountants' report for the year ended December 31, 2019 in Appendix IB to this document
"ADS(s)"	American Depositary Shares (each representing two Class A ordinary shares)
"annual active customer accounts"	customer accounts that made at least one purchase during the twelve months ended on the respective dates, including both online retail and online marketplace
"Articles" or "Articles of Association"	our Articles of Association (as amended from time to time), adopted on March 6, 2014 and effective on May 28, 2014, a summary of which is set out in Appendix III
"B2C"	business-to-consumer
"board" or "board of directors"	our board of directors
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong or other relevant jurisdictions are generally open for business
"BVI"	British Virgin Islands
"C2C"	consumer-to-consumer
"Cayman Companies Law" or "Companies Law"	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant

"CCASS EIPO"	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC's Customer Service Center by completing an input request
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "the PRC"	the People's Republic of China, excluding, for the purposes of this document only, Taiwan and the special administrative regions of Hong Kong and Macau, except where the context otherwise requires
"Circular 82"	the Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the basis of de facto management bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), issued on April 22, 2009 and further amended on December 29, 2017
"Class A ordinary shares"	Class A ordinary shares in the share capital of the Company with a par value of US$0.00002 each, conferring a holder of a Class A ordinary share to one vote per share on any resolution tabled at the Company's general meeting
"Class B ordinary shares"	Class B ordinary shares in the share capital of the Company with a par value of US$0.00002 each, conferring weighted voting rights in the Company such that a holder of a Class B ordinary share is entitled to 20 votes per share on any resolution tabled at the Company's general meeting

"CNNIC"	China Internet Network Information Center (中國互聯網絡信息中心)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company", "our Company", "JD", "we", "our" or "us"	JD.com, Inc., a company incorporated in the BVI on November 6, 2006 and subsequently redomiciled to the Cayman Islands on January 16, 2014 as an exempted company under the laws of the Cayman Islands and, where the context requires, its consolidated subsidiaries and consolidated affiliated entities from time to time
"connected person(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules and unless the context otherwise requires, refers to Mr. Richard Qiangdong Liu and the directly and indirectly held companies through which Mr. Richard Qiangdong Liu has interest in the Company, namely, Max Smart Limited and Fortune Rising Holdings Limited, details of which are set out in the section headed "Relationship with the Controlling Shareholders"
"COVID-19"	novel coronavirus (COVID-19), a coronavirus identified as the cause of an outbreak of respiratory illness that was first reported in November 2019
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Deposit Agreement"	the deposit agreement, dated as of May 21, 2014, as amended, among us, Deutsche Bank Trust Company Americas and our ADS holders and beneficial owners from time to time
"director(s)"	member(s) of our board
"DTC"	The Depository Trust Company, the central book-entry clearing and settlement system for equity securities in the United States and the clearance system for our ADSs

“EIT”	enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》)
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“foreign private issuer”	as such term is defined in Rule 3b-4 under the U.S. Exchange Act
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GMV”	the total value of all orders for products and services placed in our online retail 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 mobile apps and websites as well as orders placed on third-party mobile apps and websites that are fulfilled by us or by our third-party merchants; the 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
“Google”	Google LLC
“Green Application Form(s)”	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	our Company, consolidated subsidiaries and consolidated affiliated entities from time to time
“HK$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Hong Kong Offer Shares"	the Class A ordinary shares offered pursuant to the Hong Kong Public Offering
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Public Offer Price on the terms and conditions described in this document
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting—Hong Kong Underwriters" in this document
"Hong Kong Underwriting Agreement"	the underwriting agreement dated June 5, 2020, relating to the Hong Kong Public Offering and entered into by, among others, our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners and the Hong Kong Underwriters, as further described in the section headed "Underwriting"
"ICP(s)"	Internet content provider(s)
"independent third party(ies)"	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our directors' knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company
"International Offer Price"	the final offer price per International Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
"International Offer Shares"	the Class A ordinary shares offered pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option
"International Offering"	the offer of the International Offer Shares at the International Offer Price pursuant to a prospectus supplement and the shelf registration statement on Form F-3ASR that was filed with the SEC and became effective on June 5, 2020
"International Underwriters"	the group of underwriters, led by the Joint Representatives, that expects to enter into the International Underwriting Agreement to underwrite the International Offering

"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, the Joint Representatives, the International Underwriters and us on or about June 11, 2020
"iResearch"	Shanghai iResearch Co., Ltd., China, an industry consultant
"JD Digits"	Jingdong Digits Technology Holding Co., Ltd. (formerly known as Beijing Jingdong Financial Technology Holding Co., Ltd.), and, except where the context otherwise requires, its consolidated subsidiaries
"JD Health"	JD Health International Inc., and, except where the context otherwise requires, its consolidated subsidiaries
"JD Logistics"	our logistics business as described in "Our Business—Our Business—JD Logistics"
"JD MRO"	JD Industrial Technology Inc., and, except where the context otherwise requires, its consolidated subsidiaries
"JD Property"	JD Property Management Group established in 2018, which owns, develops and manages our logistics facilities and other real estate properties to support JD Logistics and other third parties.
"JD Retail"	our retail business as described in "Our Business—Our Business—JD Retail"
"Joint Bookrunners"	the joint bookrunners as named in the section headed "Directors and Parties Involved in the Global Offering" of this document
"Joint Global Coordinators"	the joint global coordinators as named in the section headed "Directors and Parties Involved in the Global Offering" of this document
"Joint Lead Managers"	the joint lead managers as named in the section headed "Directors and Parties Involved in the Global Offering" of this document
"Joint Policy Statement"	the Joint Policy Statement Regarding the Listing of Overseas Companies jointly issued by the Hong Kong Stock Exchange and the SFC on September 27, 2013 and amended on April 30, 2018
"Joint Representatives"	Merrill Lynch (Asia Pacific) Limited, UBS AG Hong Kong Branch and CLSA Limited
"Joint Sponsors"	the Joint Sponsors of the listing of the Shares on the Main Board of the Hong Kong Stock Exchange, being Merrill Lynch Far East Limited, UBS Securities Hong Kong Limited and CLSA Capital Markets Limited

"Latest Practicable Date"	May 29, 2020, being the latest practicable date prior to the date of this document for the purpose of ascertaining certain information contained in this document
"Listing"	the listing we are seeking on the Hong Kong Stock Exchange under Chapter 19C and Chapter 8A of the Hong Kong Listing Rules
"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or about June 18, 2020, on which the Shares are listed on the Main Board of the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Main Board of the Hong Kong Stock Exchange
"M&A Rules"	the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the State Taxation Administration, CSRC, SAIC and SAFE on August 8, 2006, effective on September 8, 2006 and further amended on June 22, 2009 by the MOFCOM
"Main Board"	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
"Major Subsidiaries"	our subsidiaries and consolidated affiliated entities as identified in "History and Corporate Structure—Major Subsidiaries and Operating Entities"
"Memorandum" or "Memorandum of Association"	our memorandum of association (as amended from time to time) adopted on March 6, 2014 and effective on May 28, 2014, a summary of which is set out in Appendix III to this document
"MIIT"	the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部)
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Nasdaq"	Nasdaq Global Select Market
"NBS"	National Bureau of Statistics of China

"NDRC"	National Development and Reform Commission of People's Republic of China
"Negative List"	the Special Administrative Measures (Negative List) for Foreign Investment Access, most recently jointly promulgated by the MOFCOM and the NDRC on June 30, 2019 and which became effective on July 30, 2019, as amended, supplemented or otherwise modified from time to time
"NYSE"	New York Stock Exchange
"O2O"	online-to-offline
"Offer Share(s)"	the Hong Kong Offer Shares and the International Offer Shares, being Class A ordinary shares of the Company, together with, where relevant, any additional Class A ordinary shares which we may issue pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option we expect to grant to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) under the International Underwriting Agreement, which may require us to allot and issue up to an aggregate of 19,950,000 additional Offer Shares at the International Offer Price to, among other things, cover over-allocations in the International Offering, if any
"PCAOB"	the U.S. Public Company Accounting Oversight Board
"PRC Company Law"	the Company Law of the PRC (《中華人民共和國公司法》), enacted by the Standing Committee of the Eighth National People's Congress on December 29, 1993 and effective on July 1, 1994, and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, as amended, supplemented or otherwise modified from time to time
"PRC Legal Adviser"	Shihui Partners, our legal adviser as to the laws of the PRC
"Price Determination Agreement"	the agreement to be entered into by the Joint Representatives (for themselves and on behalf of the Underwriters) and us on the Price Determination Date to record and fix the pricing of the Offer Shares
"Price Determination Date"	the date, expected to be on or about June 11, 2020, on which the International Offer Price and Public Offer Price will be determined, or such later time as the Joint

	Representatives (for themselves and on behalf of the Underwriters) and we may agree, but in any event, not later than June 17, 2020
"Principal Share Registrar"	Maples Fund Services (Cayman) Limited
"Public Offer Price"	the final offer price per Hong Kong Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
"Qualifying Issuer"	has the meaning given to it under Chapter 19C of the Hong Kong Listing Rules
"Regulation S"	Regulation S under the U.S. Securities Act
"Relevant Persons"	the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their or the Company's respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RSU(s)"	restricted share unit(s)
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable
"SAFE Circular 37"	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE with effect from July 4, 2014
"SAIC"	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently known as SAMR
"SAMR"	the PRC State Administration for Market Regulation (中華人民共和國國家市場監督管理總局), formerly known as the SAIC
"SAT" or "State Taxation Administration of the PRC"	State Taxation Administration of the PRC (中華人民共和國國家稅務總局)

"SEC"	the United States Securities and Exchange Commission
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"shareholder(s)"	holder(s) of Shares and, where the context requires, ADSs
"Share(s)"	the Class A ordinary shares and Class B ordinary shares in the share capital of the Company, as the context so requires
"Share Incentive Plan"	Share Incentive Plan adopted in November 2014, details of which are set out in the section headed "Directors and Senior Management—Compensation"
"Stabilizing Manager"	Merrill Lynch (Asia Pacific) Limited through its affiliates
"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into on or before the Price Determination Date between Huang River Investment Limited and Merrill Lynch International, an affiliate of Merrill Lynch (Asia Pacific) Limited, pursuant to which Merrill Lynch International may borrow up to 19,950,000 Class A ordinary shares from Huang River Investment Limited to facilitate the settlement of over-allocations
"subsidiaries"	has the meaning ascribed thereto in the Hong Kong Listing Rules
"Takeovers Codes"	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC
"Tencent"	Tencent Holdings Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 700) and/or its subsidiaries, as the case may be
"Track Record Period"	the years ended December 31, 2017, 2018 and 2019
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States

"U.S. Exchange Act"	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
"U.S. GAAP"	accounting principles generally accepted in the United States
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"variable interest entities," "VIE" or "VIEs"	our variable interest entities that are 100% owned by PRC citizens or by PRC entities owned by PRC citizens, where applicable, that hold the ICP licenses, or other business operation licenses or approvals, and generally operate the various websites for our Internet businesses or other businesses in which foreign investment is restricted or prohibited, and are consolidated into our consolidated financial statements in accordance with U.S. GAAP as if they were our wholly-owned subsidiaries
"VAT"	value-added tax; all amounts are exclusive of VAT in this document except where indicated otherwise
"VIE structure" or "Contractual Arrangements"	variable interest entity structure
"Walmart"	Walmart Inc., an NYSE-listed company, or a subsidiary of Walmart Inc.
"weighted voting right"	has the meaning ascribed to it under the Hong Kong Listing Rules
"White Form eIPO"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of the White Form eIPO Service Provider, **www.eipo.com.hk**
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"WVR beneficiary"	has the meaning ascribed to it under the Hong Kong Listing Rules and unless the context otherwise requires, refers to Mr. Richard Qiangdong Liu, being the beneficial owner of the Class B ordinary shares, entitling each to weighted voting rights, details of which are set out in the section headed "Share Capital"
"WVR structure"	has the meaning ascribed to it under the Hong Kong Listing Rules

In this document, the terms "associate(s)," "close associate(s)," "controlling shareholder(s)," "core connected person(s)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Unless otherwise expressly stated or the context otherwise requires, all data in this document is as of the date of this document.

The English names of PRC entities, PRC laws or regulations, and PRC governmental authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Certain statements in this document are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will," "expect," "anticipate," "estimate," "believe," "going forward," "ought to," "may," "seek," "should," "intend," "plan," "projection," "could," "vision," "goals," "aim," "aspire," "objective," "target," "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- competition for, among other things, capital, technology and skilled personnel;
- our ability to control costs;
- our dividend policy;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate; and
- all other risks and uncertainties described in the section headed "Risk Factors."

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Hong Kong Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

An investment in our Class A ordinary shares involves significant risks. You should carefully consider all of the information set out in this document before making an investment in our Class A ordinary shares, including the risks and uncertainties described below in respect of our business and our industry and the Global Offering. You should pay particular attention to the fact that we are an exempted company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed "Forward-looking Statements" in this document.

Risks Related to Our Business and Industry

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 technology platform and fulfillment infrastructure and increase our product and service offerings. For example, in 2019, we recruited new employees in connection with the expansion of our fulfillment infrastructure and additional research and development personnel to strengthen our supply chain-based technology and service capability, and we will continue to invest resources in training, managing and motivating our workforce. We also plan to continue to build our warehouses and establish new fulfillment facilities in additional locations across China, including smaller, less developed areas. In addition, as we continue to increase our product and service offerings, we will need to work with a large number of new suppliers and third-party merchants efficiently and establish and maintain mutually beneficial relationships with our existing and new suppliers and third-party merchants. To support our growth, we also plan to implement a variety of new and upgraded managerial, operating, financial and human resource systems, procedures and controls. All these efforts will require significant managerial, financial and human resources. We cannot assure you that we will be able to effectively manage our growth or to implement all these systems, procedures and control measures successfully or that our new business initiatives will be successful. If we are not able to manage our growth or execute our strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected.

We incurred significant net losses in the past and we may not be able to maintain profitability in the future.

We incurred significant net losses in the past. We had net losses from continuing operations of RMB19 million and RMB2,801 million in 2017 and 2018, respectively, and had net income from continuing operations of RMB11,890 million (US$1,708 million) in 2019. We had accumulated deficits of RMB22,235 million, RMB24,038 million and RMB11,913 million (US$1,711 million) as of December 31, 2017, 2018 and 2019, respectively.

We cannot assure you that we will be able to continue to generate net profits in the future. Our ability to achieve and maintain 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 technology platform and fulfillment infrastructure to support an even larger selection of products and to offer additional value-added services. As a result of the foregoing, we may not be able to maintain our profitability 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, attract and regulate third-party merchants on our online marketplace, 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 or contracted third-party couriers 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, virus outbreaks, 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, in most instances, 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. If we are not able to manage our logistics services successfully, opening these services to third parties could divert the resources available to our retail business and affect customer experience. 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. In certain instances, our customers may be referred to our affiliates when using our services. Even though we do not necessarily have control over these affiliates, any negative customer experience associated with them may adversely affect our brand and reputation.

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, 2019, we had over 10,000 customer service representatives at these three centers. There is no assurance that we will be able to maintain a low turnover rate of existing employees and 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.

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 as well as promotions 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 mobile apps and websites 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.

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.

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 (京東) brand among our customers, suppliers and third-party merchants 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 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;
- support third-party merchants to provide satisfactory customer experience through our online marketplace;
- increase brand awareness through marketing and brand promotion activities; and
- preserve our reputation and goodwill in the event of any negative publicity, including those on customer service, customer and supplier relationships, 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 mobile apps and websites or that we or third-party service providers do not provide satisfactory customer service, even if factually incorrect or based on isolated incidents, could damage our reputation, diminish the value of our brand, undermine the trust and credibility we have established and have a negative impact on our ability to attract new customers or retain our current customers. If we are unable to maintain our reputation, enhance our brand recognition or increase positive awareness of our websites, products and services, as well as products sold by third-party merchants through our online marketplace, it may be difficult to maintain and grow our customer base, and our business and growth prospects may be materially and adversely affected.

Any actual or alleged illegal activities by our employees (including our senior management) could subject us to liability or negative publicity. These activities may also affect our employees' ability or willingness to continue to serve our company or dedicate their full time and efforts to our company and negatively affect our brand and reputation, resulting in an adverse effect on our business, operating results and financial condition.

If we are unable to offer products that attract purchases from new and 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 purchases from new customers and existing customers. Constantly changing consumer preferences have affected and will continue to affect the retail industry, in particular 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 interested. Each product page typically has recommendations of similar products or other products that are often purchased together with that product. In addition, our mobile apps and websites make recommendations to customers according to a comprehensive dataset compiled based on customers' shopping 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 products on our mobile apps and websites due in part to the attractive prices that we offer, and they may choose to shop elsewhere if we cannot match the prices offered by other websites or by physical stores, or if we cannot maintain a steady supply of products they desire. If our customers cannot find their desired products on our mobile apps and websites at attractive prices, they may lose interest in us and visit our mobile apps and websites less frequently or even stop visiting our mobile apps and websites altogether, which in turn may materially and adversely affect our business, financial condition and results of operations.

We plan to further expand our fulfillment infrastructure. If we are unable 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, 2019, we operated regional fulfillment centers in seven major cities, front distribution centers in 28 cities and other additional warehouses in 54 cities in China. Our comprehensive fulfillment facilities covered almost all the counties and districts across China, and we had 175,954 warehouse and delivery personnel as of December 31, 2019. We are constructing our warehouses to increase our storage capacity and to restructure and reorganize our fulfillment workflow and processes. In April 2017, we opened up our fulfillment infrastructure to third-parties 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. In April 2019, JD Logistics introduced its new cold chain service which utilizes idle capacity in the industry to offer cold chain transport services. Combined with JD Logistics's previously launched cold chain services, it has formed a one-stop shop from Factory to Business to Customer (F2B2C) cold chain delivery system to meet the service demands of manufacturers, third-party merchants, and consumers. 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 of 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. 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 personnel 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 the establishment of fulfillment facilities at 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 not be able to maintain or may lose market share and customers if we fail to compete effectively.

The retail industry in China, in particular the online retail industry, is intensely competitive. We compete for customers, orders, products and third-party merchants. 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, 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 "Business—Competition." In addition, new and enhanced technologies may increase the competition in the 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 and market share and impact brand recognition, or result in significant losses. When we set prices, we have to consider how competitors have set prices for the same or similar products. When they cut prices or offer additional benefits to compete with us, we may have to lower our own prices or offer additional benefits or risk losing market share, either of which could harm our financial condition and results of operations.

Some of our current or future competitors may have longer operating histories, greater brand recognition, better supplier relationships, larger customer bases, higher penetration in certain regions 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 and stock keeping units 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 target 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 RMB41,700 million as of December 31, 2017, to RMB44,030 million as of December 31, 2018 and further to

RMB57,932 million (US$8,321 million) as of December 31, 2019. Our annual inventory turnover days were 38.9 days in 2017, 38.7 days in 2018 and 35.8 days in 2019. Annual inventory turnover days are the quotient of average inventory over the immediately preceding five quarters, up to and including the last quarter of the annual period, to cost of revenues of retail business for that annual period, and then multiplied by 360 days. As we plan to continue expanding our product offerings, we expect to include more products in our inventory, which will make it more challenging for us to manage our inventory effectively and will put more pressure on our warehousing system.

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

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

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

We have experienced rapid growth since we commenced our online retail business in 2004. 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, such as decreased consumer spending, increased competition, slowdown in the growth or contraction of the retail or online retail industry in China, fulfillment bottlenecks, emergence of alternative business models, changes in government policies or general economic conditions, and natural disasters or virus outbreaks. If our growth rate declines, investors' perceptions of our business and business prospects may be adversely affected and the market price of our Class A ordinary shares and/or 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 RMB14,918 million, RMB19,237 million and RMB22,234 million (US$3,194 million) of marketing expenses in 2017, 2018 and 2019, 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 on favorable terms, our business and growth prospects may suffer.

We source products from third-party suppliers for our retail business. We had over 24,000 suppliers as of December 31, 2019. Our suppliers include domestic and cross-border 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, customs and import restrictions, 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 retail business were 60.3 days in 2017, 60.2 days in 2018 and 54.5 days in 2019. Annual accounts payable turnover days are the quotient of average accounts payable for retail business over the immediately preceding five quarters, up to and including the last quarter of the annual period, to cost of revenues of retail business for that annual period, 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. Any disputes with suppliers could adversely affect our reputation and subject us to damages and negative publicity. In addition, as part of our growth strategy, we plan to further expand our product offerings. If we fail to attract new suppliers to sell their products to us due to any reason, our business and growth prospects may be materially and adversely affected.

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

Our ability to process and fulfill orders accurately and provide high-quality customer service depends on the smooth operation of our regional fulfillment centers, front distribution centers, other additional warehouses, and our delivery and pickup stations. Our fulfillment infrastructure may be vulnerable to damage caused by fire, flood, power outage, telecommunications failure, break-ins, earthquake, human error and other events. If any of our regional fulfillment centers were to operate at a lower capacity or rendered incapable of operations, then we may be unable to fulfill any orders in a timely manner or at all in any of the provinces that rely on that center. For example, business operations at our fulfillment centers could be disrupted if any of our employees working therein are suspected of being infected with a novel strain of coronavirus ("COVID-19"), since it could require our employees to be quarantined and/or our offices to be disinfected. 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 RMB18.0 billion (US$2.6 billion) for the acquisition of land use rights, building of warehouses and purchase of warehousing equipment as of December 31, 2019. We sold certain of our development properties and received proceeds of RMB7.9 billion (US$1.1 billion) in 2019. We seek to realize development profits and recycle capital from mature properties to fund new developments and scale the business. This initiative, however, may not always be successful. See "History and Corporate Structure" for further information. 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 merchants 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 (including Dada Nexus Limited, or Dada Group, a leading platform of local on-demand retail and delivery in China) 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 merchants 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, virus outbreaks, transportation disruptions or labor unrest. In addition, if our third-party couriers fail to comply with applicable rules and regulations in China, our delivery services may be materially and adversely affected. We may not be able to find alternative delivery companies to provide delivery services in a timely and reliable manner, or at all. Delivery of our products could also be affected or interrupted by the merger, acquisition, insolvency or government shut-down of the delivery companies we engage to make deliveries, especially those local companies with relatively small business scales. If our products are not delivered in proper condition or on a timely basis, our business and reputation may be materially and adversely affected.

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

As of December 31, 2019, there were over 270,000 third-party merchants 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 merchants 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 mobile apps and websites. If any third-party merchant does not control the quality of the products that it sells on our mobile apps and websites, fails to timely deliver the products to customers, delivers products that are faulty or materially different from description, sells counterfeit or unlicensed products, or sells 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 merchant, the reputation of our online marketplace and our JD brand may be materially and adversely affected and we could face claims to hold us liable for the losses. 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 retail. 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 retail 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 merchants, and we may not be successful in this regard.

Failure to deal effectively with any fictitious transactions or other fraudulent conduct 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 merchants 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 transaction volume from our online marketplace. Moreover, illegal, fraudulent or collusive activities by our employees, such as fraud, bribery or corruption, could also subject us to liability or negative publicity or cause losses. 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 merchants 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.

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 Group, a leading platform of local on-demand retail and delivery in China, our acquisition of Yihaodian marketplace platform assets from Walmart, an NYSE-listed company, including the Yihaodian brand, mobile apps and websites, 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, Dalian Wanda Commercial Properties Co., Ltd., or Wanda Commercial Properties, a leading developer, owner and operator of commercial properties in China, Jiangsu Five Star Appliance Co., Ltd., or Jiangsu Five Star, one of the leading offline retailers of home appliances and consumer electronics in China, and AiHuiShou International Co. Ltd., or AiHuiShou, an online second-hand consumer electronics trading platform. See "History and Corporate Structure" for further information. We expect to continue to evaluate and consider a wide array of potential strategic transactions as part of our overall business strategy, including business combinations, acquisitions and dispositions of businesses, technologies, services, products and other assets, as well as strategic investments, joint ventures and alliances.

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. As of December 31, 2019, we had net intangible assets of RMB4.1 billion (US$0.6 billion) and goodwill of RMB6.6 billion (US$1.0 billion). In the event that a decline in fair value below the carrying value of our equity method investments is other-than-temporary, or the carrying amount of a reporting unit to which goodwill is allocated exceeds its fair value, we may have to record actual or potential impairment charges of investments in equity investees or intangible assets and goodwill recorded in connection with invested businesses. See "Financial Information—Critical Accounting Policies—Investment in Equity Investees." 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 2019, our share of results of equity investees was a loss of RMB1.7 billion (US$0.2 billion), primarily attributable to losses picked up and the impairment recognized 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 or unless we have other investments in 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, and a gain of RMB3.5 billion (US$0.5 billion) resulting from the fair value change in long-term investments in 2018 and 2019, respectively.

These and other risks could also lead to negative publicity, litigation, government inquiries, investigations or actions against the companies we invest in or acquire, or even against our other businesses, and may force us to incur significant additional expenses and allocate significant management and human resources to rectify or improve these companies' corporate governance standards or internal controls and systems.

We may be subject to legal, regulatory and/or administrative proceedings.

We may be subject to litigation and regulatory proceedings inside and outside China relating to third-party and principal intellectual property infringement claims, contract disputes involving third-party merchants and consumers on our platforms, consumer protection claims, claims relating to data and privacy protection, employment related cases, cross-border payment and settlement disputes and other matters in the ordinary course of our business. As we routinely enter into business contracts with our suppliers, third-party merchants and consumers on our platform, we have been and may continue to be involved in legal proceedings arising from contract disputes, including being named as a co-defendant in lawsuits filed against our suppliers by third parties. For example, between July and August 2019, two lawsuits were filed against us involving claims in an aggregate amount of approximately RMB2.5 billion, plus damages due to late payments as well as litigation related expenses. See "Our Business—Legal and Administrative Proceedings" for more details. We believe these lawsuits are without merit and we are defending ourselves vigorously. However, there is uncertainty regarding the timing or ultimate resolution of these two lawsuits and the other legal proceedings in which we are involved. We anticipate that we will continue to be subject to legal, regulatory and/or administrative proceedings in the future incidental to our ordinary course of business. There can be no assurance that we will be able to prevail in our defense or reverse any unfavorable judgment, ruling or decision against us. In addition, we may decide to enter into settlements that may adversely affect our results of operations and financial condition.

As our digital economy expands, including across jurisdictions and through the addition of new businesses, we may encounter a variety of these claims, including those brought against us pursuant to anti-monopoly or unfair competitions laws or involving higher amounts of alleged damages. Laws, rules and regulations may vary in their scope and overseas laws and regulations may impose requirements that are more stringent than, or which conflict with, those in China. We have acquired and may acquire companies that may become subject to litigation, as well as regulatory proceedings. In addition, in connection with litigation or regulatory proceedings we may be subject to in various jurisdictions, we may be prohibited by laws, regulations or government authorities in one jurisdiction from complying with subpoenas, orders or other requests from courts or regulators of other jurisdictions, including those relating to data held in or with respect to persons in these jurisdictions. Our failure or inability to comply with the subpoenas, orders or requests could subject us to fines, penalties or other legal liability, which could have a material adverse effect on our reputation, business, results of operations and the trading price of our Class A ordinary shares and/or ADSs.

As a publicly-listed company, we may face additional exposure to claims and lawsuits inside and outside China, including securities law class actions. We will need to defend against these lawsuits, including any appeals should our initial defense be successful. The litigation process may utilize a material portion of our cash resources and divert management's attention away from the day-to-day operations of our company, all of which could harm our business. There can be no assurance that we will prevail in any of these cases, and any adverse outcome of these cases could have a material adverse effect on our reputation, business and results of operations. In addition, although we have obtained directors' and officers' liability insurance, the insurance coverage may not be adequate to cover our obligations to indemnify our directors and officers, fund a settlement of litigation in excess of insurance coverage or pay an adverse judgment in litigation. Certain of our directors are subject to alleged class actions due to their current or previous directorships in other listed companies. Our directors and executive officers may also face litigation or proceedings (including alleged or future securities class action) unrelated to their respective capacity as a director or executive officer of our company, and such litigation or proceedings may adversely affect our public image and reputation.

The existence of litigation, claims, investigations and proceedings may harm our reputation, limit our ability to conduct our business in the affected areas and adversely affect the trading price of our Class A ordinary shares and/or ADSs. The outcome of any claims, investigations and proceedings is inherently uncertain, and in any event defending against these claims could be both costly and time-consuming, and could significantly divert the efforts and resources of our management and other personnel. An adverse determination in any litigation, investigation or proceeding could cause us to pay damages, incur legal and other costs, limit our ability to conduct business or require us to change the manner in which we operate.

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 and negatively affect our brand and reputation, resulting in an adverse effect on our business, operating results and financial condition. In April 2019, a civil lawsuit was filed before a Minneapolis court against Mr. Richard Qiangdong Liu and our Company (for vicarious liability) arising from an incident involving alleged non-consensual contact in August 2018, seeking damages exceeding US$50,000 from Mr. Liu and our Company. We and Mr. Liu believe that all such claims against our Company and Mr. Liu are without merit and intend to vigorously defend against the validity of all such claims. This lawsuit remains at an early stage, and the ultimate resolution of such claims cannot be determined.

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, 2019, we employed a total of 175,954 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 personnel 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. 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 personnel 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.

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

We sourced our products from over 24,000 suppliers as of December 31, 2019. Third-party merchants on our online marketplace are separately responsible for sourcing the products they sell on our mobile apps and websites. As of December 31, 2019, we had over 270,000 third-party merchants on our online marketplace. Although we have adopted measures to verify the authenticity and authorization of products sold on our mobile apps and websites and avoid potential infringement of third-party intellectual property rights in the course of sourcing and selling products, we may not always be successful. As part of our cross-border e-commerce business, we source products outside of China and allow overseas brands or partners to sell their products through our online marketplace, which could make it more difficult for us to verify the authenticity and authorization of products sold.

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

Under our standard form agreements, we require suppliers or third-party merchants 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 merchants. However, not all of our agreements with suppliers and third-party merchants 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 the People's Republic of 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.

The products sold by us through our online retail business may be defective. 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 mobile apps and websites, and the fulfillment services we provide to third-party merchants are related to sales of their products through our mobile apps and websites. 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 mobile apps and websites or reduced order fulfillment performance could reduce the volume of products sold and the attractiveness of product offerings on our mobile apps and websites. Our servers may also be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to system interruptions, website slowdown or unavailability, delays or errors in transaction processing, loss of data or the inability to accept and fulfill customer orders. Security breaches, computer viruses and hacking attacks have become more prevalent in our industry.

Because of our brand recognition in the online retail industry in China, we believe we are a particularly attractive target for such attacks. We have experienced in the past, and may experience in the future, such attacks and unexpected interruptions. We can provide no assurance that our current security mechanisms will be sufficient to protect our IT systems from any third-party intrusions, viruses or hacker attacks, information or data theft or other similar activities. Any such future occurrences could reduce customer satisfaction, damage our reputation and result in a material decrease in our revenue.

Additionally, we must continue to upgrade and improve our technology platform to support our business growth, and failure to do so could impede our growth. However, we cannot assure you that we will be successful in executing these system upgrades and improvement strategies or when the execution of these system upgrades and improvement strategies will be effective. 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 mobile apps and websites, which could cause us to lose customers and harm our operating results.

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

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 merchants 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 merchants. For example, the PRC Cyber Security Law provides that personal information and important data collected and generated by operators of critical information infrastructure in the course of their operations in the PRC should be stored in the PRC, and the law imposes heightened regulation and additional security obligations on operators of critical information infrastructure. In addition, the General Administration of Quality Supervision, Inspection and Quarantine and Standardization Administration jointly issued the Standard of Information Security Technology—Personal Information Security Specification (GB/T 35273-2017), which came into effect in May 2018. Moreover, the State Administration for Market Regulation and the Standardization Administration jointly issued the new Standard of Information Security Technology—Personal Information Security Specification (GB/T 35273-2020) in March 2020, which will replace the previous standard GB/T 35273-2017 and will take effect in October 2020. Pursuant to these standards, 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, minimization and voluntariness and should also obtain a consent from the information provider. We expect that these areas will receive greater and continued attention and scrutiny from regulators and the public going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

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.

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, UnionPay and JD Pay (run by JD Digits). 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 some customers choose the cash-on-delivery option when they place their orders online, 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 governing electronic funds transfers, both in China and globally, which could change or be reinterpreted to make it difficult or impossible for us to comply with. 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.

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 "Regulations—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 processing 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.

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 "History and Corporate Structure" and "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 prospects 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, and if we acquire equity ownership interest, our financial performance may be impacted by the financial results of 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 any 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 subsequent 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 subsequent 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 "Related Party Transactions—Agreements and Transactions Relating to JD Digits."

We have the right to convert the profit-sharing right into the Maximum Interest (approximately 36%) in JD Digits at any time, subject to satisfaction of the conditions set out in the Framework Agreement entered into with JD Digits. As of the Latest Practicable Date, we have not exercised such right to convert into equity interest in JD Digits. We, however, monitor the relevant conditions and assess the desirability of converting into equity interest in JD Digits on an ongoing basis, and may decide to exercise such right and convert the profit-sharing right into the Maximum Interest (approximately 36%) in JD Digits after the Listing. In the event that we decide to exercise such right, we will execute definitive agreements with JD Digits and its existing shareholders. Upon closing of the issuance of the Maximum Interest, the liquidity event payment and the profit-sharing arrangement under the Framework Agreement and JD Digits IPLA described in "Related Party Transactions—Agreements and Transactions Relating to JD Digits" will automatically terminate, and we will account for such equity interest in JD Digits by using the equity method, whereby our investment in JD Digits will be included in our "investment in equity investees" on our consolidated balance sheet, and we will pick up a corresponding portion (approximately 36%) of JD Digits' income or loss and reflect that in our "share of results of equity investees" in our consolidated income statement. Assuming we convert the profit-sharing right into the Maximum Interest (approximately 36%) in JD Digits as of January 1, 2019 and we account for JD Digits as our equity investment using equity method since that date, we do not expect our overall financial performance for the year ended December 31, 2019 would be materially impacted by JD Digits, based on the unaudited management accounts of JD Digits for the year ended December 31, 2019.

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

Our 7FRESH brand's growth strategy includes opening and operating offline fresh food stores at suitable locations. The implementation of this strategy depends on finding suitable locations. In addition, we compete with other retailers and businesses for suitable locations. 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. Real estate, zoning, construction and other delays may adversely affect store openings and renovations and increase our costs. Moreover, 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.

Furthermore, our offline fresh food stores face increasing competition from other retailers in various aspects, including, among others, pricing, selection, quality and availability of product offering, store hours, in-store amenities, shopping convenience and overall shopping experience. If we operate our stores at locations not suitable for our growth strategy, or if we are unable to maintain our existing store locations, open new stores in desirable places and on favorable terms or compete successfully with other retailers, the results of operations of our 7FRESH brand could be materially and adversely affected.

JD Health, our healthcare subsidiary, is subject to risks associated with the marketing, distributing, selling and regulation of pharmaceutical and healthcare products.

JD Health, our healthcare subsidiary, is subject to certain risks associated with the marketing, distributing and selling of pharmaceutical and other health and wellness products including, but not limited to, the following:

- inability to successfully execute effective advertising, marketing and promotional activities necessary to maintain and increase the awareness of JD Health and the products and services it offers;
- failure to implement effective pricing and other strategies in response to intense market competition in the pharmaceutical industry in China;
- inability to upgrade intelligent healthcare solutions in response to changing consumer demand and preference;
- inability to stock adequate supply of pharmaceutical and healthcare products that customers desire;
- inability to obtain and maintain regulatory or governmental permits, approvals and clearances, or to pass PRC government inspections; and
- the risk of, and resulting liability from, any contamination, injury or other harm caused by any use, misuse, misdiagnosis or side-effects involving products distributed or services provided by JD Health.

The occurrence of any such risks may damage the business and reputation of JD Health, and may have a material and adverse impact on our financial condition and results of operations.

Furthermore, laws and regulations regarding pharmaceutical and healthcare industry in China are strict and extensive. Violation of relevant laws and regulations may result in harsh penalties and, under certain circumstances, lead to criminal prosecution. Meanwhile, regulations of both internet industry and its internet healthcare sector are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, it may be difficult to determine what actions or omissions would be deemed in violation of applicable laws and regulations. Due to the uncertainty and complexity of the regulatory environment, we cannot assure you that JD Health would always be in full compliance with applicable laws and regulations, the violation of which may have adverse effect on its brand reputation and business. Compliance with future laws and regulations may require JD Health to change its business models and practices at an undeterminable and possibly significant financial cost. These additional monetary expenditures may increase future overhead, which may, in turn, have a material adverse effect on our business, financial condition and results of operations.

JD Property Management Group, or JD Property, faces challenges relating to the macroeconomic environment, the market condition and its own business development.

JD Property, our subsidiary that owns, develops and manages our logistics facilities and other real estate properties, is in its early stage of business development and faces challenges relating to the macroeconomic environment, the market condition and certain characteristics of its current operations. These challenges include, but are not limited to:

- impact on business growth due to the COVID-19 pandemic. We expect JD Property's progress on land procurement and property development to be adversely affected so long as local government authorities continue to prioritize the fight against COVID-19 over economic development;
- fluctuations in the macroeconomic environment. The market demand for logistics facilities generally reflects conditions in the Chinese economy. If the general economy slows, the demand for logistics properties will decrease and the vacancy rate will increase, resulting in a more competitive market environment for JD Property;
- concentration risk of business operations. External clients currently account for a relatively small portion of JD Property's client base. Its business growth largely depends on the demand of JD.com, JD Logistics and other affiliated companies. Moreover, because the primary business focus of JD Property is on logistics properties, slowdown in the logistics industry may have a greater impact on its business than if JD Property were engaged in the development of different types of properties, including residential, office or other properties, in additional to industrial and logistics properties;
- uncertainties in the overseas market. JD Property's venture into the overseas market, such as the Southeast Asian market, faces challenges inherent in conducting cross-board business, including cultural differences, complexity of local regulatory environment, political stability and communication with local clients and business partners, among other things; and
- relatively short operating history. JD Property is in the early stage of business development, and faces challenges a new company typically encounters in its management, financing and business expansion.

If JD Property's business cannot continue to grow despite these challenges, our financial condition and results of operations may 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.

A small portion of the lessors of our leased warehouses, leased offices, and 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. Such 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 Latest Practicable Date, 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.

We are subject to a broad range of laws and regulations. Any lack of requisite approvals, licenses or permits applicable to our business or any failure to comply with applicable laws or regulations 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), or SAMR, the National Development and Reform Commission, or NDRC, 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.

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 December 31, 2019, we have Courier Service Operation Permits that allow

Jingbangda, a subsidiary of Xi'an Jingdong Xincheng, one of our consolidated variable interest entities providing logistics services, and the subsidiaries of Jingbangda, to operate an express delivery business in 31 provinces and 448 cities in China. As of December 31, 2019, Jingbangda and its 37 subsidiaries had obtained Courier Service Operation Permits. As of the same date, Xi'an Jingdong Xuncheng and its 10 branches and one subsidiary, 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 the subsidiaries of Jingbangda. 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 mobile apps and websites. Due to licensing requirements, currently such prepaid cards can only be used to purchase products 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.

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 mobile apps and websites. We have made great efforts to obtain all the applicable licenses and permits, but due to the large number of products sold on our mobile apps and websites, we may not always be able to do so and we were penalized by governmental authorities for selling products without proper licenses. As we increase our product selection, we may also become subject to new or existing laws and regulations that did not affect us before.

As online retail is evolving rapidly in China, new laws and regulations may be adopted from time to time to require additional licenses and permits other than those we currently have, and to address new issues that arise from time to time. 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. 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. 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 RMB227 million, RMB167 million and RMB134 million (US$19 million) in connection with this grant of option to Mr. Liu in 2017, 2018 and 2019, 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 and 83,476,500 share options in 2018 and 2019, respectively. For the years ended December 31, 2017, 2018 and 2019, we recorded an aggregate of RMB2,781 million, RMB3,660 million and RMB3,695 million (US$531 million), respectively, in share-based compensation expenses. As of March 31, 2020, 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 102,503,866 ordinary shares, excluding restricted share units that were forfeited, canceled, or vested after the relevant grant date, and (ii) options to purchase an aggregate of 33,795,734 ordinary shares, excluding options that were forfeited, canceled, or exercised after the relevant grant date. As of March 31, 2020, the share-based awards granted by Company to the eligible employees and non-employees and remained outstanding represented 5% and 1% of the Company's total issued shares, respectively. The non-employees include ex-employees and consultants of the Company. We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based awards 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.

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 Class A ordinary shares and/or 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 recorded net current liabilities of RMB3.2 billion, RMB16.0 billion and RMB0.9 billion (US$0.1 billion) as of December 31, 2017, 2018 and 2019, respectively. Although 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, a net current liabilities position can expose us to the risk of shortfalls in liquidity, which, in turn, may require us to seek adequate financing from sources such as external debt, which may not be available on terms favorable or commercially reasonable to us or at all. We may also 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 and January 2020 both 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. In addition, any difficulty or failure to meet our liquidity needs as and when needed can have a material adverse effect on our prospects. A large balance of indebtedness may require that we devote our financial resources to servicing such debt rather than funding our operating activities, which constrains our capital flexibility and may in turn adversely affect our results of operation. It may also be a challenge for us to service our interest and principal repayments in a timely manner or at all, which could trigger cross-defaults with other debt, as applicable, as well as limit our ability to obtain further debt financing.

Failure to comply with the terms of our indebtedness or enforcement of our obligations under any guarantee or other similar arrangement could have an adverse effect on our cash flow and liquidity.

As of December 31, 2019, we had long-term debt obligations in an aggregate amount of RMB10.1 billion (US$1.4 billion), including US$1.0 billion in aggregate principal amount of unsecured senior notes and US$450 million we had drawn down under our US$1.0 billion term and revolving credit facilities. Subsequently, we issued in January 2020 US$1.0 billion in aggregate principal amount of unsecured senior notes, and drew down in April 2020 the remaining US$550 million under our US$1.0 billion term and revolving credit facilities. Under the terms of our indebtedness and under any debt financing arrangement that we may enter into in the future, we are, and may be in the future, subject to covenants that could, among other things, restrict our business and operations. If we breach any of these covenants, our lenders under our credit facilities and holders of our unsecured senior notes will be entitled to accelerate our debt obligations. Any default under our credit facilities or unsecured senior notes could require that we repay these debts prior to maturity as well as limit our ability to obtain additional financing, which in turn may have a material adverse effect on our cash flow and liquidity. In addition, enforcement against us under any guarantee and other similar arrangements we may enter into in the future could materially and adversely affect our cash flow and liquidity.

Changes affecting the availability of the London Inter-bank Offered Rate (LIBOR) may have consequences for us that cannot yet be reasonably predicted.

We have outstanding debt with variable interest rates based on LIBOR. In December 2017, we entered into a five-year US$1.0 billion term and revolving credit facilities agreement with a group of 24 arrangers. The facilities were priced at 115 basis points over LIBOR. As of the date of this document, we had fully drawn down the credit facilities. The LIBOR benchmark has been the subject of national, international and other regulatory guidance and proposals to reform. On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear whether or not, at that time, LIBOR will cease to exist and a satisfactory replacement rate developed or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of, among other entities, large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index that measures the cost of borrowing cash overnight, backed by U.S. Treasury securities (“SOFR”). SOFR is observed and backward-looking, which stands in contrast with LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Whether or not SOFR attains market traction as a LIBOR replacement rate remains in question. As such, the future of LIBOR at this time is uncertain. If LIBOR ceases to exist, we may need to renegotiate the applicable interest rates under our existing revolving credit facilities agreement, as it uses LIBOR as a factor in determining the applicable interest rate. In addition, any changes to benchmark rates may have an uncertain impact on our cost of funds and our access to the capital markets, which could impact our results of operations and cash flows. Uncertainty as to the nature of such potential changes may also adversely affect the trading market for our securities.

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 macroeconomic environment is facing numerous challenges. The growth rate of the Chinese economy has gradually slowed since 2010 and the trend may continue in the foreseeable future, especially in light of the challenges the global economy is facing due to the COVID-19 global pandemic. See "—We face risks related to natural disasters, health epidemics and other outbreaks, such as the outbreak of COVID-19, which could significantly disrupt our operations." Any slowdown could significantly reduce domestic commerce in China, including through the internet generally and through us. In addition, 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. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

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 or services, the products or services provided by third-party merchants on our marketplace, 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.

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 27 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/or our ADSs may view as beneficial.

Our Company is controlled through weighted voting rights. 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 direct or indirect transfer of Class B ordinary shares or associated voting power 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 the Latest Practicable Date, Mr. Liu beneficially owned 78.4% of the aggregate voting power of our company, including 5.1% 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 29,373,658 Class B ordinary shares, representing 5.1% 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 5.1% of the aggregate voting power of our company following our instruction. Mr. Liu, as the representative of Fortune Rising Holdings Limited, can exercise this 5.1% of the aggregate voting power of our company on behalf of Fortune Rising Holdings Limited. 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 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. See "Information about the Listing—Our Articles of Association" for further details about the proposed amendment to our Articles of Association after the Listing, so that the quorum necessary for the transaction of the business of the directors shall be a majority of the members of our board of directors. 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/or our ADSs of the opportunity to sell their shares at a premium over the prevailing market price.

For further details about our shareholding structure, see the section "Share Capital—Weighted Voting Rights Structure."

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 made statements and taken certain actions that may lead to potential changes to U.S. and international trade policies towards China. In January 2020, the "Phase One" agreement was signed between the United States and China on trade matters. However, it remains unclear what additional actions, if any, will be taken by the U.S. or other governments with respect to international trade agreements, the imposition of tariffs on goods imported into the U.S., tax policy related to international commerce, or other trade matters. 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. For example, the current COVID-19 pandemic has caused significant volatility in financial markets across the world. 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.

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 Class A ordinary shares and/or 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 Class A ordinary shares and/or ADSs.

We face risks related to natural disasters, health epidemics and other outbreaks, such as the outbreak of COVID-19, which could significantly disrupt our operations.

Our business could be adversely affected by the effects of epidemics, including COVID-19, avian influenza, severe acute respiratory syndrome, (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 recent years, there have been outbreaks of epidemics in China and globally. For example, in early 2020, in connection with the intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included extending the Chinese New Year holiday, quarantining individuals infected with or suspected of having COVID-19, prohibiting residents from free travel, encouraging employees of enterprises to work remotely from home and canceling public activities, among others. The COVID-19 has also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We have taken a series of measures in response to the outbreak, including, among others, remote working arrangements for some of our employees and temporarily allowing the government to utilize our fulfillment infrastructure and logistics services for crisis relief. These measures could reduce the capacity and efficiency of our operations and negatively impact the procurement of products, which in turn could negatively affect our results of operations. The extent to which COVID-19 impacts our results of operations will depend on the future developments of the outbreak, including new information concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the Chinese economy in general. We had cash outflow of RMB1,542 million (US$218 million) from operating activities for the three months ended March 31, 2020, compared with a cash inflow of RMB3,323 million from operating activities for the three months ended March 31, 2019. See “Recent Developments” for more information on the impact COVID-19 has had on our operating cash flow and business operations. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section, such as those relating to our level of indebtedness, our need to generate sufficient cash flows to service our indebtedness and our ability to comply with the covenants contained in the agreements that govern our indebtedness.

We are also vulnerable to natural disasters and other calamities. If any such 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 Class A ordinary shares and/or 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, 2019.

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 Class A ordinary shares and/or 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.

Registered public accounting firms in China, including auditors of our consolidated financial statements in our prior annual reports on Form 20-F filed with the SEC, 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 auditors of our consolidated financial statements in our prior annual reports on Form 20-F filed with the SEC, 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. Auditors of our consolidated financial statements in our prior annual reports on Form 20-F filed with the SEC are 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. As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular the PRC's, in June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress that would require the SEC to maintain a list of issuers for which PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges such as Nasdaq of issuers included on the SEC's list for three consecutive years. On May 20, 2020, the U.S. Senate passed S. 945, the Holding Foreign Companies Accountable Act (the "Kennedy Bill"). If passed by the U.S. House of Representatives and signed by the U.S. President, the Kennedy Bill would amend the Sarbanes-Oxley Act of 2002 to direct the SEC to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges or traded "over-the-counter" if the auditor of the registrant's financial statements is not subject to PCAOB inspection for three consecutive years after the law becomes effective. Enactment of any of such legislations or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, the market price of our ADSs could be adversely affected, and we could be delisted if we are unable to cure the situation to meet the PCAOB inspection requirement in time. It is unclear if and when any of such proposed legislations will be enacted. Furthermore, there have been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any such deliberations were to materialize, the resulting legislation may have material and adverse impact on the stock performance of China-based issuers listed in the United States.

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 the audit procedures or quality control procedures of auditors of our consolidated financial statements in our prior annual reports on Form 20-F filed with the SEC as compared to auditors outside of China that are subject to PCAOB inspections, which could cause investors and potential investors of our Class A ordinary shares and/or 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 auditors of our consolidated financial statements in our prior annual reports on Form 20-F filed with the SEC, 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 auditors of our consolidated financial statements in our prior annual reports on Form 20-F filed with the SEC, 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 auditors of our consolidated financial statements in our prior annual reports on Form 20-F filed with the SEC, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

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 Class A ordinary shares and/or ADSs may be adversely affected.

If auditors of our consolidated financial statements in our prior annual reports on Form 20-F filed with the SEC 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 securities 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;
- protectionist or national security policies that restrict our ability to invest in or acquire companies; develop, import or export certain technologies, such as the national AI initiative proposed by the U.S. government; or utilize technologies that are deemed by local governmental regulators to pose a threat to their national security;
- compliance with applicable foreign laws and regulations and unexpected changes in laws or regulations, including compliance with privacy laws and data security laws, including the European Union General Data Protection Regulation, or GDPR, and compliance costs across different legal systems;
- differing, complex and potentially adverse customs, import/export laws, tax rules and regulations or other trade barriers or restrictions which may be applicable to transactions conducted through our international and cross-border platforms, related compliance obligations and consequences of non-compliance, and any new developments in these areas; 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.

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, domestic multi-party communications, data collection and transmission services and call centers) and the main foreign investor in the foreign-invested telecommunication enterprise must have experience in providing value-added telecommunications services overseas and maintain a good track record.

We are a Cayman Islands exempted 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 provide certain other restricted services related to our businesses, such as 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. 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.

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 "History and Corporate Structure."

In the opinion of Shihui Partners, our PRC Legal Adviser, (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 Adviser 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 Adviser. 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:

- 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 "History and Corporate 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.

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 the People's Republic of 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 and Courier Service Operation Permits, 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 mobile apps and websites and any interruption in our ability to use our mobile apps and websites 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.

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 affect 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 PRC 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.

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 the People's Republic of 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, i.e., the difference between its total amount of investment and its registered capital, or certain amount calculated based on elements including capital or net assets and the cross-border financing leverage ratio ("Macro-prudential Management Mode") under relevant PRC laws and the loans must be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE, or filed with SAFE in its information system. We may also provide loans to our consolidated affiliated entities or other domestic PRC entities under the Macro-prudential Management Mode. According to the Circular of the People's Bank of China and the State Administration of Foreign Exchange on Adjusting the Macro-prudent Adjustment Parameter for Cross-border Financing issued on March 11, 2020, the limit for the total amount of foreign debt under the Macro-prudential Management Mode is increased to two and a half times from two times of their respective net assets. Moreover, any medium or long-term loan to be provided by us to our consolidated affiliated entities or other domestic PRC entities must also be registered with the NDRC.

We may also decide to finance our wholly foreign-owned subsidiaries in China by means of capital contributions. These capital contributions shall go through record-filing procedures from competent administration for market regulation. SAFE issued the Circular on the Management Concerning the Reform of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 19, which took effect on June 1, 2015. SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC provided that such usage shall fall into the scope of business of the foreign-invested enterprise, which will be regarded as the reinvestment of foreign-invested enterprise. In addition, SAFE promulgated the Circular Regarding Further Promotion of the Facilitation of Cross-Border Trade and Investment on October 23, 2019, or SAFE Circular 28, pursuant to which all foreign-invested enterprises can make equity investments in the PRC with their capital funds in accordance with the law. As SAFE Circular 28 is new and the relevant government authorities have broad discretion in interpreting the regulation, it is unclear whether SAFE will permit such capital funds to be used for equity investments in the PRC in actual practice.

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, we cannot assure you that we will be able to complete the necessary government registrations or record-filings 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 record-filings, 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.

Our current corporate structure and business operations may be affected by the 2019 PRC Foreign Investment Law.

On March 15, 2019, the National People's Congress promulgated the 2019 PRC Foreign Investment Law or the FIL, which has become effective on January 1, 2020 and replaced the outgoing 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, as well their implementation rules and ancillary regulations, or the Outgoing FIE Laws. See "Regulations—Regulations Relating to Foreign Investment."

Meanwhile, the Implementation Rules to the PRC Foreign Investment Law came into effect as of January 1, 2020, which clarified and elaborated the relevant provisions of the 2019 PRC Foreign Investment Law. 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 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, it has a catch-all provision under definition of "foreign investment" that includes investments made by foreign investors in the PRC through other means as provided by laws, administrative regulations or the State Council, 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, financial condition and business operations.

Risks Related to Doing Business in the People's Republic of 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.

In addition, the global macroeconomic environment is facing challenges. For example, the COVID-19 pandemic has caused significant downward pressure for the global economy, and many major economies have lowered their expected growth rate for 2020. In addition, the impact of the decision by the United Kingdom to withdraw from the European Union, commonly referred to as "Brexit", and the resulting effect on the political and economic future of the U.K. and the European Union is 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.

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 merchants 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 mobile apps and websites and hurt our business and results of operations. For example, the amended Consumer Protection Law, which became effective in March 2014, further strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, especially on businesses that operate on the internet. Pursuant to the Consumer Protection Law, except for certain types of products, such as custom-made goods, fresh and perishable goods, consumers are generally entitled to return goods purchased within seven days upon receipt without giving any reasons if they purchased the goods over the internet. Consumers whose interests have been damaged due to their purchase of goods or acceptance of services on online marketplace platforms may claim damages from merchants 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 merchants 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 merchants 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 merchants 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.

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, 2019, 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 Latest Practicable Date, we have not been able to register branch offices in all of these locations. Furthermore, we may expand our fulfillment network in the future to additional locations in China, and we may not be able to register branch offices in a timely manner due to complex procedural requirements and relocation of branch offices from time to time. If the PRC regulatory authorities determine that we are in violation of the relevant laws and regulations, we may be subject to penalties, including fines, confiscation of income and suspension of operation. If we become subject to these penalties, our business, results of operations, financial condition and prospects could be materially and adversely affected.

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

China has enacted laws and regulations governing internet access and the distribution of products, services, news, information, audio-video programs and other content through the internet. In the past, the PRC government has prohibited the distribution of information through the internet that it deems to be in violation of PRC laws and regulations. In November 2016, China promulgated the Cyber Security Law, which 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 conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. 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. We cannot assure you that 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 RMB and the U.S. dollar in the future.

Any significant appreciation or depreciation of RMB may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Class A ordinary shares and/or ADSs. For example, to the extent that we need to convert U.S. dollars we receive into RMB to pay our operating expenses, appreciation of RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our Class A ordinary shares and/or ADSs.

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

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. Moreover, the Anti-Monopoly Law requires that the anti-trust governmental authority shall be notified in advance of any concentration of undertaking if certain thresholds are 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.

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 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 37, in July 2014, which replaced SAFE Circular 75. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." The term "control" under SAFE Circular 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 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 the Circular on Further Simplifying and Improving the Policies Concerning Foreign Exchange Control on Direct Investment, or SAFE Circular 13, which took effect on June 1, 2015. SAFE Circular 13 has delegated to the qualified banks the authority to register all PRC residents' investment in "special purpose vehicle" pursuant to SAFE Circular 37, except that those PRC residents who have failed to comply with SAFE Circular 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 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 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 37 or other related rules. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth in these regulations may subject us to fines and legal sanctions, restrict our cross-border investment activities, limit the ability of our wholly foreign-owned subsidiaries in China to distribute dividends and the proceeds from any reduction in capital, share transfer or liquidation to us, and we may also be prohibited from injecting additional capital into these subsidiaries. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC law for circumventing applicable foreign exchange restrictions. As a result, our business operations and our ability to distribute profits to you could be materially and adversely affected.

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

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our directors, executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted restricted shares, restricted share units or options are subject to these regulations. 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 RMB843 million, RMB615 million and RMB2,222 million (US$319 million) in financial incentives from local governments relating to our business operations in 2017, 2018 and 2019, 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.

Fluctuation of items that are non-recurring in nature and fluctuation of fair value change of the wealth management products we invested in have affected our results of operations during the Track Record Period and may continue to affect our results of operations in the future.

The fluctuation of items that are non-recurring in nature, primarily gains on sale of development properties and others, net, significantly affected our results of operations during the Track Record Period. We recorded a gain of RMB3,885 million (US$558 million) in 2019 for selling certain of our development properties as compared with nil in each of 2017 and 2018. Others, net consist primarily of gains or losses from fair value change, impairment, disposals of long-term investments other than those accounted for under the equity method, government financial incentives, and other non-operating income or expenses. For others, net, we recorded an income of RMB1,316 million, RMB95 million and RMB5,375 million in 2017, 2018 and 2019, respectively. We identify these items as non-recurring in nature as they are not indicative of our core operating results and business outlook. We cannot assure you that we will be able to continue to generate net profits and maintain profitability in the future after excluding the impact of such non-recurring items. The significant fluctuation of these non-recurring items may continue to affect our results of operations and result in fluctuation of net income/(loss) in the future.

During the Track Record Period, we made investments in wealth management products and recorded a fair value of wealth management products of RMB8.6 billion, RMB1.9 billion and RMB23.2 billion as of December 31, 2017, 2018 and 2019, respectively. As of December 31, 2017, 2018 and 2019, gross unrealized gains of RMB23.8 million, RMB0.6 million and RMB54.8 million were recorded on wealth management products, respectively. No impairment charges were recorded for the years ended December 31, 2017, 2018 and 2019, respectively. Those wealth management products were certain deposits with variable interest rates or principal not-guaranteed with certain financial institutions, and usually have maturities of less than one year. We are exposed to credit risk in relation to our investments in wealth management products, which may adversely affect our net changes in their fair value. We cannot assure you that market conditions and regulatory environment will create fair value gains and we will not incur any fair value losses on our investments in wealth management products at fair value through profit or loss in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected.

It may be difficult for overseas regulators to conduct investigation or collect evidence within China.

Shareholder claims or regulatory investigation that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the Unities States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

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.

We believe that none of JD.com, Inc. and its subsidiaries outside of China is a PRC resident enterprise for PRC tax purposes. See "Financial Information—Taxation—China." 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. 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 9) to replace Circular 601, which came into effect on April 1, 2018. Circular 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 9, the enterprise will be deemed as a "beneficial owner." If our Hong Kong subsidiaries are, in the light of Circular 9, 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%.

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, 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, for example, 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.

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

However, as 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 Shares, ADSs and the Listing

As a company applying for listing under Chapter 19C, we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules pursuant to Rule 19C.11, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Takeovers Codes and the SFO. As a result, we will adopt different practices as to those matters as compared with other companies listed on the Hong Kong Stock Exchange that do not enjoy those exemptions or waivers. For additional information, see "Waivers from Strict Compliance with the Hong Kong Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance."

Our Articles of Association are specific to us and include certain provisions that may be different from the requirements under the Hong Kong Listing Rules and common practices in Hong Kong. For example, Rule 19C.07(7) of the Hong Kong Listing Rules provides that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of a Qualifying Issuer, but our Articles of Association provide that at least one third of the aggregate voting power of our Company is required to convene an extraordinary general meeting. We will put forth a resolution at or before our next annual general meeting to be held after the Listing to revise our Articles of Association to comply with Rule 19C.07(7) of the Hong Kong Listing Rules. The next annual general meeting after the Listing is expected to be held around mid-2021. Prior to the amendment to our Articles of Association, the minimum of one-third of the aggregate voting power of our Company is still required to convene an extraordinary general meeting.

Furthermore, if 55% or more of the total worldwide trading volume, by dollar value, of our Class A ordinary shares and ADSs over our most recent fiscal year takes place on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange will regard us as having a dual primary listing in Hong Kong and we will no longer enjoy certain exemptions or waivers from strict compliance with the requirements under the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Takeovers Codes and the SFO, which could result in us having to amend our corporate structure and Articles of Association and our incurring of incremental compliance costs.

The trading price of our ADSs has been and is likely to continue to be, and the trading price of our Class A ordinary shares can be, volatile, which could result in substantial losses to holders of our Class A ordinary shares and/or ADSs.

The trading price of our ADSs has been and is likely to continue to be volatile and could fluctuate widely in response to a variety of factors, many of which are beyond our control. The trading price of our Class A ordinary shares, likewise, can be volatile for similar or different reasons. For example, the trading price of our ADSs ranged from US$20.18 to US$36.80 per ADS in 2019. In addition, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong and/or the United States may affect the volatility in the prices of and trading volumes for our Class A ordinary shares and/or ADSs. 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 Hong Kong and/or the United States, which consequently may impact the trading performance of our Class A ordinary shares and/or 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. Furthermore, 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 in early 2020, which may have a material and adverse effect on the trading price of our Class A ordinary shares and/or ADSs.

In addition to the above factors, the price and trading volume of our Class A ordinary shares and/or ADSs may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us or our industry, customers, suppliers or third-party merchants;
- announcements of studies and reports relating to the quality of our product and service offerings or those of our competitors;
- changes in the economic performance or market valuations of other online retail or e-commerce companies;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the online retail market;

- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- political or market instability or disruptions, and actual or perceived social unrest in the United States, Hong Kong or other jurisdictions;
- fluctuations of exchange rates among RMB, the Hong Kong dollar and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our Class A ordinary shares or ADSs;
- sales or perceived potential sales of additional Class A 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 Class A ordinary shares and/or 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. We repurchased a total of 2.3 million ADSs under this program, of which 1.4 million ADSs were repurchased at a weighted average price of US$21.48 per ADS, and 0.9 million ADSs were repurchased at a weighted average price of US$20.41 per ADS. On March 17, 2020, our board of directors authorized a share repurchase program, under which we may repurchase up to US$2.0 billion of our ADSs or ordinary shares over the next 24 months through March 17, 2022. From March 17, 2020 to April 15, 2020, we repurchased approximately 1.2 million ADSs at a weighted average price of US$37.04 per ADS. Our share repurchase programs 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 Class A ordinary shares and/or ADSs and trading volume could decline.

The trading market for our Class A ordinary shares and/or 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 Class A ordinary shares and/or ADSs or publishes inaccurate or unfavorable research about our business, the market price for our Class A ordinary shares and/or 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 of or trading volume for our Class A ordinary shares and/or ADSs to decline.

Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our Class A ordinary shares and/or 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 Class A ordinary shares and/or 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 and certain restrictions under Cayman Islands law. In addition, 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 Class A ordinary shares and/or ADSs will likely depend entirely upon any future price appreciation of our Class A ordinary shares and/or ADSs. There is no guarantee that our Class A ordinary shares and/or ADSs will appreciate in value or even maintain the price at which you purchased the Class A ordinary shares and/or ADSs. You may not realize a return on your investment in our Class A ordinary shares and/or ADSs and you may even lose your entire investment in our Class A ordinary shares and/or ADSs.

Substantial future sales or perceived potential sales of our Class A ordinary shares and/or ADSs in the public market could cause the price of our Class A ordinary shares and/or ADSs to decline.

Sales of our Class A ordinary shares and/or ADSs in the public market, or the perception that these sales could occur, could cause the market price of our Class A ordinary shares and/or ADSs to decline. As of the Latest Practicable Date, we had 2,957,371,009 ordinary shares issued and outstanding, comprising of (i) 2,506,489,928 Class A ordinary shares (excluding the 19,510,724 Class A ordinary shares issued to our depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our Share Incentive Plan), and (ii) 450,881,081 Class B ordinary shares. Among these shares, 1,837,119,432 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 authorized but unissued Class A ordinary shares 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 Class A ordinary shares and/or ADSs to decline.

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

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying Class A ordinary shares represented by the ADSs in accordance with the provisions of the deposit agreement. Under our Memorandum and Articles, the minimum notice period required to convene a general meeting is seven days. We undertake we will (i) provide 14 days' notice for any general meetings after the Listing and (ii) put forth a resolution at or before our next annual general meeting of the Company which is expected to be held around mid-2021 after the Listing to revise our Articles, so that the minimum notice period required to convene a general meeting will be 14 days. When a general meeting is convened, holders of ADSs may not receive sufficient notice of a shareholders' meeting to permit withdrawal of the underlying Class A ordinary shares represented by their ADSs to allow them to cast their votes with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to holders of ADSs or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to holders of ADSs in a timely manner, but we cannot assure that holders of ADSs will receive the voting materials in time to ensure that they can instruct the depositary to vote their ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of ADSs may not be able to exercise their right to vote and may lack recourse if the underlying ordinary shares represented by their ADSs are not voted as they requested. In addition, holders of ADSs will not be able to call a shareholders' meeting.

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

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

- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that holders of ADSs cannot prevent our underlying Class A ordinary shares represented by their 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.

The right of our ADS holders to participate in any future rights offerings may be limited, which may cause dilution to holdings of our ADS holders.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to holders of our ADSs 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 ADS holders 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, our ADS holders may be unable to participate in our rights offerings and may experience dilution in their holdings.

Holders of our ADSs may not receive cash dividends if the depositary decides it is impractical to make them available to them.

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 holders of our ADSs 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. ADS holders will receive these distributions in proportion to the number of Class A ordinary shares their 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 holders of our ADSs.

Holders of our ADSs may be subject to limitations on transfer of their ADSs.

Our 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 document, 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 or Hong Kong upon us or these persons, or to bring an action against us or against these persons in the United States or Hong Kong in the event that you believe that your rights have been infringed under the U.S. federal securities laws, Hong Kong 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 Hong Kong courts or 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. or Hong Kong courts under civil liability provisions of the U.S. federal securities law or Hong Kong 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. or Hong Kong courts would be enforceable in the Cayman Islands.

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

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

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 Hong Kong law or 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 shareholders' 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.

Furthermore, our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of requirements that the appointment, removal and remuneration of auditors must be approved by a majority of our shareholders. See "Information about the Listing" and "Waivers from Strict Compliance with the Hong Kong Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance—Shareholder Protection" for further details.

Our Memorandum and Articles 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/or ADSs.

Our Memorandum and Articles 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 the Latest Practicable Date, Mr. Liu beneficially owned 78.4% of the aggregate voting power of our company, including 5.1% 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. 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.

We are a foreign private issuer within the meaning of the rules under the U.S. 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 U.S. 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 U.S. 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 U.S. Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the U.S. Exchange Act;
- the sections of the U.S. 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 exempted 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 exempted 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 (2020 Revision) of the Cayman Islands nor our Memorandum and Articles 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 2019. We undertake we will (i) hold annual general meeting every year after the Listing and (ii) put forth a resolution at or before our next annual general meeting to be held after the Listing to revise our Articles of Association to comply with Rule 19C.07(4) of the Hong Kong Listing Rules, even though there may not be any resolutions to be approved by the shareholders at such meetings. 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 is generally determined on the basis of the fair market value of the corporation's assets at the end of each quarter. This determination is based on the adjusted tax basis of the corporation's assets.

In addition, we will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, 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, 2019 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, 2019, 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 Class A ordinary shares and/or ADSs, 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. We will also incur additional costs as a result of the Listing on the Hong Kong Stock Exchange. 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.

The different characteristics of the capital markets in Hong Kong and the U.S. may negatively affect the trading prices of our Class A ordinary shares and/or ADSs.

Upon the Listing, we will be subject to Hong Kong and Nasdaq listing and regulatory requirements concurrently. The Hong Kong Stock Exchange and Nasdaq have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our Class A ordinary shares and our ADSs may not be the same, even allowing for currency differences. Fluctuations in the price of our ADSs due to circumstances peculiar to the U.S. capital markets could materially and adversely affect the price of our Class A ordinary shares, or vice versa. Certain events having significant negative impact specifically on the U.S. capital markets may result in a decline in the trading price of our Class A ordinary shares notwithstanding that such event may not impact the trading prices of securities listed in Hong Kong generally or to the same extent, or vice versa. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historical market prices of our ADSs may not be indicative of the trading performance of our Class A ordinary shares after the Global Offering.

Exchange between our Class A ordinary shares and our ADSs may adversely affect the liquidity and/or trading price of each other.

Our ADSs are currently traded on Nasdaq. Subject to compliance with U.S. securities law and the terms of the Deposit Agreement, holders of our Class A ordinary shares may deposit Class A ordinary shares with the depositary in exchange for the issuance of our ADSs. Any holder of ADSs may also withdraw the underlying Class A ordinary shares represented by the ADSs pursuant to the terms of the Deposit Agreement for trading on the Hong Kong Stock Exchange. In the event that a substantial number of Class A ordinary shares are deposited with the depositary in exchange for ADSs or vice versa, the liquidity and trading price of our Class A ordinary shares on the Hong Kong Stock Exchange and our ADSs on Nasdaq may be adversely affected.

The time required for the exchange between Class A ordinary shares and ADSs might be longer than expected and investors might not be able to settle or effect any sale of their securities during this period, and the exchange of Class A ordinary shares into ADSs involves costs.

There is no direct trading or settlement between Nasdaq and the Hong Kong Stock Exchange on which our ADSs and our Class A ordinary shares are respectively traded. In addition, the time differences between Hong Kong and New York and unforeseen market circumstances or other factors may delay the deposit of Class A ordinary shares in exchange of ADSs or the withdrawal of Class A ordinary shares underlying the ADSs. Investors will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, there is no assurance that any exchange of Class A ordinary shares into ADSs (and vice versa) will be completed in accordance with the timelines investors may anticipate.

Furthermore, the depositary for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of Class A ordinary shares, cancelation of ADSs, distributions of cash dividends or other cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs and annual service fees. As a result, shareholders who exchange Class A ordinary shares into ADSs, and vice versa, may not achieve the level of economic return the shareholders may anticipate.

We are exposed to risks associated with the potential spin-off of one or more of our businesses.

We are exposed to risks associated with the potential spin-off of one or more of our businesses. We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements in paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules such that we are able to spin-off a subsidiary entity and list it on the Hong Kong Stock Exchange within three years of the Listing. While we do not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as at the date of this document, we continue to explore the ongoing financing requirements for our various businesses and may consider a spin-off listing on the Hong Kong Stock Exchange for one or more of those businesses within the three year period subsequent to the Listing. As of the Latest Practicable Date, we have not identified any target for a potential spin-off; as a result we do not have any information relating to the identity of any spin-off target or any other details of any spin off and accordingly, there is no material omission of any information relating to any possible spin-off in this document. The waiver granted by the Hong Kong Stock Exchange is conditional upon us confirming to the Hong Kong Stock Exchange in advance of any spin-off that it would not render the Company, excluding the businesses to be spun off, incapable of fulfilling either the eligibility or suitability requirements under Rules 19C.02 and 19C.05 of the Hong Kong Listing Rules based on the financial information of the entity or entities to be spun-off at the time of the Company's Listing (calculated cumulatively if more than one entity is spun-off). We cannot assure you that any spin-off will ultimately be consummated, whether within the three-year period after the Listing or otherwise, and any such spin-off will be subject to market conditions at the time and approval by the Listing Committee. In the event that we proceed with a spin-off, the Company's interest in the entity to be spun-off (and its corresponding contribution to the financial results of our Group) will be reduced accordingly. For additional information, see "Waivers from Strict Compliance with the Hong Kong Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance—Rules relating to spin-offs."

Risks Related to the Global Offering

An active trading market for our Class A ordinary shares on the Hong Kong Stock Exchange might not develop or be sustained and trading prices of our Class A ordinary shares might fluctuate significantly.

Following the completion of the Global Offering, we cannot assure you that an active trading market for our Class A ordinary shares on the Hong Kong Stock Exchange will develop or be sustained. The trading price or liquidity for our ADSs on Nasdaq might not be indicative of those of our Class A ordinary shares on the Hong Kong Stock Exchange following the completion of the Global Offering. If an active trading market of our Class A ordinary shares on the Hong Kong Stock Exchange does not develop or is not sustained after the Global Offering, the market price and liquidity of our Class A ordinary shares could be materially and adversely affected.

In 2014, the Hong Kong, Shanghai and Shenzhen Stock Exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and mainland Chinese investors to trade eligible equity securities listed in each other's markets through the trading and clearing facilities of their home exchange. Stock Connect currently covers over 2,000 equity securities trading in the Hong Kong, Shanghai and Shenzhen markets. Stock Connect allows mainland Chinese investors to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading; without Stock Connect, mainland Chinese investors would not otherwise have a direct and established means of engaging in Southbound Trading. In October 2019, the Shanghai and Shenzhen Stock Exchanges separately announced their amended implementation rules in connection with Southbound Trading to include shares of WVR companies to be traded through Stock Connect. However, since these rules are relatively new, there remains uncertainty as to the implementation details, especially with respect to shares of those companies with a secondary listing on the Hong Kong Stock Exchange. It is unclear whether and when the Class A ordinary shares of our Company, a WVR company with a secondary listing in Hong Kong upon the Listing, will be eligible to be traded through Stock Connect, if at all. The ineligibility or any delay of our Class A ordinary shares for trading through Stock Connect will affect mainland Chinese investors' ability to trade our Class A ordinary shares and therefore may limit the liquidity of the trading of our Class A ordinary shares on the Hong Kong Stock Exchange.

Since there will be a gap of several days between pricing and trading of our Class A ordinary shares, the price of our ADSs traded on Nasdaq may fall during this period and could result in a fall in the price of our Class A ordinary shares to be traded on the Hong Kong Stock Exchange.

The pricing of the Offer Shares will be determined on the Price Determination Date. However, our Class A ordinary shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be about four Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Class A ordinary shares during that period. Accordingly, holders of our Class A ordinary shares are subject to the risk that the trading price of our Class A ordinary shares could fall when trading commences as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the time trading begins. In particular, as our ADSs will continue to be traded on Nasdaq and their price can be volatile, any fall in the price of our ADSs may result in a fall in the price of our Class A ordinary shares to be traded on the Hong Kong Stock Exchange.

There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs following our initial public offering in Hong Kong and listing of our Class A ordinary shares on the Hong Kong Stock Exchange.

In connection with our initial public offering of Class A ordinary shares in Hong Kong, or the Hong Kong IPO, we will establish a branch register of members in Hong Kong, or the Hong Kong share register. Our Class A ordinary shares that are traded on the Hong Kong Stock Exchange, including those to be issued in the Hong Kong IPO and those that may be converted from ADSs, will be registered on the Hong Kong share register, and the trading of these Class A ordinary shares on the Hong Kong Stock Exchange will be subject to the Hong Kong stamp duty. To facilitate ADS-ordinary share conversion and trading between Nasdaq and the Hong Kong Stock Exchange, we also intend to move a portion of our issued Class A ordinary shares from our register of members maintained in the Cayman Islands to our Hong Kong share register.

Under the Hong Kong Stamp Duty Ordinance, any person who effects any sale or purchase of Hong Kong stock, defined as stock the transfer of which is required to be registered in Hong Kong, is required to pay Hong Kong stamp duty. The stamp duty is currently set at a total rate of 0.2% of the greater of the consideration for, or the value of, shares transferred, with 0.1% payable by each of the buyer and the seller. See "Information About the Listing—Dealings and Settlement of Class A Ordinary Shares in Hong Kong."

To the best of our knowledge, Hong Kong stamp duty has not been levied in practice on the trading or conversion of ADSs of companies that are listed in both the United States and Hong Kong and that have maintained all or a portion of their ordinary shares, including ordinary shares underlying ADSs, in their Hong Kong share registers. However, it is unclear whether, as a matter of Hong Kong law, the trading or conversion of ADSs of these dual-listed companies constitutes a sale or purchase of the underlying Hong Kong-registered ordinary shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. If Hong Kong stamp duty is determined by the competent authority to apply to the trading or conversion of our ADSs, the trading price and the value of your investment in our Class A ordinary shares and/or ADSs may be affected.

Purchasers of our Class A ordinary shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Class A ordinary shares in the future.

The initial Public Offer Price of our Class A ordinary shares in Hong Kong is higher than the net tangible assets per Share of the outstanding Class A ordinary shares issued to our existing shareholders immediately prior to the Global Offering. Therefore, purchasers of our Class A ordinary shares in the Global Offering will experience an immediate dilution in terms of the pro forma net tangible asset value. In addition, we may consider offering and issuing additional Class A ordinary shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our Class A ordinary shares may experience further dilution in terms of the net tangible asset value per Share if we issue additional Class A ordinary shares in the future at a price that is lower than the net tangible asset value per Share.

Directors' Responsibility Statement

This document, for which our directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Hong Kong Listing Rules for the purpose of giving information with regard to us. Our directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

The Hong Kong Public Offering and this document

This document is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this document set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this document and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this document, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Representatives. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Joint Representatives (for themselves and on behalf of the Underwriters) agreeing on the pricing of the Hong Kong Offer Shares. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

Neither the delivery of this document nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this document or imply that the information contained in this document is correct as of any date subsequent to the date of this document.

Procedures for Application for the Hong Kong Offer Shares

The procedures for applying for the Hong Kong Offer Shares are set forth in the section headed "How to Apply for Hong Kong Offer Shares" in this document.

Structure and Conditions of the Global Offering

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed "Structure of the Global Offering" in this document.

Over-allotment Option and Stabilization

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed "Structure of the Global Offering" in this document.

Restrictions on Offers and Sales of Shares

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by their acquisition of Offer Shares to, confirm that they are aware of the restrictions on offers of the Offer Shares described in this document.

No action has been taken to permit a public offering of the Offer Shares (except for a registration of the Offer Shares on a registration statement on Form F-3 to be filed with the SEC) or the general distribution of this document in any jurisdiction other than in Hong Kong or the United States pursuant to an applicable exemption from the registration requirements under the U.S. federal securities laws. Accordingly, this document may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this document and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

Commencement of Dealings in Our Shares

We expect that dealings in our Class A ordinary shares on the Hong Kong Stock Exchange will commence on Thursday, June 18, 2020. The Class A ordinary shares will be traded in board lots of 50 Class A ordinary shares each. The stock code of our Class A ordinary shares will be 9618.

Shares Will Be Eligible for Admission into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Class A ordinary shares and we comply with the stock admission requirements of HKSCC, our Class A ordinary shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable our Class A ordinary shares to be admitted into CCASS.

Professional Tax Advice Recommended

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, our Shares or ADSs or exercising any rights attaching to our Shares. We emphasize that none of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, our Shares or ADSs or your exercise of any rights attaching to our Shares.

Register of Members and Stamp Duty

Our principal register of members will be maintained by our Principal Share Registrar in the Cayman Islands, and our Hong Kong branch register of members will be maintained by the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

Dealings in our Class A ordinary shares registered on our Hong Kong share register will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, our Class A ordinary shares transferred. In other words, a total of 0.2% will be payable on a typical sale and purchase transaction of our Class A ordinary shares. In addition, a fixed duty of HK$5.00 is charged on each instrument of transfer (if required).

To facilitate ADS-ordinary share conversion and trading between Nasdaq and the Hong Kong Stock Exchange, we also intend to move a portion of our issued ordinary shares from our register of members maintained in the Cayman Islands to our Hong Kong share register. It is unclear whether, as a matter of Hong Kong law, the trading or conversion of ADSs constitutes a sale or purchase of the underlying Hong Kong-registered ordinary shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. See “Risk Factors—Risks Related to the Global Offering—There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs following our initial public offering in Hong Kong and listing of our ordinary shares on the Hong Kong Stock Exchange.”

Exchange Rate Conversion

Our reporting currency is the Renminbi. This document contains translations of financial data in Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise stated, all translations of financial data in Renminbi and Hong Kong dollars into U.S. dollars and from U.S. dollars into Renminbi in this document were made at a rate of RMB6.9618 to US$1.00 and HK$7.7894 to US$1.00, the respective exchange rate on December 31, 2019 set forth in the H.10 statistical release of the Federal Reserve Board.

On May 29, 2020, the noon buying rate for Renminbi and Hong Kong dollars was RMB7.1348 to US$1.00 and HK$7.7513 to US$1.00, respectively.

No representation is made that any amounts in RMB or US$ were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

Rounding

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Language

If there is any inconsistency between the English prospectus and its Chinese translation, the English prospectus shall prevail, provided that if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this document and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only.

Other

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

The Listing

We have applied for a listing of our Class A ordinary shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers) as well as Chapter 8A (Weighted Voting Rights).

We have a track record of good regulatory compliance of at least two full financial years on Nasdaq as required by Rule 19C.04 of the Hong Kong Listing Rules for the purposes of our Listing.

We have applied to the Listing Committee for the listing of, and permission to deal in, our Class A ordinary shares in issue and to be issued pursuant to the Global Offering (including the Class A ordinary shares which may be issued pursuant to the exercise of the Over-allotment Option), the Class A ordinary shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and the Class A ordinary shares to be issued after the conversion of Class B ordinary shares.

Our ADSs are currently listed and traded on Nasdaq. We also have outstanding debt securities listed and traded on the Singapore Exchange Securities Trading Limited. Other than the foregoing, no part of our Shares or loan capital is listed on or traded on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All Offer Shares will be registered on the Hong Kong Share Registrar in order to enable them to be traded on the Hong Kong Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Class A ordinary shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by or on behalf of the Hong Kong Stock Exchange.

Registration of Subscription, Purchase and Transfer of Shares

Our register of members holding unlisted Shares and a portion of our Class A ordinary shares represented by the ADSs will be maintained by our Principal Share Registrar in the Cayman Islands, and our register of members holding Class A ordinary shares on the Hong Kong Stock Exchange and a portion of our Class A ordinary shares represented by the ADSs will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

Ownership of ADSs

An owner of ADSs may hold his or her ADSs either by means of an ADR (evidencing certificated ADSs) registered in his or her name, through a brokerage or safekeeping account, or through an account established by the depositary bank in his or her name reflecting the registration of uncertificated ADSs directly on the books of the depositary bank, commonly referred to as the “direct registration system,” or DRS. The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depositary bank. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depositary bank to the holders of the ADSs. The direct registration system includes automated transfers between the depositary bank and DTC. If an owner of ADSs decides to hold his or her ADSs through his or her brokerage or safekeeping account, he or she must rely on the procedures of his or her broker or bank to assert his or her rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. All ADSs held through DTC will be registered in the name of a nominee of DTC.

Dealings and Settlement of Class A Ordinary Shares in Hong Kong

Our Class A ordinary shares will trade on the Hong Kong Stock Exchange in board lots of 50 Class A ordinary shares. Dealings in our Class A ordinary shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars.

The transaction costs of dealings in our Class A ordinary shares on the Hong Kong Stock Exchange include:

- Hong Kong Stock Exchange trading fee of 0.005% of the consideration of the transaction, charged to each of the buyer and seller;
- SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- trading tariff of HK$0.50 on each and every purchase or sale transaction. The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;
- transfer deed stamp duty of HK$5.00 per transfer deed (if applicable), payable by the seller;
- ad valorem stamp duty at a total rate of 0.2% of the value of the transaction, with 0.1% payable by each of the buyer and the seller;
- stock settlement fee, which is currently 0.002% of the gross transaction value, subject to a minimum fee of HK$2.00 and a maximum fee of HK$100.00 per side per trade;
- brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for IPO transactions which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities); and
- the Hong Kong share registrar will charge between HK$2.50 to HK$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of ordinary shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

Investors must settle their trades executed on the Hong Kong Stock Exchange through their brokers directly or through custodians. For an investor who has deposited his or her Class A ordinary shares in his or her stock account or in his or her designated CCASS participant’s stock account maintained with CCASS, settlement will be effected in CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. For an investor who holds the physical certificates, settlement certificates and the duly executed transfer forms must be delivered to his or her broker or custodian before the settlement date.

Conversion between Class A Ordinary Shares Trading in Hong Kong and ADSs

In connection with the Global Offering, we have established a branch register of members in Hong Kong, or the Hong Kong share register, which will be maintained by our Hong Kong share registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members will continue to be maintained by our principal share registrar, Maples Fund Services (Cayman) Limited.

All Class A ordinary shares offered in the Global Offering will be registered on the Hong Kong share register in order to be listed and traded on the Hong Kong Stock Exchange. As described in further detail below, holders of Class A ordinary shares registered on the Hong Kong share register will be able to convert these ordinary shares into ADSs, and vice versa.

In connection with the Hong Kong Public Offering, and to facilitate fungibility and conversion between ADSs and Class A ordinary shares and trading between Nasdaq and the Hong Kong Stock Exchange, we intend to move a portion of our issued Class A ordinary shares from our register of members maintained in the Cayman Islands to our Hong Kong share register.

Our ADSs

Our ADSs are traded on Nasdaq. Dealings in our ADSs on Nasdaq are conducted in U.S. Dollars.

ADSs may be held either:

- directly, by having a certificated ADS, or an ADR, registered in the holder's name, or by holding in the direct registration system, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto; or
- indirectly, through the holder's broker or other financial institution.

The depositary for our ADSs is Deutsche Bank Trust Company Americas, whose office is located at 60 Wall Street, New York, New York 10005, United States of America.

Converting Class A Ordinary Shares Trading in Hong Kong into ADSs

An investor who holds Class A ordinary shares registered in Hong Kong and who intends to convert them to ADSs to trade on Nasdaq must deposit or have his or her broker deposit the Class A ordinary shares with the depositary's Hong Kong custodian, Deutsche Bank AG, Hong Kong Branch, Hong Kong, or the custodian, in exchange for ADSs.

A deposit of Class A ordinary shares trading in Hong Kong in exchange for ADSs involves the following procedures:

- If Class A ordinary shares have been deposited with CCASS, the investor must transfer Class A ordinary shares to the depositary's account with the custodian within CCASS by following the CCASS procedures for transfer and submit and deliver a duly completed and signed letter of transmittal to the custodian via his or her broker.
- If Class A ordinary shares are held outside CCASS, the investor must arrange to deposit his or her Class A ordinary shares into CCASS for delivery to the depositary's account

with the custodian within CCASS, submit and deliver a duly completed and signed letter of transmittal to the custodian via his or her broker.

- Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, and subject in all cases to the terms of the deposit agreement, the depositary will issue the corresponding number of ADSs in the name(s) requested by an investor and will deliver the ADSs to the designated DTC account of the person(s) designated by an investor or his or her broker.

For Class A ordinary shares deposited in CCASS, under normal circumstances, the above steps generally require two business days. For Class A ordinary shares held outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS issuances. The investor will be unable to trade the ADSs until the procedures are completed.

Converting ADSs to Class A Ordinary Shares Trading in Hong Kong

An investor who holds ADSs and who intends to convert his/her ADSs into Class A ordinary shares to trade on the Hong Kong Stock Exchange must cancel the ADSs the investor holds and withdraw Class A ordinary shares from our ADS program and cause his or her broker or other financial institution to trade such ordinary shares on the Hong Kong Stock Exchange.

An investor that holds ADSs indirectly through a broker should follow the broker's procedure and instruct the broker to arrange for cancelation of the ADSs, and transfer of the underlying ordinary shares from the depositary's account with the custodian within the CCASS system to the investor's Hong Kong stock account.

For investors holding ADSs directly, the following steps must be taken:

- To withdraw Class A ordinary shares from our ADS program, an investor who holds ADSs may turn in such ADSs at the office of the depositary (and the applicable ADR(s) if the ADSs are held in certificated form), and send an instruction to cancel such ADSs to the depositary.
- Upon payment or net of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, and subject in all cases to the terms of the deposit agreement, the depositary will instruct the custodian to deliver Class A ordinary shares underlying the canceled ADSs to the CCASS account designated by an investor.
- If an investor prefers to receive Class A ordinary shares outside CCASS, he or she must receive Class A ordinary shares in CCASS first and then arrange for withdrawal from CCASS. Investors can then obtain a transfer form signed by HKSCC Nominees Limited (as the transferor) and register ordinary shares in their own names with the Hong Kong share registrar.

For Class A ordinary shares to be received in CCASS, under normal circumstances, the above steps generally require two business days. For ordinary shares to be received outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. The investor will be unable to trade the Class A ordinary shares on the Hong Kong Stock Exchange until the procedures are completed.

Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS cancelations. In addition, completion of the above steps and procedures is subject to there being a sufficient number of Class A ordinary shares on the Hong Kong share register to facilitate a withdrawal from the ADS program directly into the CCASS system. We are not under any obligation to maintain or increase the number of Class A ordinary shares on the Hong Kong share register to facilitate such withdrawals.

Depositary Requirements

Before the depositary issues ADSs or permits withdrawal of ordinary shares, the depositary may require:

- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with procedures it may establish, from time to time, consistent with the deposit agreement, including, but not limited to, presentation of transfer documents.

The depositary may refuse to deliver, transfer, or register issuances, transfers and cancelations of ADSs generally when the transfer books of the depositary or our Hong Kong share registrar are closed or at any time if the depositary or we determine it advisable to do so.

All costs attributable to the transfer of Class A ordinary shares to effect a withdrawal from or deposit of ordinary shares into our ADS program will be borne by the investor requesting the transfer. In particular, holders of ordinary shares and ADSs should note that the Hong Kong share registrar will charge between HK$2.50 to HK$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of ordinary shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong. In addition, holders of Class A ordinary shares and ADSs must pay up to US$5.00 (or less) per 100 ADSs for each issuance of ADSs and each cancelation of ADSs, as the case may be, in connection with the deposit of Class A ordinary shares into, or withdrawal of Class A ordinary shares from, our ADS program.

Summary of Exemptions as a Foreign Private Issuer in the U.S.

As required by Rule 19C.14 of the Hong Kong Listing Rules, set forth below is a summary of the exemptions from obligations under U.S. securities laws and Nasdaq rules that we enjoy as a foreign private issuer in the U.S.

Exemptions from Nasdaq rules

Foreign private issuers are exempted from certain corporate governance requirements of Nasdaq. Foreign private issuers are permitted to follow home country practice, i.e., for us, the practice of the Cayman Islands, in lieu of such corporate governance requirements, as long as they disclose any significant ways in which their corporate governance practices differ from those required under the Nasdaq listing standards and explain the basis for the conclusion that the exemption is applicable. Specifically, we currently enjoy the exemption from the requirements to hold annual shareholders meetings. We follow home country practice with respect to annual meetings and did not hold an annual meeting of shareholders in 2019. However, we undertake we will (i) hold annual general meeting every year after the Listing and (ii) put forth a resolution at or before our next annual general meeting to be held after the Listing to revise our Articles of Association, even though there may not be any resolutions to be approved by the shareholders at such meetings. See "Information about the Listing—Our Articles of Association" for further details. 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.

Exemptions from SEC rules and regulations under U.S. federal securities laws

Foreign private issuers are exempted from Regulation FD under the U.S. Exchange Act. Regulation FD provides that when a domestic U.S. issuer, or someone acting on its behalf, discloses material nonpublic information to certain persons (including securities analysts, other securities market professionals, and holders of the issuer's securities who could reasonably be expected to trade on the basis of the information), it must make simultaneous public disclosure of that information (in the case of intentional disclosure) or prompt public disclosure (in the case of non-intentional disclosure). However, the SEC expects foreign private issuers to conduct themselves in accordance with the basic principles underlying Regulation FD.

Section 16 of the U.S. Exchange Act does not apply to foreign private issuers. Therefore, directors, executive officers and 10% beneficial owners of foreign private issuers are not required to file Forms 3, 4 and 5 with the SEC, and are not required to disgorge to the issuer any profits realized from any non-exempt purchase and sale, or non-exempt sale and purchase, of the issuer's equity securities or security-based swap agreements within a period of less than six months.

Foreign private issuers are exempt from the SEC's rules prescribing the furnishing and content of proxy statements under the U.S. Exchange Act, which specify the procedures and required documentation for soliciting shareholder votes. Accordingly, foreign private issuers are not required to disclose certain information in their annual proxy statements, such as whether the work of any compensation consultant has played any role in determining or recommending the form or amount of executive and director compensation has raised a conflict of interest, and, if so, the nature of the conflict and how it is being addressed.

Foreign private issuers are also not required under the U.S. Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. issuers with securities registered under the U.S. Exchange Act. As a result, our shareholders may be afforded less protection than they would under the U.S. Exchange Act rules applicable to domestic U.S. issuers. Unlike domestic U.S. issuers, foreign private issuers are not required to file quarterly reports (including quarterly financial information) on Form 10-Q. They also are not required to use Form 8-K for current reports, and instead furnish (not file) current reports on Form 6-K with the SEC.

Annual reports on Form 10-K by domestic U.S. issuers are due within 60, 75, or 90 days after the end of the issuer's fiscal year, depending on whether the company is a "large accelerated filer," a "accelerated filer," or a "non-accelerated filer." By contrast, the deadline for foreign private issuers to file annual reports on Form 20-F is four months after the end of their fiscal year.

Our Articles of Association

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Memorandum and Articles of Association, the Cayman Companies Law and the common law of the Cayman Islands.

The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong. For example:

- Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that an issuer such as us seeking a listing under Chapter 19C has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules for standards of shareholder protection if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07.

- Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors must be approved by a majority of a Qualifying Issuer's (as defined in the Hong Kong Listing Rules) members or other body that is independent of the issuer's board of directors), but our Articles of Association do not contain this or a similar provision.

- Rule 19C.07(4) of the Hong Kong Listing Rules requires the Qualifying Issuer must hold a general meeting each year as its annual general meeting, but holding a general meeting each year is not a must under our Articles of Association. We undertake we will (i) hold an annual general meeting every year after the Listing and (ii) put forth a resolution at or before our next annual general meeting to be held after the Listing to revise our Articles of Association to comply with Rule 19C.07(4) of the Hong Kong Listing Rules, even though there may not be any resolutions to be approved by the shareholders at any such meetings.

- Rule 19C.07(5) of the Hong Kong Listing Rules requires the Qualifying Issuer must give its members reasonable written notice of its general meetings, and our Articles of Association provide that any general meeting may be called by not less than 7 days' notice. While we are of the view that such notice period is reasonable and this notice period has been adopted since our listing on Nasdaq in 2014, we undertake we will (i) provide 14 days' notice for any general meetings after the Listing and (ii) put forth a resolution at or before our next annual general meeting to be held after the Listing to revise our Articles of Association to comply with Rule 19C.07(5) of the Hong Kong Listing Rules.

- Rule 19C.07(7) of the Hong Kong Listing Rules provides that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of a Qualifying Issuer, but our Articles of Association provide that at least one-third of the aggregate voting power of our Company is required to convene an extraordinary general meeting. We will put forth a resolution at or before our next annual general meeting to be held after the Listing to revise our Articles of Association to comply with Rule 19C.07(7) of the Hong Kong Listing Rules. Prior to the amendment to our Articles of Association, the minimum of one-third of the aggregate voting power of our Company is still required to convene an extraordinary general meeting.

- Under our 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. We will put forth a resolution at or before our next annual general meeting to be held after the Listing to revise our Articles of Association, so that the quorum necessary for the transaction of the business of the directors shall be a majority of the members of our board of directors.

- Under our Articles of Association, the appointment of director to fill a casual vacancy arising from the resignation of a former director or as an addition to the existing board may be approved by the majority of the board (which shall include the affirmative vote of Mr. Richard Qiangdong Liu for so long as he is a director).

The next annual general meeting after the Listing is expected to be held around mid-2021. We will also seek an irrevocable undertaking from our Controlling Shareholder(s) prior to the Listing to vote in favor of the proposed resolutions outlined above with a view to ensuring that there may be adequate votes in favor of such resolutions. See "Waivers from Strict Compliance with the Hong Kong Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance" for further details, and "Summary of our Constitution and Cayman Companies Law" as set out in Appendix III to this document.

Compliance Advisor

We have appointed Guotai Junan Capital Limited as our compliance advisor, or the Compliance Advisor, upon listing of our Class A ordinary shares on the Hong Kong Stock Exchange in compliance with Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the Compliance Advisor will provide advice to us when consulted by us in the following circumstances:

(a) before the publication of any regulatory announcement, circular, or financial report;

(b) where the business activities, development or results of our Company deviate from any forecast, estimate or other information in this document; and

(c) where the Hong Kong Stock Exchange makes an inquiry to the Company regarding unusual movements in the price or trading volume of the Class A ordinary shares or any other matters in accordance with Rule 13.10 of the Hong Kong Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full fiscal year commencing after the Listing Date.

In preparation for the Listing, we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules, the SFO and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and have applied for a ruling under the Takeovers Codes:

Relevant rule(s) waived	**Subject matter**
Rule 2.07A of the Hong Kong Listing Rules	Printed Corporate Communications
Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules	Investments and Acquisitions after the Track Record Period
Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure Requirements Relating to the Accountants' Report
Rule 9.09(b) of the Hong Kong Listing Rules	Dealings in Shares prior to Listing
Rule 10.04 of, and Paragraph 5(2) of Appendix 6 to, the Hong Kong Listing Rules	Subscription for Shares by Existing Shareholders
Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules	Availability of copies of the prospectus in printed form
Rule 13.25B of the Hong Kong Listing Rules	Monthly Return
Paragraphs 13 and 26 of Appendix 1A to the Hong Kong Listing Rules and Paragraphs 11, 14 and 25 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Particulars of any Commissions, Discounts and Brokerages, Alterations of Capital and Authorized Debentures
Paragraph 29(1) of Appendix 1A to the Hong Kong Listing Rules and Paragraph 29 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure of Information on Subsidiaries Whose Profits or Assets Make Material Contribution to the Company
Paragraph 27 of Appendix 1A to the Hong Kong Listing Rules and Paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure Requirements of Options
Paragraphs 33(2), 33(3), 46(2), 46(3) of Appendix 1A to the Hong Kong Listing Rules	Disclosure Requirements of Directors' and Five Highest Individuals' Emoluments
Section 4.1 of the Introduction to the Takeovers Codes	Determination of whether a company is a "public company in Hong Kong"
Part XV of the SFO	Disclosure of interests

Relevant rule(s) waived	Subject matter
Paragraphs 41(4) and 45 of Appendix 1A to and Practice Note 5 of the Hong Kong Listing Rules	Disclosure of Interests Information
Rules 19C.07(3) and 19C.07(7) of the Hong Kong Listing Rules	Shareholder protection requirements in relation to approval, removal and remuneration of auditors; and requisition of extraordinary general meeting by shareholders
Practice Note 15 of the Hong Kong Listing Rules	Rules related to spin-off listings
Hong Kong Stock Exchange Guidance Letter HKEX-GL37-12	Disclosure requirements in respect of indebtedness and liquidity
Paragraph 15(2)(c) of Appendix 1A to the Hong Kong Listing Rules	Disclosure of Offer Price
Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules	Clawback Mechanism

Printed Corporate Communications

Rule 2.07A of the Hong Kong Listing Rules provides that a listed issuer may send or otherwise make available to the relevant holders of its securities any corporate communication by electronic means, provided that either the listed issuer has previously received from each of the relevant holders of its securities an express, positive confirmation in writing or the shareholders of the listed issuer have resolved in a general meeting that the listed issuer may send or supply corporate communications to shareholders by making them available on the listed issuer's own website or the listed issuer's constitutional documents contain provision to that effect, and certain conditions are satisfied.

The Company's ADSs have been listed on the Nasdaq since 2014. The Company has ADS holders globally and has a diverse shareholder base.

The Company does not currently produce or send out any corporate communications to its shareholders or holders of ADSs in printed form unless requested or in limited circumstances described below. The Company publicly files or furnishes various corporate communications with the SEC which are posted on the SEC's website. The Company's annual reports on Form 20-F and periodic reports on Form 6-K and all amendments to these reports, are also available free of charge on its website as soon as reasonably practicable after they are filed with or furnished to the SEC. Further, the Company will post its proxy materials on a publicly accessible website and send a notice including the proxy materials to its shareholders and holders of ADSs. Those documents will also available on the Company's website.

Apart from the Hong Kong Offer Shares that the Company will offer for subscription by the public in Hong Kong, the International Offer Shares will be placed to professional, institutional, corporate and other investors in Hong Kong and elsewhere in the world. Given the Company's diverse shareholder base and the potential number of countries in which its shareholders are located, the

Company considers that it would not be practicable for the Company to send printed copies of all its corporate communications to all of its shareholders. Further, the Company considers that it would not be practicable for the Company to approach its existing shareholders individually to seek confirmation from them of their wish to receive corporate communications in electronic form, or to provide them with the right to request corporate communications in printed form instead.

The Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 2.07A of the Hong Kong Listing Rules on the conditions that the Company will:

(i) issue all future corporate communications, as required by the Hong Kong Listing Rules and applicable to the Company, on its own website in English and Chinese, and on the Hong Kong Stock Exchange's website in English and Chinese;

(ii) provide printed copies of proxy materials in English to its shareholders at no costs; and

(iii) add to the "Investor Relations" page of its website which will direct investors to all of its future filings with the Hong Kong Stock Exchange.

Investments and Acquisitions after the Track Record Period

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules, the accountants' report to be included in a listing document must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of this document.

Pursuant to the Hong Kong Stock Exchange's Guidance Letter HKEX-GL32-12 ("**GL32-12**"), acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to GL32-12, the Hong Kong Stock Exchange may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances and subject to certain conditions set out thereunder.

Ordinary course of Investments since December 31, 2019

During the Track Record Period, the Company has made minority investments in a number of companies both in China and overseas in the ordinary and usual course of business to further its strategic objectives. Since December 31, 2019 and up to the Latest Practicable Date, the Company has made or proposed to make minority investments in a number of companies, and it expects to continue to enter into further minority investments subsequent to the Latest Practicable Date and prior to the date of this document (collectively, the "**Investments**"). Details of the Investments up to the Latest Practicable Date include:

Investment(1)(3)	Consideration(2)	Percentage of shareholding/equity interest(2)	Principal business activities
	(approximately RMB million)		
Beijing Digital Telecom Co., Ltd. (北京迪信通商貿股份有限公司)	191.0	8.98%	Retail of mobile communication terminals
Caissa Tosun Development Co., Ltd. (凱撒同盛發展股份有限公司)	450.0	Between 5% to 10%	Travel and tourism
Dada Nexus Limited	up to 427.9	Between 40% to 49.5%	Retail and delivery
Company A	158.4	42%	Technology services
Company B	37.5	15%	Technology services
Company C	673.0	49%	Healthcare
Company D	318.8	11.93%	Retail
Company E	13.1	45%	Logistics
Company F	7.5	14.92%	E-commerce
Company G	4.6	10%	Real estate
Company H	3.3	7.3%	Cloud services
Company I	75.3	12.9%	E-commerce
Company J	30.0	10%	Internet of things
Company K	264.4	1%	Retail
Company L	54.0	19.4%	Retail
Company M	615.4	4.9%	Media

Notes:

(1) Given that the Company has not yet entered into legally binding agreements for certain of the above Investments as at the Latest Practicable Date, the terms and information set out above might be subject to further changes.

(2) The approximate consideration disclosed in the table represents each of the Investment after December 31, 2019. The percentage of shareholding/equity interest represents the Company's total pro forma shareholding in each of the Investments after the completion of the disclosed transaction.

(3) None of the core connected persons at the level of the Company is a controlling shareholder of any of the Investments.

The Company confirms that the investment amounts for the Investments are the result of commercial arm's length negotiations, based on factors including stock price (for public companies), market dynamics, a mutually agreed valuation, and/or capital required for the relevant company's operations.

Conditions for granting the waiver and its scope in respect of the Investments

The Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules in respect of the Investments on the following grounds:

Ordinary and usual course of business

The Company makes strategic equity investments in sectors relating to its business as part of its ordinary and usual course of business. The Company has a history of making minority investments and have conducted a number of minority investments during the Track Record Period.

The percentage ratios of each Investment are all less than 5% by reference to the most recent fiscal year of the Track Record Period

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules for each of the Investments are all significantly less than 5% by reference to the most recent fiscal year of the Track Record Period. The Company does not believe that the Investments are subject to aggregation under Rule 14.22 of the Hong Kong Listing Rules, because (i) each of the Investments involves the acquisition of interests in a different company and (ii) the Investments were entered into with different counterparties.

Accordingly, the Company believes that each of the Investments have not resulted in any significant changes to its financial position since December 31, 2019, and all information that is reasonably necessary for potential investors to make an informed assessment of its activities or financial position has been included in this document. As such, the Company considers that a waiver from compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investors.

The Company is not able to exercise any control over the underlying company or business

The Company confirms that: (i) it only holds and/or will only hold a minority equity interest in each of the Investments and does not control their boards of directors, and expects this to remain the case for any subsequent Investments; and (ii) the Company is also not involved in the day to day management of these Investments and only enjoys minority strategic shareholder rights. The minority rights given to the Company are generally commensurate to its status as a minority shareholder and are for the protection of its interests as a minority stakeholder in the Investments. These rights are neither intended, nor sufficient to compel or require the relevant companies to prepare or to disclose in this document audited financial statements for the purposes of compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules. These disclosures are also not required pursuant to applicable U.S. securities laws. It could be prejudicial and potentially harmful to the Company's portfolio relationships and commercial interests to make such disclosures. In addition, as some portfolio companies are private, disclosing this information could harm their interests and bring them into an unfavorable competitive position. Accordingly, as the Company does not expect the Investments to result in any material changes to its financial position after the Track Record Period, the Company does not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would prejudice the interest of investor.

Alternative disclosure of the Investments in this document

The Company has disclosed alternative information about the Investments in this document. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules that the Company's directors consider to be material, including, for example, descriptions of the relevant companies' principal business activities, the investment amounts, and a statement that whether the core connected persons at the level of the Company is a controlling shareholder of any of the Investments. The Company has however excluded disclosure on the names of certain companies in connection with the Investments in this document because (i) the Company has entered into confidentiality agreements with these companies and does not have consent for such disclosure and/or (ii) given that the Company has not yet entered into legally binding agreements with respect to all of the Investments as of the Latest Practicable Date and the competitive nature of the industries in which the Company operates, disclosure of the names of the relevant companies in this document is commercially sensitive and may jeopardize the Company's ability to consummate the proposed Investments. The Company considers that it is commercially sensitive to disclose the identities of the companies the Company invested in or propose to invest in as such information may enable the Company's competitors to anticipate the Company's investment strategy. Since the relevant percentage ratio of each Investment is less than 5% by reference to the most recent fiscal year of the Company's Track Record Period, the current disclosure is adequate for potential investors to form an informed assessment of the Company. The Company does not expect to use any proceeds from the Listing to fund the Investments.

Acquisitions since December 31, 2019

Since December 31, 2019, the Company has made or proposed to make a number of acquisitions and up to the Latest Practicable Date, and expects to continue to enter into further acquisitions subsequent to the Latest Practicable Date and prior to the date of this document (collectively, the "**Acquisitions**"). Details of the Acquisitions up to the Latest Practicable Date include:

Targets(1)(3)	Consideration(2)	Percentage of shareholding/ equity interest(2)	Principal business activities
	(*approximately RMB million*)		
Company V	3,000	55.10%	Logistics
Company W	8.5	70%	Pharmaceutical
Company X	139.6	100%	Logistics property
Company Y	1,453.4	100%	Retail
Company Z	484.8	100%	E-commerce

Notes:

(1) Given that the Company has not yet entered into legally binding agreements for certain of the above Acquisitions as at the Latest Practicable Date, the terms and information set out above might be subject to further changes.

(2) The approximate consideration disclosed in the table represents each of the Acquisitions after December 31, 2019. The percentage of shareholding/equity interest represents the Company's total pro forma shareholding in each of the Acquisitions after the completion of disclosed transaction.

(3) None of the core connected persons at the level of the Company is a controlling shareholder of any of the Investments.

The acquisition amounts for the Acquisitions are the result of commercial arm's length negotiations, based on factors including stock price (for public companies), market dynamics, a mutually agreed valuation, and/or capital required for the target company's operations.

Conditions for granting the waiver and its scope in respect of the Acquisitions

The Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules in respect of the Acquisitions on the following grounds:

The percentage ratios of each Acquisition are all less than 5% by reference to the most recent fiscal year of the Company's Track Record Period.

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules for the Acquisitions are all less than 5% by reference to the most recent fiscal year of the Track Record Period. The Company does not believe that the Acquisitions are subject to aggregation under Rule 14.22 of the Hong Kong Listing Rules, because (i) each of the Acquisitions involves the acquisition of interests in a different company and (ii) the Acquisitions were entered into with different counterparties.

Accordingly, the Company believes that each of the Acquisitions have not resulted in any significant changes to the Company's financial position since December 31, 2019, and all information that is reasonably necessary for the potential investors to make an informed assessment of the

Company's activities or financial position has been included in this document. As such, the Company considers that a waiver from compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investors.

The historical financial information of the targets is not available and would be unduly burdensome to obtain or prepare

The Company confirms that the targets in respect of the Acquisitions do not have available historical financial information which is readily available for disclosure in this document in accordance with the Hong Kong Listing Rules. In addition, it would require considerable time and resources for the Company and its reporting accountant to fully familiarize ourselves with the management accounting policies of the targets and compile the necessary financial information and supporting documents for disclosure in this document. As such, the Company believes that it would be impractical and unduly burdensome for the Company to disclose the audited financial information of the targets as required under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules.

In addition, having considered the Acquisitions to be immaterial and that the Company does not expect each of the Acquisitions to have any material effect on its business, financial condition or operations, the Company believes that it would not be meaningful and would be unduly burdensome for it to prepare and include the financial information of the targets during the Track Record Period in this document. As the Company does not expect each of the Acquisitions to result in any material changes to its financial position after the Track Record Period, the Company does not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would prejudice the interests of the investors.

Alternative disclosure of the Acquisitions in this document

The Company has provided alternative information about the Acquisitions in this document. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules that the Company's directors consider to be material, including, for example, descriptions of the targets' principal business activities, the investment amounts, and a statement that whether the core connected persons at the level of the Company is a controlling shareholder of any of the targets. The Company has however excluded disclosure on the names of certain targets in connection with the Acquisitions because (i) the Company has entered into confidentiality agreements with these companies and does not have consent from all of them for such disclosure and/or (ii) given that the Company has not yet entered into legally binding agreements with respect to all of these Acquisitions as of the Latest Practicable Date and the competitive nature of the industries in which the Company operates, disclosure of the names of the relevant companies in this document is commercially sensitive and may jeopardize the Company's ability to consummate the proposed Acquisitions. It is commercially sensitive to disclose the identities of the companies the Company invested in or propose to invest in as such information may enable its competitors to anticipate the Company's investment strategy. Since the relevant percentage ratio of each of the Acquisitions is less than 5% by reference to the most recent fiscal year of our Track Record Period, the current disclosure is adequate for potential investors to form an informed assessment of the Company. The Company does not expect to use any proceeds from the Listing to fund the Acquisitions.

Disclosure Requirements Relating to the Accountants' Report

Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance set out certain historical financial information to be included in a listing document that is not required to be disclosed under U.S. GAAP, including in particular:

(i) balance sheet at a company level;

(ii) ageing analysis of accounts receivables;

(iii) ageing analysis of accounts payables; and

(iv) adjustments made to show profits of all periods in accordance with the relevant accounting standards in relation to the last fiscal year reported on.

In accordance with U.S. GAAP, the Company have applied the modified retrospective transition approach to account for the impact of the adoption of the new accounting standards in the Track Record Period. Under the modified retrospective method adopted by the Group, comparative periods in the latest consolidated financial statements are not retrospectively adjusted.

During the Track Record Period, the Company adopted, among other new accounting standards that did not have a material impact on our consolidated financial statements, Accounting Standards Update 2014-09 "Revenue from Contracts with Customers (Topic 606)" and related amendments and implementation guidance, or ASC 606, Accounting Standards Update 2016-01 "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities", including related technical corrections and improvements, or ASU 2016-01, and Accounting Standards Update 2016-02 "Leases" (Topic 842)", including certain transitional guidance and subsequent amendments, or ASC 842. The relevant accounting policies upon the adoption of these new accounting standards are disclosed in the Accountants' Reports in Appendices IA and IB to this document, respectively.

ASC 606 was adopted beginning January 1, 2018 using the modified retrospective transition method that increased retained earnings by approximately RMB257 million 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.

ASU 2016-01, which amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments, was adopted on January 1, 2018. The Group applied this update by a cumulative-effect adjustment to the retained earnings as of January 1, 2018. 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, whereas the fair value changes of these investments were recorded in other comprehensive income in previous fiscal years prior to the adoption. Upon the adoption of ASU 2016-01 on January 1, 2018, the Group recognizes a cumulative effect adjustment for the net unrealized gains related to marketable equity securities of RMB1,156.6 million from accumulated other comprehensive income to the opening balance of retained earnings in the period of adoption. The impact on the consolidated financial statements is disclosed in the Accountant's Report in Appendix IA to this document. The full retrospective application of ASU 2016-01 is not permitted under U.S. GAAP. Any adjustments to the historical financial information in the comparative periods arising from the full retrospective application of ASU 2016-01 will create confusion to the existing investors in the U.S. market and it may be misleading to disclose such information in the Accountant's Report in Appendix IA to this document.

ASC Topic 842, Leases ("ASC 842") was adopted on January 1, 2019 using the modified retrospective transition approach by applying the new lease standard to all leases existing as of January 1, 2019, the date of initial application, and no adjustments were made to the comparative periods. Adoption of the new lease standard resulted in the recognition of operating lease right-of-use assets and operating lease liabilities on the consolidated balance sheet as of January 1, 2019. The adoption of the new lease standard does not have any significant impact on the consolidated statements of operations and comprehensive income and cash flows of the Group and there was no adjustment to the beginning retained earnings on January 1, 2019.

The following alternative disclosures with respect to certain items identified above which are relevant to the Company have been included in this document:

- disclosure of the accounting policies for the adoption of ASC 606 and ASU 2016-01 as well as the impact of adoption, if any, in the Accountant's Report in Appendix IA to this document;

- disclosure of the accounting policy for the adoption of ASC 842 in the Accountants' Report in Appendix IB to this document; and

- for the new accounting standard that came into effect in the fiscal year of 2019, the accounting policy as well as the impact of adoption, if any, to the beginning retained earnings of initial application (i.e. January 1, 2019) has been disclosed in the Accountants' Report in Appendix IB to this document in accordance with the relevant requirements under U.S. GAAP.

As this document has included the above alternative disclosures and the current disclosure in this document contains all information which is necessary for the investors to make an informed assessment of the business, asset and liability, financial position, trading position, management and prospect of the Group, the Company believes that it would be of no material value to the Hong Kong investors and be unduly burdensome for the Accountants' Reports in Appendices IA and IB to this document to include certain required information pursuant to Rules 4.04(3), 4.05(2) and 4.13 of the

Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the non-disclosure of such information is not material and will not prejudice the interests of the investors.

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 4.04(3), 4.05(2) and 4.13 of the Hong Kong Listing Rules. The Company has applied for, and the SFC has granted, an exemption from the requirements under Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before June 8, 2020.

Dealings in Shares prior to Listing

According to Rule 9.09(b) of the Hong Kong Listing Rules, there must be no dealing in the securities of a new applicant for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted (the "**Relevant Period**").

The Company had over 800 subsidiaries and operating entities as of December 31, 2019, and its ADSs are widely held, publicly traded and listed on the Nasdaq. The Company considers that it is therefore not in a position to control the investment decisions of its shareholders or the investors in the US. As of the Latest Practicable Date, other than Mr. Richard Qiangdong Liu (the Company's controlling shareholder, executive Director and Chief Executive Officer), there are no shareholders who are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company.

For a company whose securities are listed and traded in the U.S., the Company notes that it is a common practice for substantial shareholders and corporate insiders, including directors, executives and other members of management, to set up trading plans that meet the requirements of Rule 10b5-1 under the U.S. Exchange Act (the "**Rule 10b5-1 Plans**") to buy or sell the company's securities. A Rule 10b5-1 Plan is a written plan, set up with a broker, to trade securities that (a) is entered into at a time when the person trading the securities is not aware of any material non-public information; (b) specifies the amount of securities to be purchased or sold and the price at which and the date on which the securities were to be purchased or sold; and (c) does not allow the person trading the securities to exercise any subsequent influence over how, when, or whether to effect purchases or sales. Persons who trade securities pursuant to a Rule 10b5-1 Plan have an affirmative defense against insider trading allegations under U.S. securities law.

On the basis of the above, the Company considers that the following categories of persons (collectively, the "**Permitted Persons**") should not be subject to the dealing restrictions set out in Rule 9.09(b) of the Hong Kong Listing Rules:

(i) Mr. Richard Qiangdong Liu (the Company's controlling shareholder, executive Director and Chief Executive Officer) in respect of the respective dealings by Mr. Richard

Qiangdong Liu and his close associates pursuant to Rule 10b5-1 Plan that they have set up prior to the Relevant Period ("**Category 1**");

(ii) the Company's directors and chief executive other than Mr. Richard Qiangdong Liu, and the directors and chief executives of its Major Subsidiaries, in respect of (i) their respective use of the Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period and (ii) their respective dealings pursuant to Rule 10b5-1 Plans that they have set up prior to the Relevant Period ("**Category 2**");

(iii) directors, chief executives and substantial shareholders of the Company's non-Major Subsidiaries and their close associates ("**Category 3**"); and

(iv) any other person (whether or not an existing Shareholder) who may, as a result of dealings, become the Company's substantial shareholder and who is not its director or chief executive, or a director or chief executive of the Company's subsidiaries, or their close associates ("**Category 4**").

For the avoidance of doubt,

(i) as the foreclosure, enforcement or exercise of other rights by the lenders in respect of a security interest over the Shares (including, for the avoidance of doubt, any security interest created pursuant to any top-up of security) will be subject to the terms of the financing transaction underlying such security and not within the control of the pledgor, any change in the beneficial owner of the Shares during the Relevant Period resulting from the foreclosure, enforcement or exercise of other rights by the lenders in respect of such security interest will not be subject to Rule 9.09(b) of the Hong Kong Listing Rules; and

(ii) persons in Category 1 and Category 2 who (i) use their respective Shares other than as described in this section "Dealings in Shares prior to Listing" or (ii) who are not dealing in the Company's securities according to Rule 10b5-1 Plans set up before the Relevant Period are subject to the restrictions under Rule 9.09(b) of the Hong Kong Listing Rules.

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 9.09(b) of the Hong Kong Listing Rules is to be granted on the following conditions:

(i) Categories 1 and 2 of the Permitted Persons who entered into Rule 10b5-1 Plans have no discretion over dealings in the Company's ADSs after the plans have been entered into. Where Category 2 of the Permitted Persons use the Shares as security, other than as set out in the waiver above, there will be no change in the beneficial ownership of the Shares during the Relevant Period;

(ii) Categories 3 and 4 of the Permitted Persons do not have any influence over the Global Offering and do not possess any non-public inside information of the Company given that such persons are not in a position with access to information that is considered material to the Company taken as a whole. Given the large number of the Company's subsidiaries and its vast ADS holder base, the Company and its management do not have effective control over the investment decisions of Categories 3 and 4 of the Permitted Persons in its ADSs;

(iii) the Company will promptly release any inside information to the public in the United States and Hong Kong in accordance with the relevant laws and regulations of the U.S. and Hong Kong. Accordingly, the Permitted Persons (other than Category 1 and Category 2 persons) are not in possession of any non-public inside information of which the Company is aware;

(iv) the Company will notify the Hong Kong Stock Exchange of any breaches of the dealing restrictions by any of its core connected persons during the Relevant Period when it becomes aware of the same other than dealings by the core connected persons who are Permitted Persons within the permitted scopes set out above; and

(v) prior to the Listing Date, other than within the permitted scopes set out above, the Company's directors and chief executive and the directors and chief executives of its Major Subsidiaries and their close associates will not deal in the Shares or the ADSs during the Relevant Period provided that such prohibited dealing in the Shares shall not include the granting, vesting, payment or exercise (as applicable) of RSUs, incentive and non-statutory options, restricted shares, dividend equivalents, and share payments under the Group's share incentive plans.

Subscription for Shares by Existing Shareholders

Rule 10.04 of the Hong Kong Listing Rules requires that existing shareholders may only subscribe for or purchase any securities for which listing is sought that are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rule 10.03 of the Hong Kong Listing Rules are fulfilled. Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules states that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to be made to directors, existing shareholders of a listing applicant or their close associates, unless the conditions set out in Rules 10.03 and 10.04 are fulfilled.

The Company had over 800 subsidiaries and operating entities as of December 31, 2019, and its ADSs are widely held, publicly traded and listed on the Nasdaq. The Company confirms that Categories 3 and 4 of the Permitted Persons (as defined in "— Dealings in Shares Prior to the Listing" above) have no influence over the Global Offering and are not in possession of any non-public inside information and are effectively in the same positions as the public investors of the Company. Categories 3 and 4 of the Permitted Persons and other public investors are referred to as "**Permitted Existing Shareholders**".

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 10.04 and paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules in respect of the restrictions on the Permitted Existing Shareholders to subscribe for or purchase Shares in the Global Offering is to be granted, subject to the following conditions:

(i) each Permitted Existing Shareholder is interested in less than 5% of the Company's total issued shares before the Listing;

(ii) other than the Categories 3 and 4 of the Permitted Persons, each Permitted Existing Shareholder is not a core connected person of the Company or their close associates;

(iii) the Permitted Existing Shareholders do not have the power to appoint directors of the Company or any other special rights in the Company;

(iv) the Permitted Existing Shareholders do not have influence over the offering process and will be treated the same as other applicants and placees in the Global Offering;

(v) the Permitted Existing Shareholder will be subject to the same book-building and allocation process as other applicants and placees in the Global Offering; and

(vi) to the best of their knowledge and belief, each of the Company, the Joint Representatives and the Joint Sponsors (based on (a) its discussions with the Company and the Joint Representatives and (b) confirmations to be submitted to the Hong Kong Stock Exchange by the Company and the Joint Representatives), confirms to the Hong Kong Stock Exchange in writing that no preferential treatment has been, nor will be, given to the Permitted Existing Shareholders and their close associates as a placee in the International Offering by virtue of their relationship with the Company.

Allocation to the Permitted Existing Shareholders and/or their close associates will not be disclosed in the allotment results announcement of the Company as the Company believes that it would be unduly burdensome for the Company to disclose such information given that there is no requirement to disclose interests under the U.S. Exchange Act unless such person (including directors and officers of the company concerned) who, after acquiring beneficial ownership of a class of equity securities registered under Section 12 of the U.S. Exchange Act, is a beneficial owner of more than 5% of that class of equity securities.

Availability of copies of the prospectus in printed form

We have adopted a fully electronic application process for the Hong Kong Public Offering and we will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering. We will adopt additional communication measures as we consider appropriate to inform the potential investors that they can only subscribe for the Hong Kong Offer Shares electronically, including publishing on the website of the Company and a formal notice in both English and Chinese-language newspaper the available channels for share subscription of the Hong Kong Offer Shares. We have applied for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules in respect of the availability of copies of the prospectus in printed form based on the specific and prevailing circumstances of the Company.

Monthly Return

Rule 13.25B of the Hong Kong Listing Rules requires a listed issuer to publish a monthly return in relation to movements in its equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates.

Pursuant to the Joint Policy Statement, companies applying for a secondary listing may seek a waiver from Rule 13.25B subject to satisfying the waiver condition that the SFC has granted a partial exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) in respect of disclosure of shareholders' interests.

As the Company has obtained a partial exemption from the SFC, the Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 13.25B of the Hong Kong Listing Rules. The Company will disclose information about share repurchases, if material, in the Company's quarterly earnings releases and annual reports on Form 20-F which are furnished or filed with the SEC in accordance with applicable U.S. rules and regulations.

Particulars of any Commissions, Discounts and Brokerages and Alterations of Capital

Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraphs 11 and 14 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance require the listing document to include the particulars of any commissions, discounts, brokerages or other special terms granted within two years immediately preceding the issue of the listing document in connection with the issue or sale of any capital of any member of the group and the particulars of any alterations of capital within two years immediately preceding the issue of the listing document.

Paragraph 25 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires particulars of the authorized debentures of the Company and its subsidiaries to be disclosed in this document.

The Company has identified 22 entities as its Major Subsidiaries. For further details, see the section headed "History and Corporate Structure — Major Subsidiaries and Operating Entities" in this document. The Company had more than 800 subsidiaries and operating entities as of December 31, 2019. The Company believes that would be unduly burdensome for the Company to disclose this information in respect of all of its subsidiaries as the Company would have to incur additional costs and devote additional resources in compiling and verifying the relevant information for such disclosure, which would not be material or meaningful to investors.

The Major Subsidiaries include all significant operating subsidiaries under the financial threshold of Regulation S-X in the U.S. (i.e. contributing more than 10% of the Group's total assets and income) and subsidiaries that are material to the Group's business operations (including those that hold major intellectual properties). By way of illustration, the audited aggregate revenue, net income and total assets of the Major Subsidiaries in respect of which the relevant information is disclosed represents over 95%, over 100% and approximately 65% of the Group's total revenue, net income and total assets for the year ended December 31, 2019, respectively. The Company's remaining subsidiaries and affiliated consolidated entities are individually insignificant to its overall results. As such, the Company has disclosed the particulars of the changes in its share capital and the Major Subsidiaries in the section headed “Statutory and General Information — Further Information About Us” in Appendix IV to this document, and particulars of the commissions, discounts, brokerage fee and authorized debentures in respect of the Major Subsidiaries and the Company are set out in the section headed “Statutory and General Information — Other Information — Miscellaneous” of Appendix IV to this document.

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from the requirements under paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules. The Company has applied for, and the SFC has granted, an exemption from the requirements under paragraphs 11, 14 and 25 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before June 8, 2020.

Disclosure of Information on Subsidiaries Whose Profits or Assets Make Material Contributions to the Company

Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraph 29 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance require the listing document to include information in relation to the name, date and country of incorporation, the public or private status and the general nature of the business, the issued capital and the proportion thereof held or intended to be held, of every company the whole of the capital of which or a substantial proportion thereof is held or intended to be held by the Company, or whose profits or assets make, or will make, a material contribution to the figures in the accountants’ report or the next published accounts.

The Company believes that it would be unduly burdensome for the Company to procure this information for the reasons as set out in section headed “— Particulars of any Commissions, Discounts and Brokerages and Alternations of Capital” above. As such, only the particulars in relation to the Major Subsidiaries are set out in this document under the sections headed “History and Corporate Structure — Major Subsidiaries and Operating Entities” and “Statutory and General Information — Further Information About Us” in Appendix IV to this document, which should be sufficient for potential investors to make an informed assessment of the Company in their investment decisions.

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules. The Company has applied for, and the SFC has granted, an exemption from the requirements under Paragraph 29 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before June 8, 2020.

Disclosure Requirements of Options

Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules requires the Company to set out in this document particulars of any capital of any member of the group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee.

Paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance further requires the Company to set out in this document, among other things, details of the number, description and amount of any of its shares or debentures which any person has, or is entitled to be given, an option to subscribe for, together with the certain particulars of the option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration given or to be given (if any) and the names and addresses of the persons to whom it was given.

In relation to the Company, the only options over the capital or debentures are those issued under the Share Incentive Plan, which are not subject to Chapter 17 of the Hong Kong Listing Rules pursuant to Rule 19C.11 of the Hong Kong Listing Rules. The Share Incentive Plan provides for the granting of options, restricted shares, RSUs or any other type of awards that the committee or the board decides. The waiver and exemption therefore only relates to the options that are granted under the Share Incentive Plan and the outstanding options, which only accounted for approximately 1.2% of the Company's total outstanding shares as of March 31, 2020. Mr. Richard Qiangdong Liu, the Company's executive director and Chief Executive Officer, has been granted with an option to acquire a total of 26,000,000 Class A ordinary shares of the Company as his 10-year compensation plan in May 2015. As of March 31, 2020, the options held by the Company's directors and executive officers and their affiliates, including the options granted to Mr. Richard Qiangdong Liu mentioned above, only represent approximately 0.9% of the Company's total outstanding shares.

Details of the Share Incentive Plan, including outstanding options held by Mr. Richard Qiangdong Liu, are set out in the section headed "Directors and Senior Management – Compensation – Share Incentive Plan", which summary is substantially the same as that disclosed in the Company's 20-F filings and complies with applicable U.S. laws and regulations. Accordingly, the current disclosure in this document is not in strict compliance with the requirements under paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules and Paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

For the reasons stated above, the Company believes that strict compliance with the above requirements would be unduly burdensome, unnecessary and/or inappropriate for the Company, and would not be material or meaningful to potential investors.

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules. The Company has applied for, and the SFC has granted, an exemption from the requirements under Paragraph 10 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before June 8, 2020.

Disclosure Requirements of Directors' and Five Highest Individuals' Emoluments

Paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information in respect of directors' emoluments during the three financial years ended December 31, 2017, 2018 and 2019. Paragraph 46(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include the aggregate of the remuneration paid and benefits in kind granted to the directors of the issuer in respect of the last completed financial year, and Paragraph 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires information in relation to an estimate of the aggregate remuneration and benefits in kind payable to directors in respect of the current financial year to be set out in the listing document.

Paragraph 33(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information with respect to the five individuals whose emoluments were highest in the group for the year if one or more individuals whose emoluments were the highest have not been included under paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules.

Waiver in relation to directors' and five highest individuals' emoluments

The aggregate fees, salaries and benefits paid and accrued to its directors and executive officers as a group are disclosed in the section headed "Directors and Senior Management — Compensation" in this document. The Company confirms that the current disclosure complies with US annual reporting requirements and is in line with the Company's disclosure in its annual report on Form 20-F.

The Company believes that additional disclosure required by Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules would be unduly burdensome and would not provide additional meaningful disclosure for potential Hong Kong investors.

The Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules, to the extent not strictly met by the current disclosure in this document.

Not a Public Company in Hong Kong

Section 4.1 of the Introduction to the Takeovers Codes provides that the Takeovers Codes apply to takeovers, mergers and share buy-backs affecting, among others, public companies in Hong Kong and companies with a primary listing in Hong Kong. According to the Note to Section 4.2 of the Introduction to the Takeovers Codes, a Grandfathered Greater China Issuer within the meaning of Rule 19C.01 of the Hong Kong Listing Rules with a secondary listing on the Hong Kong Stock Exchange will not normally be regarded as a public company in Hong Kong under Section 4.2 of the Introduction to the Takeovers Codes.

The Company has applied for, and the SFC has granted, a ruling that the Company is not a "public company in Hong Kong" for the purposes of the Takeovers Codes. Therefore, the Takeovers Codes do not apply to the Company. In the event that the bulk of trading in the Shares migrates to Hong Kong such that the Company would be treated as having a dual-primary listing pursuant to Rule 19C.13 of the Hong Kong Listing Rules, the Takeovers Codes will apply to the Company.

Disclosure of Interests under Part XV of SFO

Part XV of the SFO imposes duties of disclosure of interests in Shares. Under the U.S. Exchange Act, which the Company is subject to, any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the SEC and which includes the power to direct the voting or the disposition of the securities, of more than 5% of a class of equity securities registered under Section 12 of the U.S. Exchange Act must file beneficial owner reports with the SEC, and such person must promptly report any material change in the information provided (including any acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply. Therefore, compliance with Part XV of the SFO would subject the Company's corporate insiders to a second level of reporting, which would be unduly burdensome to them, would result in additional costs and would not be meaningful, since the statutory disclosure of interest obligations under the U.S. Exchange Act that apply to the Company and its corporate insiders would provide our investors with sufficient information relating to the shareholding interests of our significant shareholders.

The Company has applied for, and the SFC has granted, a partial exemption under section 309(2) of the SFO from the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO), on the conditions that (i) the bulk of trading in the Shares is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Hong Kong Listing Rules; (ii) all disclosures of interest filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosures in the same manner as disclosures made under Part XV of the SFO; and (iii) the Company will advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the U.S. and any significant changes in the volume of our worldwide share turnover that takes place on the Hong Kong Stock Exchange. This exemption may be reconsidered by the SFC in the event there is a material change in information provided to the SFC.

Disclosure of Interests Information

Part XV of the SFO imposes duties of disclosure of interests in shares. Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules require the disclosure of interests information in respect of shareholders' and directors' interests in this document.

The Company has applied for, and the SFC has granted, a relevant partial exemption from strict compliance with Part XV of the SFO as set out above under sub-section headed "Disclosure of Interests under Part XV of SFO".

The U.S. Exchange Act and the rules and regulations promulgated thereunder require disclosure of interests by shareholders that are broadly equivalent to Part XV of the SFO. Relevant disclosure in respect of the substantial shareholder's interests can be found in the section headed "Major Shareholders" in this document.

The Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Practice Note 5 and Paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules on the following conditions:

(i) the SFC granting the Company and its shareholders a partial exemption from strict compliance with Part XV of the SFO;

(ii) the Company undertaking to file with the Hong Kong Stock Exchange, as soon as practicable, any declaration of shareholding and securities transactions filed with the SEC; and

(iii) the Company undertaking to disclose in present and future listing documents any shareholding interests as disclosed in an SEC filing and the relationship between its directors, officers, members of committees and their relationship to any controlling shareholders.

Shareholder Protection

For an overseas issuer seeking a secondary listing on the Hong Kong Stock Exchange, Rule 19.30(1)(b) of the Hong Kong Listing Rules requires the overseas issuer's primary listing is or is to be on an exchange where the standards of shareholder protection are at least equivalent to those provided in Hong Kong. Rule 19C.06 of the Hong Kong Listing Rules provides that Appendix 3 and Appendix 13 of the Hong Kong Listing Rules do not apply to an overseas issuer that is a Non-Greater China Issuer (as defined in the Hong Kong Listing Rules) or a Grandfathered Greater China Issuer seeking a secondary listing under Chapter 19C of the Hong Kong Listing Rules. Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that a Non-Greater China Issuer or a Grandfathered Greater China Issuer seeking a secondary listing has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07 of the Hong Kong Listing Rules. The Company is a Grandfathered Greater China Issuer under Chapter 19C of the Hong Kong Listing Rules.

Approval, removal and remuneration of auditors

Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors must be approved by a majority of the Qualifying Issuer's members or other body that is independent of the issuer's board of directors, or the Auditors Provision. However, our Articles of Association do not contain an equivalent Auditors Provision. The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from the strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules on the following conditions and basis:

(i) while our board has the power to appoint, remove and remunerate the auditors, our board has formally delegated this function to the Audit Committee since our listing on the Nasdaq in 2014. The Audit Committee is akin to an independent body of our board on the basis of the independence requirements as set out in applicable U.S. laws and the Nasdaq rules. The Audit Committee comprises of three members, all of whom are independent directors as required by the U.S. Exchange Act and applicable Nasdaq rules;

(ii) the Company is seeking a listing on the Hong Kong Stock Exchange under Chapter 19C of the Hong Kong Listing Rules; and

(iii) the disclosure of the basis of the waiver is set out in this document.

Requisition of extraordinary general meeting by shareholders

Rule 19C.07(7) of the Hong Kong Listing Rules requires that members holding a minority shareholding in an issuer's total number of issued shares must be able to requisition an extraordinary general meeting and add resolutions to a meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of the issuer, while the minimum stake as currently set out in the Articles is not less than one-third of the votes attaching to all issued and outstanding Shares. The Company will amend the Articles after the Listing to comply with Rule 19C.07(7) of the Hong Kong Listing Rules. In addition, the Articles provide that quorum for a general meeting of the Company shall be one or more members holding Shares which represent, in aggregate, not less than one-third of the votes attaching to all issued and outstanding Shares.

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 19C.07(7) of the Hong Kong Listing Rules, subject to the conditions that:

(i) the Company put forth resolution at or before the next annual general meeting of the Company which is expected to be held around mid-2021 after the Listing to revise the Articles, so that (i) the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda will be 10% of the voting rights, on a one vote per share basis, in the share capital of the Company; and (ii) the quorum for a general meeting of the Company will be lowered from the current one-third of the aggregate voting power of the Company to 10% of the aggregate voting power of the Company; and

(ii) we will seek irrevocable undertaking from Controlling Shareholder(s) prior to the Listing to vote in favor of the proposed resolutions outlined above with a view to ensuring that there may be adequate votes in favor of such resolutions.

Rules relating to spin-offs

Rule 19C.11 of the Hong Kong Listing Rules provides that, among other things, paragraphs 1 to 3(b) and 3(d) to 5 of Practice Note 15 of the Hong Kong Listing Rules ("**Practice Note 15**") do not apply to a Qualifying Issuer that has, or is seeking, a secondary listing on the Hong Kong Stock Exchange. Such exception is limited to circumstances where the spun-off assets or businesses are not to be listed on the Hong Kong Stock Exchange's markets and the approval of shareholders of the Company is not required.

Paragraph 3(b) of Practice Note 15 provides that the Listing Committee would not normally consider a spin-off application within three years of the date of listing of the Company, given the original listing of the Company will have been approved on the basis of the Company's portfolio of businesses at the time of listing, and that the expectation of investors at that time would have been that the Company would continue to develop those businesses.

While the Company does not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as at the date of this document, in light of the Group's overall business scale, the Company may consider spinning off one or more of its mature business units through a listing on the Hong Kong Stock Exchange (each a "**Potential Spin-off**") within three years after the Listing, if there are clear commercial benefits both to the Company and the businesses to be potentially spun-off and there will be no adverse impact on the interests of shareholders of the Company. As of the Latest Practicable Date, the Company has not identified any target for a potential spin-off; as a result the Company does not have any information relating to the identity of any spin-off target or any other details of any spin off and accordingly, there is no material omission of any information relating to any possible spin-off in this document.

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements in paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules, on the following grounds:

(i) no shareholders' approval with respect to a Potential Spin-off will be required under the Articles under applicable U.S. regulations and Nasdaq listing rules. Further, as the Company is a Grandfathered Greater China Issuer and therefore exempt from the requirements under Chapter 14 of the Hong Kong Listing Rules pursuant Rule 19C.11, no shareholders' approval will be required under the Hong Kong Listing Rules as well;

(ii) the effect of a spin-off to the shareholders of the Company should be the same regardless of whether or not the businesses to be potentially spun-off are to be listed on the Hong Kong Stock Exchange (save with respect to any preferential rights to subscribe for shares that are commonly provided in spin-offs on the Hong Kong Stock Exchange). Given the fact that certain spin-offs by Grandfathered Greater China Issuers are allowed within three years after their listing in Hong Kong pursuant to Rule 19C.11 of the Hong Kong Listing Rules, the Company believes that the three-year restriction on spin-offs on the Hong Kong Stock Exchange should also be waived and shall not apply to a Potential Spin-off by the Company;

(iii) in any event, the Company and any subsidiary in respect of which a Potential Spin-off is contemplated will be subject to compliance with all other applicable requirements under the Hong Kong Listing Rules, including the remaining requirements of Practice Note 15 and (in the case of the company to be spun-off) the listing eligibility requirements of Chapter 8, 8A or 19C of the Hong Kong Listing Rules (as the case may be), unless otherwise waived by the Hong Kong Stock Exchange;

(iv) under U.S. securities laws and Nasdaq rules, the Company is not subject to any restrictions similar to the three-year restriction under paragraph 3(b) of Practice Note 15 in relation to the spin-offs of its businesses, nor is there any requirement for the Company to disclose any details of its potential spin-off entities when such information is not available because of the absence of any concrete spin-off plan; and

(v) the directors owe fiduciary duties to the Company, including the duty to act in what they consider in good faith to be in the best interests of the Company; as such they will only pursue a potential spin-off if there are clear commercial benefits both to the Company and the entity or entities to be spun off; and the directors will not direct the Company to conduct any spin-off if they believe it will have an adverse impact on the interests of the Company's shareholders.

The waiver was granted by the Hong Kong Stock Exchange on the following conditions:

(i) the Company undertakes that prior to any spin-off of its business through a listing on the Hong Kong Stock Exchange within three years after the Listing, the Company will confirm to the Hong Kong Stock Exchange with basis that the spin-off would not render the Company, excluding the business to be spun off, incapable of fulfilling either the eligibility or suitability requirements under Rules 19C.02 and 19C.05 of the Hong Kong Listing Rules based on the financial information of the entity or entities to be spun-off at the time of the Company's Listing (calculated cumulatively if more than one entity is spun-off);

(ii) the Company will disclose in this document its intention relating to any potential spin-off within three years after the Listing and the risks relating to the uncertainty and timing of any potential spin-offs (see "Risk Factors — Risks Related to Our Shares, ADSs and the Listing — We are exposed to risks associated with the potential spin-off of one or more of our businesses");

(iii) any potential spin-offs by the Company will be subject to the requirements of Practice Note 15 (other than paragraph 3(b) thereof), including that each of the Company and its businesses to be spun off will satisfy the applicable listing eligibility requirements on a standalone basis; and

(iv) disclosure of this waiver in this document.

The Company cannot assure that any spin-off will ultimately be consummated, whether within the three-year period after the Listing or otherwise, and any such spin-off will be subject to market conditions at the time and approval by the Listing Committee. In the event that the Company proceeds with a spin-off, the Company's interest in the entity to be spun-off (and its corresponding contribution to the financial results of our Group) will be reduced accordingly.

Disclosure requirements in respect of indebtedness and liquidity

Paragraph 32 of Part A of Appendix 1 to the Hong Kong Listing Rules requires a listing document to include a statement (or an appropriate negative statement) of a new applicant's indebtedness as at a specified most recent practicable date (the "**Most Recent Practicable Date**"), and a commentary on its liquidity, financial resources and capital structure (together, the "**Liquidity Disclosure**"). In accordance with Hong Kong Stock Exchange Guidance Letter HKEX-GL37-12 ("**HKEX-GL37-12**"), the Hong Kong Stock Exchange normally expects that the Most Recent Practicable Date for the Liquidity Disclosure, including, among other things, commentary on liquidity and financial resources such as net current assets (liabilities) position and management discussion on this position, in a listing document to be dated no more than two calendar months before the final date of the listing document.

As this listing document is published in June 2020, the Company is required to make the relevant indebtedness and liquidity disclosures no earlier than April 30, 2020 pursuant to HKEX-GL37-12. Given that the Company has included a report of its interim financial information for the period ended March 31, 2020 (i.e., the Company's first quarter financial information), which has been reviewed in accordance with Hong Kong Standard on Review Engagements ("**HKSRE**") 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", it would be unduly burdensome for the Company to re-arrange information for similar Liquidity Disclosure on a consolidated basis shortly after the end of the first quarter of its financial year.

Strict compliance with the Liquidity Disclosure requirements would constitute additional one-off disclosure by the Company of its liquidity position on a date that would fall within the second quarter of its financial year (i.e. a date that would fall between March 31, 2020 and June 30, 2020), which would be otherwise not required to be disclosed to investors in the U.S. under applicable U.S. regulations and Nasdaq listing rules because the Company is required to announce quarterly results at the end and not in the middle of each quarter of its financial year. Such one-off disclosure is likely to confuse the Company's existing investors and deviates from its customary practice and that of other Nasdaq listed companies.

The Company has a strong liquidity position, see "Financial Information—Liquidity and Capital Resources" and "Recent Development—Financial Updates" for further details, and the Company did not record any acceleration of indebtedness or incur any material expenses since March 31, 2020. In any event, if there has been any material changes to the Liquidity Disclosures since March 31, 2020, the Company will be required to make an announcement pursuant to the U.S. regulations and Nasdaq listing rules and disclose relevant material facts in the listing document pursuant to the Hong Kong Listing Rules.

In the event that there has been no material change to the Liquidity Disclosures since March 31, 2020, any similar disclosures made pursuant to HKEX-GL37-12 would not give additional meaningful information to investors.

We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from compliance with the timing requirements for the Liquidity Disclosure in the listing document under HKEX-GL37-12, on the condition that the reported date of indebtedness and liquidity information in the listing document will not exceed the requirement under HKEX-GL37-12 by one calendar month (i.e. the time gap between the reported dated of the Company's indebtedness and liquidity information and the date of the listing document would be no more than three calendar months).

Disclosure of Offer Price

Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules provides that the issue price or offer price of each security must be disclosed in the Prospectus.

We set out below the reasons for the waiver from strict compliance with Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules:

(i) **The Public Offer Price will be determined by reference to the Company's ADS price:** The Company's ADSs is listed and traded on Nasdaq. With a view to aligning the interest of securities holders in both U.S. and Hong Kong, the Public Offer Price will be determined with reference to, among other factors, the closing price of the Company's ADSs on Nasdaq on the last trading day on or before the Price Determination Date. The market price of the Company's ADSs traded on Nasdaq is subject to various factors including the overall market conditions, the global economy, the industry updates, etc., and is not within the control of the Company;

(ii) **Negative impact on the market price of the Company's ADSs and Offer Shares**. Setting a fixed price or a price range with a low-end offer price per Offer Share may be regarded by the investors and shareholders of the Company as an indication of the current market value of the Company's Shares, which may adversely affect the market price of the ADSs of the Company and the Offer Shares; and

(iii) **Compliance with Companies (Winding Up and Miscellaneous Provisions) Ordinance**. Pursuant to paragraph 10(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the price to be paid for shares subscribed for shall be specified in the Prospectus. On this basis, disclosure of a maximum Public Offer Price complies with the requirements prescribed under paragraph 10(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which provides clear indication of the maximum subscription consideration which a potential investor shall pay for Hong Kong Offer Shares.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules based on the reasons above, so that the Company will only disclose the maximum Public Offer Price for the Hong Kong Offer Shares in the prospectus.

See "Structure of the Global Offering—Pricing and Allocation" in this prospectus for (i) the time for determination of the Public Offer Price and form of its publication; (ii) the historical prices of our ADS and trading volume on the Nasdaq; and (iii) the source for investor to access the latest market price of the Company's ADS.

Clawback Mechanism

Requirements under the Hong Kong Listing Rules

Paragraph 4.2 of PN18 of the Hong Kong Listing Rules ("**Paragraph 4.2**") requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of the Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules such that, provided the initial allocation of Shares under the Hong Kong Public Offering shall not be less than 5% of the Global Offering, in the event of over-subscription, the Joint Joint Representatives shall apply clawback mechanism as set out below following the closing of the application lists with reference to the final offering size of the Global Offering (assuming the Over-allotment Option is not exercised) based on the offer price determined on the Price Determination Date.

Based on the current market conditions, the Joint Representatives shall apply a clawback mechanism following the closing of the application lists on the following basis:

(a) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the

Hong Kong Public Offering will be 11,970,000 Shares, representing 9% of the Offer Shares initially available under the Global Offering;

(b) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 13,300,000 Shares, representing 10% of the Offer Shares initially available under the Global Offering; and

(c) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 15,960,000 Shares, representing 12% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, the Joint Representatives may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Public Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

See "Structure of the Global Offering—The Hong Kong Public Offering—Reallocation."

Directors

Name	Address	Country of Nationality
Richard Qiangdong Liu (劉強東) . . . . *Chairman of the Board of Directors and Chief Executive Officer*	902, Unit 2, Building 3 Hechengjingyuan 3 Sanyang North Street Daxing District, Beijing People's Republic of China	Chinese
Martin Chi Ping Lau (劉熾平)	10A Block 3, Beverly Villas 16 La Salle Road, Kowloon Hong Kong	Chinese (Hong Kong)
Ming Huang	13 Bai He Lu – Shadow Creek Shunyi District Beijing People's Republic of China	United States
Louis T. Hsieh	Tower 2, Unit 37-B, The Harbourside 1 Austin Road West Kowloon Hong Kong	United States
Dingbo Xu (許定波)	Room 401, Unit 3, Building 13 Qiushuiyuan, Tianxiu Garden Xiaojiahe Haidian District Beijing People's Republic of China	Chinese

Further information about the directors and other senior management members are set out in the section headed "Directors and Senior Management" in this document.

Parties Involved in the Global Offering

Joint Sponsors

Merrill Lynch Far East Limited
55/F Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

UBS Securities Hong Kong Limited
52/F Two International Finance Centre
8 Finance Street
Central
Hong Kong

CLSA Capital Markets Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Joint Representatives	**Merrill Lynch (Asia Pacific) Limited** 55/F Cheung Kong Center 2 Queen's Road Central Central Hong Kong
	UBS AG Hong Kong Branch 52/F Two International Finance Centre 8 Finance Street Central Hong Kong
	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong
Joint Global Coordinators	**Merrill Lynch (Asia Pacific) Limited** 55/F Cheung Kong Center 2 Queen's Road Central Central Hong Kong
	UBS AG Hong Kong Branch 52/F Two International Finance Centre 8 Finance Street Central Hong Kong
	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong
	(*in alphabetical order as follows*)
	BOCI Asia Limited 26/F, Bank of China Tower 1 Garden Road Central Hong Kong
	CCB International Capital Limited 12/F, CCB Tower 3 Connaught Road Central Central Hong Kong

China Renaissance Securities (Hong Kong) Limited
Units 8107-08, Level 81
International Commerce Centre
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Kowloon
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Jefferies Hong Kong Limited
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Joint Bookrunners

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UBS AG Hong Kong Branch
52/F Two International Finance Centre
8 Finance Street
Central
Hong Kong

CLSA Limited
18/F, One Pacific Place
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(*in alphabetical order as follows*)

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12/F, CCB Tower
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China Renaissance Securities (Hong Kong) Limited
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Hong Kong

Jefferies Hong Kong Limited
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(*in alphabetical order as follows*)

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11/F, Agricultural Bank of China Tower
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Hong Kong

BOCOM International Securities Limited
9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

CMB International Capital Limited
45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Haitong International Securities Company Limited
22/F Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited
62/F, The Center
99 Queen's Road Central
Central
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ICBC International Capital Limited
37/F, ICBC Tower
3 Garden Road
Hong Kong

Mizuho Securities Asia Limited
14-15/F K11 Atelier
18 Salisbury Road
Tsim Sha Tsui, Kowloon
Hong Kong

	Nomura International (Hong Kong) Limited 30/F, Two International Finance Centre 8 Finance Street Central Hong Kong
Joint Lead Managers	**Merrill Lynch (Asia Pacific) Limited** 55/F Cheung Kong Center 2 Queen's Road Central Central Hong Kong
	UBS AG Hong Kong Branch 52/F Two International Finance Centre 8 Finance Street Central Hong Kong
	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong
	(*in alphabetical order as follows*)
	BOCI Asia Limited 26/F, Bank of China Tower 1 Garden Road Central Hong Kong
	CCB International Capital Limited 12/F, CCB Tower 3 Connaught Road Central Central Hong Kong
	China Renaissance Securities (Hong Kong) Limited Units 8107-08, Level 81 International Commerce Centre 1 Austin Road West Kowloon Hong Kong
	Jefferies Hong Kong Limited Suite 2201, 22/F, Cheung Kong Center 2 Queen's Road Central Hong Kong

(*in alphabetical order as follows*)

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CMB International Capital Limited
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Hong Kong

Guotai Junan Securities (Hong Kong) Limited
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Hong Kong

Haitong International Securities Company Limited
22/F Li Po Chun Chambers
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Huatai Financial Holdings (Hong Kong) Limited
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ICBC International Securities Limited
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Hong Kong

Mizuho Securities Asia Limited
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Tsim Sha Tsui, Kowloon
Hong Kong

Nomura International (Hong Kong) Limited
30/F, Two International Finance Centre
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Central
Hong Kong

Our Legal Advisers	As to Hong Kong and U.S. laws: **Skadden, Arps, Slate, Meagher & Flom and affiliates** 42nd Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong As to PRC law: **Shihui Partners** Suite 1606, Tower A, Borui Plaza No. A26 East 3rd Ring North Road Chaoyang District Beijing 100026 PRC As to Cayman Islands law: **Maples and Calder (Hong Kong) LLP** 26th Floor, Central Plaza 18 Harbour Road Wanchai Hong Kong
Legal Advisers to the Joint Sponsors and the Underwriters	As to Hong Kong and U.S. laws: **Clifford Chance and affiliates** 27/F, Jardine House One Connaught Place Central, Hong Kong As to PRC law: **Han Kun Law Offices** 9/F, Office Tower C1 Oriental Plaza, 1 East Chang An Avenue Beijing China
Auditor*	**Deloitte Touche Tohmatsu Certified Public Accountants LLP** 12/F China Life Financial Center No. 23 Zhenzhi Road Chaoyang District Beijing 100026, PRC **Deloitte Touche Tohmatsu** *Certified Public Accountants* *Registered Public Interest Entity Auditor* 35/F One Pacific Place 88 Queensway Hong Kong

Reporting Accountant	**Deloitte Touche Tohmatsu** *Certified Public Accountants* *Registered Public Interest Entity Auditor* 35/F One Pacific Place 88 Queensway Hong Kong
Reporting Accountant	**PricewaterhouseCoopers** *Certified Public Accountants* *Registered Public Interest Entity Auditor* 22/F Prince's Building Central Hong Kong
Receiving Banks	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong **Standard Chartered Bank (Hong Kong) Limited** 15/F Standard Chartered Tower 388 Kwun Tong Road Kowloon Hong Kong **Industrial and Commercial Bank of China (Asia) Limited** 16/F, Tower 1, Millennium City 1 388 Kwun Tong Road Kowloon Hong Kong

Note:

* Deloitte Touche Tohmatsu Certified Public Accountants LLP is currently the auditor of the Company's consolidated financial statements that are prepared in conformity with U.S. GAAP. After the Listing, Deloitte Touche Tohmatsu in Hong Kong will be engaged by the Company to be the auditor of the Company's U.S. GAAP financial statements, which will be included in the annual report to be filed with the SEC and the annual report to be published in Hong Kong.

Registered Office	**Maples Corporate Services Limited** PO Box 309, Ugland House Grand Cayman, KY1-1104 Cayman Islands
Principal Executive Offices of Main Operations	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 in Hong Kong	Room 1901, 19th Floor, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong
Company's Website	**http://ir.jd.com** (The information on the website does not form part of this document)
Authorized Representative	Ruiyu Li (李瑞玉)
Audit Committee	Louis T. Hsieh (Chairman) Ming Huang Dingbo Xu
Compensation Committee	Ming Huang (Chairman) Martin Chi Ping Lau
Nominating and Corporate Governance Committee	Dingbo Xu (Chairman) Louis T. Hsieh
Cayman Islands Principal Share Registrar	**Maples Fund Services (Cayman) Limited** P.O. Box 1093, Boundary Hall Cricket Square, Grand Cayman KY1-1102, Cayman Islands
Hong Kong Share Registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712-1716, 17th Floor Hopewell Center 183 Queen's Road East Wan Chai Hong Kong
Compliance Advisor	**Guotai Junan Capital Limited** 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong

Principal Banks	**Bank of China Limited, Head Office** No.1 Fuxingmen Nei Dajie Xicheng District Beijing People's Republic of China
	Bank of Communications Co., Ltd. 188 Yinchengzhong Road Shanghai People's Republic of China
	Standard Chartered Bank (China) Limited SC Tower, 201 Century Avenue Pudong New District Shanghai People's Republic of China
	HSBC Bank (China) Company Limited HSBC Building, Shanghai IFC, 8 Century Avenue Pudong District Shanghai People's Republic of China

Overview

We are a holding company incorporated in the BVI on November 6, 2006 and subsequently redomiciled to and registered by way of continuation in the Cayman Islands on January 16, 2014 as an exempted company under the laws of the Cayman Islands. We conduct our business in China through our subsidiaries and variable interest entities, as well as in other countries and regions.

Key Milestones

The following is a summary of our key business milestones:

Date	Event
2004	In January, our chairman and chief executive officer, Mr. Richard Qiangdong Liu, launched an online retail website.
2007	We began to build out the company's proprietary logistics network by managing every step of the supply chain, with the aim of ensuring a superior customer experience.
2008	In October, we began offering general merchandise, transforming the business from an electronics retailer to a full-fledged e-commerce platform.
2010	In October, we launched our online marketplace, aiming to introduce a wide variety of products and services to customers and offering high-quality and consistent shopping experience across online retail and marketplace.
2014	In March, we acquired certain e-commerce businesses and assets from, and entered into a strategic cooperation agreement and formed a strategic partnership with Tencent, under which Tencent offered us prominent access to its mobile apps Weixin and Mobile QQ and other support.
	On May 22, we became China's first major e-commerce company to list on New York's Nasdaq Global Select Market, under the ticker 'JD.'
2016	In April, we completed the transaction with Dada Group, a leading platform of local on demand retail and delivery in China, and formed a strategic partnership with Dada Group. Dada Group cooperates with JD Logistics to provide our customers fast on-demand delivery services of a wide selection of grocery and other fresh products through JD-Daojia, which was our online to offline business and became a subsidiary of Dada Group after the transaction.
	In June, we announced a strategic alliance with Walmart. As part of the agreement, we acquired ownership of Yihaodian marketplace platform assets, and Walmart acquired a 5% stake in us and we agreed to a number of different areas of cooperation covering e-commerce and omni channel initiatives across China.
2017	In April, 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.
	In June, we completed the reorganization of JD Digits and received approximately RMB14.3 billion in cash with an economic gain of RMB14.2 billion. We also obtain a profit sharing right from JD Digits and would be able to convert our profit sharing right into JD Digits's equity interest, subject to applicable regulatory approvals.

Date	Event
2018	In February, JD Logistics 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, and we have remained as the controlling shareholder of JD Logistics. We established JD Property, which owns, develops and manages our logistics facilities and other real estate properties, to support JD Logistics and other third parties. In June, Google LLC, or Google, invested US$550 million in us as part of a new strategic partnership, under which Google and we would work together to explore a broad range of possibilities, leveraging our supply chain and logistics expertise and Google's technology strengths.
2019	In February, JD Property established the Core 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 Core Fund as a limited partner. In May, we renewed the strategic cooperation agreement with Tencent for a period of three years starting from May 27, 2019. Tencent continued to offer us prominent level 1 and level 2 access points on its Weixin platform to provide traffic support, and the two companies also continued to cooperate in a number of areas including communications, advertising and membership services, among others. In November, our healthcare subsidiary, JD Health, completed its series A preferred share financing with a group of third-party investors, raising a total amount of US$931 million, representing 13.5% of the ownership of JD Health on a fully diluted basis.

Our Strategic Cooperations and Other Developments

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 communications and social, online games, digital content, advertising, payment and cloud services. Tencent has a large mobile internet user base, as evidenced by the combined monthly active user accounts of 1,165 million on Tencent's Weixin and WeChat platforms as of December 31, 2019 based on company source.

Under the strategic partnership, Tencent offers us prominent access points in its mobile apps Weixin and Mobile QQ and provide us with traffic and other support from other key platforms, which has helped us generate mobile user traffic from Tencent's large mobile user base and enhance our customers' mobile shopping experience. The two parties agree to cooperate in a number of areas including mobile-related products, social networking services, membership systems and payment solutions. The strategic cooperation agreement 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 retail 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 Icson E-Commerce Development Company Limited, or

Shanghai Icson. We expect to further leverage the strategic partnership with Tencent to enhance our customers' online shopping experience, reach Tencent's large mobile and internet user base and further expand our presence on mobile commerce.

On March 10, 2014, we entered into a series of agreements with Tencent and its affiliates pursuant to which we acquired 100% interests in Tencent's Paipai and QQ Wanggou online marketplace businesses, a 9.9% stake in Shanghai Icson E-Commerce Development Company Limited, or Shanghai Icson, 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 closed it down in 2016. In addition, we obtained the right to acquire the remaining equity of Shanghai Icson by March 10, 2017 at the higher of the then fair value of Shanghai Icson or RMB800 million. In April 2016, we exercised the right paying RMB800 million and acquired the remaining equity interest in Shanghai Icson. Shanghai Icson 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.

In October 2015, we expanded partnership with Tencent to provide third-party merchants with innovative mobile marketing solutions. On May 10, 2019, we renewed the strategic cooperation agreement with Tencent for a period of three years starting from May 27, 2019. Tencent will continue to offer us prominent level 1 and level 2 access points on its Weixin platform to provide traffic support, and the two companies also intend to continue to cooperate in a number of areas including communications, advertising and membership services, among others. It is estimated that such traffic support, advertising spending and other cooperation will amount to over US$800 million, which will be paid or spent over the next three years. We agreed to issue to Tencent a certain number of our Class A ordinary shares for a total consideration of approximately US$250 million at prevailing market prices at certain pre-determined dates during the subsequent three-year period, of which 8,127,302 and 2,938,584 of our Class A ordinary shares were issued in May 2019 and May 2020. The issuance of Class A ordinary shares of US$250 million formed part of the total estimated amount of US$800 million that will be paid or spent for the traffic support, advertising and other cooperation from Tencent under the strategic cooperation agreement. Huang River Investment Limited is currently one of our principal shareholders and held 17.8% of our total issued and outstanding shares as of the Latest Practicable Date.

Strategic Cooperation with Walmart

In June 2016, we entered into a series of agreements with Walmart in relation to our strategic alliance, 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 the Latest Practicable Date, Walmart held Class A ordinary shares representing approximately 9.8% 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, mobile apps and websites. We have collaborated with Walmart on e-commerce, including launching Sam's Club Flagship Store and Walmart Flagship Store on JD.com, as well as Sam's Club Global Flagship Store, Walmart Global Flagship Store, and several category global stores to sell specific category products (for example Walmart Beauty and Personal Care Global Store) on JD Worldwide and a one-hour delivery service from Walmart Stores and Sam's Clubs in select cities through the JD-Daojia app. As part of the strategic alliance, we also entered into an eight-year non-compete arrangement with Walmart, subject to certain conditions and exceptions.

JD Logistics

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 of JD Logistics. We have 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.

JD Digits

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 Jingdong Digits Technology Holding Co., Ltd., or JD Digits). The purpose of the reorganization was to enable the management team of each company to focus on its specific strategies, including (i) structuring its business to take advantage of growth opportunities in its respective markets and industries; (ii) tailoring its business operation and financial model to its specific long-term strategies; and (iii) aligning its external financial resources with its particular type of business. 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. During the Track Record Period, we did not receive any profits from JD Digits under the profit-sharing arrangement, as JD Digits had not had a positive pre-tax income during this period. When JD Digits has a positive pre-tax income in a fiscal year, we will record the Maximum Interest in the profits of JD Digits under "Others, net" in our consolidated financial statements. In addition, we may 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 subsequent equity financings or ESOP pool 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%.

Since 2017, JD Digits has made remarkable progress in the field of digital technology. Leveraging the latest and most cutting-edge technologies, including big data, artificial intelligence (AI), the Internet of Things (IoT), and blockchain, JD Digits is now well-equipped to help the financial and real sectors reduce costs, improve efficiencies, enhance user experience and optimize business models. We have the right to convert the profit-sharing right into the Maximum Interest (approximately 36%) in JD Digits at any time, subject to satisfaction of the conditions set out in the Framework Agreement entered into with JD Digits. As of the Latest Practicable Date, we have not exercised such right to convert into equity interest in JD Digits. We, however, monitor the relevant conditions and assess the desirability of converting into equity interest in JD Digits on an ongoing basis, and may decide to exercise such right and convert the profit-sharing right into the Maximum Interest (approximately 36%) in JD Digits after the Listing. In the event that we decide to exercise such right, we will execute definitive agreements with JD Digits and its existing shareholders. Upon closing of the issuance of the Maximum Interest, the liquidity event payment and the profit-sharing arrangement under the Framework Agreement and JD Digits IPLA described in "Related Party Transactions—Agreements and Transactions Relating to JD Digits" will automatically terminate, and we will account for such equity interest in JD Digits by using the equity method, whereby our investment in JD Digits will be included in our "investment in equity investees" on our consolidated balance sheet, and we will pick up a corresponding portion (approximately 36%) of JD Digits' income or loss and reflect that in our "share of results of equity investees" in our consolidated income statement. Assuming we convert the profit-sharing right into the Maximum Interest (approximately 36%) in JD Digits as of January 1, 2019 and we account for JD Digits as our equity investment using equity method since that date, we do not expect our overall financial performance for the year ended December 31, 2019 would be materially impacted by JD Digits, based on the unaudited management accounts of JD Digits for the year ended December 31, 2019. In addition, as advised by our PRC Legal Advisor, if we were to convert its profit-sharing right into the Maximum Interest in JD Digits, they do not foresee any significant legal obstacles for us to obtain the relevant regulatory approvals (if required) in the PRC.

Strategic Cooperation with Google

In June 2018, Google LLC, or 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 representative of our early efforts in the joint development of retail solutions in overseas markets.

JD Property

In 2018, we established JD Property, which owns, develops and manages our logistics facilities and other real estate properties, to support JD Logistics and other third parties. In February 2019, JD Property established JD Logistics Properties Core Fund, L.P., or Core 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 Core Fund as a limited partner, and GIC has committed the remaining 80%. The investment committee of Core Fund, which comprise the representatives from us and GIC, will oversee the key operations of Core Fund. Furthermore, in February 2019, we entered into a definitive agreement with Core Fund, pursuant to which we sold certain of our modern logistics facilities to Core 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. In the second half of 2019, the closing conditions for the completed assets were met, and we recorded a total disposal gain of RMB3.8 billion for the completed assets in 2019. For the remaining logistics facilities under construction, we will derecognize these assets upon the completion and satisfaction of the hand over condition. In addition, subsequent to the disposition, we have leased back these facilities for operational purposes, and JD Property has started serving as the asset manager managing Core Fund's assets.

JD Health

In November 2019, our healthcare subsidiary, JD Health International Inc., or JD Health, completed the non-redeemable series A preferred share financing with a group of third-party investors. The total amount of financing raised was US$931 million, representing 13.5% of the ownership of JD Health on a fully diluted basis upon the completion of this transaction. Over the past few years, JD Health is building a comprehensive "Internet + healthcare" ecosystem, providing pharmaceutical and healthcare products and internet healthcare services to the customers.

Our Major Investments

In addition to organic growth, we have made, or have entered into agreements to make, strategic investments, acquisitions and alliances that are intended to further our strategic objectives.

Bitauto and Yixin. 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 Holdings Limited, or 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 Group Limited, or 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, 2019, we held approximately 24% of Bitauto's issued and outstanding shares and approximately 11% of Yixin's issued and outstanding shares. On September 12, 2019, a buyer consortium lead by Tencent submitted a preliminary non-binding proposal letter to Bitauto's board of directors to acquire all of the outstanding ordinary shares and American depositary shares of Bitauto, which would result in Bitauto becoming a private, wholly owned subsidiary of the buyer consortium. In addition, upon the completion of this going-private transaction of Bitauto, the buyer consortium and their affiliates will make an unconditional mandatory general offer to all the shareholders and other securities holders of Yixin for all the issued shares and other securities of Yixin. We have indicated that we will vote all of our shares in Bitauto in favor of these transactions. In addition, we plan to cancel a portion of the ordinary shares of Bitauto held by us in exchange for certain number of newly issued shares of a new company to be formed by the buyer consortium in connection with this going-private transaction, subject to execution of definitive agreements and the closing conditions therein.

Tuniu. In May 2015, we made further investment to acquire newly issued Class A ordinary shares of Tuniu Corporation, or 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, 2019, we held approximately 21% of Tuniu's issued and outstanding shares. Our leisure travel channel is currently operated by Tuniu. We plan to sell our equity investment in Tuniu.

Yonghui. In August 2015, we entered into definitive agreements with Yonghui Superstores Co., Ltd., or Yonghui, pursuant to which we subscribed for newly issued ordinary shares of Yonghui with a consideration of RMB4.23 billion. In May 2018, we made an additional investment of RMB1.2 billion to acquire additional ordinary shares from the existing shareholders of Yonghui. As of December 31, 2019, we held 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.

Dada. In April 2016, we completed the transaction with Dada Nexus Limited, or Dada Group, a leading platform of local on-demand retail and delivery in China, pursuant to which our online-to-offline business, JD-Daojia, became a subsidiary of Dada Group and we contributed certain resources and US$200 million in cash in exchange for newly issued equity interest in Dada Group. In December 2017, we exercised our warrant to acquire additional preferred shares of Dada Group. In August 2018, in conjunction of Dada Group's Series F round financing with Walmart, we further invested US$180 million to acquire the newly issued preferred shares of Dada Group. As of December 31, 2019, we owned approximately 47.5% equity interest of Dada Group on a fully diluted basis.

Farfetch. In June 2017, we invested US$397 million in cash as consideration to acquire certain number of ordinary shares and preferred shares of Farfetch.com Limited, or 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 February 2019, we expanded our strategic partnership with Farfetch, pursuant to which our luxury e-commerce platform, Toplife, merged into Farfetch, and Farfetch gained traffic resources on the JD.com mobile app.

China Unicom. In August 2017, we entered into a conditional share subscription agreement with China United Network Communications Limited, or 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.

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 Holdings Limited, or

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, 2019, we had accumulatively invested approximately US$600 million in cash to purchase Class A ordinary shares and ADSs of Vipshop.

Wanda Commercial Properties. In January 2018, we, along with Tencent and other investors, entered into a strategic partnership agreement with Dalian Wanda Commercial Properties Co., Ltd., or Wanda Commercial Properties, a leading developer, owner and operator of commercial properties in China, and its major shareholder, Dalian Wanda Group Co., Ltd. Pursuant to the agreement, we invested RMB5 billion to purchase the shares of Wanda Commercial Properties from its existing shareholders.

Jiangsu Five Star. In April 2019, we completed an investment in Jiangsu Five Star Appliance Co., Ltd., or Jiangsu Five Star, one of the leading offline retailers of home appliances and consumer electronics in China. We acquired 46% of Jiangsu Five Star's total shares from its existing shareholder for a total purchase price of RMB1.27 billion with a combination of cash and assumption of the seller's debt. Following this investment, we and Jiangsu Five Star leverage each other's industry expertise and strength to explore new growth opportunities in the area of omni-channel strategy and aim to provide consumers with a fully-integrated, smart online and offline shopping experience. In addition, we provided a loan of approximately RMB1.03 billion to the seller. We are also entitled to certain collateral and investor rights pursuant to the related definitive agreements.

AiHuiShou. In June 2019, we completed an investment of approximately RMB3.38 billion in AiHuiShou International Co. Ltd., or AiHuiShou, an online second-hand consumer electronics trading platform. In connection with this investment, we merged our Paipai Secondhand business with and into AiHuiShou with certain exclusive traffic resources for the next five years, and additionally invested certain amount of cash in exchange for additional preferred shares of AiHuiShou.

Major Subsidiaries and Operating Entities

The principal business activities and date of establishment of each of our Major Subsidiaries, are shown below:

Name of company	Principal Business Activities	Date and Jurisdiction of Establishment
Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司) ("Jingdong Century")	Our indirect subsidiary and a wholly-foreign owned enterprise and primarily engages in online retail business	April 20, 2007, PRC
Guangzhou Jingdong Trade Co., Ltd. (廣州晶東貿易有限公司)	A subsidiary of Jingdong Century and primarily engages in online retail business	July 31, 2007, PRC
Shanghai Yuanmai Trade Co., Ltd. (上海圓邁貿易有限公司)	A subsidiary of Jingdong Century and primarily engages in online retail business	August 22, 2007, PRC
Jiangsu Jingdong Information Technology Co., Ltd. (江蘇京東信息技術有限公司)	A subsidiary of Jingdong Century and primarily provides online retail related services	June 16, 2009, PRC

Name of company	Principal Business Activities	Date and Jurisdiction of Establishment
Beijing Jingdong Century Information Technology Co., Ltd. (北京京東世紀信息技術有限公司)	A subsidiary of Jingdong Century and primarily engages in online retail business	September 1, 2010, PRC
Shanghai Shengdayuan Information Technology Co., Ltd. (上海晟達元信息技術有限公司) ("Shanghai Shengdayuan")	Our indirect subsidiary and a wholly-foreign owned enterprise and primarily engages in online retail business	April 2, 2011, PRC
Beijing Jingdong Shangke Information Technology Co., Ltd. （北京京東尚科信息技術有限公司）	A subsidiary of Jingdong Century and primarily provides technology services	March 13, 2012, PRC
Chongqing Jingdong Haijia E-commerce Co., Ltd. （重慶京東海嘉電子商務有限公司）	A subsidiary of Jingdong Century and primarily provides marketing services	June 18, 2014, PRC
Suqian Hanbang Investment Management Co., Ltd.（宿遷涵邦投資管理有限公司）	A subsidiary of Shanghai Shengdayuan and primarily engages in investment activities	January 27, 2016, PRC
Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司) ("Xi'an Jingxundi")	Our indirect subsidiary and a wholly-foreign owned enterprise and primarily provides technology and consulting services relating to logistics services	May 18, 2017, PRC
Xi'an Jingdong Xuncheng Logistics Co., Ltd. (西安京東訊成物流有限公司)	A subsidiary of Xi'an Jingxundi and primarily engages in logistics services business	June 12, 2017, PRC
Beijing Jinghong Logistics Co., Ltd. (北京京鴻物流有限公司)	An indirect subsidiary of Xi'an Jingxundi and primarily engages in logistics services business	November 29, 2017, PRC
Beijing Wodong Tianjun Information Technology Co., Ltd. (北京沃東天駿信息技術有限公司)	A subsidiary of Jingdong Century and primarily provides technology services	May 3, 2018, PRC
Guangxi Jingdong Xinjie E-commerce Co., Ltd. (廣西京東新傑電子商務有限公司)	A subsidiary of Jingdong Century and primarily provides marketing services	December 25, 2018, PRC
Beijing Jingdong 360 Degree E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司) ("Jingdong 360")	An affiliated consolidated entity of Jingdong Century and primarily engages in online marketplace business	April 4, 2007, PRC
Jiangsu Yuanzhou E-commerce Co., Ltd. (江蘇圓周電子商務有限公司) ("Jiangsu Yuanzhou")	An affiliated consolidated entity of Jingdong Century and primarily engages in the business of selling books, audio and video products	September 26, 2010, PRC
Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司） ("Jingbangda")	A subsidiary of Xi'an Jingdong Xincheng and primarily engages in logistics services business	August 14, 2012, PRC
Jiangsu Jingdong Bangneng Investment Management Co., Ltd. (江蘇京東邦能投資管理有限公司) ("Jiangsu Jingdong Bangneng")	An affiliated consolidated entity of Jingdong Century and primarily engages in investment activities	August 4, 2015, PRC
Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司) ("Xi'an Jingdong Xincheng")	An affiliated consolidated entity of Xi'an Jingxundi and primarily provides technology and consulting services relating to logistics services	June 23, 2017, PRC

Name of company	Principal Business Activities	Date and Jurisdiction of Establishment
Jingdong E-Commerce (Express) Hong Kong Co., Ltd.	Our indirect subsidiary and primarily engages in international supply chain business	August 8, 2011, Hong Kong
Jingdong E-Commerce (Trade) Hong Kong Co., Ltd.	Our direct subsidiary and primarily engages in offshore online retail business	February 1, 2012, Hong Kong
JD.com International Limited	Our direct subsidiary and primarily engages in cross-border e-commerce and international supply chain business	February 1, 2012, Hong Kong

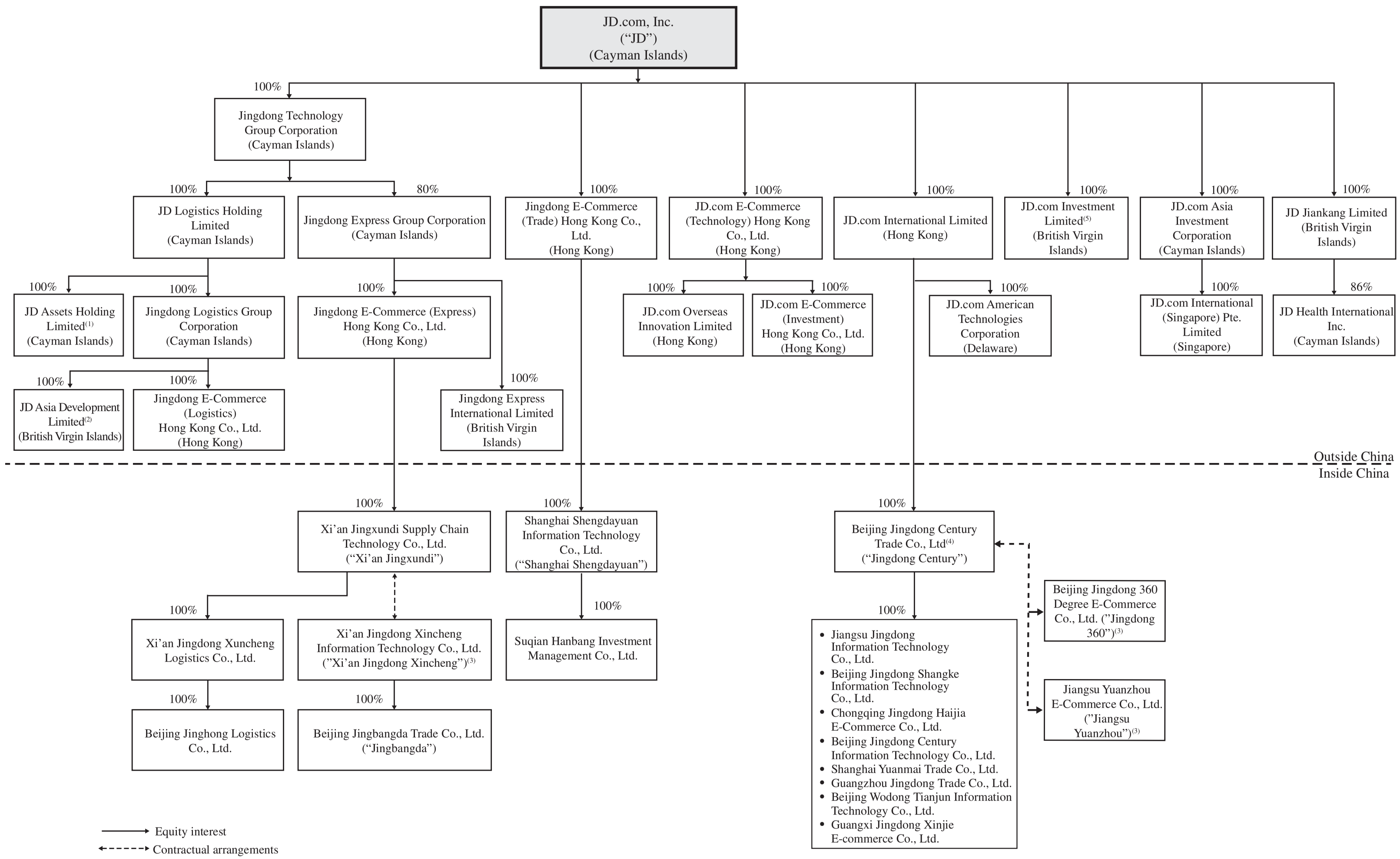
Listing on Nasdaq and Reasons for Listing

On May 22, 2014, we completed an initial public offering and listing of our ADSs on Nasdaq under the symbol "JD". Since the date of our listing on Nasdaq and up to the Latest Practicable Date, our Directors confirm that we had no instances of non-compliance with the rules of Nasdaq in any material respects and to the best knowledge of our Directors after having made all reasonable enquiries, there is no matter that should be brought to investors' attention in relation to our compliance record on Nasdaq.

We believe that the Listing on the Hong Kong Stock Exchange will present us with an opportunity to further expand our investor base and broaden our access to capital markets.

Corporate Structure

As of December 31, 2019, we conducted our business operations across over 800 subsidiaries and consolidated entities incorporated in China and other jurisdictions. The chart below summarizes our corporate legal structure:



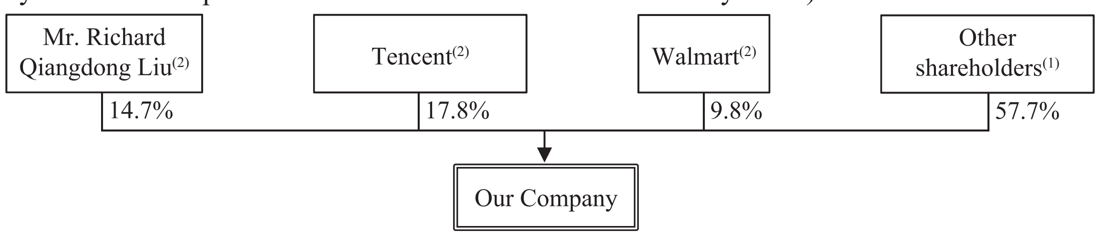
Notes:

(1) JD Assets Holding Limited has 22 subsidiaries holding, directly or indirectly, non-logistics properties.

(2) JD Asia Development Limited has 267 subsidiaries holding, directly or indirectly, logistics properties.
(3) 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.
(4) Jingdong Century has 89 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 Jingdong Sanhong Enterprise Management Center (L.P.), 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 of Jiangsu Jingdong Bangneng.
(5) JD.com Investment Limited has 63 subsidiaries that hold, directly or indirectly, the companies invested by us.
* The diagram above omits our equity investees that are insignificant individually and in the aggregate.

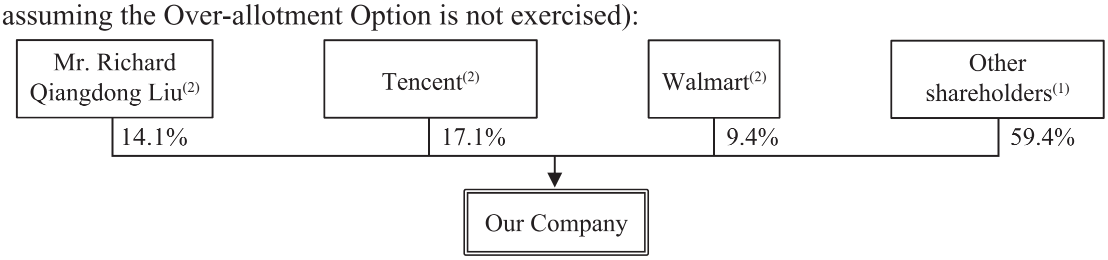
Shareholding Structure

The following diagram illustrates our shareholding structure as of the Latest Practicable Date (without taking into account the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make):



Notes:
(1) Includes other public shareholders and directors and executive officers of the Company other than Mr. Richard Qiangdong Liu.
(2) See "Major Shareholders" for further details on the voting rights and the beneficial ownership of each of Mr. Richard Qiangdong Liu, Tencent and Walmart. Each Class A ordinary share entitles the holder to exercise one vote, and each Class B ordinary share entitles the holder to exercise 20 votes, respectively, on any resolution tabled at the Company's general meetings, except as may otherwise be required by law or provided for in our Memorandum and Articles of Association.

The following diagram illustrates our shareholding structure immediately upon the completion of the Global Offering (assuming all major shareholders' shareholding remain unchanged as of the Latest Practicable Date and without taking into account the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make and assuming the Over-allotment Option is not exercised):



Notes (1) to (2): Please refer to the details contained in Notes (1) to (2) above.

Contractual Arrangements

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, domestic multi-party communications, data collection and transmission services and call centers) and the main foreign investor in the foreign-invested telecommunication enterprise must have experience in providing value-added telecommunications services overseas and maintain a good track record.

We are a Cayman Islands exempted 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 provide certain other restricted services related to our businesses, such as 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 and primarily engages in our online marketplace business. Xi'an Jingdong Xincheng primarily provides technology and consulting services relating to logistics services. Jiangsu Yuanzhou primarily engages in the business of selling books, audio and video products.

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 and our Group's vice president. 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, as described below.

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

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

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

In addition to Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng, we assisted in establishing additional consolidated variable interest entities, including Jiangsu Jingdong Bangneng. We have entered into a series of contractual arrangements with each of these variable interest entities and their respective shareholders. For more information relating to our contractual arrangements, please refer to the section "Risk Factors – Risks Related to Our Corporate Structure".

The contractual arrangements relating to our variable interest entities allow us to:

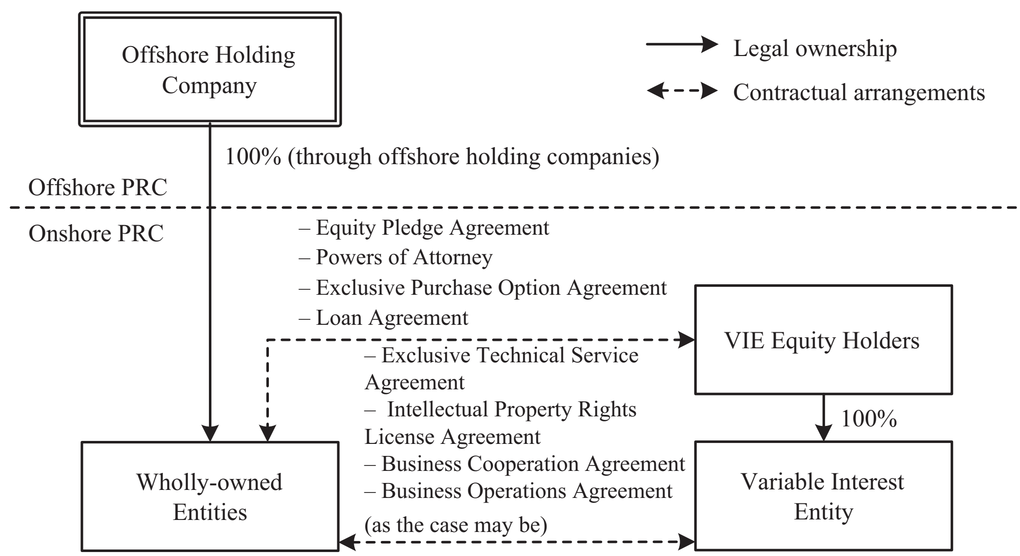
(i) exercise effective control over our variable interest entities;

(ii) receive substantially all of the economic benefits of our variable interest entities; and

(iii) 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 2.5%, 3.8% and 4.7% of our consolidated total net revenues for the years ended December 31, 2017, 2018 and 2019, respectively.

The following diagram is a simplified illustration of the ownership structure and contractual arrangements for variable interest entities of our Group:



In the opinion of Shihui Partners, our PRC Legal Adviser:

(i) 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;

(ii) 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; and

(iii) the contractual arrangements between our material variable interest entities, the corresponding wholly-owned entities and the respective equity holders of our material variable interest entities governed by PRC laws will not be deemed as "concealment of illegal intentions with a lawful form" and void under the PRC Contract Law.

Furthermore, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our business through various variable interest entities under the contractual arrangements.

However, we have been further advised by our PRC Legal Adviser 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 Adviser. We have been further advised by our PRC Legal Adviser that if the PRC government finds that the agreements that establish the structure for operating our online retail and marketplace business do not comply with PRC government restrictions on foreign investment in e-commerce and related businesses, including but not limited to online retail and marketplace businesses, we could be subject to severe penalties including being prohibited from continuing operations. See "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 "Risk Factors—Risks Related to Doing Business in the People's Republic of China—Uncertainties with respect to the PRC legal system could adversely affect us."

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

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

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.

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 June 14, 2026 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.

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.

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. Jiangsu Jingdong Bangneng primarily engages in investment activities. 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.

There are certain risks involved in our corporate structure and the contractual arrangements. A detailed discussion of material risks relating to our Contractual Arrangements is set forth in the section headed "Risk Factors—Risks Related to Our Corporate Structure." We have determined that the costs of insurance for the risks associated with our corporate structure and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Accordingly, as of the Latest Practicable Date, we did not purchase any insurance to cover the risks relating to the contractual arrangements.

SAFE Registration

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知, "**SAFE Circular 37**"), promulgated by SAFE on July 4, 2014 and which replaced 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 (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知, "SAFE Circular 75"), (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the "**Overseas SPV**") that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知), "**SAFE Circular 13**"), promulgated by SAFE on February 13, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

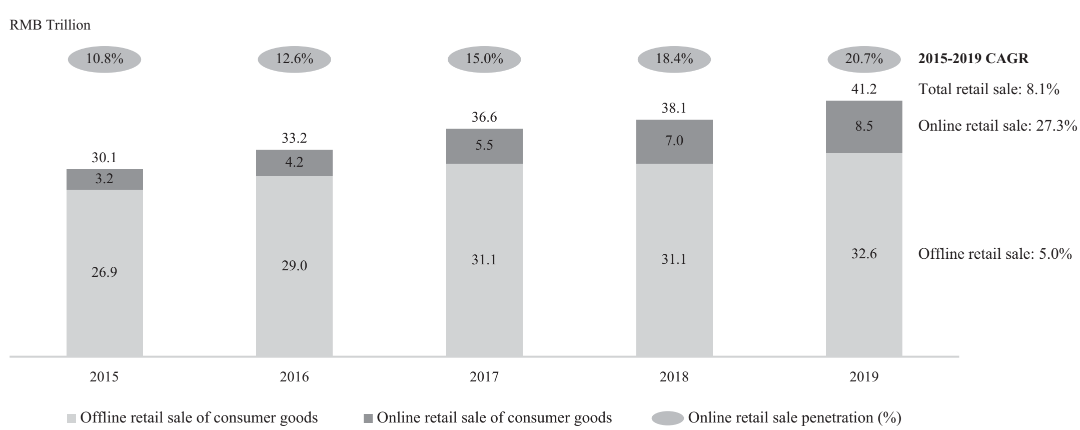
As advised by our PRC Legal Adviser, Richard Qiangdong Liu completed the required registration with the SAFE on July 2, 2014.

The information and statistics set out in this section and other sections of this document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers. We believe that the sources of the information in this section and other sections of this document are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information from official and non-official sources has not been independently verified by us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Accordingly, the information from official and non-official sources contained herein may not be accurate and should not be unduly relied upon.

Massive Retail Market in China

China has the second largest retail market in the world in 2019. According to National Bureau of Statistics of China, or NBS, the retail market in China, defined as the overall retail sales of consumer goods from both online and offline channels, grew by a CAGR of 8.1% from RMB30.1 trillion in 2015 to RMB41.2 trillion (US$5.9 trillion) in 2019. Such massive scale and growth of the retail market is the result of an increasing per capita disposable income and consumption upgrade cycle.

Retail sales of consumer goods in China, 2015–2019



Data source: National Bureau of Statistics of China

From 2015 to 2019, China's per capita annual disposable income grew from RMB21,966 to RMB30,733 (US$4,415) at a CAGR of 8.8%, which outpaced the CAGR of 6.5% for China's GDP growth for the same period, according to NBS. As a result, China's middle income class, defined as individuals with annual income from RMB25,000 (US$3,591) to RMB250,000 (US$35,910), grew from approximately 337 million in 2015, representing 24.5% of the total population, to approximately 543 million in 2019, representing 38.8% of the total population, according to iResearch. More disposable income allowed Chinese consumers to increase their discretionary spending, with average consumption spending increasing by a CAGR of 8.2% from approximately RMB15,712 in 2015 to approximately RMB21,559 (US$3,097) in 2019, according to NBS.

The upward trend of disposable income particularly benefitted lower tier cities, defined as tier 3 and lower cities, the retail market of which grew at a CAGR of 8.8% from approximately RMB15.1 trillion in 2015 to approximately RMB21.2 trillion (US$3.0 trillion) in 2019, outpacing the growth of first and second tier cities combined, according to iResearch. We believe this is attributable to a combination of factors, including: (i) lower tier cities in 2019 accounted for approximately 56.3% of the city dwelling population in China, according to iResearch; (ii) lower tier cities had a higher growth of online penetration rate from 2017 to 2019, according to iResearch; and (iii) urbanization progressed quickly in recent years due to favorable government policies. Moreover, the advent of online retail and mobile internet has helped consumers in lower tier cities to overcome challenges associated with the underdevelopment of offline retail infrastructure, such as shortage of merchandise selection and access to authentic products.

China's retail market continues to be highly fragmented, with top 20 retailers in the aggregate accounted for approximately 19.0% of the entire market in 2019, compared to approximately 49.6% in the U.S. in 2019, according to iResearch. We believe this presents an opportunity for market leaders in China with wide product selection, strong brand reputation, leading technologies, solid procurement capability, efficient operations and fulfilment capabilities to expand their market share.

Rapidly Scaling Online Retail Market

Within China's retail sales of consumer goods market, the online sale of consumer goods segment has experienced outsized growth, expanding at a CAGR of 27.3% from RMB3.2 trillion in 2015 to RMB8.5 trillion (US$1.2 trillion) in 2019, in line with the growth of the overall online consumption market, which includes the online retail sale of consumer goods and online consumption of service and entertainment. The overall online consumption market grew at a CAGR of 28.7% from RMB3.9 trillion in 2015 to RMB10.6 trillion (US$1.5 trillion) in 2019, according to NBS, and is expected to expand further to RMB15.1 trillion (US$2.2 trillion) in 2023 according to iResearch. From 2015 to 2019, the number of online shoppers increased at a CAGR of 12.4% from approximately 413 million to approximately 659 million, according to iResearch.

In addition to advantages in wider customer reach and product selection, key contributing factors to the rapid growth of the online retail market also include high mobile internet penetration rate, high adoption rate of mobile payment, and extensive and rapidly improving logistics infrastructure in China. With the widespread use of smartphones and tablets and rapidly expanding 4G/5G networks and WiFi services, mobile shopping has become a mainstay form of online retail in China, as consumers increasingly take advantage of fragmented time to browse and shop regardless of location. According to iResearch, mobile internet users in China reached 877 million in 2019 and the number of users that used mobile online payments reached 627 million in the same year. In addition, we believe China has a highly developed and extensive nationwide logistics infrastructure, consisting of regional and local delivery services. This enables online retailers to quickly deliver products to consumers, thereby increasing the attractiveness of online retailing.

Emergence of Omni-channel Retail Platforms

As Chinese consumers become more sophisticated, so too are their demands for shopping experience, which include convenience to browse and place orders, personalized and targeted recommendations, quality after sales customer support and seamless integration of online and offline loyalty programs, among others. We also believe that, craving for an enhanced shopping experience, Chinese consumers are also increasingly demanding for access to a wider array of products and services, ranging from international products and brands to niche products traditionally only sold or produced locally.

As a result, there emerges a new form of omni-channel retail platform, which provides consumers with a seamless, integrated and highly personalized shopping experience as well as access to an increasingly diversified range of products. We believe the follow are key factors for an omni-channel retail platform to succeed: utilization of technologies such as AI, big data and cloud computing to create a seamless omni-channel and highly personalized shopping experience; access to a highly diversified range of products and expansion into new product categories; provision of customer insight tools to third-party merchants on the platform to help them optimize their business strategy; establishment of an efficient supply chain involving logistics, inventory management and fulfilment through the use of advanced technologies; provision of support services to help suppliers and third-party merchants cope with challenges they may encounter on the platform.

Opportunities for Supply Chain-based Technologies and Services

The rapid growth of the online retail market in China provides market leaders with significant scale and cutting edge technologies the opportunity to offer their technologies and services to participants throughout the retail value chain from upstream manufacturers to end customers. Offering existing infrastructure, platform and technology services to third parties can be accomplished with controllable additional investment and can generate additional monetization opportunities as well as ultimately improve the operating efficiency across the entire value chain. In particular, we believe logistics services and retail technology services present two specific areas of opportunity.

- ***Logistics services***: We believe China's logistics and fulfilment services sector is highly labor intensive and inefficient. This creates opportunity for supply chain-based technology and service providers to offer various solutions to empower their business partners. Examples include: integrated supply chain management solutions, intelligent and automated warehouse management through the use of technology such as intelligent hardware, robotics and voice recognition; technology-enabled fulfilment services that use LBS, big data and AI to optimize truckload, delivery routes and scheduling; and cloud-based analytics and services that utilize intelligent hardware, computer vision and deep learning to enable business partners to effectively monitor, manage and optimize their logistic workflows.

- ***Retail technology services***: Capitalizing on their data, infrastructure and technology, market leaders can commercialize their retail capability by providing services to brands and partners, such as predictive analytics, product optimization, and pricing and inventory recommendation.

Opportunities for Tapping into Global Market

Retail and supply chain-based technologies and services are not limited by national or geographic boundaries. As the world becomes more connected, the demand for international products, services and technology will increase globally. This creates an opportunity for market leaders in the retail industry in China with extensive customer reach and product offerings to facilitate transactions between Chinese consumers and global brands, and connect global consumers with Chinese brands.

In addition, we also believe supply chain-based technologies and services, such as intelligent warehouse management, computer vision and predictive analytics, have significant potential for global applications, creating an opportunity for supply chain-based technology and service providers in China to expand globally.

Our Mission

Powered by Technology for a More Productive and Sustainable World.

Overview

We are a leading technology driven e-commerce company transforming to become a leading supply chain-based technology and service provider. We generated total net revenues of RMB362.3 billion, RMB462.0 billion and RMB576.9 billion (US$82.9 billion) in 2017, 2018 and 2019 respectively. We incurred net losses from continuing operations of RMB19 million and RMB2,801 million in 2017 and 2018, respectively, and generated net income from continuing operations of RMB11,890 million (US$1,708 million) in 2019.

Overview of Our E-Commerce Business

We are the largest retail company in China by total revenues in 2019, according to Fortune Global 500. We believe our scale and market leadership are built upon our competitive edge in customer experience and operational efficiency, as well as our commitment to strategically invest in technology and logistics infrastructure for the long term.

Providing superior customer experience is our top priority. Our e-commerce business offers customers a wide selection of authentic products at competitive prices. We have built and operate our own nationwide fulfillment infrastructure that supports our e-commerce business. Our speedy, efficient and reliable fulfillment services ensure a high degree of customer satisfaction. We offer an enjoyable online shopping experience mainly through our content-rich, user-friendly and highly personalized mobile apps and website www.jd.com. We also provide comprehensive customer services and convenient payment options. Owing to the superior customer experience we provide, our loyal customer base has expanded rapidly. We had 292.5 million, 305.3 million and 362.0 million annual active customer accounts in 2017, 2018 and 2019, respectively.

We operate online retail and marketplace e-commerce businesses. In our online retail business, we purchase products from suppliers and sell them directly to our customers. We offer a wide range of product categories through our online retail business, including electronics products, home appliances and a large variety of other general merchandise categories. We have established strong relationships with our suppliers as our online retail business grows rapidly over time. As of December 31, 2019, we sourced products from over 24,000 suppliers.

Timely and reliable fulfillment is critical to our success. We believe we have the largest fulfillment infrastructure of any e-commerce company in China. Leveraging this nationwide fulfillment capability, we deliver a majority of the orders to customers by ourselves. In 2019, we further improved our efficiency in more cities, especially the less developed areas, as we continued to expand our same day and next day delivery service in these areas. Our fulfillment services have been proven to be highly reliable in response to customer needs, particularly in the event of business disruptions, such as during the recent COVID-19 outbreak.

We launched our online marketplace in October 2010, and have since then been continually adding third-party merchants and introducing new products and services, including premium international brands, to our customers. As of December 31, 2019, our online marketplace had over 270,000 third-party merchants, who are held to high standards for transacting with our customers. We aim to offer our customers with consistently high-quality online shopping experience regardless they purchase from us or third-party merchants. To this end, we require all third-party merchants to meet our strict standards for product authenticity and service reliability, and closely monitor their performance and activities on our online marketplace.

We provide a variety of digital marketing services to marketers on our e-commerce platform, including suppliers to our online retail business, third-party merchants on our online marketplace and other partners. Powered by AI technology, our digital marketing platform provides our marketing customers with comprehensive digital branding and performance-based marketing solutions and various effective measurement tools, which help them reach targeted audiences, attract and retain customers and improve their returns. Our digital marketing platform also features automatic marketing operation including online marketing message creation, targeting, bidding, deployment and budget allocation, which enables marketers to manage their digital marketing strategy and spending in a convenient and efficient manner.

We are exploring a variety of omni-channel initiatives to meet our customers' ever-growing demand. We believe we are well-positioned to empower traditional offline retailers by capitalizing on our strong online presence, industry know-how and omni-channel technology and systems. We collaborate with Walmart on e-commerce by launching Walmart and Sam's Club Flagship Stores on our platform and providing fulfillment solutions to them. Through our strategic partnership with Dada Nexus Limited, or Dada Group, a leading platform for local on-demand retail and delivery in China, Dada Group has been cooperating with JD Logistics to provide our customers with on-demand and last-mile delivery services of a wide selection of grocery and other fresh products through JD-Daojia. We are also exploring in the offline retail market through 7FRESH, our offline fresh food markets, experimenting on the omni-channel model.

Our proprietary and scalable technology platform enhances user experience, improves operating efficiency and supports the growth in our e-commerce business. Leveraging machine-learning technology and massive data sets amassed from online purchase behaviors, we curate personalized product recommendations and push targeted promotions. We utilize AI technology to refine our merchandise sourcing strategy, allowing us to efficiently manage our inventory and control cost. With consumer insights generated from big data analytics, we provide tailor-made products through customer-to-manufacturer production, which increase sales and enhance customer satisfaction.

Overview of Our Supply Chain-based Technologies and Services

Today, we are transforming to become a leading supply chain-based technology and service provider. We take a holistic view on the supply chain covering from upstream manufacturing and procurement, logistics, distribution and retail to end customers.

With our leading position in the retail industry, we have established strong relationships with numerous suppliers, brands and partners. We leverage such relationships and our retail technology capability to provide them with a variety of service solutions. Over the past decade, we have also built a highly scalable and reliable logistics infrastructure and technology platform for our retail business. We are opening up logistics infrastructure and technology platform to third parties with comprehensive logistic services and technology solutions.

Technology is crucial to our achievements today and continued success in the future. It enables better customer experience, more customer cost savings and higher efficiency, while it also serves as a foundation to export our capabilities to enhance productivity and innovation across a multitude of industries in China.

Logistics Services

We made our strategic decision in 2007 to invest in and build our own nationwide fulfillment infrastructure. As of December 31, 2019, our nationwide fulfillment infrastructure covered almost all counties and districts across China, with a network of over 700 warehouses with an aggregate gross floor area of approximately 16.9 million square meters in 89 cities, including warehouse space managed under the JD Logistics Open Warehouse Platform. In addition, we had a team of over 132,200 delivery personnel and 43,700 warehouse staff as of December 31, 2019. Our fulfillment infrastructure is powered by proprietary smart logistics and automation technologies, such as intelligent hardware, robotics, voice recognition, computer vision and deep learning, which allow us to continuously improve our operational efficiency. With full control of the logistics network and associated data flow, we are able to optimize operations and modularize processes so as to ensure scalability and efficiency.

Over the past decade, we have consistently provided superior fulfillment services to our online retail customers, which has been well supported by our self-operated integrated logistics infrastructure and technology platform. We also open up our leading logistics infrastructure to our third-party merchants and partners beyond our e-commerce business. We are expanding our logistics services to partners across various industries, as well as individual users. We provide services relating to almost all aspects of logistics operation, including warehousing management, storage, long-haul transportation, express and on-demand delivery and cold-chain and cross-border services, among others. We offer integrated supply chain management solutions to customers in various vertical markets. We also provide technology solutions for logistics operations to enable customers to transparently and effectively monitor, manage and optimize their logistic workflows.

Our Retail Technology Services and Other Technology Initiatives

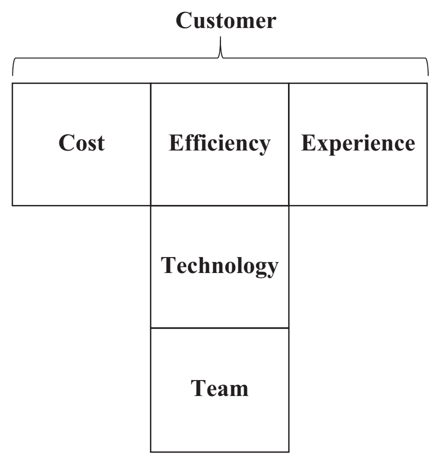
Capitalizing on our retail data, infrastructure and technology, we commercialize our retail capability into services we offer to brands and partners in the retail industry. Through such services, we believe we can create, together with our partners, a more advanced and comprehensive retail ecosystem to reach and serve more consumers, wherever and whenever they shop.

We operate a technology service platform Kepler which provides comprehensive services for our partners to conduct online retail leveraging traffic on third-party channels. For example, we help brands set up Mini Programs on Tencent's Weixin and provide one-stop services including mini-program creation, product selection and pricing, digital marketing, inventory management, fulfillment and customer services. Such services are especially valuable for brands with less sophisticated online retail experience but wish to boost sales through emerging mobile internet channels. In addition, powered by predictive analytics utilizing AI and big data, we also offer services to traditional brick-and-mortar retailers to optimize offline stores' operation by recommending product selection based on local consumers' preferences while managing stocks at optimum inventory level.

We have developed robust supply-chain based technology in three key areas, namely AI, Big data analytics and Cloud computing. We have world-class scientists and a large team of AI engineers. Our technology achievements have been well recognized globally and we strive to deliver best-in-class services to our customers and become the most trusted technology service provider in the industry. For example, we built a smart supply-chain platform NeuHub in April 2018, which consists of cloud-based AI infrastructure. It also includes application-level products supporting many use cases that are applicable to our business and ecosystem, as well as customers across industries.

Our Competitive Strengths

"Customer-first" is our most important business philosophy. We believe our superior customer experience, cost saving and operational efficiency are the core of our strengths, which differentiate us from competitors in customers' mindshare and establish our market leadership over the years. These core strengths are fundamentally supported by our technology and team.



China's Largest Retailer with Substantial Economies of Scale

We are the largest retailer in China in terms of total revenues in 2019, according to *Fortune Global 500*. We have delivered robust growth since our inception. Our net revenues grew from RMB181.0 billion in 2015 to RMB576.9 billion in 2019 at a CAGR of 33.6%. We believe our scale provides critical competitive advantages to our success in retail market in China. Leveraging our scale, we are able to offer a wide selection of products at competitive price, secure favorable terms from our suppliers, attract more third-party merchants to our online marketplace and allocate more resources to invest in technology and infrastructure. Our scale and market leadership also create a self-reinforcing virtuous cycle, allowing us to continuously attract more customers and strengthen customer loyalty, which further solidifies our market leadership.

Superior Customer Experience

We are differentiated by superior customer experience in areas where consumers value the most. These areas include, among others:

- *Products*
  - □ wide selection of products supported by strong merchandise procurement capabilities and stringent standards for merchant selection;
  - □ authentic products and quality assurance backed by a zero tolerance policy toward counterfeits;
  - □ intelligent and personalized product recommendations from our content-rich and user-friendly mobile apps and website *www.jd.com;*
- *Pricing*
  - □ competitive pricing benefited from our scale of economies and operational efficiency;

- *Customer Service*
  - □ timely and reliable logistics services empowered by industry-leading technologies, and self-operated fulfillment infrastructure;
  - □ responsive and highly attentive, 24/7 customer services; and
  - □ customer-friendly return and exchange policies.

As a result, we have established a strong brand reputation for being reliable and trustworthy, which attracts a growing and loyal active customer base. Our annual active customer accounts increased from 292.5 million in 2017, to 305.3 million in 2018 and further to 362.0 million in 2019. As our business expands, we thrive by providing superior customer experience to those who utilize our retail services and logistics services, as well as other technology services.

Relentless Focus on Operational Efficiency

We place utmost focus on continuous improvement of operational efficiency. To this end, we have cultivated a strong corporate culture for efficiency to optimize our business operations over the years. Behind our highly efficient operations is our data-driven methodology and technologies. For example, we utilize AI technology to improve the accuracy of customer demand prediction in order to optimize our sales planning, dynamic pricing, procurement strategy and inventory management for both our online retail business and omni-channel initiatives such as 7FRESH. In addition, in some of our automated warehousing facilities, we deploy robots and utilize various advanced technologies including image and voice recognition, automatic packaging, AI and IoT to facilitate package processing. Some of those warehouses are supported by only a small number of staff through highly automated workflows, covering goods-receiving, storing, sorting, packaging, categorizing and goods-dispatching. As a result, we have achieved significant improvement in operational efficiency. From 2017 to 2019, our annual inventory turnover days improved from 38.9 days to 35.8 days. Annual inventory turnover days are the quotient of average inventory over the immediately preceding five quarters, up to and including the last quarter of the annual period, to cost of revenues of retail business for that annual period, and then multiplied by 360 days. From 2017 to 2019, our fulfillment expenses as a percentage of revenues decreased from 7.1% to 6.4%.

Proprietary Supply Chain-based Technology Platform with Strong Service Capabilities

Our technology is the backbone to support our massive and growing scale and enable us to provide superior user experience in our e-commerce and other business initiatives. For example, in our e-commerce business, based on the comprehensive dataset we amass, we leverage AI technologies to generate personalized recommendations and drive repeated purchases. We also deploy a variety of new technologies such as facial recognition, product recognition and in-store activities tracking, in order to provide a dynamic and interactive omni-channel shopping experience. The reliability and scalability of our retail technology platform have been proven by its performance in peak shopping seasons. For example, during the two major online shopping events in 2019, our cloud platform recorded a 99.95% of service level agreements (SLAs) and no outages.

Our fulfillment capability is built on the massive logistics infrastructure and a sophisticated system. We have developed a cloud-based AI-driven technology platform, along with other advanced technologies, such as big data analytics and IoT, to power our logistics infrastructure and service capabilities. More importantly, having full control of the logistics infrastructure allows us to accumulate more data and operational experience, and continuously develop and deploy of new technologies across our network. For example, we develop technologies such as warehouse robotics to realize high degree of automation in some of our self-owned industry-leading smart warehouses. In addition, we have established and efficient fulfillment and service capabilities, which not only support our online retail business, but also open up to and empower our third-party merchants and external partners. We also provide comprehensive logistics technology services, such as smart inventory and inventory replenishment services.

Experienced Management Team and Strong Corporate Culture

Our management team is composed of executives with extensive experience in every major component of our business operations. They are pioneers in China's internet, retail and supply chain industry. Their clear vision, focus and commitment to deliver the best customer experience and enhance overall efficiency have driven our rapid growth since our inception. We have also developed a strong mid-level management team in charge of various business functions. Our management have nurtured a corporate culture of integrity, passion, customer centric, team work, continuous learning and efficiency driven. These values, coupled with our leadership position and our employee training, career development and incentive programs, have greatly attracted and motivated our talented employees.

Our Growth Strategies

Our strategies are centered on sustainable and quality growth, which we expect to achieve by further solidifying the market leadership of our e-commerce business, and developing our supply chain-based technology service capabilities to empower the players across the industry value chain. Our team, organization structure and corporate culture undergird the successful execution of our growth strategies.

Further grow our scale and reinforce economies of scale

We will further grow our scale to strengthen our competitive advantages and achieve even greater economies of scale. With our continuous growth in scale and further enhancement of our procurement capabilities and partnerships with our third-party merchants, we can deliver stronger value propositions to our customers, especially everyday low price, wider selection, and better quality. We will continue our commitment to technology development, investment in logistics infrastructure and supply chain platforms, to fuel our growth and eventually strengthen our self-reinforcing virtuous cycle.

Further boost customer experience through improved user engagement and grow our customer base

To further enhance customer engagement and customer experience, we will continue to widen our product selection and improve personalization and other features on our platform. We plan to extend online and offline retail scenarios and develop innovative retail channels to better meet evolving customer demand, enhance our touch points with customers and increase our wallet share over time. In addition, we will further penetrate into lower-tier cities where hundreds of millions of consumers have growing but underserved demand for quality products and upgraded services. We will continue to execute tailor-made customer acquisition strategy and offer compelling value-for-money products through more targeted channels. For example, we launched *JingXi* (京喜) in 2019, an online marketplace channel, featuring rich social attributes and curated products that cater to the demand of customers in lower-tier cities. We will continue to invest in our fulfillment infrastructure to better serve customers in lower-tier cities. We also plan to prudently explore growth opportunities in overseas markets to grow overseas customer base through organic growth, strategic collaboration, and selective investments and acquisitions.

Enhance our supply chain-based technology service capabilities

As a technology-driven company, we will continue to focus on the key areas of our technology initiatives, such as AI, big data and cloud computing, to strengthen our competitive advantage in technology. We will continue to invest in a holistic smart supply-chain technology platform and optimize our service capabilities. We will also open up our platform and offer supply chain-based technology services to customers and partners in various industries. We believe our focus on these technology initiatives will help digitalize and streamline the industry value chain, improve operational efficiency for our customers and partners, and create additional monetization opportunities for us.

Strengthen our team, organization and culture

We will continue to optimize our organizational structure and adapt to changing market conditions. By delegating decision-making power to managers in each business unit, we enable them to be closer to our customers and navigate through dynamic market environment. We will continue to enhance synergies between business units and encourage innovation. We believe our entrepreneurial corporate culture and our employees are instrumental to a prospering and enduring business. We are committed to attracting new talents by offering compelling incentive packages and encouraging them to achieve their career goals. At the same time, we will also strengthen our talents by instilling in them a sense of ownership and a result-oriented, problem-solving mindset. We are confident that a dedicated team, a well-structured organization and a solid corporate culture will ensure execution of our business strategies and drive growth for years to come.

Our Business

Since founding our company, we have focused on developing our online retail 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 retail 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 retail and online marketplace, our omni-channel initiatives and our own nationwide fulfillment infrastructure and technology platform, makes us a uniquely strong player in China's 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 supply chain-based 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.

JD Retail

Online Retail

In our online retail business, we acquire products from suppliers and sell them directly to customers. As we now offer a wide range of product categories through our online retail 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. As of December 31, 2019, we sourced products from over 24,000 suppliers. We believe that large scale and market leading position are critical to success in the online retail market in China and can provide important competitive advantages to us.

Online Marketplace

In our online marketplace business, third-party merchants offer products to customers on our online marketplace and pay us sales commissions. We launched our online marketplace in October 2010 and have been adding new products and services, including premium international brands, since then. As of December 31, 2019, there were over 270,000 third-party merchants on our online marketplace. We provide transaction processing and billing services on all orders placed on our online marketplace and require third-party merchants to meet our strict standards for authenticity and reliability. We monitor third-party merchants' performance and activities on our online marketplace closely to ensure that they meet our requirements for authentic products and high-quality customer service. We tag certain top stores on our platform as "JD Haodian (京東好店)," based on each third-party merchant's quality of service during the entire purchase process. Such certification can help the top third-party merchants improve their sales volumes on the platform. Furthermore, it sets a benchmark to encourage other third-party 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.

Omni-channel Initiatives

We are exploring a variety of omni-channel integration opportunities and innovative business models.

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 our strategic partnership with Dada Nexus Limited, or Dada Group, a leading platform for local on-demand retail and delivery in China. Dada Group has partnered with a large number of well-known chain retailers and many first-tier international and domestic FMCG (fast-moving consumer goods) brands by leveraging Dada Group's crowd-sourcing delivery network. Dada Group has been cooperating with JD Logistics to provide with on-demand and last-mile delivery services for merchants and consumers.

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 Flagship Store on JD.com, Sam's Club Global Flagship Store, Walmart Global Flagship Store, and several category global stores to sell specific category products (for example Walmart Beauty and Personal Care Global Store) on JD Worldwide, and a one-hour delivery service from Walmart Stores and Sam's Clubs in selected cities through the JD-Daojia app. We have also experimented with other omni-channel opportunities, aimed at offering shoppers across China faster and more convenient access to high-quality products through multiple channels.

To provide customers with a more dynamic and interactive integrated omni-channel shopping experience, we have enabled some of our offline partners with a variety of the latest technologies such as facial recognition, product recognition, and a tracking system for customers' in-store activities, among others. 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 that best suit potential customer demand in each offline franchise store.

7FRESH, our offline fresh food market brand, is part of our omni-channel strategy. In December 2017, we opened our first 7FRESH store in Yizhuang Economic and Technological Development Zone in Beijing. We integrated our advanced supply chain management know-how and cutting-edge storage technologies to 7FRESH stores to deliver a unique shopping experience. The application of our advanced supply chain management solution and technology on 7FRESH is part of our ongoing experiments to deploy our retail and supply chain service capabilities, which, once proven, will empower our potential offline partners to further expand our 7FRESH presence to pursue an enhanced shopping experience for our consumers.

Marketing Services

Leveraging our AI capabilities and our comprehensive dataset accumulated from a wide range of business scenarios along the entire value chain, we provide a variety of marketing services to suppliers, third-party merchants and other business partners through our proprietary advertisement technology platform. In 2019, through our greatly expanded development and investment in advanced advertising and marketing technology, we launched the JD Marketing 360 Platform. This platform employs sophisticated AI and big data technologies in exploiting our user behavior insights to provide brand marketers and third-party merchants with a one-stop brand building and sales growth solution. It integrates omni-channel marketing, rich marketing effectiveness measurements, and comprehensive consumer asset growth management to help our marketers to effectively acquire new users and increase shopping frequency from existing users. We provide native search ads and display ads on our main apps, and we also place display ads, search ads and affiliate ads on China's mainstream high traffic apps and video apps. In 2019, we also invested in automated marketing technologies, launching comprehensive products automating all aspects of marketing, including automatic bidding, targeting, creative generation of ads, and budget allocation to satisfy a broad range of marketing scenarios. These products not only reduce our marketers' labor in marketing campaigns, but also improve their ROI.

JD Logistics

Timely and reliable fulfillment is critical to the success of an online retail business. Leveraging our nationwide fulfillment infrastructure and our advanced technology and logistics expertise, our logistics business, JD Logistics, delivers a majority of orders directly to our customers and also provides logistics services to business partners 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 parties, including warehousing management, transportation, delivery, after-sales services, and logistics technology solutions, such as cloud-based service and data analytics, or a combination of these services. We are dedicated to developing an effective, environmentally-friendly, innovative and smart "green logistics system" through developing and promoting the use of innovative and environmentally-friendly materials and a series of technological innovations.

JD Property

JD Property, our property management group, owns, develops and manages our logistics facilities and other real estate properties, to support JD Logistics and third parties. JD Property 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. JD Property aims to develop its logistics asset portfolios while maintaining strong capital discipline. With the expansion of our asset portfolios, we have adopted a capital recycling strategy through our fund management platform and other partnerships. We believe this strategy will help further expand our asset portfolios, minimize our related future capital expenditures and enhance our returns. Currently, JD Property manages properties with a total gross floor area of over 10 million square meters. In February 2019, JD Property and GIC, Singapore's sovereign wealth fund, jointly established JD Logistics Properties Core Fund, L.P., or Core Fund, for a total committed capital of over RMB4.8 billion. We serve as the general partner of Core Fund and have committed 20% of its total capital as a limited partner, while GIC has committed the remaining 80%. The investment committee of Core Fund, which comprises the representatives from us and GIC, oversees the key operations of Core Fund. Furthermore, in February 2019, we entered into a definitive agreement with Core Fund, pursuant to which we sold certain of our modern logistics facilities to Core Fund for a total gross asset value of RMB10.9 billion, to unleash the full potential of our balance sheet and optimize the use of capital for our future growth initiatives. In the second half of 2019, the closing conditions for the completed assets were met and we recorded a total disposal gain of RMB3.8 billion for the completed assets in 2019. For the remaining logistics facilities under construction, we will derecognize these assets upon the completion and satisfaction of the hand over conditions. In addition, subsequent to the disposition, we have leased back these facilities for operational purposes, and JD Property has started serving as the asset manager managing Core Fund's assets.

Technology Initiatives

In December 2019, we formed the new JD Cloud & AI platform to spearhead our technology-related agenda. We have a large team consisting of research and development professionals primarily covering areas of AI, big data analytics and cloud computing. Together, these areas form our technology strategy. We strive to deliver best-in-class services to our customers and become the most trusted technology service provider in the industry, powered by our large and sophisticated IT infrastructures.

Other New Initiatives

Based on our proprietary capabilities in supply chain, logistics, and technologies, we also proactively and cautiously explore opportunities in various new initiatives such as oversea business and healthcare related business, among others. In November 2019, our healthcare subsidiary, JD Health International Inc., or JD Health, completed the non-redeemable series A preferred share financing with a group of third-party investors.

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 customers. 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;
- pharmaceutical and healthcare products, including nutritional supplements, healthcare services and other healthcare equipment;
- 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. We had a GMV of RMB1,294.5 billion, RMB1,676.9 billion and RMB2,085.4 billion (US$299.5 billion) in 2017, 2018 and 2019, respectively.

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 mobile apps and website *www.jd.com*. 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, customized product recommendations, 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. We currently offer mobile access through our mobile website m.jd.com and our various iOS and Android mobile apps. As part of our strategic partnership with Tencent, we launched level 1 access on Tencent's Weixin and direct access on Tencent's 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 2019.

Our mobile apps and *www.jd.com* website 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 mobile apps and websites contain a large volume of helpful user-generated and professionally-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 retail company in China, with approximately 5,817 million product reviews generated by our customers as of December 31, 2019, which benefits our customers, suppliers and third-party merchants. We also encourage third-party merchants to generate content and promote their products through livestreams and short videos on our platform to better interact with our customers.

Targeted product recommendations to satisfy personalized demands. We have 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 leverage our technology to optimize the ordering process, making the shopping experience more convenient and enjoyable. For example, when customers review their shopping carts, not only do we display the special offers available 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 service is a high priority. Our commitment to customers is reflected in the high level of service provided by our customer service staff as well as in our flexible product return and exchange policies. We continue optimizing our customer service to guarantee the best possible shopping experience.

In 2019, we further strengthened our brand image of offering hassle-free services to our customers. Combining unique service capabilities from our retail business and our third-party merchants, we provide our customers with customized services for different product categories. Our services cover the entire purchasing process and include over 60 types of services such as instant refunds, repair by exchange program, home-delivery of replacements, and extended price protection services for selected retail products, among other offerings. The service offering aims to facilitate consumers' purchase decisions by providing trustworthy and guaranteed services. In 2019, we continued to invest in smart services and leveraged our advanced AI and deep learning technologies to more efficiently resolve the high volume of customer inquiries without sacrificing the customer experience. We also leveraged our cutting-edge technologies and smart systems to analyze a large volume of customer feedback and alerted third-party merchants in advance regarding potential customer service issues, helping third-party merchants to improve their service quality for our customers.

24-7 customer service centers. We operate 24-7 customer service centers in Suqian, Yangzhou, Jiangsu province; and, Chengdu, 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 through email. As of December 31, 2019, we had a total of 10,041 customer service representatives at the Suqian, Yangzhou and Chengdu centers.

Returns and exchanges. We accept unconditional returns or exchanges within seven days of purchase. For selected categories in our retail business, we provide an extended 30 days return and 180 days replacement policy to our customers. Defective merchandise can be returned for exchange within 15 days of purchase. For customers with good credit, we provide an "instant refund" service, where we provide refunds 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 the defective goods repaired, replaced or take another 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 is 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 after-sales centers or bring the product to a pickup station nearby. 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 (京享值)" 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 effectively enhances the shopping experience and consumer engagement. In addition to our "Jing Xiang Zhi (京享值)" membership program, we continued to promote JD Plus, a premium paid membership program. JD Plus members enjoy benefits related to merchandise such as extra rebates, free shipping coupons, exclusive prices on selected product offerings, RMB100 cross-category coupons on a monthly basis, VIP customer services, free return services and PLUS DAY promotion events designed specifically for JD Plus members. JD Plus also partnered with digital content and lifestyle service providers such as Tencent Video, iQiyi, Ctrip, among others, providing JD Plus members with greater benefits.

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 merchants 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 online shopping festival on November 11, as well as 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.

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 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 window 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 or through our mobile apps 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 merchants. 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 delivery window within which to receive their goods. For luxury products, consumers in major cities can enjoy JD Luxury Express, a premium delivery service where a courier in suit, tie and white gloves will deliver to consumers' doors. 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.

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 and cross-border logistics capabilities, and in new business areas, to expand product offerings while ensuring superior customer experience.

Payment

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 98% of the time in 2019.

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.

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 retail business, we sourced products from over 24,000 suppliers as of December 31, 2019. Procuring products on such a massive scale requires considerable expertise, which we have built up over a number of years. None of our suppliers accounted for over 10% (by value) of the products we purchased in 2019. In addition, we had over 270,000 third-party merchants on our online marketplace as of December 31, 2019.

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 and obtain 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. Direct cooperation with manufacturers enables us to increase supply chain efficiency by minimizing supply chain costs and to give customers peace of mind about product quality. In addition, we have created an interface where our third-party merchants access reports regarding inventory status, purchase history and customer reviews of their products. Suppliers and third-party merchants 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 merchants 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 after-sale customer service. We perform background checks on our suppliers and third-party merchants 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 investigate 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. We normally enter into one-year framework agreements with our suppliers and third-party merchants and renew them annually.

Our standard form contract requires suppliers and third-party merchants 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 have also put stringent rules in place governing the operations of third-party merchants on our online marketplace. Third-party merchants 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.

Logistics Services

Fulfillment

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

Nationwide Fulfillment Infrastructure

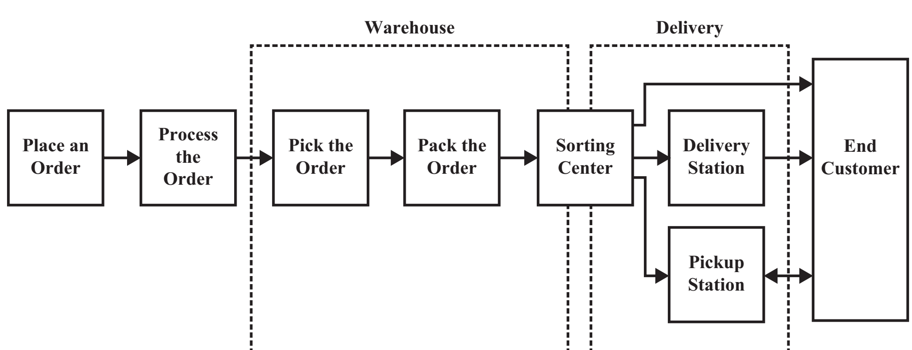
We have built a nationwide fulfillment infrastructure that we believe is the largest among all e-commerce companies in China.

We had established regional fulfillment centers in seven major cities in China as of December 31, 2019: 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 54 cities in China as of December 31, 2019. We operated over 700 warehouses in 89 cities as of December 31, 2019, covering an aggregate gross floor area of approximately 16.9 million square meters, including warehouse space managed under the JD Logistics Open Warehouse Platform. 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 merchants 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, the order is shipped to a delivery or pickup station in the customer's city for further handling and delivery. If a customer's order contains products from different warehouses, the products will be combined at the last-mile delivery station and then sent to the customer in a single 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 transfer 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. 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.

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 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.

Open Platform of Our Logistics Services

We also open up our leading logistics infrastructure to our third-party merchants and partners beyond our e-commerce business. We have developed comprehensive logistics services and continuously strengthen our logistics service capability by adding new services such as on-demand delivery, cold-chain services and individual parcel delivery solutions. We provide services relating to almost all aspects of logistics operation, including warehousing management, storage, long-haul transportation, express and on-demand delivery and cold-chain and cross-border services, among others. We offer integrated supply chain management solutions to customers in various vertical markets. We also provide technology solutions for logistics operations to enable customers to transparently and effectively monitor, manage and optimize their logistic workflows.

Technology Platform

Technology is the key to our future success. It enables better customer experience, higher efficiency and customer cost savings, while also serving as a vehicle to export our unique capabilities and cutting-edge innovation to benefit the whole industry and society. In December 2019, we formed the new JD Cloud & AI platform to spearhead our technology-related agenda.

We have a large team consisting of research and development professionals primarily covering areas of AI, big data analytics and cloud computing. Together, these areas form our technology strategy. We strive to deliver best-in-class services to our customers and become the most trusted technology service provider in the industry, powered by our large and sophisticated IT infrastructures.

In addition to our core technology innovation, research and development, we also place a strong emphasis on data privacy and security. Protecting customer data and building trust is one of our core values. Operating in compliance with the stringent standards and regulations both in China and globally, we provide our customers with a high level of security, privacy protection and ease of mind. In 2019, we were named two years in a row as an AAA trusted cloud provider certified by the China Academy of Information and Communications Technology (CAICT).

AI-powered Services Improving Customer Satisfaction and Partner Productivity

We strive to offer the right product to the right customer at the right time through the right channel, known as our "4R" strategy. Technology is the foundation to achieve the 4R strategy. Through aggregation and analysis of customer behavioral big data, we derive deep insights about customer preferences and offer precision targeting for product recommendations. The access to customer insights also enables us to train and refine robust AI models, empowering a great customer experience. For example, our "Snapshop" feature allows users to identify products through uploaded pictures. Such technology is also publicly available through our open AI platform NeuHub and has been adopted by most major phone manufacturers in China to improve phone users' shopping experiences.

To support JD's omni-channel strategy, our technologies are embedded in a multitude of retail scenarios, from online web and mobile shopping experience, to our offline ecosystem, including our JD Smart Speakers, 7FRESH stores, JD E-SPACE, a 50,000 square meter shopping mega store we launched in November 2019, and many JD Home outlets and unmanned convenience stores.

Technology also permeates our customer service experience. Leveraging our cutting-edge technologies and big data, we provide an individualized shopping experience for each customer. We identify customers' demands and provide accurate recommendations based on comprehensive algorithms derived from a large volume of data on customer behavior and preferences.

Our AI-powered services also empower our partners to improve their operational efficiency and productivity. Our marketing platform employs sophisticated AI and big data technologies to produce user behavior insights and provide brand marketers and third-party merchants with one-stop brand building and sales growth solutions. This not only reduces our marketers' labor in marketing campaigns, but also improve their ROI. During promotion seasons, our AI-based agent helps third-party merchants efficiently respond to large volume of customer requests, cutting wait times and improving customer experience. AI-triaged calls effectively reduce manned calls and improve operational efficiency. Furthermore, our advanced AI custom service is integrated into our retail ecosystem of over 270,000 stores by way of our SaaS (software as a service) platform.

Smart Retail & Supply Chain Technology Enhancing Operational Efficiency

Through years of online operation, we have amassed a large amount of know-how and data across China's e-commerce supply-chain, from product manufacturing, warehouse operations and distribution to sales and customer service information. Combining the power of big data analytics and AI on our intelligent cloud platform, we streamline customer-to-manufacturer production to improve sales and enhance customer satisfaction. In August 2019, our Smart Supply Chain AI Platform was selected by the Science and Technology Ministry as one of China's Top 10 National Open Innovation Platform for Next Generation AI. Underlying this service is our Neuhub open AI platform. Launched in April 2018, Neuhub offers 40 AI APIs covering multiple areas, including natural language processing, speech recognition, computer vision and machine learning. Leveraging our smart retail and supply chain technology, we provide technology solutions for our logistics operations to enable customers to transparently and effectively monitor, manage and optimize their logistic workflows.

At the infrastructural level, our cloud service offers a robust platform that serves both our own online business as well as external government and enterprise customers. During the two major online shopping events in 2019, our cloud platform had a solid operational performance by recording 99.95%

of service level agreements (SLAs) and having zero outages. According to International Data Corporation's China Public Cloud Service Market report published in the first quarter of 2019, we are one of China's top 10 public cloud IaaS (infrastructure as a service) providers.

Technology Transcending Boundaries of Smart Logistics

In 2019, we enhanced our capabilities and operations of unmanned delivery vehicles, including our in-house level 4 (L4) autonomous delivery robots. Level 4 refers to "high driving automation," which means that no human intervention is needed as long as the system is operating within a certain geo-fenced area. Besides self-driving robots, we also deployed unmanned drones for parcel delivery in certain areas. Furthermore, we also leverage AI technologies to detect and triage mishandling of packages within our fulfillment infrastructure, reducing goods damaged while improving customer satisfaction.

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 ourselves 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, particularly benefiting from access points within Weixin and QQ channels, both of which have a large mobile internet user base. Through leveraging more targeted, innovative and interactive marketing tools, we can help brands on the platform increase exposure, drive traffic and achieve deeper penetration into lower-tier cities and attract younger generations.

With the increasing popularity of mobile internet-enabled devices, over 90% of our orders fulfilled were placed through our mobile apps in 2019. In order to further improve the customer experience and increase user engagement on the mobile internet, we are exploring cooperation opportunities with many business partners on the mobile side. In addition, we have formed strategic partnerships with a number of major internet companies in China, aiming at leveraging these companies' massive user bases to strengthen collaboration in targeted marketing, user access points and content-driven marketing. We incurred RMB14,918 million, RMB19,237 million and RMB22,234 million (US$3,194 million) of marketing expenses in 2017, 2018 and 2019, respectively.

Competition

The online retail industry in China is intensely competitive. Our current or potential competitors include (i) major e-commerce companies in China that offer a wide range of general merchandise product categories, such as Alibaba Group, which operates *taobao.com* and *tmall.com*, and (ii) major traditional retailers in China that are moving into online retailing, such as Suning Appliance Company Limited, which operates *suning.com*. 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.

Customers and Suppliers

We have a broad base of customers, and our top five customers accounted for less than 5% of our total revenues for each of the years ended December 31, 2017, 2018 and 2019, respectively. Our top five suppliers accounted for less than 30% of our purchases for each of the years ended December 31, 2017, 2018 and 2019.

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, 2019, we owned approximately 1,200 computer software copyrights in China relating to various aspects of our operations and maintained approximately 11,700 trademark registrations inside China and approximately 1,900 trademark registrations outside China. We had approximately 4,300 trademark applications inside China and approximately 1,700 outside China. As of December 31, 2019, we had approximately 2,700 patents granted in China, approximately 160 patents granted outside China, approximately 7,100 patent applications pending in China and approximately 410 patent applications pending outside China. As of December 31, 2019, we had registered approximately 6,600 domain names. Our registered domain names include jd.com, 360buy.com, jdcloud.com and jdwl.com, among others.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased all risk property insurance covering our inventory and fixed assets such as equipment, furniture and office facilities. We maintain public liability insurance for our business activities at 27 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. See "Risk Factors—Risks Related to Our Business and Industry—We have limited insurance coverage, which could expose us to significant costs and business disruption."

Enterprise Social Responsibility

Having a positive impact on the communities in which we operate is an integral part of our business, and we maintain that our core values. Our commitment to partners, customers, investors, our employees and society as a whole 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. Together with brand designers, manufacturers, logistics companies, packaging companies, industry associations, among others, we further enhanced our "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 Latest Practicable Date, we have already issued more than 4.6 billion digital invoices across China and replaced paper invoices with digital invoices for all retail orders. Meanwhile, we launched the "Recycling Plan" in many cities in China to help recycle clothing and toys to reduce carbon emissions and environmental pollution through donation or professional recycling.

In 2019, we enhanced our Environmental, Social and Governance (ESG) program with the launch of the China E-Commerce & Logistics Packaging Standard Alliance together with several internationally recognized brands. This alliance aims to optimize the usage of packaging materials in China by establishing nationwide e-commerce packaging standards. JD Logistics has also expanded its box recycling initiative across China with customer incentives provided in the form of rebates.

In 2019, we have used green recycling boxes and cold chain containers 47 million times, and saved 600,000 tons of paper through using lighter and recycling boxes, going paperless, electronic order slips and more. We've also committed to the standardization of green logistics, promoting the tape to be narrowed from 53mm to 45mm, banning layer by layer winding as a standardized packaging process, setting the industry standard and benchmark.

Employee care. We have always striven to provide employees with comprehensive social benefits, a diverse work environment and a wide range of career development opportunities. We have invested significant resources in employee career development and training. In 2019, we clarified talent criteria and applied it to the entire talent management process. Throughout the entire year, we not only focused on the improvement of employees' professional development, but also made efforts to incentivize our employees to have a "sense of goals" and "sense of fulfillment". Additionally, we placed special emphasis on the building of a talent pipeline and cohesive organizational culture. We have established a comprehensive system for employee training and development, covering leadership, general competencies, professional competencies, and others. Our comprehensive training program includes corporate culture, employee rights and responsibilities, team building, professional behavior, job performance, management skills, leadership, and administrative decision-making. In 2019, we provided more than 7,925 training courses online and offline for employees.

In 2019, we also initiated employee surveys through our internal communication tools on a routine basis, covering a broad range of topics such as company culture, team cooperation, compensation satisfaction, and others. The surveys helped the management team better understand employees' needs and thus improved the health of the overall organization.

We won a number of employer awards in 2019, among which the most influential include: Universum's 2019 Campus Most Attractive Employer Award at the international level, Zhaopin.com's 2019 Best Employer Award and 58.com's 2019 China Employer Brand Award in China.

"JD RUN" is an influential employer brand project in China. The project adopts training, internship and project competition to build the most valuable internship platform in the industry, improving the employment rate of interns from JD RUN, and helping the company continuously bring in top quality, energetic staff.

Poverty alleviation. Leveraging our strong supply chain, cutting-edge technologies and logistics network, we participate in poverty alleviation efforts in rural areas. We pioneered our rural e-commerce strategy, aiming to make agricultural products in rural areas available online and at the same time, allow authentic products to reach residents in rural areas. We operate China's trusted online donation platform, through which our 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 intended recipient.

COVID-19 outbreak relief. Since the COVID-19 outbreak, we have done our utmost to help people in Wuhan and throughout China. Immediately after the announcement of quarantine in Wuhan, we put together a task force to lead our epidemic relief efforts, and took swift action to donate critically needed medical supply to hospitals and charity organizations in Wuhan, including a large amount of face masks and protective medical materials, which were in urgent demand and short in supply. To ensure timely supply and delivery of daily necessities in Wuhan, JD Logistics opened a dedicated channel for relief materials coming from across the country. In doing so, JD Logistics applied our advanced supply chain technology and expertise, and deployed various technologies such as AI, Big Data and IoT into a dozen emergency and epidemic prevention solutions to support the relief efforts and policies of Hubei government.

Meanwhile, we took the health and safety of our employees as our top priority. We provided all of our frontline employees with masks and other protective equipment immediately after the outbreak. We also introduced a series of new policies, such as subsidies, fee reductions and waivers, to help third-party merchants on our platform.

Employees

As of December 31, 2017, 2018 and 2019, we had a total of 157,831, 178,927 and 227,730 employees, respectively. The following is a breakdown of our employees as of December 31, 2019 by function:

Function	Number
Procurement	8,128
Warehouses	43,736
Delivery	132,218
Customer Service	16,570
Research and Development	14,047
Sales and Marketing	8,288
General and Administrative	4,743
TOTAL	227,730

Note:

* The number of employees shown above excludes part-time employees and interns.

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 2019, we recruited new employees in connection with the expansion of our business, and we will continue to invest resources in training, managing and motivating our workforce. In 2019, we have invested a considerable amount of resources in employee career development and training. We have clear talent criteria and have applied them to the whole process of talent management. In the talent management activities throughout the year, we not only pay attention to the improvement of employees' ability and quality, but also pay special attention to incentive development, so that to enable all kinds of talents to have a "sense of goal" and "sense of fulfillment". We lay special emphasis on the building of talent pipeline and the building of organizational cultural cohesion. We have established a comprehensive employee training and development system covering leadership, general competencies, and professional competencies. Our comprehensive training program covers corporate culture, employee rights and responsibilities, team building, professional behavior, job performance, management skills, leadership, and administrative decision-making. As of December 31, 2019, over 700 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 who are MBA graduates 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.

Properties

Our national headquarters are located in Yizhuang Economic and Technological Development Zone in Beijing, where we own office buildings with an aggregate floor area of approximately 410,000 square meters. We have acquired land use rights in Beijing to build our headquarters. As of December 31, 2019, we had paid an aggregate of approximately RMB9.5 billion (US$1.4 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 in China with an aggregate floor area of approximately 301,000 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 65,000 square meters, respectively. We lease our customer service centers in Chengdu and Yangzhou with an aggregate floor area of approximately 57,000 square meters.

As of December 31, 2019, we operated regional fulfillment centers in seven cities in China, including Beijing, Shanghai, Wuhan, Guangzhou, Chengdu, Shenyang and Xi'an.

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 54 cities in China as of December 31, 2019. Our comprehensive fulfillment facilities can cover almost all the counties and districts across China.

As of December 31, 2019, we had land use rights in 40 cities in China to build our own warehouses. Highly automated and efficient warehouses 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 RMB18.0 billion (US$2.6 billion) for the acquisition of land use rights, building of warehouses and purchase of warehousing equipment as of December 31, 2019. To unlock meaningful value from our balance sheet and recycle capital for our future growth initiatives, we disposed certain of our development properties and received proceeds of RMB7.9 billion (US$1.1 billion) in 2019.

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

Legal and Administrative Proceedings

From time to time, we may be subject to legal, regulatory and/or administrative proceedings relating to third-party and principal intellectual property infringement claims, contract disputes involving suppliers and third-party merchants, consumer protection claims, claims relating to data and privacy protection, employment related disputes, unfair competition and other matters in the ordinary course of our business.

As we routinely enter into business contracts with our suppliers, third-party merchants and consumers on our platform, we have been and may continue to be involved in legal proceedings arising from contract disputes, including being named as a co-defendant in lawsuits filed against our suppliers by third parties. For example, in July 2019, Shanghai Gopher Asset Management Co., Ltd., or Gopher, filed a lawsuit in a court in Shanghai, requesting the court to enforce the fulfillment of payment obligations by Jingdong Century, one of our subsidiaries, to Gopher under certain accounts receivable assignment confirmation letters allegedly signed by Jingdong Century. Gopher alleges that (i) Jingdong Century was a party to certain purchase agreements with its two suppliers, Guangdong Chengxing Holding Group Co., Ltd., or Guangdong Chengxing, and Guangdong Zhongcheng Industry Holding Co., Ltd., or Guangdong Zhongcheng, and has payment obligations to these two suppliers under these agreements; and (ii) Jingdong Century confirmed and agreed to certain accounts receivable assignment confirmation letters (by affixing its seal to the letter) delivered by Gopher and the two suppliers when the two suppliers assigned their rights under the purchase agreements to Gopher. Gopher sought uncollected accounts receivable of approximately RMB2.4 billion in aggregate, plus damages due to late payments as well as litigation related expenses. In addition, in August 2019, Noah (Shanghai) Financial Leasing Co., Ltd., or Noah, filed a lawsuit in a court in Shanghai, requesting the court to enforce the fulfillment of payment obligations by Jingdong Century to Noah under certain accounts receivable assignment confirmation letters allegedly signed by Jingdong Century. Noah alleges that (i) Jingdong Century was a party to certain purchase agreements with Guangdong Chengxing and Guangdong Zhongcheng and has payment obligations to these two suppliers under these agreements; and (ii) Jingdong Century confirmed and agreed to certain accounts receivable assignment confirmation letters (by affixing its seal to the letter) delivered by Noah and the two vendors when the two vendors assigned their rights under the purchase agreements to Noah. Noah sought uncollected accounts receivable of approximately RMB71.1 million in aggregate, plus damages due to late payments as well as litigation related expenses. These two lawsuits relate to similar subject matters and are still at an early stage. Jingdong Century has not received nor confirmed the accounts receivable assignment confirmation letters as alleged by the plaintiffs. In addition, Jingdong Century's corporate seal that was allegedly affixed to the purchase agreements and accounts receivable assignment confirmation letters is inconsistent with the corporate seal of Jingdong Century filed with the competent PRC government authority. We believe these lawsuits are without merit and we are defending ourselves vigorously. There is uncertainty, however, regarding the timing or ultimate resolution of these lawsuits and the other legal proceedings in which we are involved. See "Risk Factors—We may be subject to legal, regulatory and/or administrative proceedings."

In the opinion of Shihui, our PRC Legal Advisor, our Major Subsidiaries were in compliance with relevant PRC laws and regulations in all material aspects during the Track Record Period.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountants' Reports in Appendix IA and Appendix IB to this document and in particular, "Business." This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this document. We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our fiscal year ends on December 31 and references to fiscal years 2017, 2018 and 2019 are to the fiscal years ended December 31, 2017, 2018 and 2019, respectively.

Overview

We are a leading technology driven e-commerce company transforming to become a leading supply chain-based technology and service provider. Our e-commerce business includes online retail and online marketplace. In the online retail business, we acquire products from suppliers and sell them directly to our customers primarily through our mobile apps and websites. In the online marketplace business, third-party merchants sell products to customers primarily through our mobile apps and websites. We also offer marketing, logistics and other value-added services.

Our business has grown substantially in recent years. We generated total net revenues of RMB362.3 billion, RMB462.0 billion and RMB576.9 billion (US$82.9 billion) in 2017, 2018 and 2019, respectively. Our customer base has also expanded rapidly. We had 292.5 million, 305.3 million and 362.0 million active customer accounts in 2017, 2018 and 2019, respectively. Our online retail business generated net product revenues of RMB331.8 billion, RMB416.1 billion and RMB510.7 billion (US$73.4 billion) in 2017, 2018 and 2019, respectively. In addition, our marketplace, marketing, logistics and other services generated net service revenues of RMB30.5 billion, RMB45.9 billion and RMB66.2 billion (US$9.5 billion) in 2017, 2018 and 2019, respectively.

Due to the PRC legal restrictions on foreign ownership of companies that engage in a value-added telecommunications service business and certain other businesses in China, we conduct the relevant parts of our operations through 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 "Risk Factors" and "Regulations." 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 "Regulations."

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.

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 and their subsidiaries 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. 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, 2019, the amount restricted, including paid-in capital and statutory reserve funds, as determined in accordance with PRC accounting standards and regulations, was approximately RMB24,189 million (US$3,475 million). Our PRC subsidiaries have never paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

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

- our ability to increase active customer accounts and customer purchases;
- 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 Customer Purchases

Growth in the number of our active customer accounts and customer purchases are key drivers of our revenue growth. We have a growing and loyal active customer base. Over the years, our customers have shown loyalty to us through their increased activity levels. Our annual active customer accounts increased from 292.5 million in 2017, to 305.3 million in 2018 and further to 362.0 million in 2019. 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 mobile apps and websites 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.

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 merchants on our online marketplace. We offer a wide range of products and services and aim to provide one-stop shopping solutions 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 merchants and the other services that we offer generally have higher gross margins. The split between our online retail business and our online marketplace business thus has a major influence on our revenue growth and our gross margins. Our marketplace, marketing, logistics and other services revenues increased from RMB30.5 billion in 2017, to RMB45.9 billion in 2018, and further to RMB66.2 billion (US$9.5 billion) in 2019. We intend to further (i) expand our selection of general merchandise products, such as FMCG, which are well received by customers and expected to have a potential for greater online penetration; (ii) attract more third-party merchants to our online marketplace; and (iii) provide more fulfillment and other value-added services to third-party merchants and others.

Our Ability to Further Increase and Leverage our Scale of Business

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

As of December 31, 2019, our nationwide fulfillment infrastructure employed a total of 175,954 warehouse and delivery personnel 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 2017, 2018 and 2019, while the fulfillment expenses as a percentage of our total net revenues decreased from 7.1% in 2017, to 6.9% in 2018 and further to 6.4% in 2019. Our research and development professionals design, develop and operate the technology platform, develop and post content, and improve our AI, big data and cloud technologies and services. Personnel costs are the largest component of our fulfillment costs and of our research and development 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, 2019, included a warehousing network of over 700 warehouses in 89 cities that are operated by us, and an aggregate gross floor area of approximately 16.9 million square meters, including warehouse space managed under the JD Logistics Open Warehouse Platform. As of December 31, 2019, we have acquired land use rights to approximately 11 million square meters of land in 37 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 merchants using our fulfillment services. We had paid an aggregate of approximately RMB18.0 billion (US$2.6 billion) for the acquisition of land use rights, building of warehouses and purchase of warehousing equipment as of December 31, 2019. To unlock meaningful value from our balance sheet and recycle capital for our future growth initiatives, we sold certain of our development properties and received proceeds of RMB7.9 billion (US$1.1 billion) in 2019. See "History and Corporate Structure" for further information. 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 AI, big data analytics and cloud computing. We expect these technology 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 2019, our share of results of equity investees was a loss of RMB1.7 billion (US$0.2 billion), primarily attributable to losses picked up and the impairment recognized 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.

Impact of COVID-19 On Our Operations

The majority of our net revenues are derived from online retail sales in China. Our results of operations and financial condition in 2020 will be affected by the spread of COVID-19. The extent to which COVID-19 impacts our results of operations in 2020 will depend on the future developments of the outbreak, including new information concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the Chinese economy in general.

In connection with the intensifying efforts to contain the spread of COVID-19, the Chinese government has taken a number of actions, which included extending the Chinese New Year holiday, quarantining individuals infected with or suspected of having COVID-19, prohibiting residents from free travel, encouraging employees of enterprises to work remotely from home and cancelling public activities, among others. The COVID-19 has also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We have taken a series of measures in response to the outbreak, including, among others, remote working arrangements for some of our employees and temporarily allowing the government to utilize our fulfillment infrastructure and logistics services for crisis relief. These measures could reduce the capacity and efficiency of our operations and negatively impact the procurement of products, which in turn could negatively affect our results of operations.

The spread of COVID-19 has caused us to incur incremental costs, in particular, relating to our logistics business. In addition, we have seen a decrease in demand for big-ticket items, durable goods and discretionary products. However, leveraging our self-operated supply chain and logistics network, we were able to resume part of our operations after the Chinese New Year and have seen an increase in demand for certain product categories, including consumer staples, such as groceries, fresh produce, healthcare and household products during this period. As of the Latest Practicable Date, (i) most of our employees, including corporate office employees and field staff, had returned to work, (ii) our major operations, including JD Retail and JD Logistics, were resuming gradually around China and we plan to continue to do so as steadily and safely as we can, and (iii) customer demand across product and service categories on our platform was resuming gradually.

As of December 31, 2019, we had cash and cash equivalents of RMB36,971 million (US$5,311 million). Subsequently, we issued in January 2020 unsecured senior notes in an aggregate principal amount of US$1.0 billion. In February 2020, Jingdong Century, a subsidiary of our company, consummated a private placement of an aggregate of RMB3.0 billion 2.65% notes due April 27, 2020. In March 2020, Jingdong Century consummated a private placement of an aggregate of RMB2.0 billion 2.75% notes due October 30, 2020. In April 2020, we drew down the remaining US$550 million under our US$1.0 billion term and revolving credit facilities. We believe this level of liquidity is sufficient to successfully navigate an extended period of uncertainty. See also "Risk Factors—Risks Related to Our Business and Industry—We face risks related to natural disasters, health epidemics and other outbreaks, such as the outbreak of COVID-19, which could significantly disrupt our operations."

Selected Statements of Operations Items

Net Revenues

Net revenues include net product revenues and net service revenues. Net product revenues are further divided into sales of electronics and home appliances products and sales of 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 revenues from general merchandise products mainly include revenues from sales of food, beverage and fresh produce, baby and maternity products, furniture and household goods, cosmetics and other personal care items, pharmaceutical and healthcare products, books, automobiles and accessories, apparel and footwear, bags and jewelry. Net service revenues are further divided into revenues from online marketplace and marketing 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:

	For the Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US $	%
	(in millions, except for percentages)						
Electronics and home appliances revenues	236,269	65.2	280,059	60.6	328,703	47,215	57.0
General merchandise revenues	95,555	26.4	136,050	29.5	182,031	26,147	31.5
Net product revenues	331,824	91.6	416,109	90.1	510,734	73,362	88.5
Marketplace and marketing revenues	25,391	7.0	33,532	7.2	42,680	6,131	7.4
Logistics and other service revenues	5,117	1.4	12,379	2.7	23,474	3,372	4.1
Net service revenues	30,508	8.4	45,911	9.9	66,154	9,503	11.5
Total net revenues	362,332	100.0	462,020	100.0	576,888	82,865	100.0

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 sales of general merchandise and service revenues may increase as a percentage of our total net revenues.

Net service revenues primarily consist of fees earned from providing marketing and logistics services to our business partners, and commissions earned from third-party merchants for sales made through our online marketplace. Currently, we recognize revenues from the third-party merchants on a net basis as we are not the primary obligor, we do not have control over goods sold by third-party merchants and we do not have latitude to establish prices for them.

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

Cost of revenues

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 treated as a reduction in the purchase price and will be recorded as a reduction in cost of revenues when the product is sold.

Fulfillment expenses

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) lease expenses of 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.

Marketing expenses

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 pay commissions to participants in the associates program when their customer referrals result in successful product sales. 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.

Research and development expenses

Our research and development expenses consist primarily of payroll and related expenses for research and development professionals involved in designing, developing and operating our technology platform, 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 plan to continue to invest in technology and innovation to enhance customer experience and provide value-added services to suppliers and third-party merchants.

General and administrative expenses

Our general and administrative expenses consist primarily of employee related expenses for general corporate functions, including accounting, finance, tax, legal and human relations; costs associated with these functions include facilities and equipment depreciation expenses, rental and other general corporate related expenses. We plan to continue to hire additional qualified employees to support our business operations and planned expansion.

Gain on sale of development properties

The gain on sale of development properties is mainly derived from sale of development properties to Core Fund. JD Property develops and manages our logistics facilities and other real estate properties, to support JD Logistics and other third parties. By leveraging its fund management platform, JD Property can realize development profits and recycle capital from mature properties to fund new developments and scale the business. In February 2019, we entered into a definitive agreement with Core Fund, pursuant to which we sold certain of our modern logistics facilities to Core Fund for a total gross asset value of RMB10.9 billion. In the second half of 2019, the closing conditions for the completed assets were met and we recorded a total disposal gain of RMB3.8 billion for the completed assets in 2019. See "History and Corporate Structure" for more details on JD Property and Core Fund.

Share of results of equity investees

Share of the post-acquisition profits or losses, impairment, and gains or losses from disposals of the equity investments that are accounted for under the equity method are recorded in share of results of equity investees.

Others, net

Others, net consist primarily of gains or losses from fair value change, impairment, disposals of long-term investments other than those accounted for under the equity method, government financial incentives, and other non-operating income or expenses.

Taxation

Cayman Islands

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 that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of the shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of the Shares, nor will gains derived from the disposal of the shares be subject to Cayman Islands income or corporation tax.

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 incorporations in Hong Kong to us are not subject to any Hong Kong withholding tax.

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 are subject to a reduced enterprise income tax rate of 20%. From January 1, 2019 to December 31, 2021, subject to certain criteria, the portion of annual taxable income amount of a small profit enterprise which does not exceed RMB1 million shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20% tax rate; the portion of annual taxable income amount which exceeds RMB1 million but does not exceed RMB3 million shall be computed at a reduced rate of 50% as taxable income amount, and be subject to enterprise income tax at 20% tax rate. 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 years of 2016 and 2017, and to claim 175% of their research and development expenses as Super Deduction for the years of 2018 and 2019 ("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% from May 1, 2018 to March 1, 2019, and 9% since April 1, 2019 on sales of books, audio and video products, at a rate of 17% prior to May 1, 2018, 16% from May 1, 2018 to March 31, 2019 and 13% from April 1, 2019 on sales of other products, at a rate of 6% or 11%/10%/9% (11% prior to May 1, 2018, 10% from May 1, 2018 to March 31, 2019, and 9% since April 1, 2019) 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 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 "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 "Risk Factors—Risks Related to Doing Business in the People's Republic of 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 for the periods indicated. Period-to-period comparisons of historical results of operations should not be relied upon as indicative of future performance.

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions, except for share, per share and per ADS data)			
Net revenues:				
Net product revenues	331,824	416,109	510,734	73,362
Net service revenues	30,508	45,911	66,154	9,503
Total net revenues	**362,332**	**462,020**	**576,888**	**82,865**
Cost of revenues	(311,517)	(396,066)	(492,467)	(70,738)
Fulfillment	(25,865)	(32,010)	(36,968)	(5,310)
Marketing	(14,918)	(19,237)	(22,234)	(3,194)
Research and development	(6,652)	(12,144)	(14,619)	(2,100)
General and administrative	(4,215)	(5,160)	(5,490)	(789)
Impairment of goodwill and intangible assets	—	(22)	—	—
Gain on sale of development properties	—	—	3,885	558
Income/(loss) from operations(1)(2)	**(835)**	**(2,619)**	**8,995**	**1,292**
Other income/(expense):				
Share of results of equity investees	(1,927)	(1,113)	(1,738)	(250)
Interest income	2,530	2,118	1,786	257
Interest expense	(964)	(855)	(725)	(104)
Others, net	1,317	95	5,375	772
Income/(loss) before tax	121	(2,374)	13,693	1,967
Income tax expenses	(140)	(427)	(1,803)	(259)
Net income/(loss) from continuing operations	**(19)**	**(2,801)**	**11,890**	**1,708**
Net income from discontinued operations, net of tax	**7**	—	—	—
Net income/(loss)	**(12)**	**(2,801)**	**11,890**	**1,708**

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions, except for share, per share and per ADS data)			
Net loss from continuing operations attributable to non-controlling interests shareholders	(135)	(311)	(297)	(42)
Net loss from discontinued operations attributable to non-controlling interests shareholders	(5)	—	—	—
Net income from continuing operations attributable to mezzanine equity classified as non-controlling interests shareholders	—	2	3	0
Net income from discontinued operations attributable to mezzanine equity classified as non-controlling interests shareholders	281	—	—	—
Net income/(loss) attributable to ordinary shareholders	**(153)**	**(2,492)**	**12,184**	**1,750**
Including: Net loss from discontinued operations attributable to ordinary shareholders	(269)	—	—	—
Net income/(loss) from continuing operations attributable to ordinary shareholders	**116**	**(2,492)**	**12,184**	**1,750**
Net income/(loss) per share				
Basic				
Continuing operations	0.04	(0.87)	4.18	0.60
Discontinued operations	(0.09)	—	—	—
Net income/(loss) per share	(0.05)	(0.87)	4.18	0.60
Diluted				
Continuing operations	0.04	(0.87)	4.11	0.59
Discontinued operations	(0.09)	—	—	—
Net income/(loss) per share	(0.05)	(0.87)	4.11	0.59
Net income/(loss) per ADS[(3)]				
Basic				
Continuing operations	0.08	(1.73)	8.37	1.20
Discontinued operations	(0.19)	—	—	—
Net income/(loss) per ADS	(0.11)	(1.73)	8.37	1.20
Diluted				
Continuing operations	0.08	(1.73)	8.21	1.18
Discontinued operations	(0.18)	—	—	—
Net income/(loss) per ADS	(0.11)	(1.73)	8.21	1.18
Weighted average number of shares:				
Basic	2,844,826,014	2,877,902,678	2,912,637,241	2,912,637,241
Diluted	2,911,461,817	2,877,902,678	2,967,321,803	2,967,321,803

Notes:

(1) Includes share-based compensation expenses as follows:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
		(in millions)		
Cost of revenues	(28)	(72)	(82)	(12)
Fulfillment	(426)	(419)	(440)	(63)
Marketing	(136)	(190)	(259)	(37)
Research and development	(671)	(1,163)	(1,340)	(193)
General and administrative	(1,520)	(1,816)	(1,573)	(226)

(2) Includes amortization of business cooperation arrangement and intangible assets resulting from assets and business acquisitions as follows:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
		(in millions)		
Fulfillment	(164)	(168)	(165)	(24)
Marketing	(1,222)	(1,232)	(637)	(92)
Research and development	(84)	(98)	(99)	(14)
General and administrative	(308)	(308)	(308)	(44)

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

Years Ended December 31, 2019 and 2018

Net Revenues. Our total net revenues increased by 24.9% from RMB462,020 million in 2018 to RMB576,888 million (US$82,865 million) in 2019, with increases in both categories of net revenues. Net product revenues increased by 22.7% from RMB416,109 million in 2018 to RMB510,734 million (US$73,362 million) in 2019. Net service revenues increased by 44.1% from RMB45,911 million in 2018 to RMB66,154 million (US$9,503 million) in 2019.

The increase in our total net revenues was primarily due to our ability to expand our customer base and enhance customer engagement in 2019. Our annual active customer accounts increased from 305.3 million in 2018 to 362.0 million in 2019. The increase in our net service revenues was primarily due to the increasing penetration of our logistics services among our third-party merchants and other third parties, as well as the increase in the marketing services due to our continuous improvement in the automated marketing technologies which resulted in higher ROI and attracted business partners to spend more on marketing.

Cost of revenues. Our cost of revenues increased by 24.3% from RMB396,066 million in 2018 to RMB492,467 million (US$70,738 million) in 2019. This increase was primarily due to the growth of our online retail business. Costs related to the logistics services provided to third parties also increased rapidly along with the expansion of our logistics business.

Fulfillment expenses. Our fulfillment expenses increased by 15.5% from RMB32,010 million in 2018 to RMB36,968 million (US$5,310 million) in 2019. This increase was primarily due to the increase in shipping charges, compensation costs relating to fulfillment personnel, rental expenses for our fulfillment infrastructure and payment processing charges, corresponding with the growth of our sales volume. Fulfillment expenses as a percentage of net revenues, were 6.4% in 2019, as compared to 6.9% in 2018, primarily due to economies of scale from enhanced logistics capacity utilization and staff productivity.

Marketing expenses. Our marketing expenses increased by 15.6% from RMB19,237 million in 2018 to RMB22,234 million (US$3,194 million) in 2019. This increase was primarily due to an increase in our advertising expenditures on both online and offline channels from RMB15,970 million in 2018 to RMB19,286 million (US$2,770 million) in 2019, as we continued to enhance our brand recognition and to promote our new business initiatives.

Research and development expenses. Our research and development expenses increased by 20.4% from RMB12,144 million in 2018 to RMB14,619 million (US$2,100 million) in 2019 as we continued to invest in top-notch R&D talent and technology infrastructure. The increase in our research and development expenses was primarily attributable to the increase in the depreciation and amortization expenses in connection with an increase in the number of servers and other electronic equipment, the IDC expenses in connection with the execution of our strategies of continuously improving our mobile, big data and cloud computing technologies, and the compensation costs associated with research and development personnel and relating to hiring additional senior and experienced technology personnel.

General and administrative expenses. Our general and administrative expenses slightly increased by 6.4% along with the expansion of our business, from RMB5,160 million in 2018 to RMB5,490 million (US$789 million) in 2019.

Gain on sale of development properties. Gain on sale of development properties was nil in 2018, and RMB3,885 million (US$558 million) in 2019. The gain on sale of development properties in 2019 was primarily derived from sale of development properties to Core Fund.

Share of results of equity investees. Share of results of equity investees was a loss of RMB1,738 million (US$250 million) in 2019, compared to a loss of RMB1,113 million in 2018. In 2019, our share of results of equity investees was primarily attributable to losses picked up from our equity method investments in Dada Group and impairment losses recognized from our equity method investments in Bitauto and Tuniu.

Others, Net. Others, net was RMB95 million income in 2018 and RMB5,375 million (US$772 million) income in 2019. In 2019, others, net mainly contained an unrealized gain from fair value change of long-term investments, the realized gain from disposals of our business and investments, and government financial incentives.

Net Income/(Loss). As a result of the foregoing, we had a net income of RMB11,890 million (US$1,708 million) in 2019, as compared to a net loss of RMB2,801 million in 2018.

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 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 in 2018. Net service revenues increased by 50.5% from RMB30,508 million in 2017 to RMB45,911 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. The increase in our net service revenues was also due to the increasing penetration of our logistics services among our third-party merchants and other third parties.

Cost of revenues. Our cost of revenues increased by 27.1% from RMB311,517 million in 2017 to RMB396,066 million in 2018. This increase was primarily due to the growth of our online retail business. Costs related to the logistics services provided to third parties 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 in 2018. This increase was primarily due to the increase in compensation costs relating to fulfillment personnel, shipping charges from contracted third-party shipping companies and couriers, rental expenses for our fulfillment infrastructure and payment processing charges, corresponding with the growth of our sales volume. 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 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 in 2018, as we continued to enhance our brand recognition and to promote our new business initiatives.

Research and development expenses. Our research and development expenses increased by 82.6% from RMB6,652 million in 2017 to RMB12,144 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. We hired more 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 in 2018. This increase was primarily due to an increase in staff cost from RMB1,324 million in 2017 to RMB1,637 million in 2018, and an increase in share-based compensation expenses from RMB1,520 million in 2017 to RMB1,816 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 in 2018, compared to a loss of RMB1,927 million in 2017. In 2018, our share of results of equity investees was primarily attributable to losses picked up from our equity method investments in Dada Group and Bitauto.

Others, Net. Others, net was RMB1,317 million income in 2017 and RMB95 million income in 2018. In 2018, others, net mainly contained 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 in 2018, as compared to a net loss from continuing operations of RMB19 million in 2017.

Segment Information

We have two operating segments, namely JD Retail and New Businesses. JD Retail mainly consists of online retail, online marketplace and marketing services in China. New Businesses include logistics services provided to third parties, overseas business, technology initiatives, as well as asset management services to logistics property investors and sale of development properties by JD Property. JD Digits was previously included in New Businesses, but has been deconsolidated from our financial statements since June 30, 2017 as a result of its reorganization. Our product sales, marketplace and marketing services are mainly included in the JD Retail segment, and our logistics and other services are mainly included in the New Businesses segment.

The table below provides a summary of our operating segment results:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
		(in millions)		
Net revenues:				
JD Retail	356,020	447,502	552,245	79,325
New Businesses	6,022	14,665	23,932	3,438
Inter-segment	(547)	(1,103)	(435)	(63)
Total segment net revenues	361,495	461,064	575,742	82,700
Unallocated items*	837	956	1,146	165
Total consolidated net revenues	362,332	462,020	576,888	82,865
Operating income/(loss):				
JD Retail	4,956	7,049	13,775	1,979
New Businesses	(2,070)	(5,137)	(1,022)	(147)
Including: gain on sale of development properties	—	—	*3,885*	*558*
Total segment operating income	2,886	1,912	12,753	1,832
Unallocated items*	(3,721)	(4,531)	(3,758)	(540)
Total consolidated operating income/(loss)	(835)	(2,619)	8,995	1,292

Note:

* Unallocated items include share-based compensation, amortization of intangible assets resulting from assets and business acquisitions, effects of business cooperation arrangements, 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 12.9%, 13.1% and 12.3% for the years ended December 31, 2017, 2018 and 2019, respectively.

Investments Summary

	As of December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
		(in millions)		
Investment securities	10,028	15,902	21,417	3,076
Investment in equity investees				
Equity method	8,801	13,308	15,479	2,223
Measurement alternative*	—	17,105	17,581	2,525
NAV practical expedient*	—	944	2,516	362
Cost method	9,750	—	—	—
Total investment in equity investees	18,551	31,357	35,576	5,110

Note:

* Prior to January 1, 2018, for other equity investments (including the private equity funds) that are not considered as debt securities or equity securities that have readily determinable fair values and over which we have neither significant influence nor control through investments in common stock or in-substance common stock, the cost method of accounting is used. Upon the adoption of ASU 2016-01 "Financial Instruments-Overall (Subtopic 825-10):Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU

2016-01") on January 1, 2018, we measured long-term investments other than equity method investments at fair value through earnings. For investments without readily determinable fair values, we elect to record these investments under the measurement alternative upon the adoption of 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. For private equity funds, we elect to record these investments 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").

We have made and will continue to make strategic investments in areas complementary to our existing business, such as retail, technology, logistics and investment funds.

As of December 31, 2019, our major investees accounted for under investment securities are Farfetch, China Unicom and Vipshop; our major investees accounted for under equity method are Bitauto, Yixin, Tuniu, Yonghui, Dada Group and Jiangsu Five Star; our major investees accounted for under measurement alternative are Dada Group, Wanda Commercial Properties and AiHuiShou; and our investees accounted for under NAV practical expedient are investment funds. See "History and Corporate Structure—Our Major Investments" for further information.

The table below provides a summary of the performance of our investments:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions)			
Share of results of equity investees				
Share of profit/(loss) of equity method investments and others	(1,927)	(1,113)	(941)	(135)
Impairment of equity method investments	—	—	(797)	(115)
Others, net				
Gains/(losses) from fair value change of long-term investments	—	(1,513)	3,496	502
Impairment of investments	(140)	(593)	(1,954)	(281)

We recorded the performance of our equity method investments in share of results of equity investees and the performance of investment securities, measurement alternative and NAV practical expedient (cost method before the adoption of ASU 2016-01) in others, net.

Our share of results of equity investees was a loss of RMB1,927 million, RMB1,113 million and RMB1,738 million for the years ended December 31, 2017, 2018, and 2019, respectively, which were primarily attributable to losses picked up from our equity method investments in Dada Group and Bitauto and impairment losses recognized from our equity method investments in Bitauto and Tuniu.

In addition, gains/(losses) from fair value change of long-term investments in others, net mainly attributable to the changes in fair value of our investment securities, such as Farfetch, Vipshop and China Unicom, and the impairment of investments in others, net mainly represent the impairment charges of investments in private companies.

On May 29, 2020, as required by Rule 3-09 of Regulation S-X under the Securities Exchange Act of 1934, as amended ("Rule 3-09"), we filed an amendment to our annual report on Form 20-F for the fiscal year ended December 31, 2019, originally filed with the U.S. Securities Exchange Commission on April 15, 2020, to include the financial statements and related notes of Dada Group, Bitauto and Tuniu as of December 31, 2017, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019. Rule 3-09 requires, among other things, that separate financial statements for unconsolidated subsidiaries and investees accounted for by the equity method to be included in the annual report on Form 20-F when such entities are individually significant. We have determined that our equity method investments in Dada Group, Bitauto and Tuniu, each of which is not consolidated in our financial statements, were significant under Rule 1-02(w) and Rule 3-09 of Regulation S-X in relation to our financial results for the year ended December 31, 2017, and our equity method investments in Dada Group was also significant under Rule 1-02(w) and Rule 3-09 of Regulation S-X in relation to our financial results for the year ended December 31, 2018.

The tables set forth below present the selected consolidated financial data of each of Dada Group, Bitauto and Tuniu as of December 31, 2017, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019. See https://www.sec.gov/Archives/edgar/data/1549802/000119312520154810/d924786dex991.htm, https://www.sec.gov/Archives/edgar/data/1549802/000119312520154810/d924786dex992.htm, https://www.sec.gov/Archives/edgar/data/1549802/000119312520154810/d924786dex993.htm, https://www.sec.gov/Archives/edgar/data/1549802/000110465919038102/a19-12003_1ex99d3.htm and https://www.sec.gov/Archives/edgar/data/1549802/000110465919038102/a19-12003_1ex99d4.htm for the consolidated financial statements of each of Dada Group, Bitauto and Tuniu. See also "Related Party Transactions—Transactions with Our Equity Investees and Other Related Parties" for information on the transactions we had with each of Dada Group, Bitauto and Tuniu during the Track Record Period.

DADA NEXUS LIMITED

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB (in thousands)	RMB
Operating data:			
Net revenues	1,217,965	1,922,015	3,099,698
Loss from operations	(1,586,763)	(1,976,475)	(1,749,719)
Net loss and net loss attributable to Dada Group	(1,449,090)	(1,878,375)	(1,669,781)
Net loss attributable to ordinary shareholders	(1,823,336)	(2,390,021)	(2,464,796)

	As of December 31,		
	2017	2018	2019
	RMB	RMB (in thousands)	RMB
Balance sheet data:			
Current assets	2,360,310	3,759,958	2,564,659
Non-current assets	2,051,754	1,886,899	1,721,456
Current liabilities	923,064	573,001	840,350
Non-current liabilities	80,272	52,733	43,701
Mezzanine equity	5,883,754	9,798,011	10,593,026

BITAUTO HOLDINGS LIMITED

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB (in thousands)	RMB
Operating data:			
Revenue	8,751,259	10,579,609	10,752,917
Gross profit	5,516,579	6,335,211	6,508,165
Loss from operations	(1,076,593)	(465,506)	(956,237)
Net loss	(1,426,988)	(679,316)	(1,183,040)
Net loss attributable to Bitauto	(1,611,114)	(608,352)	(1,200,118)

	As of December 31,		
	2017	2018	2019
	RMB	RMB (in thousands)	RMB
Balance sheet data:			
Current assets	28,117,369	34,174,847	30,663,562
Non-current assets	23,398,363	25,569,091	17,713,482
Current liabilities	22,699,239	28,637,649	23,642,737
Non-current liabilities	8,578,822	10,797,852	4,978,086
Redeemable noncontrolling interests	301,953	360,010	390,437
Noncontrolling interests	8,607,031	8,818,110	9,382,202

TUNIU CORPORATION

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB (in thousands)	RMB
Operating data:			
Net revenues	2,192,100	2,240,149	2,280,987
Gross profit	1,167,894	1,175,127	1,080,975
Loss from operations	(883,426)	(348,994)	(870,844)
Net loss	(771,316)	(199,371)	(729,382)
Net loss attributable to ordinary shareholders	(773,029)	(187,934)	(699,199)

	As of December 31,		
	2017	2018	2019
	RMB	RMB (in thousands)	RMB
Balance sheet data:			
Current assets	5,089,303	4,407,888	3,823,276
Non-current assets	1,568,502	2,149,035	2,773,344
Current liabilities	2,921,296	3,102,655	3,748,769
Non-current liabilities	42,481	40,416	99,012
Redeemable noncontrolling interests	96,719	69,319	37,200
Noncontrolling interests	2,198	(5,830)	1,010

Liquidity and Capital Resources

Our primary sources of liquidity have been proceeds from operating activities, equity and debt financing, and certain business or assets reorganizations.

- 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 by selling 139,493,960 Class A ordinary shares to Huang River Investment Limited, our existing shareholder, in a private placement.

- In April 2016, we issued an aggregate of US$500 million unsecured senior notes due 2021, with stated annual interest rate of 3.125%, and an aggregate of US$500 million unsecured senior notes due 2026, with stated annual interest rate of 3.875%. The net proceeds from the sale of these notes were used for general corporate purposes. As of December 31, 2019, the total carrying value and estimated fair value were US$498.4 million and US$507.3 million, respectively, with respect to the notes due 2021, and US$492.4 million and US$524.1 million, respectively, with respect to the notes due 2026. The estimated fair values were based on quoted prices for our publicly traded debt securities as of December 31, 2019. 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 the covenants. During 2019, we paid an aggregate of US$35.0 million in interest payments related to these notes.

- As of June 30, 2017, we completed the reorganization JD Digits. Pursuant to the agreements relating to the reorganization, we received approximately RMB14.3 billion in cash with an economic gain of RMB14.2 billion.
- In December 2017, we entered into a five-year US$1.0 billion term and revolving credit facilities agreement with a group of 24 arrangers. The facilities were priced at 115 basis points over LIBOR. The use of proceeds of the facilities were intended for general corporate purposes. As of the date of this document, we had fully drawn down the credit facilities.
- In February 2018, we entered into definitive agreements with certain third-party investors for financing of 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 2019, we sold certain of our development properties and received proceeds of RMB7.9 billion (US$1.1 billion), which primarily related to Core Fund transaction. In February 2019, we entered into a definitive agreement with Core Fund, pursuant to which we sold certain of our modern logistics facilities to Core Fund for a total gross asset value of RMB10.9 billion. In the second half of 2019, the closing conditions for the completed assets were met, and we recorded a total disposal gain of RMB3.8 billion for the completed assets in 2019.
- In November 2019, our healthcare subsidiary, JD Health International Inc., or JD Health, completed the non-redeemable series A preferred share financing with a group of third-party investors. The total amount of financing raised was US$931 million, representing 13.5% of the ownership of JD Health on a fully diluted basis upon the completion of this transaction.
- In January 2020, we issued an aggregate of US$700 million unsecured senior notes due 2030, with stated annual interest rate of 3.375%, and an aggregate of US$300 million unsecured senior notes due 2050, with stated annual interest rate of 4.125%. The net proceeds from the sale of these notes will be used for general corporate purposes and refinancing. 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. In March 2020, we purchased from the open market US$5.0 million of the notes due 2030 and US$7.0 million of the notes due 2050. We are in compliance with all the covenants.
- In February 2020, Jingdong Century, a subsidiary of our company, consummated a private placement of an aggregate of RMB3.0 billion 2.65% notes due April 27, 2020. In March 2020, Jingdong Century consummated a private placement of an aggregate of RMB2.0

billion 2.75% notes due October 30, 2020. These notes are listed on the inter-bank bond market of China. We intend to use the proceeds from these notes for general corporate purposes.

As of December 31, 2019, we had revolving lines of credit for an aggregate amount of RMB75.3 billion (US$10.8 billion) from several commercial banks (not including the US$1.0 billion term and revolving credit facilities we entered into in December 2017). We had drawn down an aggregate of RMB24.3 billion (US$3.5 billion) under these revolving lines of credit as of December 31, 2019.

As of December 31, 2019, we had a total of RMB64.5 billion (US$9.3 billion) in cash and cash equivalents, restricted cash and short-term investments. This included primarily RMB33.6 billion (US$4.8 billion) and US$2.0 billion in China, RMB1.7 billion (US$240.2 million), HK$48.8 million (US$6.3 million) and US$1.6 billion in Hong Kong, US$0.3 billion in the United States, and US$0.3 billion in Singapore. Our cash and cash equivalents generally consist of bank deposits and liquid investments with maturities of three months or less.

As of December 31, 2019, we were at a net current liability position of RMB922.5 million (US$132.5 million).

Taking into account cash and cash equivalents on hand, our operating cash flows, and the available bank facilities, we believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document. 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 RMB41.7 billion as of December 31, 2017 to RMB44.0 billion as of December 31, 2018 and further to RMB57.9 billion (US$8.3 billion) as of December 31, 2019. These increases reflected the additional inventory required to support our substantially expanded sales volumes. Our annual inventory turnover days were 38.9 days in 2017, 38.7 days in 2018 and 35.8 days in 2019. Annual inventory turnover days are the quotient of average inventory over the immediately preceding five quarters, up to and including the last quarter of the annual period, to cost of revenues of retail business for that annual period, 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 retail business. As of December 31, 2017, 2018 and 2019, our accounts payable amounted to RMB74.3 billion, RMB80.0 billion and RMB90.4 billion (US$13.0 billion), respectively. These increases reflected a significant growth in our sales volumes and scale of operations for our retail business and the related increase in products sourced from our suppliers. Our annual accounts payable turnover days for retail business were 60.3 days in 2017, 60.2 days in 2018 and 54.5 days in 2019. Annual accounts payable turnover days are the quotient of average accounts payable for retail business over the immediately preceding five quarters, up to and including the last quarter of the annual period, to cost of revenues of retail business for that annual period, and then multiplied by 360 days.

Our accounts receivable primarily include amounts due from customers and online payment channels. As of December 31, 2017, 2018 and 2019, our accounts receivable amounted to RMB16.4 billion, RMB11.1 billion and RMB6.2 billion (US$0.9 billion), respectively. The decrease in 2018 and 2019 was primarily due to our derecognition of accounts receivable related to consumer financing through the sales type arrangements serviced by JD Digits. As of December 31, 2017, 2018 and 2019, the balances of current portion of financing provided to our customers that were included in accounts receivable balances amounted to RMB14.3 billion, RMB6.3 billion and RMB1.0 billion (US$0.1 billion), respectively. Our accounts receivable turnover days excluding the impact from consumer financing were 1.4 days in 2017, 2.7 days in 2018 and 3.2 days in 2019. Annual accounts receivable turnover days are the quotient of average accounts receivable over the immediately preceding five quarters, up to and including the last quarter of the annual period, to total net revenues for that annual period, 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 "History and Corporate 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 "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."

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:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
		(in millions)		
Summary Consolidated Cash Flows Data:				
Net cash provided by continuing operating activities	29,342	20,881	24,781	3,560
Net cash used in discontinued operating activities	(2,486)	—	—	—
Net cash provided by operating activities	26,856	20,881	24,781	3,560
Net cash used in continuing investing activities	(21,944)	(26,079)	(25,349)	(3,641)
Net cash used in discontinued investing activities	(17,871)	—	—	—
Net cash used in investing activities	(39,815)	(26,079)	(25,349)	(3,641)
Net cash provided by continuing financing activities	5,180	11,220	2,572	370
Net cash provided by discontinued financing activities	14,055	—	—	—
Net cash provided by financing activities	19,235	11,220	2,572	370
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(642)	1,682	406	57
Net increase in cash, cash equivalents and restricted cash	5,634	7,704	2,410	346
Cash, cash equivalents and restricted cash at beginning of year	24,164	29,798	37,502	5,387
Cash, cash equivalents and restricted cash at end of year	29,798	37,502	39,912	5,733

Continuing Operating Activities

Net cash provided by operating activities in 2019 was RMB24,781 million (US$3,560 million). In 2019, the principal items accounting for the difference between our net cash provided by operating activities and our net income were certain non-cash expenses, principally depreciation and amortization of RMB5,828 million (US$837 million), share-based compensation of RMB3,695 million (US$531 million), gain on sale of development properties of RMB3,885 million (US$558 million), and gain from fair value change of long-term investments of RMB3,496 million (US$502 million), and changes in certain working capital accounts, principally an increase in accounts payable of RMB10,391 million (US$1,493 million), an increase in accrued expenses and other current liabilities of RMB4,418 million (US$635 million), an increase in advance from customers of RMB3,061 million (US$440 million), and a decrease of accounts receivable of RMB3,937 million (US$565 million), partially offset by an increase in inventories of RMB13,916 million (US$1,999 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 increase of vendor deposits and the growth in payroll. 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.

Net cash provided by operating activities in 2018 was RMB20,881 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, share of results of equity investees of RMB1,113 million and share-based compensation of RMB3,660 million, and changes in certain working capital accounts, principally an increase in accounts payable of RMB5,467 million, an increase in accrued expenses and other current liabilities of RMB5,158 million, a decrease of accounts receivable of RMB4,287 million and a decrease in amount due from related parties of RMB1,770 million, partially offset by an increase in inventories of RMB2,342 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.

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 RMB2,781 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.

Continuing Investing Activities

Net cash used in investing activities in 2019 was RMB25,349 million (US$3,641 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, cash received from sale of development properties, cash received from disposals of equity investment and investment securities and loans settled by JD Digits.

Net cash used in investing activities in 2018 was RMB26,079 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 disposals of equity investment and investment securities and loans settled by 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, 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.

Continuing Financing Activities

Net cash provided by financing activities in 2019 was RMB2,572 million (US$370 million), consisting primarily of capital injection from non-controlling interest shareholders of JD Health and proceeds from short-term borrowings, partially offset by the repayment of short-term borrowings and nonrecourse securitization debt.

Net cash provided by financing activities in 2018 was RMB11,220 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.

Non-GAAP Financial Measures

In evaluating our business, we consider and use non-GAAP measures, such as non-GAAP net income/(loss) attributable to ordinary shareholders, non-GAAP EBITDA and free cash flow, as supplemental measures to review and assess our operating performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. We define non-GAAP net income/(loss) from continuing operations attributable to ordinary shareholders as net income/(loss) from continuing operations attributable to ordinary shareholders excluding share-based compensation, amortization of intangible assets resulting from assets and business acquisitions, effects of business cooperation arrangements and non-compete agreements, gain/(loss) on disposals/deemed disposals of investments, reconciling items on the share of equity method investments, loss/(gain) from fair value change of long-term investments, impairment of goodwill, intangible assets and investments, gain and foreign exchange impact in relation to sale of development properties and tax effects on non-GAAP adjustments. We define non-GAAP EBITDA from continuing operations as income/(loss) from operations from continuing operations excluding share-based compensation, depreciation and amortization, effects of business cooperation arrangements, gain on sale of development properties and impairment of goodwill and intangible assets. We define free cash flow from continuing operations as operating cash flow from continuing operations adjusting the impact from JD Baitiao receivables included in the operating cash flow from continuing operations and capital expenditures, net of proceeds from sale of development properties. Capital expenditures include purchase of property, equipment and software, cash paid for construction in progress, purchase of intangible assets and land use rights.

We present these non-GAAP financial measures because they are used by our management to evaluate our operating performance and formulate business plans. By excluding certain expenses, gain/(loss) and other items that are not expected to result in future cash payments or that are non-recurring in nature or may not be indicative of our core operating results and business outlook, we also believe that the non-GAAP financial measures provide useful information to management and investors about our core business operations, which can then be used to evaluate our operating results, evaluate strategic investments and assess our ability and need to incur and service debt.

Non-GAAP net income/(loss) from continuing operations attributable to ordinary shareholders and non-GAAP EBITDA from continuing operations reflect the company's ongoing business operations in a manner that allows more meaningful period-to-period comparisons. Free cash flow from continuing operations takes into account the impact of the expansion of our fulfillment infrastructure and technology platform on our financial resources and excludes the impact from JD Baitiao receivables included in the operating cash flow from continuing operations. The cash flow associated with JD Baitiao receivables represents the changes in JD Baitiao receivables on our reported operating cash flow. As JD Digits provides customers who use JD Baitiao with credit assessment services and repayment management services to facilitate the origination and repayment of the receivables, and essentially absorbs the credit risk of the Baitiao receivables, our management does not consider cash flow from those JD Baitiao receivables to be indicative of the performance of our core business operations or ongoing operating results. Excluding this item allows investors to better understand cash flow from our core business operations and provides a meaningful basis of comparison between periods.

These non-GAAP financial measures are not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. The non-GAAP financial measures have limitations as analytical tools. Our non-GAAP financial measures do not reflect all items of income and expense that affect our operations or not represent the residual cash flow available for discretionary expenditures. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore their comparability may be limited.

We compensate for these limitations by reconciling each of the non-GAAP financial measures to the nearest U.S. GAAP performance measure, all of which should be considered when evaluating our performance. We encourage you to review our financial information in its entirety and not rely on a single financial measure.

The following table reconciles our non-GAAP net income/(loss) from continuing operations attributable to ordinary shareholders for each of the periods shown to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is net income/(loss) from continuing operations attributable to ordinary shareholders:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions)			
Reconciliation of Net Income/(Loss) from Continuing Operations Attributable to Ordinary Shareholders to Non-GAAP Net Income from Continuing Operations Attributable to Ordinary Shareholders:				
Net income/(loss) from continuing operations attributable to ordinary shareholders	116	(2,492)	12,184	1,750
Share-based compensation	2,781	3,660	3,695	531
Amortization of intangible assets resulting from assets and business acquisitions	1,778	1,806	885	127
Reconciling items on the share of equity method investments	1,071	582	456	66
Impairment of goodwill, intangible assets, and investments	140	615	2,751	395
Loss/(gain) from fair value change of long-term investments	—	1,513	(3,496)	(502)
Gain and foreign exchange impact in relation to sale of development properties	—	—	(3,997)	(574)
Gain on disposals/deemed disposals of investments	—	(1,320)	(1,237)	(178)
Effects of business cooperation arrangements and non-compete agreements	(918)	(1,035)	(904)	(130)
Tax effects on non-GAAP adjustments	—	131	413	59
Non-GAAP net income from continuing operations attributable to ordinary shareholders	4,968	3,460	10,750	1,544

The following table reconciles our non-GAAP EBITDA from continuing operations for each of the periods shown to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is income/(loss) from operations from continuing operations:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions)			
Reconciliation of Income/(Loss) from Operations from Continuing Operations to Non-GAAP EBITDA:				
Income/(loss) from operations from continuing operations	(835)	(2,619)	8,995	1,292
Share-based compensation	2,781	3,660	3,695	531
Depreciation and amortization	4,193	5,560	5,828	837
Effects of business cooperation arrangements	(838)	(956)	(822)	(118)
Gain on sale of development properties	—	—	(3,885)	(558)
Impairment of goodwill and intangible assets	—	22	—	—
Non-GAAP EBITDA from continuing operations	5,301	5,667	13,811	1,984

The following table reconciles our free cash flow from continuing operations for each of the periods shown to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is net cash provided by operating activities from continuing operations:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions)			
Reconciliation of Net Cash Provided by Operating Activities from Continuing Operations to Free Cash Flow from Continuing Operations:				
Net cash provided by operating activities from continuing operations	29,342	20,881	24,781	3,560
Less: Impact from JD Baitiao receivables included in the operating cash flow	(289)	(7,369)	(4,233)	(609)
Add/(less): Capital expenditures				
Capital expenditures for development properties, net of related sales proceeds*	(3,849)	(8,857)	2,420	348
Other capital expenditures**	(7,507)	(12,512)	(3,515)	(505)
Free cash flow from continuing operations	17,697	(7,857)	19,453	2,794

Notes:

* Including logistics facilities and other real estate properties developed by JD Property, which may be sold under various equity structures. For the year ended December 31, 2019, approximately RMB7.9 billion proceeds from the sale of development properties were included in this line.

** Including capital expenditures related to our headquarters in Beijing and all other capital expenditures.

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. 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, 2019, the amount restricted, including paid-in capital and statutory reserve funds, as determined in accordance with PRC accounting standards and regulations, was approximately RMB24,189 million (US$3,475 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 RMB11,356 million, RMB21,369 million and RMB9,000 million (US$1,293 million) in 2017, 2018 and 2019, respectively. Our capital expenditures for 2017, 2018 and 2019 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. JD Property seeks to realize development profits and recycle capital from mature properties to fund new developments and scale the business. We sold certain of our development properties and received proceeds of RMB7.9 billion (US$1.1 billion) in 2019. See "History and Corporate Structure" for further information.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2019:

		Payment Due by Period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
		(in RMB thousands)			
Operating lease commitments for offices and fulfillment infrastructures	9,680,789	3,267,527	3,736,982	1,750,015	926,265
Commitments for internet data center service fee	6,021,915	1,495,899	2,385,860	1,390,993	749,163
Capital commitments(1)	7,093,075	7,093,075	—	—	—
Long-term debt obligations(2)	10,051,782	—	6,616,566	—	3,435,216
Estimated interest payments in relation to long-term debt(2)	1,357,659	349,363	535,222	270,328	202,746
Total	34,205,220	12,205,864	13,274,630	3,411,336	5,313,390

Notes:

(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. In addition, we issued in January 2020 US$700 million 3.375% unsecured senior notes due 2030 and US$300 million 4.125% unsecured senior notes due 2050, and drew down in April 2020 the remaining US$550 million under our term and revolving credit facilities, obtained in December 2017, which are not reflected in the table above.

As of March 31, 2020, we had outstanding principal amounts of short-term debts, long-term borrowings and unsecured senior notes of RMB8.6 billion, RMB3.2 billion and RMB14.1 billion, respectively, which were unsecured and unguaranteed. As of March 31, 2020, we also had operating lease liabilities amounting to RMB8.7 billion, certain of which were secured by the rental deposits and all of which were unguaranteed. For detailed information of our indebtedness, see "Unaudited Interim Condensed Consolidated Financial Statements" as set out in Appendix IC to this document.

As of March 31, 2020 and the Latest Practicable Date, save as disclosed in the Accountants' Report in Appendix IB to this document, we did not have significant contingent liabilities.

Save as disclosed above, since the Latest Practicable Date and up to the date of this document, there has not been any material and adverse change in our indebtedness and contingent liabilities. Our directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

During the Track Record Period and up to the Latest Practicable Date, we had not been in violation of any of the covenants pursuant to the applicable agreement we entered with our lenders. Our Directors confirm that we are not subject to other material covenants under any agreements with respect to any bank loans or other borrowings. Our Directors also confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. Taking into consideration our financial position, our Directors are of the opinion that we are able to abide by these covenants amid current market conditions and that our capital raising abilities were not materially affected as of December 31, 2019.

Working Capital

We recorded net current liabilities of RMB3.2 billion, RMB16.0 billion and RMB0.9 billion (US$0.1 billion), respectively, as of December 31, 2017, 2018 and 2019. Our financial position has been continuously improving during the Track Record Period, and we believe that we will make further improvements in the future by increasing and leveraging our scale of business, by strengthening JD Retail's profitability, by effectively investing in our fulfillment infrastructure and technology platform, by recycling capital for our future growth initiatives and by attracting capital financing from equity interest investors and long-term debt investors. As of March 31, 2020, we had net current assets of RMB8.0 billion (US$1.1 billion). In connection with the financial data as of March 31, 2020 in this paragraph, translations of RMB into U.S. dollars were made at RMB7.0808 to US$1.00, the exchange rate on March 31, 2020 as set forth in the H.10 statistical release of the Federal Reserve Board. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in millions)			
Current Assets:				
Cash and cash equivalents	25,688	34,262	36,971	5,311
Restricted cash	4,110	3,240	2,941	422
Short-term investments	8,588	2,036	24,603	3,534
Accounts receivable, net	16,359	11,110	6,191	889
Advance to suppliers	395	477	593	85
Inventories, net	41,700	44,030	57,932	8,321
Loan receivables, net	5,133	2,716	1,551	223
Prepayments and other current assets	2,259	3,849	4,079	587
Amount due from related parties	10,797	3,136	4,234	608
Total current assets	115,029	104,856	139,095	19,980
Current Liabilities:				
Short-term borrowings	200	147	—	—
Nonrecourse securitization debt	12,685	4,398	—	—
Accounts payable	74,338	79,985	90,428	12,989
Advance from customers	13,605	13,018	16,079	2,310
Deferred revenues	1,592	1,980	3,327	478
Taxes payable	658	826	2,016	290
Amounts due to related parties	54	216	318	46
Accrued expenses and other current liabilities	15,119	20,292	24,656	3,540
Operating lease liabilities	—	—	3,193	459
Total current liabilities	118,251	120,862	140,017	20,112
Net current liabilities	3,222	16,006	922	132

For a detailed discussion on our cash position, being the balance sheet item that has material impact on our liquidity, as well as material changes in the various working capital items, see "—Liquidity and Capital Resources."

Taking into account cash and cash equivalents on hand, our operating cash flows, the available revolving lines of bank facilities, and the estimated net proceeds available to us from the Global Offering, our directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

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.

Material Related Party Transactions

For details relating to our related party transactions, see "Related Party Transactions". Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

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

Substantially all of our revenues and 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 our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and 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 RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between 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.

As of December 31, 2019, we had RMB-denominated cash and cash equivalents, restricted cash and short-term investments of RMB35.3 billion, and U.S. dollar-denominated cash, cash equivalents and short-term investments of US$4.2 billion. Assuming we had converted RMB35.3 billion into U.S. dollars at the exchange rate of RMB6.9618 for US$1.00 as of December 31, 2019, our U.S. dollar cash balance would have been US$9.2 billion. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US$8.7 billion instead. Assuming we had converted US$4.2 billion into RMB at the exchange rate of RMB6.9618 for US$1.00 as of December 31, 2019, our RMB cash balance would have been RMB64.3 billion. If the RMB had depreciated by 10% against the U.S. dollar, our RMB cash balance would have been RMB67.5 billion instead.

Inflation

To date, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2017, 2018 and 2019 were increases of 1.8%, 1.9% and 4.5%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

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. We will reconsider the initial determination of whether a legal entity is a consolidated affiliated entity upon certain events listed in ASC 810-10-35-4 occurring. We will also continuously reconsider whether we are the primary beneficiaries of our affiliated entities as facts and circumstances change. 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.

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 Topic 323, *Investment—Equity Method and Joint Ventures* ("ASC 323"), 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 review 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 funds 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 based on performance and financial position of the investee as well as other evidence of market value at each reporting date. Such assessment includes, but is not limited to, reviewing the investee’s cash position, recent financing, as well as the financial and business performance. We recognize 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.

Revenues

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 years ended December 31, 2018 and 2019 were presented under ASC 606, and revenues for the year ended December 31, 2017 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. Revenues are 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 retail 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 mobile apps and website *www.jd.com*. 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.

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, 2019, we would have recorded an additional cost of sales of approximately RMB590 million (US$85 million).

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

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 annually or more frequently when an event occurs or circumstances change that could indicate that the carrying value may not be recoverable. Our annual testing date is December 31. We first assess qualitative factors 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, as a result of the qualitative assessment, 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.

As of December 31, 2017, 2018 and 2019, our goodwill balance was RMB6,650 million, RMB6,644 million and RMB6,644 million, respectively. Such goodwill balance was mainly generated from the business combination of Yihaodian in relation to the transaction with Walmart and the business combination of Shanghai Icson E-Commerce Development Company Limited ("Shanghai Icson") in relation to the transaction with Tencent. All the goodwill was attributed to JD Retail's business unit. As of each year end of the Track Record Period, management performed the annual impairment testing and considered the qualitative factors, including the macroeconomics, overall business performance of JD Retail, industry and market conditions and the market capitalization of the Company, which significantly exceeds the carrying value of our net assets. We concluded that there was no impairment indicator, and therefore, we were not required to perform the quantitative analysis to further evaluate the fair value of JD Retail's business unit.

During the years ended December 31, 2017, 2018 and 2019, management monitored the actual performance of the business and conducted goodwill impairment test pursuant to ASC 350. The goodwill impairment charges during the years ended December 31, 2017, 2018 and 2019 are nil, RMB7 million and nil, respectively.

Nonrecourse Securitization Debt and Transfer of Financial Assets

We, in collaboration with JD Digits, periodically securitize accounts receivable and loan receivables arising from consumer financing 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 Topic 810, *Consolidation*. 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 receivable are de-recognized in our consolidated balance sheets pursuant to ASC Topic 860, *Transfers and Servicing* ("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 rights 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 ignored when applying ASC 860 as long as the transferee will not be consolidated by the transferor.

Due to our continuing involvement rights 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 were 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 were from 2018 to 2019, the securities were repaid as collections on the underlying collateralized assets occur. As of December 31, 2018 and 2019, the collateralized accounts receivable were RMB3,116 million and nil, respectively, and the collateralized loan receivables were RMB1,281 million and nil, respectively.

The weighted average interest rate for the outstanding nonrecourse securitization debt as of December 31, 2018 was approximately 5.81% per annum. 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 rights when setting up the new securitization vehicles. In 2019, RMB21,500 million (2017: RMB8,000 million, 2018: RMB17,500 million) consumer credit receivables financial assets were derecognized through the sales type arrangements, including accounts receivable of RMB15,302 million (2017: RMB5,693 million, 2018: RMB12,632 million) and loan receivables of RMB6,198 million (2017: RMB2,307 million, 2018: RMB4,868 million). Proceeds from the derecognition were RMB21,500 million in 2019 (2017: RMB8,000 million, 2018: RMB17,500 million), and JD Digits and other third party investors acted as the servicers 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 the periods presented.

Share-Based Compensation

We grant restricted share units ("RSUs") 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 Topic 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 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.

We use the binominal option-pricing model to estimate the fair value of share options. The determination of estimated fair value of share-based payment awards on the grant date is affected by the fair value of our ordinary shares as well as assumptions regarding a number of complex and subjective variables. These variables include our expected value volatility over the expected term of the awards, actual and projected employee share option exercise behaviors, a risk-free interest rate, exercise multiple and expected dividend yield, if any.

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 share-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, discount rates, and liquidity factors.

We recognize the estimated compensation cost of RSUs based on the fair value of its ordinary shares on the date of the grant. We recognize the compensation cost, net of estimated forfeitures, over a vesting term for service-based RSUs.

We also recognize 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.

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 reduce the amount 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 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 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, 2018 and 2019, we did not have any significant unrecognized uncertain tax positions.

Leases

Before January 1, 2019, we adopted the ASC Topic 840 ("ASC 840"), Leases, each lease is classified at the inception date as either a capital lease or an operating lease.

We adopted the new lease accounting standard, ASC Topic 842, Leases ("ASC 842"), from 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. We categorize leases with contractual terms longer than twelve months as either operating or finance lease. However, we have no finance leases for any of the periods presented.

Right-of-use ("ROU") assets represent our right to use underlying assets for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term, reduced by lease incentives received, plus any initial direct costs, using the discount rate for the lease at the commencement date. As the implicit rate in lease is not readily determinable for our operating leases, we generally use the incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. When calculating the incremental borrowing rates, we have taken into account the recent ratings from credit agencies, recent loan prime rate in the PRC and other market rates in the economic environments where our leased assets are located. We apply the incremental borrowing rates at a portfolio level based on lease terms. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. We account for lease and non-lease components separately.

We also enter into sale and leaseback transactions. We act as the seller-lessee, transfers its assets to a third-party entity (the buyer-lessor) and then leases the transferred assets back from the buyer-lessor using an arm-length rental price. Upon consideration of ASC Topic 842-40-25-1 and ASC 606, the transfer of the underlying assets is considered as sales, and according to ASC 842, the leaseback transaction is classified as an operating lease. Therefore, the sale and the leaseback of the underlying assets are separately accounted for by us. Upon completion of the transaction, the legal titles of these assets are transferred to the third-party entity (the buyer-lessor), and we derecognize these transferred assets and recognizes gains or losses from disposal of these assets in accordance with ASC Topic 360, Property, Plant and Equipment. The leaseback transactions are accounted for under ASC 842, and the ROU assets and lease liabilities are recognized at commencement date accordingly.

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 shown in the Accountants' Report in Appendix IB to this document.

Dividend Policy

Our board of directors has complete discretion on whether to distribute dividends subject to our Memorandum and Articles and certain restrictions under Cayman Islands law. In addition, 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 "Risk Factors—Risks Related to Our Corporate Structure—We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business."

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying our ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary will then pay such amounts to our ADS holders in proportion to the ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

No Material Adverse Change

After due and careful consideration, our directors confirm that, up to the date of and save as disclosed in this document, there has not been any material adverse change in our financial or trading position or prospects since December 31, 2019, and there is no event since December 31, 2019 which would materially affect the information shown in the Accountants' Report in Appendix IB to this document.

Listing Expenses

We expect to incur listing expenses of approximately RMB368 million after December 31, 2019 (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK$236.00 for both Hong Kong Public Offering and International Offering and the Over-allotment Option is not exercised). We expect most of the listing expenses will be recorded as a deduction in equity directly.

Unaudited Pro Forma Adjusted Net Tangible Assets

The following unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out to illustrate the effect of the Global Offering on our audited consolidated net tangible assets attributable to our ordinary shareholders as of December 31, 2019 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets of the Group had the Global Offering been completed as of December 31, 2019 or at any future dates. It is prepared based on our audited consolidated net tangible assets attributable to our ordinary shareholders as of December 31, 2019 as derived from the Accountants' Report, the text of which is set out in Appendix IB to this document, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company as of December 31, 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company as of December 31, 2019	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders per Share	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders per ADS	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders per Share	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders per ADS
	(in thousands of RMB) (Note 1)	(in thousands of RMB) (Note 2)	(in thousands of RMB)	RMB (Note 3)	RMB (Note 4)	HK$ (Note 5)	HK$ (Note 5)
Based on the indicative offer price of HK$236.00 per Offer Share	71,134,628	28,523,661	99,658,289	32.60	65.20	35.42	70.84

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company as of December 31, 2019 is derived from the Accountants' Report set out in Appendix IB to this prospectus, which is based on the audited consolidated net assets of the Group attributable to ordinary shareholders of our Company as of December 31, 2019 of RMB81,855,970,000 with adjustments for goodwill and intangible assets of the Group attributable to the ordinary shareholders of our Company of RMB6,643,669,000 and RMB4,077,673,000, respectively.

(2) The estimated net proceeds from the Global Offering are based on 133,000,000 Offer Shares at the indicative offer price of HK$236.00 per Offer Share after deduction of the estimated listing and share issue costs (including underwriting fees and other related expenses) expected to be incurred by our Company subsequent to December 31, 2019 and without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by our Company. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK$1.00 to RMB0.9205, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on May 29, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No

representation is made that Hong Kong dollars have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 3,057,315,263 Shares were in issue assuming that the Global Offering had been completed on December 31, 2019 without taking into account any allotment and issuance of any Shares upon the exercise of the Overallotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares by our Company.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents two Shares.

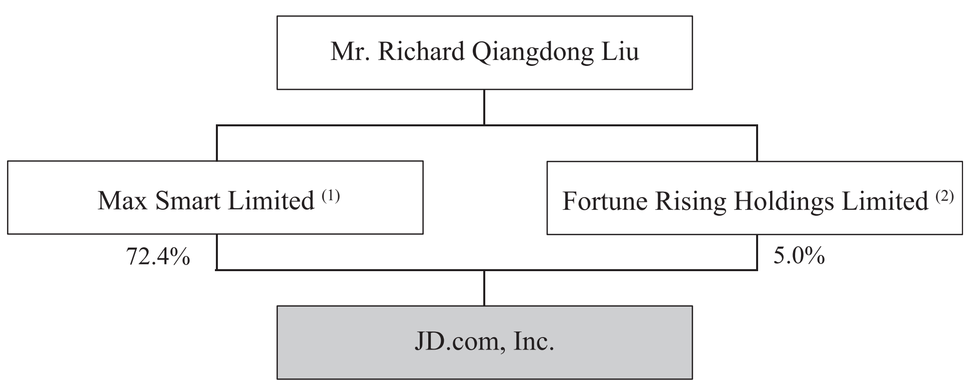
(5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company, the balances stated in Renminbi are converted into Hong Kong dollars at the exchange rate of RMB1.00 to HK$1.0864, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on May 29, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

(6) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the ordinary shareholders of our Company to reflect any trading results or other transactions our Company entered into subsequent to December 31, 2019.

CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering, Mr. Richard Qiangdong Liu, our chairman and chief executive officer, will be interested in and will control, through Max Smart Limited, a company beneficially owned by him through a trust and of which he is the sole director, 14,000,000 Class A ordinary shares in the form of ADSs and 421,507,423 Class B ordinary shares. In addition, as of the Latest Practicable Date Fortune Rising Holdings Limited, of which Mr. Richard Qiangdong Liu is the sole shareholder and the sole director, holds 29,373,658 Class B ordinary shares for the purpose of transferring such shares to the plan participants according to awards under our Share Incentive Plan, and administers the awards and acts according to our instruction. Without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make, Mr. Liu's aggregated shareholding will be approximately 14.1% of our issued share capital and he will hold approximately 77.5% of the voting rights in the Company through shares capable of being exercised on resolutions in general meetings. Therefore, Mr. Liu will be a Controlling Shareholder after the Listing. For more information on Mr. Liu's shareholding, please see the section "Major Shareholders".

The following diagram illustrates the ultimate beneficial interest of our Controlling Shareholders' voting rights for resolutions in general meetings with respect to matters, immediately following the completion of the Global Offering (without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make):



Notes:

(1) Represents (i) 421,507,423 Class B ordinary shares directly held by Max Smart Limited, (ii) 7,000,000 restricted ADSs, representing 14,000,000 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.

(2) Represents 29,373,658 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. 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.

For further information about the weighted voting rights attached to the Class B ordinary shares, please refer to the section headed "Share Capital."

Mr. Richard Qiangdong Liu controls Jingdong Digits Technology Holding Co., Ltd., or "**JD Digits**". Please refer to the sections "History and Corporate Structure—Our Strategic Cooperations and Other Developments—JD Digits" and "Related Party Transactions—Agreements and Transactions Relating to JD Digits" for more details. Please also refer to the section "—Independence from Controlling Shareholders—Non-compete arrangements relating to JD Digits" below for details relating to our non-compete arrangements relating to JD Digits.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their close associates after the Listing.

Management Independence

Our business is managed and conducted by our board and senior management. Our board consists of five directors, including three independent directors. For more information, please see the section headed "Directors and Senior Management."

Our directors consider that our board and senior management will function independently from our Controlling Shareholders because:

(a) each director is aware of their fiduciary duties as a director which require, among other things, that they acts for the benefit and in the interest of our Company and does not allow any conflict between their duties as a director and their personal interests;

(b) our daily management and operations are carried out by members of our senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;

(c) we have three independent directors and certain matters of our Company must always be referred to the independent directors for review;

(d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our directors or their respective associates, the interested director(s) is required to declare the nature of such interest before voting at the relevant board meetings of our Company in respect of such transactions; and

(e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. Please see "Corporate Governance Measures" in this section for further information.

Based on the above, our directors believe that our board as a whole and together with our senior management team are able to perform the managerial role independently from our Controlling Shareholders.

Operational Independence

Our Group is not operationally dependent on the Controlling Shareholders. Save as disclosed in this document, our Group (through our subsidiaries and consolidated affiliated entities) holds all material licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and an independent management team to operate our business.

Based on the above, our directors believe that we are able to operate independently of our Controlling Shareholders.

Non-compete arrangements relating to JD Digits

Under the framework agreement we entered into on March 1, 2017, or the Framework Agreement, 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 and Suqian Dongtai Jinrong Investment Management Center, 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.

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

Save for the financial support to JD Digits by the Company as disclosed in "Related Party Transactions—Agreements and Transactions Relating to JD Digits—Business Transactions with JD Digits and Its Subsidiaries", no loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates will be outstanding as of the Listing Date.

Based on the above, our directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance, on our Controlling Shareholders and their respective close associates after the Listing.

DISCLOSURE UNDER RULE 8.10 OF THE HONG KONG LISTING RULES

Our Controlling Shareholders confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10 of the Hong Kong Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our Controlling Shareholders:

(a) where our directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expense;

(b) we have appointed Guotai Junan Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Hong Kong Listing Rules, including various requirements relating to corporate governance; and

(c) we have established our audit committee, compensation committee, nominating and corporate governance committee with written terms of reference in compliance with the rules of Nasdaq. All of the members of our audit committee, including the chairman, are independent directors.

Based on the above, our directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after the Listing.

GENERAL

The following table sets out certain information in respect of our directors and senior management:

Name	Age	Position(s)/roles and responsibilities	Date of appointment	Year of joining our Group
Directors				
Richard Qiangdong Liu (劉強東)	47	Chairman of the Board of Directors and Chief Executive Officer	January 2007	2004
Martin Chi Ping Lau (劉熾平)	47	Director	March 2014	2014
Ming Huang	56	Independent Director	March 2014	2014
Louis T. Hsieh	55	Independent Director	May 2014	2014
Dingbo Xu (許定波)	57	Independent Director	May 2018	2018
Senior Management				
Lei Xu (徐雷)	45	Chief Executive Officer of JD Retail	September 2019	2009
Zhenhui Wang (王振輝)	45	Chief Executive Officer of JD Logistics	April 2017	2010
Sandy Ran Xu (許冉)	43	Chief Financial Officer	June 2020	2018
Yayun Li (李婭雲)	39	Chief Compliance Officer	January 2017	2007

Directors

The board currently consists of five directors, including three independent directors. See "—Board Practices" for the functions and duties of the Board. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association, and all applicable laws and regulations, including the Hong Kong Listing Rules.

Richard Qiangdong Liu (劉強東) 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 Chi Ping Lau (劉熾平) 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. From July 2010 to June 2019, Mr. Huang was a professor of finance at China Europe International Business School. 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 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 served as an independent director of Yingli Green Energy Holding Company Limited, a company listed on the NYSE from August 2008 to March 2020. Mr. Huang is also an independent non-executive director of several companies listed on the Hong Kong Stock Exchange, including WH Group Limited and an independent director of 360 Security Technology Inc., a company listed on the Shanghai Stock Exchange. Professor Huang served as an independent non-executive director of Fantasia Holdings Group Co., Ltd. from October 2009 to May 2019. Professor Huang received his bachelor's degree in physics from Peking University, a Ph.D. in physics from Cornell University and a Ph.D. in finance from Stanford University.

Louis T. Hsieh has served as our independent director since May 2014. Mr. Hsieh has 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 2009 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 ARIO Data Networks, Inc. in San Jose, California from 2004 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 (許定波) 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 and the founding chairman of Charted Global Management Accountant (CGMA) 100 North Asia Leaders Think Tank. 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 served as a member of the board of directors of China Cinda Asset Management Co. Ltd, a company listed on the Hong Kong Stock Exchange from June 2013 to September 2019. He currently serves as director of Kweichow Moutai Company Limited, a company listed on the Shanghai Stock Exchange. He served as director of Shanghai Shyndec Pharmaceutical Co., Ltd., a company listed on the Shanghai Stock Exchange, from November 2016 to February 2019, and served as director of SANY Heavy Industry, a company listed on the Shanghai Stock Exchange, from January 2013 to August 2019. 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.

Save as disclosed above, none of our directors holds any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this document. See the section headed "Statutory and General Information" in Appendix IV to this document for further information about the directors, including the particulars of their service contracts and remuneration, and the section headed "Major Shareholders" for disclosure of interests of the directors and executive officers. There is no material matter relating to our directors that needs to be brought to the attention of our shareholders and the information of our Directors disclosed in this document comply with the requirements under Rule 13.51(2) in all material respects.

Senior Management

Lei Xu (徐雷) is the chief executive officer of JD Retail, and is 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 will serve as director of Dada Nexus Limited starting from the SEC's declaration of effectiveness of Dada Nexus Limited's registration statement on Form F-1. Mr. Xu holds an EMBA degree from China Europe International Business School.

Zhenhui Wang (王振輝) is the chief executive officer of JD Logistics, an integrated supply chain infrastructure service provider. Mr. Wang joined JD in April 2010, and he has served as CEO of JD Logistics since 2017. Under his leadership, JD Logistics expanded its services to third parties beyond the JD ecosystem and pioneered the use of automation and 5G technology in logistics, launching the world's first fully-automated warehouse and 5G-powered logistics park. Driven by his "3S" (short-chain, smart, synergic) theory of logistics, Mr. Wang is leading the development of a global smart supply chain network and an open platform for digital supply chain. Mr. Wang previously held several leadership roles at JD, including General Manager of North China region, Head of Smart Devices Business and Head of Fulfillment Operations. Prior to joining JD, He held senior roles at Lenovo and other companies. Mr. Wang currently serves as a director of ESR Cayman Limited, a company listed on the Hong Kong Stock Exchange, and a director of CSG Smart Science and Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange. Mr. Wang also serves as a director of Dada Nexus Limited, a company that has filed a registration statement on Form F-1 to the SEC. Mr. Wang holds an EMBA from China Europe International Business School and a bachelor's degree in engineering from Beijing University of Science and Technology.

Sandy Ran Xu (許冉) has served as our chief financial officer since June 2020. Ms. Xu joined our company in July 2018 as vice president of finance and was promoted to senior vice president in January 2020. From July 2018 to May 2020, Ms. Xu oversaw group finance, accounting and tax functions in addition to serving as chief financial officer of JD Retail Business Group, where she has played a critical role in improving JD Retail's financial and operational performance in 2019. Prior to joining our company, Ms. Xu was an audit partner and spent nearly 20 years with PricewaterhouseCoopers Zhong Tian LLP, Beijing office and PricewaterhouseCoopers LLP, San Jose office, focusing on TMT industry and U.S. capital markets. Ms. Xu was a Certified Public Accountant in both China and the United States. Ms. Xu serves as a director of Dada Nexus Limited, a company that has filed a registration statement on Form F-1 to the SEC. Ms. Xu received her bachelor's degree with a double major in information science and economics from Peking University.

Yayun Li (李婭雲) 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 of China and an EMBA from China Europe International Business School.

COMPENSATION

Compensation of Directors and Executive Officers

For fiscal years 2017, 2018 and 2019, we paid and accrued aggregate fees, salaries and benefits (excluding equity-based grants) of up to approximately RMB11.5 million, RMB9.3 million and RMB12.0 million, respectively, to our executive officers, and approximately US$0.2 million, US$0.2 million and US$0.2 million, respectively, 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.

We are in the process of putting in place a comprehensive retirement plan for the eligible retiring salaried senior management of our company based on years of employment and contributions to our company. This plan is designed to strengthen the ability of our company to attract and retain persons of outstanding competence upon which, in large measure, our continued growth and profitability depend. Eligible management employees of our company will be entitled to benefits, including, but not limited to, cash payments, stock and stock option benefits, insurance programs and pension plans. In addition, we intend to hire certain eligible retiring management employees of our company as consultant for a period of time following retirement to avail our company of the consultant's knowledge, expertise and experience.

The board, acting on the recommendation of our compensation committee, may determine the remuneration to be paid to our directors. We do not provide employee directors with any additional remuneration for serving as directors other than their remuneration as our employees. Pursuant to our service agreements with our directors, neither we nor our subsidiaries provide benefits to directors upon termination of service.

For information regarding equity-based grants to directors and executive officers, see "—Share Incentive Plan."

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. Without the foregoing causes, we may also terminate an executive officer's employment in accordance with the applicable law of the jurisdiction where the executive officer is based, and in such case of termination by us, we will provide severance payments to the executive officer as expressly required by such applicable law. The executive officer may resign at any time with a 30-day advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for two years following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, customers or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination, without our express consent.

We have also entered into indemnification agreements with some of our directors and executive officers, agreeing to indemnify them 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

Our currently effective share incentive plan, or the Share Incentive Plan, was adopted in November 2014. 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 maximum aggregate number of our shares which may be issued pursuant to all awards under the Share Incentive Plan is 555,266,499 shares as of the December 31, 2019, consisting of 106,850,910 shares that have been issued to and reserved with Fortune Rising Holdings Limited, and 448,415,589 shares that are reserved under the Share Incentive Plan. Fortune Rising Holdings Limited holds these ordinary shares for the purpose of transferring such shares to the plan participants according to our awards under the Share Incentive Plan.

The following paragraphs describe the principal terms of the Share Incentive Plan.

Types of Awards

The Share Incentive Plan permits the awards of options, restricted shares, restricted share units or any other type of awards that the committee or the board decides.

Plan Administration

Our board of directors, our compensation committee or a sub-committee designated by our board will administer the Share Incentive Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant. Fortune Rising Holdings Limited is the holder on record of the original award pool of 106,850,910 shares and will grant awards to plan participants and execute the award agreements and other related agreements with plan participants based on the instructions of the committee or the full board of directors who administers the Share Incentive Plan.

Award Agreement

Awards granted under the Share Incentive Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Eligibility

We may grant awards to our employees, directors and consultants. However, we may grant options that are intended to qualify as incentive share options only to our employees.

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.

Share-based Awards Granted

As of March 31, 2020, 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 102,503,866 ordinary shares, excluding restricted share units that were forfeited, canceled, or vested after the relevant grant date, and (ii) options to purchase an aggregate of 33,795,734 ordinary shares, excluding options that were forfeited, canceled, or exercised after the relevant grant date. As of March 31, 2020, the share-based awards granted by Company to the eligible employees and non-employees and remained outstanding represented 5% and 1% of the Company's total issued shares, respectively. The non-employees include ex-employees and consultants of the Company.

Share-based Awards Held by Our Directors and Officers

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 March 31, 2020. 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 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.

The following table summarizes the outstanding RSUs and options held as of March 31, 2020 by our directors and executive officers, as well as by their affiliates, under our Share Incentive Plan.

Name	Number of outstanding RSUs/options granted	Exercise price (US$ per RSU/ option granted)	Year of grant	Year of expiration
Richard Qiangdong Liu	26,000,000	16.70	2015	2025
Martin Chi Ping Lau	—	—	—	—
Ming Huang	*	—	2013-2020	—
Louis T. Hsieh	*	—	2014-2018	—
Dingbo Xu	*	—	2018	—
Lei Xu	*	13.03	2015	2025
	*	—	2015-2020	—
Zhenhui Wang	*	13.03	2015	2025
	*	—	2015-2016	—
Sidney Xuande Huang	*	3.96	2013	2023
	*	—	2013-2016	—
Sandy Ran Xu	*	—	2018-2019	—
Yayun Li	*	3.96-13.03	2013-2015	2023-2025
	*	—	2013-2016	—

Note:

* The RSUs and options in aggregate held by each of these directors and executive officers and their affiliates represent less than 1% of our total outstanding shares.

JD Logistics Share-based Awards

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 its employees, directors and consultants. As of December 31, 2019, JD Logistics had granted 271,320,500 share options.

BOARD PRACTICES

Nomination and Terms 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 their 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 the director may be interested therein, and if the director does so the director's vote will be counted and the director 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, 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. We will put forth a resolution at or before our next annual general meeting after the Listing which is expected to be held around mid-2021 to revise our Articles, so that the quorum necessary for the transaction of the business of the directors shall be a majority of the members of our board of directors. See "Information about the Listing—Our Articles of Association" for further details.

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. Our code of ethics is publicly available on our website.

Duties of Directors

Under Cayman Islands law, all of our directors owe us fiduciary duties, including a duty of loyalty, a duty to act honestly and a duty to act in good faith and in a manner they believe to be in our best interests. Our directors also have a duty to exercise the skill they actually possess and the care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our Articles of Association, as amended and restated from time to time. We have the right to seek damages if a duty owed by any of our directors is breached.

Board Committees

Our board of directors has established 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.

Compensation Committee

Our compensation committee consists of Ming Huang and Martin Chi Ping 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 our chief executive officer's 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.

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our Class A ordinary shares and Class B ordinary shares as of the Latest Practicable Date by:

(a) each of our directors and executive officers; and

(b) each person known to us to beneficially own more than 5% of our total outstanding shares.

The calculations in the table below are based on 2,957,371,009 ordinary shares outstanding as of the Latest Practicable Date, comprising of (i) 2,506,489,928 Class A ordinary shares, excluding the 19,510,724 Class A ordinary shares issued to our depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our Share Incentive Plan, and (ii) 450,881,081 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.

	Ordinary Shares Beneficially Owned**				
	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares	% of Beneficial Ownership	% of Aggregate Voting Power†
Directors and Executive Officers:					
Richard Qiangdong Liu(1)	27,000,000(1)	421,507,423(1)	448,507,423(1)	15.1(1)	78.4(2)
Martin Chi Ping Lau(3)	—	—	—	—	—
Ming Huang	*	—	*	*	*
Louis T. Hsieh	*	—	*	*	*
Dingbo Xu	*	—	*	*	*
Lei Xu	*	—	*	*	*
Zhenhui Wang	*	—	*	*	*
Sidney Xuande Huang	*	—	*	*	*
Sandy Ran Xu	*	—	*	*	*
Yayun Li	*	—	*	*	*
All Directors and Executive Officers as a Group	31,693,049	421,507,423	453,200,472	15.3	78.4(2)
Principal Shareholders:					
Max Smart Limited(4)	14,000,000	421,507,423	435,507,423	14.7	73.3
Huang River Investment Limited(5)	527,207,099	—	527,207,099	17.8	4.6
Walmart(6)	289,053,746	—	289,053,746	9.8	2.5
Fortune Rising Holdings Limited(7)	—	29,373,658	29,373,658	1.0	5.1

Notes:

† For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A ordinary shares and Class B ordinary shares as a single class. Each holder of Class A ordinary shares is entitled to one vote per share and each holder of our Class B ordinary shares is entitled to 20 votes per share on all matters submitted to them for a vote. 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 and other matters as may otherwise be required by law. Each Class B ordinary share is convertible at any time by the holder thereof into one Class A ordinary share.

* Less than 1% of our total outstanding shares.

** Beneficial ownership information disclosed herein represents direct and indirect holdings of entities owned, controlled or otherwise affiliated with the applicable holder as determined in accordance with the rules and regulations of the SEC.

(1) Represents (i) 421,507,423 Class B ordinary shares directly held by Max Smart Limited, (ii) 7,000,000 restricted ADSs, representing 14,000,000 Class A ordinary shares, owned by Max Smart Limited, and (iii) 13,000,000 Class A ordinary shares Mr. Liu had the right to acquire upon exercise of options that shall have become vested within 60 days after the Latest Practicable Date. As of the Latest Practicable Date, Mr. Liu has not exercised his right to acquire such Class A ordinary shares. 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 (4) below. The ordinary shares beneficially owned by Mr. Liu do not include 29,373,658 Class B ordinary shares held by Fortune Rising Holdings Limited, a British Virgin Islands company, as described in footnote (7) below.

(2) The aggregate voting power includes the voting power with respect to the 29,373,658 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 (7) below.

(3) Mr. Lau was appointed by Huang River Investment Limited.

(4) Represents (i) 421,507,423 Class B ordinary shares directly held by Max Smart Limited and (ii) 7,000,000 restricted ADSs, representing 14,000,000 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.

(5) Based on the information provided by Huang River Investment Limited, represents (i) 497,311,279 Class A ordinary shares held by Huang River Investment Limited, and (ii) 14,947,910 ADSs, representing 29,895,820 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. Pursuant to the strategic cooperation agreement that we entered into with Tencent in May 2019, we agreed to issue to Tencent a certain number of our Class A ordinary shares for a total consideration of approximately US$250 million at prevailing market prices at certain pre-determined dates during the subsequent three-year period, of which 8,127,302 and 2,938,584 of our Class A ordinary shares were issued in May 2019 and May 2020.

(6) Based on the information provided by Walmart, 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.

(7) Represents 29,373,658 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. 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.

We are seeking a listing on the Hong Kong Stock Exchange pursuant to Chapter 19C of the Hong Kong Listing Rules. Pursuant to Rule 19C.11 of the Hong Kong Listing Rules, Chapter 14A of the Hong Kong Listing Rules governing connected transactions does not apply to us. The following discussion of related party transactions has been prepared pursuant to the requirements of Form 20-F of the SEC, and is included in this document for disclosure purposes only. For more information concerning our related party transactions for the three years ended December 31, 2019, see Note 30 to the consolidated financial statements of the Group shown in Appendix I to this document.

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 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 "History and Corporate Structure—Contractual Arrangements".

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 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 had 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 retail 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 E-Commerce Development Company Limited.

On May 10, 2019, we renewed the strategic cooperation agreement with Tencent for a period of three years starting from May 27, 2019. Tencent will continue to offer us prominent level 1 and level 2 access points on its Weixin platform to provide traffic support, and the two companies also intend to continue to cooperate in a number of areas including communications, advertising and membership services, among others. It is estimated that such traffic support, advertising spending and other cooperation will amount to over US$800 million, which will be paid or spent over the next three years. We agreed to issue to Tencent a certain number of our Class A ordinary shares for a total consideration of approximately US$250 million at prevailing market prices at certain pre-determined dates during the three-year period, of which 8,127,302 and 2,938,584 of our Class A ordinary shares were issued in May 2019 and May 2020.

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 2017, we generated RMB261 million commission services revenues from cooperation on advertising business with Tencent, RMB32 million revenues from services provided to and products sold to Tencent, and purchased a total amount of RMB675 million advertising resources and payment processing services from Tencent. In 2018, we generated RMB345 million commission services revenues from cooperation on advertising business with Tencent, RMB277 million revenues from services provided and products sold to Tencent, and purchased a total amount of RMB1,176 million advertising resources and payment processing services from Tencent. In 2019, we generated RMB288 million (US$41 million) commission services revenues from cooperation on advertising business with Tencent, RMB399 million (US$57 million) revenues from services provided to and products sold to Tencent, and purchased a total amount of RMB2,222 million (US$319 million) advertising resources and payment processing services from Tencent. As of December 31, 2019, we had a total amount of RMB1,128 million (US$162 million) due from Tencent, which was trade in nature. We expect that a substantial majority of total balance due from Tencent will be settled prior to the Listing.

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. During the Track Record Period, we did not receive any profits from JD Digits under the profit-sharing arrangement, as JD Digits had not had a positive pre-tax income on a cumulative basis during this period. When JD Digits has a positive pre-tax income on a cumulative basis in a fiscal year, we will record the Maximum Interest in the profits of JD Digits under “Others, net” in our consolidated financial statements. 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 pool 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 “History and Corporate Structure—Our Strategic Cooperations and Other Developments” for further information.

We have the right to convert the profit-sharing right into the Maximum Interest (approximately 36%) in JD Digits at any time, subject to satisfaction of the conditions set out in the Framework Agreement entered into with JD Digits. As of the Latest Practicable Date, we have not exercised such right to convert into equity interest in JD Digits. We, however, monitor the relevant conditions and assess the desirability of converting into equity interest in JD Digits on an ongoing basis, and may decide to exercise such right and convert the profit-sharing right into the Maximum Interest (approximately 36%) in JD Digits after the Listing. In the event that we decide to exercise such right, we will execute definitive agreements with JD Digits and its existing shareholders. Upon closing of the issuance of the Maximum Interest, the liquidity event payment and the profit-sharing arrangement under the Framework Agreement and JD Digits IPLA described in this section will automatically terminate, and we will account for such equity interest in JD Digits by using the equity method. See

"History and Corporate Structure—Our Strategic Cooperations and Other Developments—JD Digits" for further details.

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) a bona-fide issuance of approximately 40% or more of the securities of JD Digits on a fully-diluted basis, (iv) a bona-fide lease, sale or otherwise disposal 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.

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 have the right to convert the profit-sharing right into the Maximum Interest (approximately 36%) in JD Digits at any time, subject to satisfaction of the conditions set out in the Framework Agreement entered into with JD Digits. As of the Latest Practicable Date, we have not exercised such right to convert into equity interest in JD Digits. We, however, monitor the relevant conditions and assess the desirability of converting into equity interest in JD Digits on an ongoing basis, and may decide to exercise such right and convert the profit-sharing right into the Maximum Interest (approximately 36%) in JD Digits after the Listing. In the event that we decide to exercise such right, we will execute definitive agreements with JD Digits and its existing shareholders. Upon closing of the issuance of the Maximum Interest, the liquidity event payment and the profit-sharing arrangement under the Framework Agreement and JD Digits IPLA described in this section will automatically terminate, and we will account for such equity interest in JD Digits by using the equity method. See "History and Corporate Structure—Our Strategic Cooperations and Other Developments—JD Digits" for further details.

We believe that under applicable regulatory rules and practices currently in effect, the relevant PRC approvals that JD Digits needs to obtain necessary for us to own any equity interest in JD Digits may 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.

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 2017, 2018 and 2019, we provided services and sold goods to JD Digits in a total amount of RMB272 million, RMB449 million and RMB342 million (US$49 million), respectively. In 2017, 2018 and 2019, JD Digits provided payment processing and other services to us in the amount of RMB2,936 million, RMB3,931 million and RMB4,981 million (US$715 million), respectively. In 2017, 2018 and 2019, we recognized interest income in relation to the financial support provided to JD Digits in the amount of RMB871 million, RMB180 million and RMB41 million (US$6 million), respectively.

Pursuant to our arrangements with JD Digits, when an individual customer or a corporate customer makes a credit purchase request on our online retail platform where we sell products directly to our customers, JD Digits will provide the individual customer or corporate customer with the related credit risk assessment services and repayment management services to facilitate the origination and repayment of the receivables. A portion of the monthly service fee paid by the individual customer or the corporate customer goes to JD Digits as compensation for the related services it provides. These services provided by JD Digits to individual customers or corporate customers on our online retail platform do not constitute related party transactions between us and JD Digits. We record such receivables generated by purchases made by individual or corporate customers on our online retail platform as accounts receivable. As of December 31, 2019 and March 31, 2020, we had accounts receivable (including accounts receivable that are due more than one year) of RMB1.2 billion and RMB3.7 billion, respectively, accounting for 0.5% and 1.4% of our total assets as of December 31, 2019 and March 31, 2020, respectively.

Pursuant to our arrangements with JD Digits, when an individual customer makes a credit purchase request to a third party merchant on our online marketplace where third party merchants sell products to our customers, JD Digits will provide the individual customer with the related credit risk assessment services and repayment management services to facilitate the origination and repayment of the receivables. To streamline the receivable servicing process and ultimately enhance customer experience on our online marketplace, we will subsequently purchase such receivables from the third party merchant at carrying value and record them as loans receivable on our balance sheet. A portion of the monthly service fee paid by the individual customer goes to JD Digits as compensation for the related services it provides. These services provided by JD Digits to individual customers on our online marketplace do not constitute related party transactions between us and JD Digits. As of December 31, 2019 and March 31, 2020, we had loans receivable (including loans receivable that are due more than one year) of RMB1.7 billion and RMB1.9 billion, respectively, accounting for 0.7% and 0.7% of our total assets as of December 31, 2019 and March 31, 2020, respectively.

JD Digits will purchase from us the accounts receivable and/or loans receivable generated from purchases made by individual customers on our online retail platform or online marketplace that are past due over certain agreed period of time at carrying value without recourse and also agree to bear other cost directly related to the consumer financing to absorb the risks. The total amount of such over-due receivables transferred from us to JD Digits was RMB497 million, RMB242 million and RMB189 million (US$27 million) for each year ended December 31, 2017, 2018 and 2019, respectively.

In connection with the accounts receivable generated from purchases made by our corporate customers on our online retail platform, we will subsequently transfer such accounts receivable, with or without recourse at carrying value, to a subsidiary of JD Digits, which engages in the business of accounts receivable factoring with us and other third parties. For each transfer, JD Digits will charge us a factoring fee of a certain percentage of the carrying value of the accounts receivable. In 2017, 2018 and 2019, the accounts receivables transferred with recourse amounted to RMB167.9 million, RMB1,388 million and nil, respectively, and were not derecognized. Accounts receivable transferred with recourse in 2017 and 2018 were generated by purchases made by some of our key corporate customers that indicated their intention of only dealing with us (rather than JD Digits) in servicing those accounts receivable. In 2019, all of our key corporate customers approved of transferring accounts receivable to JD Digits without recourse. In 2017, 2018 and 2019, the accounts receivable transferred without recourse amounted to RMB1,584.0 million, RMB9,854 million and RMB24,586 million (US$3,531 million), and were derecognized.

As of December 31, 2019, we have a total amount of RMB1,729 million (US$248 million) due from JD Digits, of which an amount of RMB1,363 million was trade in nature and the remaining amount of RMB365 million was non-trade in nature. We expect that a substantial majority of total balance due from JD Digits will be settled prior to the Listing.

We expect that the terms of the existing collaboration with JD Digits will continue after the Listing.

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's additional round of financing in 2018, the percentage of profit sharing has been diluted to approximately 36%.

Transactions with Our Equity Investees and Other Related Parties

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 2017, 2018 and 2019, net service revenues in the amount of RMB609 million, RMB609 million and RMB607 million (US$87 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, 2019, we had a total amount of RMB165 million (US$24 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 2017, 2018 and 2019, 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, 2019, we had a total amount of RMB83 million (US$12 million) deferred revenues in relation to traffic support, marketing and promotion services to be provided to Tuniu Group. As of December 31, 2019, we had an amount of RMB2,133 thousand (US$306 thousand) due to Tuniu Group.

Business Transaction 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 2017, 2018 and 2019, other income in the amount of RMB80 million, RMB79 million and RMB82 million (US$12 million) had been recognized, respectively. As of December 31, 2019, we had a total amount of RMB207 million (US$30 million) deferred revenues in relation to traffic support, marketing and promotion services to be provided to Dada Group and a total amount of RMB277 million (US$40 million) other liabilities in relation to non-compete obligation with Dada Group. In 2017, 2018 and 2019, we provided services and sold goods to Dada Group in a total amount of RMB100 million, RMB122 million and RMB133 million (US$19 million), respectively, and in the same periods, we also received services from Dada Group in a total amount of RMB694 million, RMB939 million and RMB1,565 million (US$225 million), respectively. As of December 31, 2019, we had a total amount of RMB208 million (US$30 million) due to Dada Group.

Bridge Financing to Yixin and its subsidiaries, or Yixin Group. Yixin Group is an equity investee of us. On October 27, 2017, to provide a temporary bridge financing to Yixin Group Limited and its subsidiaries, or 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.

Business Transactions with Core Fund. JD Property, our property management group, owns, develops and manages our logistics facilities and other real estate properties to support JD Logistics and third parties. In February 2019, JD Property and GIC, Signapore's sovereign wealth fund, jointly established JD Logistics Properties Core Fund, L.P., or Core Fund, for a total committed capital of over RMB4.8 billion. We serve as the general partner of Core Fund and have committed 20% of its total capital as a limited partner, while GIC has committed the remaining 80%. The investment committee of Core Fund, which comprises representatives from us and GIC, oversees the key operations of Core Fund. Furthermore, in February 2019, we entered into a definitive agreement with Core Fund, pursuant to which we sold certain of our modern logistics facilities to Core Fund for a total gross asset value of RMB10.9 billion, to unleash the full potential of our balance sheet and optimize the use of capital for our future growth initiatives. In the second half of 2019, the closing conditions for the completed assets were met, and we recorded a total disposal gain of RMB3.8 billion for the completed assets in 2019. For the remaining logistics facilities under construction, we will derecognize these assets upon the completion and satisfaction of the hand over conditions. In addition, subsequent to the disposition, we have leased back these facilities for operational purposes, and JD Property has started serving as the asset manager managing Core Fund's assets. In 2019, we received lease and property management services from Core Fund in a total amount of RMB476 million (US$68 million). Interest income in the amount of RMB75 million (US$11 million) was recognized in 2019 in connection with our financial support provided to Core Fund. As of December 31, 2019, we had an amount of RMB1,149 million (US$165 million) due from Core Fund.

Business Transactions with AiHuiShou and its subsidiaries, or AiHuiShou Group. AiHuiShou Group is an equity investee of us. In June 2019, we completed an investment of approximately RMB3.38 billion (US$0.5 billion) in AiHuiShou International Co. Ltd., or AiHuiShou, an online second-hand consumer electronics trading platform. In connection with this investment, we merged our Paipai Secondhand business with and into AiHuiShou with certain exclusive traffic resources for the next five years, and additionally invested a certain amount of cash in exchange for additional preferred shares of AiHuiShou. Upon the completion of the transaction, the traffic support, marketing and promotion services to be provided to AiHuiShou Group 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 June 2019. As of December 31, 2019, we had a total amount of RMB1,899 million (US$273 million) deferred revenues in relation to traffic support, marketing and promotion services to be provided to AiHuiShou Group. In 2018 and 2019, we provided services and sold goods to AiHuiShou Group in a total amount of RMB9 million and RMB349 million (US$50 million), respectively. In 2018 and 2019, we also received services from AiHuiShou Group in a total amount of nil and RMB10 million (US$2 million), respectively. As of December 31, 2019, we had an amount of RMB18 million (US$3 million) due to AiHuiShou Group.

As of December 31, 2019, we have a total amount of RMB1,149 million (US$165 million) due from Core Fund, of which an amount of RMB570 million was trade in nature and the remaining amount of RMB579 million was non-trade in nature. We expect that a substantial majority of total balance due from Core Fund will be settled prior to the Listing.

As of December 31, 2019, excluding the amount due from Core Fund aforementioned, our remaining balances with other major related parties were trade in nature and we expect that a substantial majority of the balances will be settled prior to the Listing.

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.

Our revenues from related parties, excluding those from the major related parties as described above, represented approximately 0.01%, 0.06% and 0.13% of total net revenues of our company for the years ended December 31, 2017, 2018, and 2019, respectively. Transactions with related parties included in operating expenses, excluding those with the major related parties as described above, represented 0.07%, 0.14% and 0.20% of total operating expenses of our company for the years ended December 31, 2017, 2018, and 2019, respectively.

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.

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 Catalog of Industries for Encouraging Foreign Investment, or the Encouraging Catalog, and the Special Management Measures (Negative List) for the Access of Foreign Investment, or the Negative List which were promulgated and are amended from time to time by the Ministry of Commerce, or MOFCOM, and the National Development and Reform Commission, or NDRC, and together with the FIL and their respective implementation rules and ancillary regulations. The Encouraging Catalog and the Negative List lay out the basic framework for foreign investment in China, classifying businesses into three categories with regard to foreign investment: "encouraged", "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.

On June 30, 2019, MOFCOM and the NDRC released the Catalog of Industries for Encouraging Foreign Investment (2019 Version) (《鼓勵外商投資產業目錄(2019年版)》) and the Special Management Measures (Negative List) for the Access of Foreign Investment (2019 Version) (《外商投資準入特別管理措施(負面清單)(2019年版)》), or the 2019 Negative List, which became effective on July 30, 2019, to replace the previous encouraging catalog and negative list thereunder. 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.

On March 15, 2019, the National People's Congress promulgated the FIL, which has become effective on January 1, 2020 and replaced the Outgoing FIE Laws. 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. 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 "Risk Factors—Our current corporate structure and business operations may be affected by the 2019 PRC 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 (《中華人民共和國公司法》) and other laws and regulations governing the corporate governance.

On December 26, 2019, the State Council promulgated the Implementation Rules to the PRC Foreign Investment Law (《中華人民共和國外商投資法實施條例》), which became effective on January 1, 2020. The implementation rules further clarified that the state encourages and promotes foreign investment, protects the lawful rights and interests of foreign investors, regulates foreign investment administration, continues to optimize foreign investment environment, and advances a higher-level opening.

On December 30, 2019, MOFCOM and the SAMR, jointly promulgated the Measures for Information Reporting on Foreign Investment (《外商投資信息報告辦法》), which became effective on January 1, 2020. Pursuant to the Measures for Information Reporting on Foreign Investment, where a foreign investor carries out investment activities in China directly or indirectly, the foreign investor or the foreign-invested enterprise shall submit the investment information to the competent commerce department.

Foreign Investment in Value-Added Telecommunications Businesses. The Regulations for Administration of Foreign-invested Telecommunications Enterprises (《外商投資電信企業管理規定》) promulgated by the 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. However, the 2019 Negative List allows foreign investors to hold more than 50% equity interests in a value-added telecommunications service provider engaging in e-commerce, domestic multiparty communication, storage-and-forward and call center businesses. Since the 2019 Negative List was recently amended, there exist uncertainties with respect to its interpretation and implementation by authorities. Due to these regulations, we operate our *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 (《關於加强外商投資經營增值電信業務管理的通知》), pursuant to which a PRC domestic company that holds an operating license for value-added telecommunications business, which we refer to as a Value-added Telecommunication License, or a VAT License, is prohibited from leasing, transferring or selling the VAT 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 the PRC. 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 VAT License, and the company must establish and improve its internal internet and information security policies and standards and emergency management procedures. If a VAT 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 VAT 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.

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 (《電信條例》) promulgated by the State Council and its related implementation rules, including the Catalog of Classification of Telecommunications Business (《電信業務分類目錄》) 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 a VAT License from the MIIT or its provincial level counterparts. Pursuant to the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) promulgated by the State Council 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 devices, 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 (《電信業務經營許可管理辦法》) promulgated in 2009 by promulgating the Administrative Measures on Telecommunications Business Operating Licenses (《電信業務經營許可管理辦法》), 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, a VAT License issued by Beijing Telecommunication Administration for the provision of online data processing and transaction processing services and also a VAT 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, cellular mobile communications services provided in the means of resale, content delivery network services and storage-and-forward services.

Internet Publication License/Network Publication Service License. As a result of institutional reform in March 2018, the National Press and Publication Administration was established and assigned to undertake the administration of publication activities in China from the State Administration of

Press and Publication, Radio, Film and Television, or the SAPPRFT, which was integrated from the State Administration of Radio, Film and Television, and the General Administration of Press and Publication in March 2013. In June 2002, the MIIT and the General Administration of Press and Publication jointly promulgated the Tentative Administrative Measures on Internet Publication (《互聯網出版管理暫行規定》), 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 SAPPRFT and the MITT jointly issued the Administrative Measures on Network Publication (《網絡出版服務管理規定》), 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 a competent administrative authority; 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 (《互聯網文化管理暫行規定》), 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, performances, performing arts, works of art, and animation features and cartoons, while "online" includes both products produced for the internet and products converted from offline products and disseminated over the internet. Jingdong 360 holds an Online Culture Operating Permit issued by the Beijing Municipal Bureau of Culture, which will remain valid until December 2020.

Internet Drug Information Service Qualification Certificate. In July 2004, the State Food and Drug Administration, or the SFDA, the predecessor of the National Medical Products Administration, or the NMPA, promulgated the Administrative Measures on Internet Drug Information Service (《互聯網藥品信息服務管理辦法》) (amended in November 2017). In addition, the Standing Committee of the National People's Congress further amended the Drug Administration Law (《藥品管理法》) on August 26, 2019, which became effective on December 1, 2019. These laws and measures, together with certain implementing rules and notices promulgated by the SFDA or the NMPA, 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 devices must obtain an Internet Drug Information Service Qualification Certificate from the applicable provincial level administrative authority. Jingdong 360 holds an Internet Drug Information Service Qualification Certificate issued by the Beijing Drug Administration for the provision of internet drug information services, which will remain valid until July 2024.

Courier Service Operation Permit. Pursuant to the PRC Postal Law (《中華人民共和國郵政法》), the Administrative Measures on the Courier Service Market (《快遞市場管理辦法》) and the Administrative Measures on Courier Service Operation Permits (《快遞業務經營許可管理辦法》), 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 local post bureau for those branches. In addition, pursuant to the Interim Regulations of Courier (《快遞暫行條例》) which came into effect in May 2018 and was further amended in March 2019, 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, 2019, 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 "Risk Factors—Risks Related to Our Business and Industry—We are subject to a broad range of laws and regulations. Any lack of requisite approvals, licenses or permits applicable to our business or any failure to comply with applicable laws or regulations 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 (《道路運輸條例》) promulgated by the State Council in April 2004 and as amended, and the Provisions on Administration of Road Transportation and Stations (Sites) (《道路貨物運輸及站場管理規定》) issued by the Ministry of Transport in June 2005 and as amended, anyone engaging in the business of operating road transportation must obtain a Road Transportation Operation Permit, and each vehicle used for shipping must have a Road Transportation Certificate. As of December 31, 2019, Xi'an Jingdong Xuncheng and its 10 branches and 1 subsidiary, Jingbangda and its 33 subsidiaries had obtained Road Transportation Operation Permits that allow these entities to provide road freight transportation services. See "Risk Factors—We are subject to a broad range of laws and regulations. Any lack of requisite approvals, licenses or permits applicable to our business or any failure to comply with applicable laws or regulations may have a material and adverse impact on our business, financial condition and results of operations."

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) (《民用無人駕駛航空器經營性飛行活動管理辦法(暫行)》), pursuant to which an 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 an 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 SAPPRFT jointly promulgated the Administrative Measures for the Publication Market (2016 Version) (《出版物市場管理規定（2016）》), or the Publication Market Measures (2016 Version), which replaced the Administrative Measures for the Publication Market (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. We engage in wholesale and retail of books and audio and video products and other publications through Jiangsu Yuanzhou, Beijing Jingdong Century Information Technology Co., Ltd., Guangzhou Jingdong Trading Limited, Shenyang Jingdong Century Trading Co., Ltd. and Shanghai Yuanmai Trading Co., Ltd. Each of them has obtained a Publication Operation Permit.

Food Operation Permit. China has adopted a licensing system for food supply operations under the Food Safety Law (《食品安全法》) 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 (《食品經營許可管理辦法》) 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 mobile apps and websites. Our PRC subsidiaries or their branches engaging in food operation business have obtained Food Operation Permits.

Medical Device Operation Enterprise Permit. The Regulations on Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), 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 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 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 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 (《廣播電視節目製作經營管理規定》) 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 competent administrative authority. 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 March 2021.

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 (《網絡商品交易及有關服務行為管理暫行辦法》),

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 (《網絡交易管理辦法》), 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 (《關於跨境電子商務零售進口稅收政策的通知》), 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 (《電子商務法》), 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 third-party 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 third-party merchants on its platform to market regulatory administrative department as required and remind the third-party 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 third-party merchants to complete the tax registration; (iv) record and retain the information of the products and services and the transaction 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 third-party 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 third-party merchants on its platform do not meet the personal or property safety requirements or such third-party 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 third-party 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 third-party 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.

We are subject to these measures as a result of our online retail and online marketplace business.

Regulations Relating to Internet Content and Information Security

The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) specify that internet information services regarding news, publications, education, medical and health care, pharmacy and medical devices, 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 Standing Committee of the National People's Congress, China's national legislative body, has enacted the Decisions on Maintaining Internet Security (《關於維護互聯網安全的決定》), 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 (《網絡安全法》),

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 (where such information and data have to be provided abroad for business purpose, subject to applicable laws and regulations, security assessment shall be conducted); and providing assistance and support to government authorities where necessary for protecting national security and investigating crimes.

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 (《規範互聯網信息服務市場秩序若干規定》), 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, unless otherwise stipulated by laws and administrative regulations. 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 (《關於加強網絡信息保護的決定》) 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 (《電信和互聯網用戶個人信息保護規定》) 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 proving 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, cancelation 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 (《移動互聯網應用程序信息服務管理規定》), 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. On November 28, 2019, the Secretary Bureau of the Cyberspace Administration of China, the General Office of the Ministry of Industry and Information Technology, the General Office of the Ministry of Public Security and the General Office of the SAMR promulgated the Identification Method of Illegal Collection and Use of Personal Information Through App (《APP違法違規收集使用個人信息行為認定方法》), which provides guidance for the regulatory authorities to identify the illegal collection and use of personal information through mobile apps, and for the app operators to conduct self-examination and self-correction and for other participants to voluntarily monitor compliance. We have required our users to consent to our collecting and using their personal information, and established information security systems to protect user's privacy.

Regulations Relating to Product Quality and Consumer Protection

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

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 (《價格法》), 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 (《關於開展移動通信轉售業務試點工作的通告》), 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 number resources of mobile communications users for resale, 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 (《關於移動通信轉售業務正式商用的通告》), 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, has renewed the telecommunications business license, and has cooperated with China Telecom in 60 cities and with China Unicom in 105 cities.

Regulations Relating to Leasing

Pursuant to the Law on Administration of Urban Real Estate (《城市房地產管理法》), 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 (《中華人民共和國合同法》), 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 (《中華人民共和國物權法》), 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 SAMR 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 SAMR 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 SAMR 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 (《互聯網廣告管理暫行辦法》) to regulate internet advertising activities. According to these measures, no advertisement of any medical treatment, medicines, food for special medical purpose, medical devices, 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 prescription drugs or tobacco on the internet. An internet advertisement must be identifiable and clearly identified as an "advertisement" to the consumers. Paid search advertisements are required to be clearly distinguished from natural search results. In addition, the following internet advertising activities are prohibited: providing or using any applications or hardware to intercept, filter, cover, fast forward or otherwise restrict any authorized advertisement of other persons; using network pathways, network equipment or applications to disrupt the normal data transmission of advertisements, alter or block authorized advertisements of other persons or load advertisements without authorization; or using fraudulent statistical data, transmission effect or matrices relating to online marketing performance to induce incorrect quotations, seek undue interests or harm the interests of others. Internet advertisement publishers are required to verify relevant supporting documents and check the content of the advertisement and are prohibited from publishing any advertisement with unverified content or without all the necessary qualifications. Internet information service providers that are not involved in internet advertising business activities but simply provide information services are required to block any attempt to publish an illegal advisement that they are aware of or should reasonably be aware of through their information services.

Regulations Relating to Intellectual Property Rights

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

Copyright. Copyright in the PRC is principally protected under the Copyright Law of the PRC (《中華人民共和國著作權法》) and its implementation rules. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law of the PRC and related rules and regulations, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc. In addition, the Regulations on the Protection of Rights to Information Network Communication (《信息網絡傳播權保護條例》) promulgated by the State Council on May 18, 2006 (as amended in 2013), provides specific rules on fair use, statutory license, and a safe harbor for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries and internet service providers.

Patent. The Patent Law (《專利法》) provides for patentable inventions, utility models and designs, which must meet three conditions: novelty, inventiveness and practical applicability. The National Intellectual Property Administration is responsible for examining and approving patent applications. As of December 31, 2019, we had approximately 2,700 patents granted in China, approximately 160 patents granted outside China, approximately 7,100 patent applications pending in China and approximately 410 patent applications pending outside China.

Trademark. The Trademark Law (《商標法》) 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, 2019, we had approximately 13,600 registered trademarks in different applicable trademark categories and had approximately 4,300 trademark applications in China and approximately 1,700 outside China.

Domain Name. Domain names are protected under the Administrative Measures on the Internet Domain Names (《互聯網域名管理辦法》) 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 (《工業和信息化部關於規範互聯網信息服務使用域名的通知》), 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 (《勞動合同法》) and its implementation rules provide requirements concerning employment contracts between an employer and its employees. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee's salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. The Labor Contract Law and its implementation rules also require compensation to be paid upon certain terminations, which significantly affects the cost of reducing workforce for employers. In addition, if an employer intends to enforce a non-compete provision with an employee in an employment contract or non-competition agreement, it has to compensate the employee on a monthly basis during the term of the restriction period after the termination or ending of the labor contract. Employers in most cases are also required to provide a severance payment to their employees after their employment relationships are terminated.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the Social Insurance Law (《社會保險法》), 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 (《住房公積金管理條例》), 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 (《關於全面推開營業税改徵增值税試點的通知》), 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 (《財政部、税務總局關於調整增值税税率的通知》), 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 (《關於深化增值税改革有

關政策的公告》), 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 be prevail in case of any conflict with existing provisions.

Regulations Relating to Dividend Withholding Tax

Pursuant to the Enterprise Income Tax Law (《企業所得稅法》) 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 (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), 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 (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), 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 Taxpayer to Enjoy Treatments under Tax Treaties (《非居民納稅人享受稅收協定待遇管理辦法》), or SAT Circular 60, 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. The SAT issued the Announcement of State Taxation Administration on Promulgation of the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits (國家稅務總局關於發佈《非居民納稅人享受協定待遇管理辦法》的公告), the SAT Circular 35 on October 14, 2019, which became effective on January 1, 2020. The SAT Circular 35 further simplified the procedures for enjoying treaty benefits and replaced the SAT Circular 60. According to the SAT Circular 35, no approvals from the tax authorities are required for a non-resident taxpayer to enjoy treaty benefits, where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through the withholding agent, but it shall gather and retain the relevant materials as required for future inspection, and accept follow-up administration by the tax authorities. 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 (《關於稅收協定中"受益所有人"有關問題的公告》), or Circular 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 (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 (《外匯管理條例》), 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 (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》), or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 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 19, which took effect and replaced SAFE Circular 142 from June 1, 2015. Although SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC, the restrictions continue to apply as to foreign-invested enterprises' use of the converted RMB for purposes beyond the business scope, for entrusted loans or for inter-company RMB loans.

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《關於進一步改進和調整直接投資外匯管理政策的通知》) 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 (關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) 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 SAFE Circular 13, which took effect on June 1, 2015. SAFE Circular 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.

In October 2019, SAFE issued SAFE Circular 28, pursuant to which all foreign-invested enterprises can make domestic equity investments with their capital funds in accordance with the related laws.

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company immediately prior to and upon the completion of the Global Offering, assuming that the Global Offering becomes unconditional and the Offer Shares are issued pursuant to the Global Offering and without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make.

1. Share capital as at the Latest Practicable Date

(i) Authorized share capital

Number	Description of Shares	Approximate aggregate nominal value of shares
99,000,000,000	Class A ordinary share	US$1,980,000
1,000,000,000	Class B ordinary share	US$20,000
Total		**US$2,000,000**

(ii) Issued, fully paid or credited to be fully paid

Number	Description of Shares	Approximate aggregate nominal value of shares
2,526,000,652	Class A ordinary share	US$50,520
450,881,081	Class B ordinary share	US$9,018
Total		**US$59,538**

*(iii) Issued and outstanding**

Number	Description of Shares	Approximate aggregate nominal value of shares
2,506,489,928	Class A ordinary share	US$50,130
450,881,081	Class B ordinary share	US$9,018
Total		**US$59,148**

Note:

* Excluding the 19,510,724 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.

2. Share capital immediately following the completion of the Global Offering

(i) Authorized share capital

Number	Description of Shares	Approximate aggregate nominal value of shares
99,000,000,000	Class A ordinary share	US$1,980,000
1,000,000,000	Class B ordinary share	US$20,000
Total		**US$2,000,000**

(ii) Issued fully paid or credited to be fully paid

Number	Description of Shares	Approximate aggregate nominal value of shares
2,659,000,652	Class A ordinary share	US$53,180
450,881,081	Class B ordinary share	US$9,018
Total		**US$62,198**

*(iii) Issued and outstanding**

Number	Description of Shares	Approximate aggregate nominal value of shares
2,639,489,928	Class A ordinary share	US$52,790
450,881,081	Class B ordinary share	US$9,018
Total		**US$61,808**

Note:

* Excluding the 19,510,724 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.

WEIGHTED VOTING RIGHTS STRUCTURE

Under our weighted voting rights structure, our share capital comprises Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share entitles the holder to exercise one vote, and each Class B ordinary share entitles the holder to exercise 20 votes, on any resolution tabled at the Company's general meetings, except as may otherwise be provided for in our Memorandum and Articles of Association.

In addition, a quorum required for a meeting of shareholders consists of one or more shareholders present in person or by proxy or, if a corporation or other non-natural person, by its duly authorised representative, 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 meetings. The Company will put forth a resolution at or before its next annual general meeting after the Listing which is expected to be held around mid-2021 to revise the Articles of Association, so that the quorum for general meeting is lowered from the current one-third of the aggregate voting power of the Company to 10% of the aggregate voting power of the Company. See "Waivers from Strict Compliance with the Hong Kong Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance" for further details.

For further details, see the summary of the Articles of Association in Appendix III.

The table below sets out the ownership and voting rights to be held by the WVR beneficiary upon the completion of the Global Offering:

	Number of Shares	Approximate percentage of issued share capital(1)	Approximate percentage of voting rights(1)(2)
Class A ordinary shares held by the WVR beneficiary	14,000,000	0.5%	0.1%
Class B ordinary shares held by the WVR beneficiary	421,507,423	13.6%	77.4%(4)
Total	435,507,423(3)	14.1%(3)	77.5%(4)

Notes:

(1) Without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make.

(2) On the basis that Class A ordinary shares entitle the Shareholder to one vote per share and Class B ordinary shares entitle the Shareholder to 20 votes per share.

(3) Represents (i) 421,507,423 Class B ordinary shares directly held by Max Smart Limited, (ii) 7,000,000 restricted ADSs, representing 14,000,000 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 ordinary shares beneficially owned by Mr. Liu do not include 29,373,658 Class B ordinary shares held by Fortune Rising Holdings Limited, a British Virgin Islands company, as described in footnote (7) of the section "Major Shareholders".

(4) The aggregate voting power includes the voting power with respect to the 29,373,658 Class B ordinary shares held by Fortune Rising Holdings Limited as of the Latest Practicable Date. 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 (7) of the section "Major Shareholders".

Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Upon the conversion of all the issued and outstanding Class B ordinary shares into Class A ordinary shares, the Company will issue 450,881,081 Class A ordinary shares, representing approximately 17.1% of the total number of issued and outstanding Class A ordinary shares or 14.6% of the enlarged issued and outstanding shares of the Company (without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make).

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 as set out in our Articles of Association.

WVR Beneficiary

Immediately upon the completion of the Global Offering, the WVR beneficiary will be Mr. Richard Qiangdong Liu, our chairman and chief executive officer. Mr. Liu beneficially owns 14,000,000 Class A ordinary shares and 421,507,423 Class B ordinary shares. In addition, Fortune Rising Holdings Limited, of which Mr. Richard Qiangdong Liu is the sole shareholder and the sole director, holds 29,373,658 Class B ordinary shares as of the Latest Practicable Date, 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. Mr. Liu will control approximately 77.5% of the voting power of the Company immediately upon completion of the Global Offering. See the section "Major Shareholders" for more details regarding Mr. Liu's beneficial ownership in the Company.

The Company's WVR structure enables the WVR beneficiary to exercise voting control over the Company notwithstanding that the WVR beneficiary does not hold a majority economic interest in the share capital of the Company. This will enable the Company to benefit from the continuing vision and leadership of the WVR beneficiary who will control the Company with a view to its long-term prospects and strategy.

Prospective investors are advised to be aware of the potential risks of investing in companies with weighed voting rights structures, in particular that interests of the WVR beneficiary may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR beneficiary will be in a position to exert significant influence over the affairs of our Company and the outcome of shareholders' resolutions, irrespective of how other shareholders vote. Prospective investors should make the decision to invest in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by the Company, please refer to section headed "Risk Factors—Risks Related to Our Corporate Structure".

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 the 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 if: (1) Mr. Richard Qiangdong Liu ceases to be a director of the Company and the chief executive officer of the Company, (2) Mr. Richard Qiangdong Liu ceases to be the ultimate beneficial owner of any outstanding Class B ordinary shares or of any entity which holds Class B ordinary shares; and (3) Mr. Richard Qiangdong Liu being permanently unable to attend board meetings and manage the business affairs of the Company as a result of incapacity solely due to his then physical and/or mental condition.

Save for the weighted voting rights attached to Class B ordinary shares, the rights attached to all classes of Shares are identical. For further information about the rights, preferences, privileges and restrictions of the Class A ordinary shares and Class B ordinary shares, please see the section headed "Summary of the Constitution of our Company and Cayman Companies Law—Articles of Association" in Appendix III for further details.

Assumptions

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued or repurchased by us.

Ranking

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

Share Repurchases

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.

As of December 31, 2019, we had repurchased a total of approximately 2.3 million ADSs under this share repurchase program. The table below is a summary of the shares repurchased by us in 2019. 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
January 1, 2019 to January 31, 2019	935,848	20.41	935,848	950,900,225
Total	**935,848**	**20.41**	**935,848**	—

On March 17, 2020, our board of directors authorized a share repurchase program, under which we may repurchase up to US$2.0 billion of our ADSs or ordinary shares over the next 24 months through March 17, 2022. The share repurchase program was publicly announced on March 17, 2020.

As of April 15, 2020, we had repurchased a total of approximately 1.2 million ADSs under this share repurchase program. The table below is a summary of the shares repurchased by us from March 17, 2020 to April 15, 2020. All shares were repurchased using our own funds in the open market pursuant to the share repurchase program announced on March 17, 2020. We did not repurchase any ADSs or ordinary shares from April 15, 2020 to the date of this document.

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
March 18, 2020 to March 31, 2020	1,191,370	37.04	1,191,370	1,955,868,397
Total	**1,191,370**	**37.04**	**1,191,370**	**1,955,868,397**

Registration Rights

Pursuant to the investor rights agreement entered into on June 20, 2016 with Newheight, a wholly-owned subsidiary of Walmart and an investor rights agreement entered into on June 18, 2018 with Google LLC, we have granted certain registration rights to Newheight and Google LLC, with respect to our registrable securities, which include our ordinary shares and ordinary shares issued as a dividend or other distribution therefor. Set forth below is a description of the registration rights. Newheight will be entitled to these registration rights only after the expiration of a period of sixty (60) months after June 20, 2016.

Demand registration rights

Subject to any applicable lock-up agreement they may enter into, Newheight and Google LLC have the right to demand that we file a registration statement to enable the sale of their registrable securities. We have the right to defer the filing of a registration statement up to 90 days if our board of directors determines in good faith that such registration and offering would be seriously detrimental to us and our shareholders, provided that we may not utilize this right more than once in any 12-month period and during such 90-day period, we shall not file a registration statement with respect to the public offering of our securities.

Piggyback registration rights

If we propose to file a registration statement for a public offering of our securities other than a registration (i) relating to any employee benefit plan, (ii) relating to corporate reorganization, (iii) on a form that does not include substantially the same information as would be required for registration of the registrable securities, or (iv) in which the only shares being registered are shares issuable upon conversion of debt securities that are also being registered, we must offer holders of our registrable securities an opportunity to include in the registration all or any part of their registrable securities. If the managing underwriters of any underwritten offering determine in good faith that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriters may decide to exclude shares from the registration and the underwriting and to allocate the number of securities first to us and second to each of holders requesting for the inclusion of their registrable securities on a pro rata basis based on the total number of registrable securities held by each such holder and third, to holders of other securities of our company, provided that in no event may any registrable securities be excluded from such offering unless all other securities are first excluded.

F-3 registration

Holders of our registrable securities have the right to request that we file a registration statement on Form F-3. We also have the right to postpone a registration pursuant to this request up to 90 days if our board of directors determines in good faith that it would be seriously detrimental to us for such registration statement to be filed, provided that we may not file a registration statement with respect to the public offering of our securities during such 90-day period. We may not utilize this right more than once in any 12-month period.

Expenses of registration

We will pay all expenses (other than underwriting discounts and commissions) in connection with the demand registration, Form F-3 registration and piggyback registration including, among others, all registration and filing fees, printers' and accounting fees, fees and disbursements of counsel for us, reasonable fees and disbursements of a single special counsel for the holders.

Termination of Obligations

We have no obligations to effect any demand, piggyback or Form F-3 registration rights of Google LLC with respect to any registrable securities proposed to be sold by Google LLC more than two (2) years after the expiration of a period of twelve (12) months after June 18, 2018, or, if, in the opinion of counsel to our company, all such registrable securities proposed to be sold by Google LLC may then be sold without registration in any ninety (90) day period pursuant to Rule 144 promulgated under the U.S. Securities Act.

We have no obligations to effect any demand, piggyback or Form F-3 registration rights of Newheight with respect to any registrable securities proposed to be sold by Newheight more than two (2) years after the expiration of a period of sixty (60) months after June 20, 2016, or, if, in the opinion of counsel to our company, all such registrable securities proposed to be sold by Newheight may then be sold without registration in any ninety (90) day period pursuant to Rule 144 promulgated under the U.S. Securities Act.

We estimate that we will receive net proceeds from the Global Offering of approximately HK$30,988 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon an indicative offer price of HK$236.00 per Offer Share for both Hong Kong Public Offering and International Offering, and assuming the Over-allotment Option is not exercised, or HK$35,649 million if the Over-allotment Option is exercised in full.

The International Offer Price in the International Offering may be higher than, or the same as, the Public Offer Price in the Hong Kong Public Offering. See "Structure of the Global Offering—Pricing and Allocation."

We plan to use the net proceeds we will receive from the Global Offering to invest in key supply chain based technology initiatives to further enhance customer experience whilst improving operating efficiency. The supply chain based technologies can be applied to our key business operations including retail, logistics, and customer engagement.

We will further develop and improve our retail technologies and user engagement through continued investment on a series of key operational systems, such as smart pricing and inventory management system, intelligent customer service solutions and Omni-Channel smart retail platform. We will allocate sufficient R&D resources to continue to improve our personalization and recommendation engine to provide a more customized shopping journey and further enhance user experience. We will also leverage our insight of consumer preference and latest demand trends and further invest in and enhance our digital marketing solutions which will enable us to offer our users highly relevant, targeted and engaging advertisement contents without disrupting their shopping experience.

We will continue to invest in our logistics technologies to offer reliable services to our customers. We will endeavor to digitalize our logistic capabilities through building a wide range of in-house systems such as warehouse automation system, optimal route planning system, as well as intelligent hardware. We will further invest and develop advanced smart logistics technologies across both software and hardware in areas such as dynamic sorting system and unmanned warehouse. Furthermore, we will make additional investments in our Open Platform for Digital Supply Chain as part of our efforts to offer integrated solutions to merchants and partners both within and beyond the JD ecosystem.

We will also continue to invest in and enhance our general research & development capabilities. We plan to continue attracting and nurturing world-class software engineers, data scientists, AI experts and other R&D talents as well as expanding our intellectual property portfolio. We will leverage our strength in these technology capabilities to provide a superior customer experience for our users whilst improving operating efficiency for ourselves and for our partners in the entire industry value chain.

Hong Kong Underwriters

Merrill Lynch (Asia Pacific) Limited

UBS AG Hong Kong Branch

CLSA Limited

BOCI Asia Limited

CCB International Capital Limited

China Renaissance Securities (Hong Kong) Limited

Jefferies Hong Kong Limited

ABCI Securities Company Limited

BOCOM International Securities Limited

CMB International Capital Limited

Guotai Junan Securities (Hong Kong) Limited

Haitong International Securities Company Limited

Huatai Financial Holdings (Hong Kong) Limited

ICBC International Securities Limited

Mizuho Securities Asia Limited

Nomura International (Hong Kong) Limited

Underwriting

We publish this document solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. We expect the International Offering to be fully underwritten by the International Underwriters. If, for any reason, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 6,650,000 Hong Kong Offer Shares and the International Offering of initially 126,350,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in "Structure of the Global Offering" as well as to the Over-allotment Option (in the case of the International Offering).

Underwriting Arrangements and Expenses

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this document at the Public Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Class A ordinary shares in issue and to be issued pursuant to the Global Offering (including the Class A ordinary shares which may be issued pursuant to the exercise of the Over-allotment Option), the Class A ordinary shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time, and the Class A ordinary shares to be issued after conversion of Class B ordinary shares on the Main Board of the Hong Kong Stock Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this document and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Representatives may (for themselves and on behalf of the Hong Kong Underwriters) in their sole and absolute discretion be entitled to terminate the Hong Kong Underwriting Agreement, by notice in writing to the Company, with immediate effect, if prior to 8:00 a.m. on the Listing Date:

(A) trading generally shall have been suspended or materially limited on, or by, as the case may be, any of the New York Stock Exchange, the American Stock Exchange, the Nasdaq Global Market or the Stock Exchange;

(B) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market;

(C) a material disruption in securities settlement, payment or clearance services in the United States, the Cayman Islands, the PRC or Hong Kong shall have occurred;

(D) any moratorium on commercial banking activities shall have been declared by United States Federal, New York State, the Cayman Islands, the PRC or Hong Kong authorities; or

(E) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets, currency exchange rates or controls or any calamity or crisis that, in the reasonable judgment of the Joint Representatives, is material and adverse and which, singly or together with any other event specified in this clause, makes it, in the reasonable judgment of the Joint Representatives, impracticable to proceed with the offer, sale or delivery of the Offer Shares on the terms and in the manner contemplated in this document, the registration statement, the disclosure package and the final prospectus to be filed or issued by us in connection with the International Offering.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

We have undertaken to each of the Joint Representatives, the Joint Sponsors and the Hong Kong Underwriters that for the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date (the "**Lock-Up Period**"), or such earlier date that the Joint Sponsors (for themselves and on behalf of the Underwriters) consent to in writing, and unless in compliance with the requirements of the Hong Kong Listing Rules, we will not, directly or indirectly, take any of the following actions with respect to our Shares or ADSs, or any securities convertible into or exchangeable or exercisable for any of our Shares or ADSs ("**Lock-Up Securities**"):

(a) offer, sell, issue, pledge, contract to sell or otherwise dispose of Lock-Up Securities,

(b) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase Lock-Up Securities,

(c) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in Lock-Up Securities within the meaning of Section 16 of the U.S. Exchange Act; or

(d) file with the SEC a registration statement under the U.S. Securities Act relating to Lock-Up Securities, other than registration statements on Form S-8 relating to the issuance, vesting, exercise or settlement of equity awards granted or to be granted pursuant to any employee benefit plan described in this document,

without the prior written consent of the Joint Sponsors, provided, however, that we shall be permitted during the Lock-Up Period to

(1) issue, pledge or otherwise dispose of Shares or ADSs pursuant to any of the agreements existing as of the date of the Hong Kong Underwriting Agreement;

(2) sell, or cause to be sold, the Offer Shares to be sold and/or issued hereunder, including, for avoidance of doubt, any Shares to be loaned and sold pursuant to the borrowing arrangement by and among the Stabilizing Manager and Huang River Investment Limited, which arrangement is intended to facilitate stabilizing activities in connection with the Global Offering;

(3) issue Shares or ADSs or the grant of options to purchase Shares, restricted shares, RSUs or any other equity-linked rights issuable under our Share Incentive Plan existing on the date of the Hong Kong Underwriting Agreement, including the effect of one or more bulk issuances of Shares, or ADSs upon deposit of Shares with our depositary bank, and delivered to our brokerage accounts existing on the date of the Hong Kong Underwriting Agreement, in contemplation of future issuance under our share incentive plans existing on the date of the Hong Kong Underwriting Agreement;

(4) effect any capitalization issue, capital reduction or consolidation or sub-division of the Shares;

(5) issue securities upon the exercise of an option or a warrant, the vesting of a RSU or the conversion of a security outstanding on the date of the Hong Kong Underwriting Agreement;

(6) issue any securities by us in connection with our acquisition of one or more businesses, assets, products or technologies, joint ventures, commercial relationships or other strategic corporate transactions, provided that the recipients of such securities execute a lock-up agreement in favor of the Underwriters; and

(7) repurchase securities pursuant to our share repurchase programs existing on the date of the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, we expect to enter into the International Underwriting Agreement with among others, the Joint Representatives (for themselves and on behalf of the International Underwriters) on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. The International Offering will consist of a U.S. offering and a non-U.S. offering. We expect that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See "Structure of the Global Offering—The International Offering."

Over-allotment Option

We expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Representatives on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which we may be required to issue up to an aggregate of 19,950,000 Class A ordinary shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the International Offer Price, to, among other things, cover over-allocations in the International Offering, if any. See "Structure of the Global Offering—Over-allotment Option."

Commissions and Expenses

The Underwriters will receive an underwriting commission up to 1% of the aggregate offer price of all the Offer Shares (including any Offer Shares to be issued by us pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees.

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an indicative offer price of HK$236.00 per Offer Share for both Hong Kong Public Offering and International Offering and the exercise of the Over-allotment Option in full) will be approximately HK$361 million.

The aggregate underwriting commissions and fees together with the Hong Kong Stock Exchange listing fees, the SFC transaction levy and the Hong Kong Stock Exchange trading fee, SEC registration fees, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK$447 million (assuming an indicative offer price of HK$236.00 per Offer Share for both Hong Kong Public Offering and International Offering and the exercise of the Over-allotment Option in full) and will be paid by us.

Activities by Syndicate Members

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with our loans and other debt.

In relation to the Class A ordinary shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Class A ordinary shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Class A ordinary shares (which financing may be secured by the Class A ordinary shares) in the Global Offering, proprietary trading in the Class A ordinary shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Class A ordinary shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Class A ordinary shares, which may have a negative impact on the trading price of the Class A ordinary shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Class A ordinary shares, in baskets of securities or indices including the Class A ordinary shares, in units of funds that may purchase the Class A ordinary shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Class A ordinary shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Class A ordinary shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in "Structure of the Global Offering". Such activities may affect the market price or value of the Class A ordinary shares, the liquidity or trading volume in the Class A ordinary shares and the volatility of the price of the Class A ordinary shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the followings:

(a) the Syndicate Members (other than the Stabilizing Manager, its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to Stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

Lock-up

Undertakings by Mr. Richard Qiangdong Liu

Mr. Richard Qiangdong Liu, as chairman and chief executive officer of the Company, has agreed that, subject to certain exceptions, during the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date (the "**Chairman & Chief Executive Officer Lock-up Period**"), he will not, without the prior written consent of the Joint Sponsors on behalf of the Underwriters, directly or indirectly: (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any Shares or ADSs, or any securities convertible into or exchangeable or exercisable for any Shares or ADSs, whether owned as at the Price Determination Date directly by him (including holding as custodian) or with respect to which he has beneficial ownership within the rules and regulations of the SEC (collectively, the "**Chairman & Chief Executive Officer Lock-up Securities**"), (ii) enter into a transaction which would have the same effect as the transactions set forth in (i) above, or enter into any swap, hedge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Chairman & Chief Executive Officer Lock-up Securities, (iii) publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, or (iv) make any demand for or exercise any right with respect to, the registration of any Chairman & Chief Executive Officer Lock-up Securities; provided, however, that the foregoing restrictions shall not apply to:

(a) any transaction relating only to (i) Shares or ADSs purchased in open market transactions on or after the Price Determination Date or (ii) Shares or ADSs acquired in private transactions on or after the Price Determination Date from third parties to the extent such acquired Shares or ADSs are not subject to any lock-up or similar transfer restrictions;

(b) any conversion of the Chairman & Chief Executive Officer Lock-up Securities into, or exchange or exercise of the Chairman & Chief Executive Officer Lock-up Securities for, Shares or ADSs by him, provided that the Shares or ADSs received by him upon such conversion, exchange or exercise shall be subject to the terms of the lock-up restriction set forth above;

(c) the establishment of a trading plan (a "**Plan**") pursuant to Rule 10b5-1 under the U.S. Exchange Act for the transfer of the Chairman & Chief Executive Officer Lock-up

Securities, provided that such Plan does not provide for the sale of any Chairman & Chief Executive Officer Lock-up Securities during the Chairman & Chief Executive Officer Lock-up Period; for the avoidance of doubt, the restrictions contained herein shall not apply to any sales or other transfers of his Shares or ADSs pursuant to a Plan adopted pursuant to Rule 10b5-1 under the U.S. Exchange Act in effect as of the date of the Price Determination Date;

(d) any transfer of the Chairman & Chief Executive Officer Lock-up Securities pursuant to a *bona fide* third-party tender offer, merger, consolidation or other similar transaction involving all holders of the Shares or ADSs in connection with a change of control of the Company; provided, that in the event the tender offer, merger, consolidation or other such transaction is not completed, his Chairman & Chief Executive Officer Lock-up Securities shall remain subject to the restrictions set forth above;

(e) any transfer of the Chairman & Chief Executive Officer Lock-up Securities (i) as a *bona fide* gift or gifts, (ii) through will or intestacy, (iii) to a charitable or not-for-profit organization or educational institution or (iv) to an immediate family member as defined under rule 14A.12(1)(a) of the Hong Kong Listing Rules or a trust (including, for the avoidance of doubt, an entity owned and controlled by such trust) or an entity beneficially owned and controlled by him (the transferees in (iv) collectively, the "**Permitted Transferees**"), including any transfer of options, RSUs, restricted shares or underlying Shares to a charitable trust or similar entity he has established or will establish; provided in case of (i) and (iv) above that the transferee agrees to be bound in writing by the terms of the lock-up agreement entered into by him and delivers such writing to the Joint Sponsors and the Joint Global Coordinators prior to such transfer;

(f) by operation of law or by order of a court of competent jurisdiction pursuant to a qualified domestic order or in connection with a divorce settlement;

(g) the maintenance of existing, or the grant of additional, pledges of the Chairman & Chief Executive Officer Lock-up Securities in favor of an institution/company legally licensed to provide financing services for the purpose of securing personal loans ("**Chairman & Chief Executive Officer Loans**") to him or a Permitted Transferee (as such may be amended, refinanced or modified from time to time), or any sale, disposition or transfer of the pledged Chairman & Chief Executive Officer Lock-up Securities in connection with any enforcement action or foreclosure or exercise of other rights by such lenders under any provision in such Chairman & Chief Executive Officer Loans documentation, including any foreclosure sale, disposition or transfer directed by a security agent under such Chairman & Chief Executive Officer Loans, provided that (A) he will immediately inform the Company and the Joint Global Coordinators in writing upon the occurrence of such pledge together with the number of the Chairman & Chief Executive Officer Lock-up Securities so pledged; and (B) he will immediately inform the Company and the Joint Global Coordinators in writing if and when he receives indications, either verbal or written, from any such pledgee that any of such pledged Chairman & Chief Executive Officer Lock-up Securities will be disposed of; or

(h) any transaction relating to the Shares or ADSs held by Fortune Rising Holdings Limited;

provided that in each case other than (c) and (d) above, no filing or other public announcement by any party shall be required or made voluntarily during the Chairman & Chief Executive Officer Lock-up Period in connection with the transactions contemplated therein.

Undertakings by Tencent

Huang River Investment Limited, a wholly-owned subsidiary of Tencent which held 17.8% of our total issued and outstanding shares as of the Latest Practicable Date, has agreed that, subject to certain exceptions, during the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date (the "**Tencent Lock-Up Period**"), it will not, without the prior written consent of the Joint Sponsors on behalf of the Underwriters, directly or indirectly: (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any Shares or ADSs, or any securities convertible into or exchangeable or exercisable for any Shares or ADSs, owned as at the Price Determination Date directly by it (including holding as custodian) or with respect to which it has beneficial ownership within the rules and regulations of the SEC (collectively, the "**Tencent Lock-Up Securities**"), (ii) enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Tencent Lock-Up Securities, or (iii) publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, provided that it may make announcements with respect to any transfer of, or intention to transfer, the Tencent Lock-Up Securities to an entity that is directly or indirectly wholly-owned by Tencent (a "**Tencent Group Member**") if such transfer is not a disposition for value received from an entity or other person that is not a Tencent Group Member, provided, however, that the foregoing restrictions shall not apply to:

(a) any transaction relating only to (i) Shares or ADSs purchased in open market transactions on or after the Price Determination Date or (ii) Shares or ADSs acquired in private transactions on or after the Price Determination Date from third parties to the extent such acquired Shares or ADSs are not subject to any lock-up or similar transfer restrictions;

(b) any conversion of the Tencent Lock-Up Securities into, or exchange or exercise of the Tencent Lock-Up Securities for, Shares or ADSs by it, provided that the Shares or ADSs received by it upon such conversion, exchange or exercise shall be subject to the terms of the lock-up restriction set forth above;

(c) the establishment of a trading plan (a "**Plan**") pursuant to Rule 10b5-1 under the U.S. Exchange Act for the transfer of the Tencent Lock-Up Securities, provided that such Plan does not provide for the transfer of any Tencent Lock-Up Securities during the Tencent Lock-Up Period;

(d) any transfer of the Tencent Lock-Up Securities pursuant to a *bona fide* third-party tender offer, merger, consolidation or other similar transaction involving all holders of the Shares or ADSs in connection with a change of control of our Company; provided, that in the event the tender offer, merger, consolidation or other such transaction is not completed, the Tencent's Lock-Up Securities shall remain subject to the restrictions set forth above;

(e) any transfer of the Tencent Lock-Up Securities as a *bona fide* gift or gifts or through will or intestacy, or to a charitable organization or a trust or an entity beneficially owned and controlled by it, provided in each case that any such transfer shall not involve a disposition for value;

(f) any transfer of the Tencent Lock-Up Securities to a Tencent Group Member, provided that any such transfer shall not involve a disposition for value received from an entity or other person that is not a Tencent Group Member;

(g) the maintenance of existing, or the grant of additional, pledges of the Tencent Lock-Up Securities to one or more lenders for the purpose of securing loans ("**Tencent Loans**") to Tencent or a Tencent Group Member provided under facilities outstanding as of the date of the Hong Kong Underwriting Agreement (as such may be amended, refinanced or modified from time to time, provided that the total size of such facility is not increased), or any sale, disposition or transfer of Tencent's or such Tencent Group Member's pledged Tencent Lock-Up Securities in connection with any enforcement action or foreclosure or exercise of other rights by such lenders under any provision in such Tencent Loans documentation, including any foreclosure sale, disposition or transfer directed by a security agent under such Tencent Loans;

(h) for the purpose of facilitating the settlement of over-allocations in connection with the Global Offering, any transfer of the Tencent Lock-Up Securities pursuant to the Stock Borrowing Agreement, which is expected to be entered into on or before the Price Determination Date between the Stabilizing Manager (or any person acting for it) and Huang River Investment Limited, to cover any over-allocations in the International Offering, if any;

(i) with respect to Tencent Lock-Up Securities that are subject to an existing pledge (which for the avoidance of doubt includes a pledge in the form of a share mortgage), the grant of a right of rehypothecation, right of use or similar right (encompassing the right to loan, sell or re-pledge such Tencent Lock-Up Securities), and the exercise of any such right of rehypothecation, right of use or similar right; or

(j) the use of Tencent Lock-Up Securities beneficially owned by it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan;

provided that in the case of each of clause (a), (b), (c) and (e) above, no filing or other public announcement by any party shall be required or made voluntarily during the Tencent Lock-Up Period in connection with the transactions contemplated therein; provided, further, that in the case of each of clause (e) or (f), any transferee that directly receives Tencent Lock-Up Securities agrees to be bound in writing by the terms of the lock-up agreement entered into by Tencent and delivers such writing to the Joint Sponsors (or, prior to their designation, the Company) prior to such transfer.

Undertakings by Walmart

Walmart, who held approximately 9.8% of our total issued and outstanding shares as of the Latest Practicable Date, has agreed that, subject to certain exceptions, during the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date (the "**Walmart Lock-Up Period**"), it will not, without the prior written consent of the Joint Sponsors on behalf of the Underwriters, directly or indirectly: (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any Shares or ADSs, or any securities convertible into or exchangeable or exercisable for any Shares or ADSs, owned as at the Price Determination Date directly by it (including holding as custodian) or with respect to which it has beneficial ownership within the rules and regulations of the SEC (collectively, the "**Walmart Lock-Up Securities**"), (ii) enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Walmart Lock-Up Securities, (iii) publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, provided that Walmart may make announcements with respect to any transfer of, or intention to transfer, the Walmart Lock-Up Securities to an entity that is directly or indirectly wholly-owned by Walmart (a "**Walmart Group Member**") if such transfer is not a disposition for value received from an entity or other person that is not a Walmart Group Member, or (iv) make any demand for or exercise any right with respect to, the registration of any Walmart Lock-Up Securities; provided, however, that the foregoing restrictions shall not apply to:

(a) any transaction relating only to (i) Shares or ADSs purchased in open market transactions on or after the Price Determination Date or (ii) Shares or ADSs acquired in private transactions on or after the Price Determination Date from third parties to the extent such acquired Shares or ADSs are not subject to any lock-up or similar transfer restrictions;

(b) any conversion of the Walmart Lock-Up Securities into, or exchange or exercise of the Walmart Lock-Up Securities for, Shares or ADSs by it, provided that the Shares or ADSs received by it upon such conversion, exchange or exercise shall be subject to the terms of the lock-up restriction set forth above;

(c) the establishment of a trading plan (a "**Plan**") pursuant to Rule 10b5-1 under the U.S. Exchange Act for the transfer of the Walmart Lock-Up Securities, provided that such Plan does not provide for the transfer of any Walmart Lock-Up Securities during the Walmart Lock-Up Period;

(d) any transfer of the Walmart Lock-Up Securities pursuant to a *bona fide* third-party tender offer, merger, consolidation or other similar transaction involving all holders of the Shares or ADSs in connection with a change of control of our Company; provided, that in the event the tender offer, merger, consolidation or other such transaction is not completed, the Walmart's Lock-Up Securities shall remain subject to the restrictions set forth above;

(e) any transfer of the Walmart Lock-Up Securities as a *bona fide* gift or gifts or through will or intestacy, or to a charitable organization or a trust or an entity beneficially owned and controlled by it, provided in each case that any such transfer shall not involve a disposition for value;

(f) any transfer of the Walmart Lock-Up Securities to a Walmart Group Member, provided that any such transfer shall not involve a disposition for value received from an entity or other person that is not a Walmart Group Member;

(g) the maintenance of existing, or the grant of additional, pledges of the Walmart Lock-Up Securities to one or more lenders for the purpose of securing loans ("**Walmart Loans**") to Walmart or a Walmart Group Member provided under facilities outstanding as of the date of the Hong Kong Underwriting Agreement (as such may be amended, refinanced or modified from time to time, provided that the total size of such facility is not increased), or any sale, disposition or transfer of Walmart's or such Walmart Group Member's pledged Walmart Lock-Up Securities in connection with any enforcement action or foreclosure or exercise of other rights by such lenders under any provision in such Walmart Loans documentation, including any foreclosure sale, disposition or transfer directed by a security agent under such Walmart Loans;

(h) with respect to Walmart Lock-Up Securities that are subject to an existing pledge (which for the avoidance of doubt includes a pledge in the form of a share mortgage), the grant of a right of rehypothecation, right of use or similar right (encompassing the right to loan, sell or re-pledge such Walmart Lock-Up Securities), and the exercise of any such right of rehypothecation, right of use or similar right; or

(i) any disclosure required by applicable law, rule, regulation or stock exchange requirements or judicial or legal process by any court or legislative or administrative body in writing, provided that Walmart will (to the extent reasonably possible and not prohibited by law) notify the Joint Sponsors and the Joint Global Coordinators prior to making any such disclosure in writing;

provided that in the case of each of clause (a), (b), (c) and (e) above, no filing or other public announcement by any party shall be required or made voluntarily during the Walmart Lock-Up Period in connection with the transactions contemplated therein; provided, further, that in the case of each of clause (e) or (f), any transferee that directly receives Walmart Lock-Up Securities agrees to be bound in writing by the terms of the lock-up agreement entered into by Walmart and delivers such writing to the Joint Sponsors (or, prior to their designation, the Company) prior to such transfer.

The Global Offering

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering. The listing of the Class A ordinary share on the Main Board of the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Class A ordinary share in issue and to be issued as mentioned in this document.

We are initially offering 133,000,000 Offer Shares under the Global Offering comprising:

(a) the Hong Kong Public Offering of initially 6,650,000 Offer Shares (subject to reallocation) in Hong Kong as described below in "—The Hong Kong Public Offering"; and

(b) the International Offering of initially 126,350,000 Offer Shares (subject to reallocation and the Over-allotment Option) pursuant to the shelf registration statement on Form F-3ASR that was filed with the SEC and became effective on June 5, 2020.

Investors may either (a) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or (b) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 4.30% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account the Class A ordinary shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 4.92% of the total Shares in issue immediately following the completion of the Global Offering (without taking into account the Class A ordinary shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time).

References in this document to applications, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

The Hong Kong Public Offering

Number of Offer Shares initially offered

We are initially offering 6,650,000 Offer Shares for subscription by the public in Hong Kong at the Public Offer Price, representing 5% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 0.22% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Class A ordinary shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of the options or the vesting of RSUs or other awards that have been or may be granted from time to time).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in "—Conditions of the Global Offering" below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Public Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 3,325,000 Hong Kong Offer Shares is liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules to the effect as further described below. 6,650,000 Offer Shares are initially available in the Hong Kong Public Offering, representing 5% of the Offer Shares initially available under the Global Offering.

Based on the current market conditions, if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 11,970,000 Offer Shares (in the case of (a)), 13,300,000 Offer Shares (in the case of (b)) and 15,960,000 Offer Shares (in the case of (c)), representing 9%, 10% and 12% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate.

In addition, the Joint Representatives may allocate Offer Shares from the International Offer Shares to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEX-GL91-18 issued by the Hong Kong Stock Exchange, if such allocation is done other than pursuant to the clawback mechanism above, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 13,300,000 Class A ordinary shares, representing 10% of the total number of Offer Shares initially available under the Global Offering).

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the allotment results announcement of the Hong Kong Public Offering, which is expected to be published on June 17, 2020.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he/she has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Public Offer Price of HK$236.00 per Offer Share in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK$11,918.91 for one board lot of 50 Class A ordinary shares. If the Public Offer Price, as finally determined in the manner described in "—Pricing and Allocation" below, is less than the maximum Public Offer Price of HK$236.00 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in "How to Apply for Hong Kong Offer Shares."

The International Offering

Number of Offer Shares initially offered

The International Offering will consist of an initial offering of 126,350,000 Offer Shares offered by us (subject to adjustment and the Over-allotment Option), representing 95% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 4.09% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Class A ordinary shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time).

Allocation

The International Offering will include U.S. offering of Offer Shares in the United States as well as non-U.S. offering to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "—Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Class A ordinary shares and/or hold or sell its Class A ordinary shares after the Listing. Such allocation is intended to result in a distribution of the Class A ordinary shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our benefit and the benefit of the shareholders as a whole.

The Joint Representatives (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in "—The Hong Kong Public Offering—

Reallocation" above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 19,950,000 Class A ordinary shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the International Offer Price under the International Offering to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 0.64% of the total Shares in issue immediately following the completion of the Global Offering without taking into account the Class A ordinary shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time. If the Over-allotment Option is exercised, an announcement will be made.

Stabilization

Underwriters use stabilization in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which the Stabilizing Manager may bid for or purchase the securities is not permitted to exceed the Public Offer Price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Class A ordinary shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as our best interest, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days after the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Class A ordinary shares, (b) selling or agreeing to sell the Class A ordinary shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Class A ordinary shares, (c) purchasing, or agreeing to purchase, the Class A ordinary shares pursuant to the Over-allotment Option in order to close out any position established under clauses (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Class A ordinary shares for the sole purpose of preventing or minimizing any reduction in the market price of the Class A ordinary shares, (e) selling or agreeing to sell any Class A ordinary shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in clauses (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Class A ordinary shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Class A ordinary shares;
- the Stabilizing Manager may not bid for or purchase the securities in order to support the price of the Class A ordinary shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on July 11, 2020, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further purchase or bids may be made, demand for the Class A ordinary shares, and therefore the price of the Class A ordinary shares, could fall;
- the Stabilizing Manager cannot assure the price of the Class A ordinary shares to stay at or above the Public Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Public Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

We will ensure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-Allocation

Following any over-allocation of Class A ordinary shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Class A ordinary shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Public Offer Price or through the Stock Borrowing Agreement as detailed below, or through a combination of these means.

Stock Borrowing Agreement

To cover any over-allocation of Class A ordinary shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 19,950,000 Class A ordinary shares (being the maximum number of Class A ordinary shares which may be issued pursuant to the exercise of the Over-allotment Option) from Huang River Investment Limited pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilizing Manager (or any person acting for it) and Huang River Investment Limited on or before the Price Determination Date.

The same number of Class A ordinary shares so borrowed must be returned to Huang River Investment Limited or their nominees, as the case may be, on or before the sixth business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised and (b) the day on which the Overallotment Option is exercised in full.

The Class A ordinary shares borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Huang River Investment Limited by the Stabilizing Manager (or any person acting for it) in relation to such Class A ordinary shares borrowing arrangement.

Pricing and Allocation

Determining the Offer Price

We will determine the pricing for the Offer Shares for the purpose of the various offerings under the Global Offering on the Price Determination Date, which is expected to be on or about June 11, 2020 and, in any event, no later than June 17, 2020, by agreement with the Joint Representatives (for themselves and on behalf of the Underwriters), and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

We will determine the Public Offer Price by reference to, among other factors, the closing price of the ADSs on Nasdaq on the last trading day on or before the Price Determination Date (which is accessible to the Shareholders and potential investors at **www.nasdaq.com/market-activity/stocks/jd**), and the Public Offer Price will not be more than HK$236.00 per Hong Kong Offer Share. The historical prices of our ADSs and trading volume on Nasdaq are set out below.

Period[1]	High	Low	ADTV[2]
	(US$)	(US$)	(million ADSs)
Fiscal year ended December 31, 2019	36.28	20.35	13.91
Fiscal year of 2020 (up to the Latest Practicable Date)	55.53	35.24	17.18

Notes:

(1) We have not declared or paid any dividends on our ADSs or Shares since our inception and up to the Latest Practicable Date, including the periods presented.

(2) Average daily trading volume ("**ADTV**") represents daily average number of our ADSs traded over the relevant period.

Applicants under the Hong Kong Public Offering must pay, on application, the maximum Public Offer Price of HK$236.00 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, amounting to a total of HK$11,918.91 for one board lot of 50 Class A ordinary shares.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on Nasdaq on the last trading day on or before the Price Determination Date (on a per Class A ordinary share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the book-building process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

We reserve the right not to proceed with the Hong Kong Public Offering or the International Offering on or at any time until the Price Determination Date if, for any reason, including as a result of volatility in the price of our ADSs or other changes in market conditions, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Wednesday, June 17, 2020.

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Representatives (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with our consent, reduce the number of Offer Shares offered below as stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on our website and the website of the Hong Kong Stock Exchange at **http://ir.jd.com** and **www.hkexnews.hk**, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares will be final. If the number of Offer Shares is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this document, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced.

Announcement of Final Pricing of the Offer Shares

The final pricing of the Offer Shares, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in "How to Apply for Hong Kong Offer Shares—D. Publication of Results."

Underwriting

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, our agreeing with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in "Underwriting."

Conditions of the Global Offering

Acceptance of all applications for Offer Shares will be conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, our Class A ordinary shares in issue and to be issued pursuant to the Global Offering (including the Class A ordinary shares which may be issued pursuant to the exercise of the Over-allotment Option), the Class A ordinary shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and the Class A ordinary shares to be issued after the conversion of Class B ordinary shares;
- the pricing of the Offer Shares having been agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) and us;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this document.

If, for any reason, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares on or before Wednesday, June 17, 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us on our website and the website of the Hong Kong Stock Exchange at **http://ir.jd.com** and **www.hkexnews.hk**, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares—F. Refund of Application Monies." In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Thursday, June 18, 2020, provided that the Global Offering has become unconditional in all respects at or before that time.

Dealings in the Class A ordinary shares

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, June 18, 2020, it is expected that dealings in the Class A ordinary shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, June 18, 2020.

The Class A ordinary shares will be traded in board lots of 50 Shares each and the stock code of the Class A ordinary shares will be 9618.

IMPORTANT NOTICE TO INVESTORS:
FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at **http://ir.jd.com**. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8646 from Monday, June 8, 2020 to Thursday, June 11, 2020.

A. Applications for the Hong Kong Offer Shares

1. How to Apply

We will not provide any printed application forms for use by the public.

To apply for the Hong Kong Offer Shares, you may:

(1) apply online through the **White Form eIPO** service at **www.eipo.com.hk**;

(2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

(i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

(ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

(iii) If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

(iv) If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

(v) None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

(vi) We, the Joint Representatives, the **White Form eIPO** Service Provider and our and their respective agents may reject or accept any application, in full or in part, for any reason at our or their discretion.

2. Who Can Apply

Eligibility for the Application

You can apply for the Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

(a) are 18 years of age or older; and

(b) have a Hong Kong address.

If an application is made by a person under a power of attorney, we and the Joint Representatives may accept it at our or their discretion, and on any conditions we or they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong Listing Rules or any relevant waivers that have been granted by the Hong Kong Stock Exchange (details of the relevant waivers are set out in the sections headed "Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Subscription for Shares by Existing Shareholders" and "Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Dealings in Shares prior to Listing"), you cannot apply for any Hong Kong Offer Shares if:

(a) you are an existing beneficial owner of Shares and/or a substantial shareholder of any of our subsidiaries;

(b) you are our director or chief executive and/or a director or chief executive officer of our subsidiaries;

(c) you are a close associate of any of the above persons;

(d) you are a core connected person of the Company or a person who will become a core connected person of the Company immediately upon the completion of the Global Offering; or

(e) you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for the Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals, please contact them for the items required for the application.

3. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus you:

- undertake to execute all relevant documents and instruct and authorize us and/or the Joint Representatives (or their agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Cayman Companies Law;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;
- agree that none of us, the Relevant Persons and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or any of them may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither we nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus;

- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- authorize (i) us to place your name(s) or the name of HKSCC Nominees on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under our Memorandum and Articles of Association and (ii) us and/or our agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "— Personal Collection" below to collect the share certificate(s) and/or refund check(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that we, our directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the **White Form eIPO** service or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

4. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK$		HK$		HK$		HK$
50	11,918.91	900	214,540.35	9,000	2,145,403.55	400,000	95,351,268.80
100	23,837.82	1,000	238,378.17	10,000	2,383,781.72	500,000	119,189,086.00
150	35,756.73	1,500	357,567.26	20,000	4,767,563.44	600,000	143,026,903.20
200	47,675.63	2,000	476,756.34	30,000	7,151,345.16	700,000	166,864,720.40
250	59,594.54	2,500	595,945.43	40,000	9,535,126.88	800,000	190,702,537.60
300	71,513.45	3,000	715,134.52	50,000	11,918,908.60	900,000	214,540,354.80
350	83,432.36	3,500	834,323.60	60,000	14,302,690.32	1,000,000	238,378,172.00
400	95,351.27	4,000	953,512.69	70,000	16,686,472.04	1,500,000	357,567,258.00
450	107,270.18	4,500	1,072,701.77	80,000	19,070,253.76	2,000,000	476,756,344.00
500	119,189.09	5,000	1,191,890.86	90,000	21,454,035.48	2,500,000	595,945,430.00
600	143,026.90	6,000	1,430,269.03	100,000	23,837,817.20	3,000,000	715,134,516.00
700	166,864.72	7,000	1,668,647.20	200,000	47,675,634.40	3,325,000[1]	792,607,421.90
800	190,702.54	8,000	1,907,025.38	300,000	71,513,451.60		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Applying Through the White Form eIPO Service

General

Individuals who meet the criteria in "— Who Can Apply" above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to us. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

If you have any questions on how to apply through the **White Form eIPO** service for the Hong Kong Offer Shares, please contact the telephone enquiry line of the **White Form eIPO** Service Provider at +852 2862 8646 which is available from Monday, June 8, 2020 to Thursday, June 11, 2020.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service through the designated website at **www.eipo.com.hk** (24 hours daily, except on the last day for applications) from 9:00 a.m. on Monday, June 8, 2020 until 11:30 a.m. on Thursday, June 11, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, June 11, 2020, the last day for applications, or such later time as described in "C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" below.

Commitment to sustainability

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 per each "JD.com, Inc" **White Form eIPO** application submitted via **www.eipo.com.hk** to support sustainability.

6. Applying Through CCASS EIPO Service

General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these electronic application instructions through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants though HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to us, the Joint Sponsors, the Joint Representatives and the Hong Kong Share Registrar.

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a **broker** or **custodian** or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and
- HKSCC Nominees will do the following things on your behalf:
  - (i) agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - (ii) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

(iii) undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;

(iv) declare that only one set of **electronic application instructions** has been given for your benefit;

(v) (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;

(vi) confirm that you understand that we, our directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(vii) authorize us to place HKSCC Nominees' name on our register of members as the holder of the Hong Kong Offer Shares allocated to you, and dispatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;

(viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

(ix) confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;

(x) agree that neither we nor any of the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);

(xi) agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or they may require about you;

(xii) agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

(xiii) agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us, and to become binding when you give the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous

Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;

(xiv) agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by us;

(xv) agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Hong Kong Offer Shares;

(xvi) agree with us, for ourselves and for the benefit of each shareholder (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for us and on behalf of each shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Cayman Companies Law; and

(xvii) agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Public Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Public Offer Price is less than the maximum Public Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions[(1)]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, June 8, 2020 — 9:00 a.m. to 8:30 p.m.
Tuesday, June 9, 2020 — 8:00 a.m. to 8:30 p.m.
Wednesday, June 10, 2020 — 8:00 a.m. to 8:30 p.m.
Thursday, June 11, 2020 — 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, June 8, 2020 until 12:00 noon on Thursday, June 11, 2020 (24 hours daily, except on Thursday, June 11, 2020, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, June 11, 2020, the last day for applications, or such later time as described in "C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" below.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Note:
(1) The times in this subsection are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

Personal Data

The following Personal Information Collection Statement applies to any personal data held by us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of us and our Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to us or our agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of us or our Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform us and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;
- maintaining or updating our Register of Members;
- verifying identities of the holders of our Class A ordinary shares;
- establishing benefit entitlements of holders of our Class A ordinary shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from us and our subsidiaries;
- compiling statistical information and profiles of the holder of our Class A ordinary shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable us and the Hong Kong Share Registrar to discharge our or their obligations to holders of our Class A ordinary shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by us and our Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but we and our Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us or the Hong Kong Share Registrar in connection with their respective business operation;

- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

We and our Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfill the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether we or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time, for the attention of the secretary, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

7. Warning for Electronic Applications

The application for the Hong Kong Offer Shares by **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. We, the Relevant Persons, the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS EIPO** service or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems.

In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12 noon on June 11, 2020.

8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC

Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an unlisted company makes an application and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. How Much are the Hong Kong Offer Shares

The maximum Public Offer Price is HK$236 per Hong Kong Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 50 Hong Kong Offer Shares, you will pay HK$11,918.91.

You must pay the maximum Public Offer Price, together with brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, in full upon application for the Hong Kong Offer Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 50 Hong Kong Offer Shares. If you make an **electronic application instruction** for more than 50 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the section "— 4. Minimum Application Amount and Permitted Numbers".

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Hong Kong Listing Rules), and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Public Offer Price, see "Structure of the Global Offering — Pricing and Allocation."

C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, June 11, 2020. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, June 11, 2020 or if there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in "Expected Timetable," we will make an announcement on our websites at **http://ir.jd.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

D. Publication of Results

We expect to announce the pricing of the Offer Shares on Thursday, June 11, 2020 on our website at **http://ir.jd.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

We expect to announce the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Wednesday, June 17, 2020 on our website at **http://ir.jd.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at **http://ir.jd.com** and **www.hkexnews.hk**, respectively, by no later than 9:00 a.m. on Wednesday, June 17, 2020;
- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID function" on a 24 hour basis from 8:00 a.m. on Wednesday, June 17, 2020 to 12:00 midnight on Tuesday, June 23, 2020; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Wednesday, June 17, 2020 to Friday, June 19, 2020 and Monday, June 22, 2020.

If we accept your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in "Structure of the Global Offering."

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

E. Circumstances in Which You Will Not be allocated the Hong Kong Offer Shares

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked:

By applying through the **CCASS EIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus; or
- if any supplement to this prospectus is issued, in which case we will notify applicants who have already submitted an application that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

If we or our agents exercise discretion to reject your application:

We, the Joint Representatives, the **White Form eIPO** Service Provider and our and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the Hong Kong Offer Shares and the International Offer Shares;
- your payment is not made correctly;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at **www.eipo.com.hk**;
- you apply for more than 3,325,000 Hong Kong Offer Shares, being 50% of the 6,650,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- we or the Joint Representatives believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or
- the Underwriting Agreements do not become unconditional or are terminated.

F. Refund of Application Monies

If an application is rejected, not accepted or accepted in part only, or if the Public Offer Price as finally determined is less than the maximum Public Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in "Structure of the Global Offering — Conditions of the Global Offering" are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Wednesday, June 17, 2020.

G. Dispatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks

You will receive one share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the share certificates will be deposited into CCASS as described below).

The Company will not issue temporary document of title in respect of the Offer Shares. The Company will not issue receipt for sums paid on application.

Subject to arrangement on dispatch/collection of share certificates and refund checks as mentioned below, any refund checks and share certificate(s) are expected to be posted on or before Wednesday, June 17, 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of check(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, June 18, 2020, provided that the Global Offering has become unconditional in all respects at or before that time.

Investors who trade Class A ordinary shares on the basis of publicly available allocation details or prior to the receipt of the share certificates or prior to the share certificates becoming valid do so entirely at their own risk.

Personal Collection

- ***If you apply through White Form eIPO service:***

  (a) If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, June 17, 2020, or any other place or date notified by us.

  (b) If you do not personally collect your share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.

  (c) If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, June 17, 2020 by ordinary post and at your own risk.

  (d) If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.

- ***If you apply through CCASS EIPO service:***

  Allocation of the Hong Kong Offer Shares

  For the purposes of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

  Deposit of Share Certificates into CCASS and Refund of Application Monies

  (a) If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, June 17, 2020 or on any other date determined by HKSCC or HKSCC Nominees.

  (b) We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in "— Publication of Results" above on Wednesday, June 17, 2020. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, June 17, 2020 or such other date as determined by HKSCC or HKSCC Nominees.

(c) If you have instructed your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that **broker** or **custodian**.

(d) If you have applied as a CCASS Investor Participant, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, June 17, 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of the Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

(e) Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Public Offer Price and the maximum Public Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your **broker** or **custodian** on Wednesday, June 17, 2020.

H. Admission of the Shares into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Class A ordinary shares and we comply with the stock admission requirements of HKSCC, the Class A ordinary shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Class A ordinary shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

We have made all necessary arrangements to enable the Class A ordinary shares to be admitted into CCASS.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets
(All amounts in thousands, except for share, per share data or otherwise noted)

	As of December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note 2(g)
ASSETS				
Current assets				
Cash and cash equivalents	25,688,327	34,262,445	36,971,420	5,310,612
Restricted cash	4,110,210	3,239,613	2,940,859	422,428
Short-term investments	8,587,852	2,035,575	24,602,777	3,533,968
Accounts receivable, net	16,359,147	11,109,988	6,190,588	889,222
Advance to suppliers	394,574	477,109	593,130	85,198
Inventories, net	41,700,379	44,030,084	57,932,156	8,321,434
Loan receivables, net	5,132,698	2,716,475	1,551,459	222,853
Prepayments and other current assets	2,258,904	3,848,225	4,078,102	585,783
Amount due from related parties	10,796,561	3,136,265	4,234,067	608,186
Total current assets	115,028,652	104,855,779	139,094,558	19,979,684
Non-current assets				
Property, equipment and software, net	12,574,178	21,082,838	20,654,071	2,966,772
Construction in progress	3,196,516	6,553,712	5,806,308	834,024
Intangible assets, net	6,692,717	5,011,706	4,110,034	590,369
Land use rights, net	7,050,809	10,475,658	10,891,742	1,564,501
Operating lease right-of-use assets	—	—	8,643,597	1,241,575
Goodwill	6,650,570	6,643,669	6,643,669	954,303
Investment in equity investees	18,551,319	31,356,616	35,575,807	5,110,145
Investment securities	10,027,813	15,901,573	21,417,104	3,076,375
Deferred tax assets	158,250	103,158	80,556	11,571
Other non-current assets	2,227,942	5,283,948	6,806,258	977,658
Amount due from related parties	1,896,200	1,896,200	—	—
Total non-current assets	69,026,314	104,309,078	120,629,146	17,327,293
Total assets	184,054,966	209,164,857	259,723,704	37,306,977

Consolidated Balance Sheets—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

	As of December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note 2(g)
LIABILITIES				
Current liabilities (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB7,577,086, RMB9,234,523 and RMB14,399,069 as of December 31, 2017, 2018 and 2019, respectively. Note 1)				
Short-term borrowings	200,000	147,264	—	—
Nonrecourse securitization debt	12,684,881	4,397,670	—	—
Accounts payable	74,337,708	79,985,018	90,428,382	12,989,224
Advance from customers	13,605,298	13,017,603	16,078,619	2,309,549
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB813,525, RMB863,480 and RMB796,193 as of December 31, 2017, 2018 and 2019, respectively)	1,592,332	1,980,489	3,326,594	477,835
Taxes payable	658,220	825,677	2,015,788	289,550
Amount due to related parties	54,342	215,614	317,978	45,675
Accrued expenses and other current liabilities	15,117,840	20,292,680	24,656,180	3,541,639
Operating lease liabilities	—	—	3,193,480	458,715
Total current liabilities	118,250,621	120,862,015	140,017,021	20,112,187
Non-current liabilities				
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB1,273,545, RMB463,153 and RMB1,747,020 as of December 31, 2017, 2018 and 2019, respectively)	1,273,545	463,153	1,942,635	279,042
Nonrecourse securitization debt	4,475,238	—	—	—
Unsecured senior notes	6,447,357	6,786,143	6,912,492	992,917
Deferred tax liabilities	882,248	828,473	1,338,988	192,334
Long-term borrowings	—	3,088,440	3,139,290	450,931
Operating lease liabilities	—	—	5,523,164	793,353
Other non-current liabilities	337,254	308,489	225,883	32,446
Total non-current liabilities	13,415,642	11,474,698	19,082,452	2,741,023
Total liabilities	131,666,263	132,336,713	159,099,473	22,853,210
Commitments and contingencies (Note 34)				
MEZZANINE EQUITY				
Convertible redeemable non-controlling interests (Note 23)	—	15,961,284	15,964,384	2,293,140
SHAREHOLDERS' EQUITY:				
JD.com, Inc. 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; 2,520,271,138 Class A ordinary shares issued and 2,480,575,334 outstanding, 453,672,011 Class B ordinary shares issued and 443,739,929 outstanding as of December 31, 2019.)	377	380	381	55
Additional paid-in capital	76,254,607	82,832,895	90,676,122	13,024,810
Statutory reserves	635,966	1,400,412	1,459,165	209,596
Treasury stock	(4,457,608)	(3,783,729)	(2,530,166)	(363,436)
Accumulated deficit	(22,234,609)	(24,038,081)	(11,912,679)	(1,711,149)
Accumulated other comprehensive income	1,842,081	3,359,096	4,163,147	597,999
Total JD.com, Inc. shareholders' equity	52,040,814	59,770,973	81,855,970	11,757,875
Non-controlling interests	347,889	1,095,887	2,803,877	402,752
Total shareholders' equity	52,388,703	60,866,860	84,659,847	12,160,627
Total liabilities, mezzanine equity and shareholders' equity	184,054,966	209,164,857	259,723,704	37,306,977

Consolidated Statements of Operations and Comprehensive Income/(Loss)
(All amounts in thousands, except for share, per share data or otherwise noted)

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note 2(g)
Net revenues				
Net product revenues	331,824,410	416,108,746	510,733,967	73,362,344
Net service revenues	30,507,344	45,911,013	66,154,517	9,502,502
Total net revenues	362,331,754	462,019,759	576,888,484	82,864,846
Cost of revenues	(311,516,831)	(396,066,126)	(492,467,391)	(70,738,515)
Fulfillment	(25,865,128)	(32,009,658)	(36,968,041)	(5,310,127)
Marketing	(14,918,107)	(19,236,740)	(22,234,045)	(3,193,721)
Research and development	(6,652,374)	(12,144,383)	(14,618,677)	(2,099,842)
General and administrative	(4,214,790)	(5,159,666)	(5,490,159)	(788,612)
Impairment of goodwill and intangible assets	—	(22,317)	—	—
Gain on sale of development properties	—	—	3,884,709	558,004
Income/(loss) from operations	(835,476)	(2,619,131)	8,994,880	1,292,033
Other income/(expense)				
Share of results of equity investees	(1,926,720)	(1,113,105)	(1,738,219)	(249,680)
Interest income	2,530,490	2,117,921	1,785,572	256,481
Interest expense	(963,742)	(854,538)	(725,010)	(104,141)
Others, net	1,316,408	95,175	5,375,309	772,115
Income/(loss) before tax	120,960	(2,373,678)	13,692,532	1,966,808
Income tax expenses	(139,593)	(426,872)	(1,802,440)	(258,904)
Net income/(loss) from continuing operations	(18,633)	(2,800,550)	11,890,092	1,707,904
Net income from discontinued operations, net of tax	6,915	—	—	—
Net income/(loss)	(11,718)	(2,800,550)	11,890,092	1,707,904
Net loss from continuing operations attributable to non-controlling interests shareholders	(135,452)	(311,409)	(297,163)	(42,685)
Net loss from discontinued operations attributable to non-controlling interests shareholders	(5,030)	—	—	—
Net income from continuing operations attributable to mezzanine equity classified as non-controlling interests shareholders	—	2,492	3,100	445
Net income from discontinued operations attributable to mezzanine equity classified as non-controlling interests shareholders	281,021	—	—	—
Net income/(loss) attributable to ordinary shareholders	(152,257)	(2,491,633)	12,184,155	1,750,144
Including: Net loss from discontinued operations attributable to ordinary shareholders	(269,076)	—	—	—
Net income/(loss) from continuing operations attributable to ordinary shareholders	116,819	(2,491,633)	12,184,155	1,750,144

Consolidated Statements of Operations and Comprehensive Income/(Loss)—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note 2(g)
Net income/(loss)	(11,718)	(2,800,550)	11,890,092	1,707,904
Other comprehensive income:				
Foreign currency translation adjustments	(822,052)	2,696,784	793,671	114,004
Net change in unrealized gains/ (losses) on available-for-sale securities:				
Unrealized gains, net of tax	1,473,014	237,585	312,723	44,920
Reclassification adjustment for gains recorded in net income, net of tax	(352,274)	(260,712)	(258,537)	(37,137)
Net unrealized gains/(losses) on available-for-sale securities	1,120,740	(23,127)	54,186	7,783
Total other comprehensive income	298,688	2,673,657	847,857	121,787
Total comprehensive income/(loss)	286,970	(126,893)	12,737,949	1,829,691
Total comprehensive loss attributable to non-controlling interests shareholders	(140,482)	(311,409)	(253,357)	(36,392)
Total comprehensive income attributable to mezzanine equity classified as non-controlling interests shareholders	281,021	2,492	3,100	445
Total comprehensive income attributable to ordinary shareholders	146,431	182,024	12,988,206	1,865,638
Net income/(loss) per share				
Basic				
Continuing operations	0.04	(0.87)	4.18	0.60
Discontinued operations	(0.09)	—	—	—
Net income/(loss) per share	(0.05)	(0.87)	4.18	0.60
Diluted				
Continuing operations	0.04	(0.87)	4.11	0.59
Discontinued operations	(0.09)	—	—	—
Net income/(loss) per share	(0.05)	(0.87)	4.11	0.59
Weighted average number of shares				
Basic	2,844,826,014	2,877,902,678	2,912,637,241	2,912,637,241
Diluted	2,911,461,817	2,877,902,678	2,967,321,803	2,967,321,803

Consolidated Statements of Cash Flows
(All amounts in thousands, except for share, per share data or otherwise noted)

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note2(g)
Cash flows from operating activities:				
Net income/(loss)	(11,718)	(2,800,550)	11,890,092	1,707,904
Loss from discontinued operations, net of income tax	(6,915)	—	—	—
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:				
Depreciation and amortization	4,192,716	5,560,034	5,828,055	837,148
Share-based compensation	2,780,062	3,659,989	3,694,955	530,746
(Gains)/losses from disposal of property, equipment and software	11,591	(11,166)	65,492	9,407
Deferred income tax	(221,010)	(10,454)	533,117	76,577
Amortization of discounts and issuance costs of the unsecured senior notes	13,426	13,649	14,812	2,128
Impairment of goodwill and intangible assets	—	22,317	—	—
Impairment of investments	139,823	593,138	1,954,031	280,679
Fair value change of long-term investments	—	1,512,979	(3,495,709)	(502,127)
Gain from business and investment disposals	(74,965)	(1,320,266)	(1,199,407)	(172,284)
Gain on sale of development properties	—	—	(3,884,709)	(558,004)
Share of results of equity investees	1,926,720	1,113,105	1,738,219	249,680
Foreign exchange (gains)/losses	(213,482)	192,491	(124,070)	(17,822)
Changes in operating assets and liabilities:				
Accounts receivable	(545,991)	4,287,004	3,936,793	565,485
Inventories	(12,788,337)	(2,342,058)	(13,915,610)	(1,998,852)
Advance to suppliers	(137,457)	(75,370)	(127,812)	(18,359)
Prepayments and other current assets	(328,041)	(899,139)	486,067	69,819
Operating lease right-of-use assets	—	—	(1,407,345)	(202,152)
Amount due from related parties	2,456,933	1,769,930	(1,500,728)	(215,566)
Other non-current assets	(372,576)	44,990	(408,937)	(58,740)
Accounts payable	26,106,191	5,466,698	10,391,341	1,492,623
Advance from customers	2,138,964	(745,854)	3,061,018	439,688
Deferred revenues	(374,042)	(603,464)	454,780	65,325
Taxes payable	92,932	166,120	722,781	103,821
Accrued expenses and other current liabilities	4,624,014	5,158,390	4,417,646	634,557
Operating lease liabilities	—	—	1,521,635	218,569
Amount due to related parties	(66,370)	128,909	134,713	19,350
Net cash provided by continuing operating activities	29,342,468	20,881,422	24,781,220	3,559,600
Net cash used in discontinued operating activities	(2,485,741)	—	—	—
Net cash provided by operating activities	26,856,727	20,881,422	24,781,220	3,559,600

Consolidated Statements of Cash Flows—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note2(g)
Cash flows from investing activities:				
Purchase of short-term investments	(9,288,743)	(2,518,000)	(24,501,345)	(3,519,398)
Maturity of short-term investments	7,211,608	9,053,087	2,018,324	289,914
Purchase of investment securities	(7,824,277)	(4,562,283)	(770,818)	(110,721)
Cash received from disposal of investment securities	—	317,975	1,009,088	144,946
Cash paid for investments in equity investees	(6,207,880)	(17,398,204)	(10,508,432)	(1,509,442)
Cash received from disposal of equity investment	202,774	1,606,338	3,606,308	518,014
Cash paid for loan originations	(24,379,691)	(36,432,214)	(43,560,458)	(6,257,068)
Cash received from loan repayments	23,019,358	38,984,140	44,592,432	6,405,302
Purchase of property, equipment and software	(3,294,286)	(9,743,453)	(2,597,069)	(373,045)
Purchase of intangible assets	(8,774)	(130,797)	(41,449)	(5,954)
Purchase of land use rights	(4,785,538)	(4,136,305)	(1,039,106)	(149,258)
Cash paid for construction in progress	(3,267,277)	(7,358,939)	(5,321,968)	(764,453)
Cash received from sale of development properties	—	—	7,905,251	1,135,518
Cash paid for business combination, net of cash acquired	(160,658)	(19,578)	(41,380)	(5,944)
Loans (provided to)/settled by JD Digits	(6,187,891)	6,259,241	4,148,796	595,937
Proceeds from JD Digits reorganization (Note 6)	13,027,155	—	—	—
Other investing activities	—	—	(247,531)	(35,556)
Net cash used in continuing investing activities	(21,944,120)	(26,078,992)	(25,349,357)	(3,641,208)
Net cash used in discontinued investing activities	(17,871,171)	—	—	—
Net cash used in investing activities	(39,815,291)	(26,078,992)	(25,349,357)	(3,641,208)

Consolidated Statements of Cash Flows—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note 2(g)
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares	—	3,531,870	—	—
Repurchase of ordinary shares	—	(205,886)	(131,010)	(18,818)
Proceeds from settlement of capped call options	737,501	—	—	—
Proceeds from issuance of ordinary shares pursuant to share-based awards	135,745	48,555	112,153	16,110
Proceeds from issuance of convertible redeemable preferred shares of JD Logistics, net	—	15,958,792	—	—
Capital injection from non-controlling interest shareholders	209,725	805,561	6,648,761	955,035
Proceeds from short-term borrowings	700,000	1,179,422	5,803,800	833,664
Repayment of short-term borrowings	(2,356,888)	(1,200,000)	(5,969,768)	(857,504)
Proceeds from long-term borrowings	—	2,890,575	—	—
Proceeds from nonrecourse securitization debt	16,500,000	—	—	—
Repayment of nonrecourse securitization debt	(10,889,371)	(11,960,194)	(3,886,227)	(558,222)
Other financing activities	143,653	171,233	(5,242)	(753)
Net cash provided by continuing financing activities	5,180,365	11,219,928	2,572,467	369,512
Net cash provided by discontinued financing activities	14,054,620	—	—	—
Net cash provided by financing activities	19,234,985	11,219,928	2,572,467	369,512
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(641,534)	1,681,163	405,891	58,302
Net increase in cash, cash equivalents, and restricted cash	5,634,887	7,703,521	2,410,221	346,206
Cash, cash equivalents, and restricted cash at beginning of year	24,163,650	29,798,537	37,502,058	5,386,834
Cash, cash equivalents, and restricted cash at end of year	29,798,537	37,502,058	39,912,279	5,733,040
Supplemental cash flow disclosures of continuing operations:				
Cash paid for income taxes	(240,899)	(666,305)	(807,622)	(116,008)
Cash paid for interest	(577,306)	(421,035)	(679,120)	(97,550)
Supplemental disclosures of non-cash investing and financing activities:				
Issuance of ordinary shares in connection with strategic cooperation agreement with Tencent	—	—	759,195	109,052
Equity investments obtained through commitment of future services and contribution of certain business	—	181,228	2,370,807	340,545
Right-of-use assets acquired under operating leases	—	—	4,860,770	698,206

Consolidated Statements of Changes in Shareholders' Equity
(All amounts in thousands, except for share, per share data or otherwise noted)

	Ordinary shares		Treasury stock		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income/(loss)	Accumulated deficit	Non-controlling interests	Total Shareholders' equity
	Shares	Amount	Shares	Amount						
		RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2016	2,938,708,899	377	(102,264,502)	(5,181,880)	59,258,417	132,938	1,543,393	(21,860,345)	269,962	34,162,862
Repurchase of ordinary shares	—	—	—	—	737,501	—	—	—	—	737,501
Accretion of redeemable non-controlling interests	—	—	—	—	(281,021)	—	—	—	—	(281,021)
Exercise of share-based awards	—	—	4,116,816	259,583	(114,556)	—	—	—	—	145,027
Share-based compensation and vesting of share-based awards	—	—	12,102,216	464,689	2,460,785	—	—	—	—	2,925,474
Net income/(loss)	—	—	—	—	—	—	—	128,764	(140,482)	(11,718)
Foreign currency translation adjustments	—	—	—	—	—	—	(822,052)	—	—	(822,052)
Net change in unrealized gains on available-for-sale securities	—	—	—	—	—	—	1,120,740	—	—	1,120,740
Statutory reserves	—	—	—	—	—	503,028	—	(503,028)	—	—
Change of the capital from non-controlling interest shareholders	—	—	—	—	—	—	—	—	231,055	231,055
Gain from JD Digits reorganization	—	—	—	—	14,193,481	—	—	—	(12,646)	14,180,835
Balance as of December 31, 2017	2,938,708,899	377	(86,045,470)	(4,457,608)	76,254,607	635,966	1,842,081	(22,234,609)	347,889	52,388,703
Cumulative effect of changes in accounting principles related to revenue recognition and financial instruments	—	—	—	—	—	—	(1,156,642)	1,452,607	—	295,965
Issuance of ordinary shares	27,106,948	3	—	—	3,531,867	—	—	—	—	3,531,870
Repurchase of ordinary shares	—	—	(2,792,400)	(205,886)	—	—	—	—	—	(205,886)
Accretion of convertible redeemable non-controlling interests	—	—	—	—	—	—	—	(2,492)	—	(2,492)
Exercise of share-based awards	—	—	1,077,036	67,982	(30,792)	—	—	—	—	37,190
Share-based compensation and vesting of share-based awards	—	—	16,241,342	811,783	2,447,238	—	—	—	400,968	3,659,989
Net loss	—	—	—	—	—	—	—	(2,489,141)	(311,409)	(2,800,550)
Foreign currency translation adjustments	—	—	—	—	—	—	2,696,784	—	—	2,696,784
Net change in unrealized gains on available-for-sale debt securities	—	—	—	—	—	—	(23,127)	—	—	(23,127)
Statutory reserves	—	—	—	—	—	764,446	—	(764,446)	—	—
Change of the capital from non-controlling interest shareholders	—	—	—	—	—	—	—	—	658,439	658,439
Share of changes in the equity investee's capital accounts	—	—	—	—	629,975	—	—	—	—	629,975
Balance as of December 31, 2018	2,965,815,847	380	(71,519,492)	(3,783,729)	82,832,895	1,400,412	3,359,096	(24,038,081)	1,095,887	60,866,860
Issuance of ordinary shares	8,127,302	1	—	—	759,194	—	—	—	—	759,195
Repurchase of ordinary shares	—	—	(1,871,696)	(131,010)	—	—	—	—	—	(131,010)
Accretion of convertible redeemable non-controlling interests	—	—	—	—	—	—	—	(3,100)	—	(3,100)
Exercise of share-based awards	—	—	3,299,962	210,336	(79,352)	—	—	—	(10,547)	120,437
Share-based compensation and vesting of share-based awards	—	—	20,463,340	1,174,237	1,948,609	—	—	—	572,109	3,694,955
Net income/(loss)	—	—	—	—	—	—	—	12,187,255	(297,163)	11,890,092
Foreign currency translation adjustments	—	—	—	—	—	—	749,865	—	43,806	793,671
Net change in unrealized gains on available-for-sale debt securities	—	—	—	—	—	—	54,186	—	—	54,186
Statutory reserves	—	—	—	—	—	58,753	—	(58,753)	—	—
Change of the capital from non-controlling interest shareholders	—	—	—	—	5,228,721	—	—	—	1,399,785	6,628,506
Share of changes in the equity investee's capital accounts	—	—	—	—	(13,945)	—	—	—	—	(13,945)
Balance as of December 31, 2019	2,973,943,149	381	(49,627,886)	(2,530,166)	90,676,122	1,459,165	4,163,147	(11,912,679)	2,803,877	84,659,847

Notes to the Consolidated Financial Statements
(All amounts in thousands, except for share, per share data or otherwise noted)

1. Principal activities and organization

JD.com, Inc. (the "Company") is a leading technology driven e-commerce company transforming to become the leading supply chain based technology and service provider, providing products and services to consumers, third-party merchants, suppliers and other business partners through its subsidiaries, consolidated variable interest entities ("VIEs") (collectively, the "Group"). The Group operates e-commerce business, including online retail and online marketplace mainly through its retail mobile apps and www.jd.com website (collectively, "JD Platform"). The Group serves consumers through online retail, focusing on product selection, price and convenience, serves third-party merchants through online marketplace, offering programs that enable the merchants to sell their products on JD Platform and to fulfill the orders either by themselves or through the Group's logistic services. Leveraging its AI capabilities and technologies, the Group provides a variety of marketing services to business partners through its proprietary advertisement technology platform. Leveraging its nationwide fulfillment infrastructure, the Group provides comprehensive supply chain solutions, primarily including warehousing, transportation, delivery and after-sales service to third parties, including both third-party merchants and suppliers on JD Platform and other business partners, through the Group's logistics business ("JD Logistics").

Prior to June 2017, the Group offered financial services to its suppliers, third-party merchants 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. Upon the reorganization of JD Digits, the Group disposed all its equity stake in JD Digits and was entitled to a profit sharing right from 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 JD Digits's equity interest, subject to applicable regulatory approvals (Note 6).

In 2018, the Group established JD Property Management Group ("JD Property"), which owns, develops and manages the Group's logistics facilities and other real estate properties, to support JD Logistics and other third parties. By leveraging its fund management platform, JD Property can realize development profits and recycle capital from mature properties to fund new developments and scale the business.

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 and consolidated VIEs.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

1. Principal activities and organization—continued

As of December 31, 2019, the Company's major subsidiaries, consolidated VIEs and VIEs' subsidiaries are as follows:

	Equity interest held	Place and date of incorporation
Subsidiaries		
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.	80%	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")	80%	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
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 Asia Development Limited	100%	British Virgin Islands, February 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")	80%	Shaanxi, China, May 2017
Xi'an Jingdong Xuncheng Logistics Co., Ltd.	80%	Shaanxi, China, June 2017
Jingdong Express International Limited	80%	British Virgin Islands, November 2017
Beijing Jinghong Logistics Co., Ltd.	80%	Beijing, China, November 2017
JD Assets Holding Limited	100%	Cayman Islands, March 2018
JD Logistics Holding Limited	100%	Cayman Islands, March 2018
JD Health International Inc.	86%	Cayman Islands, November 2018
JD Jiankang Limited	100%	British Virgin Islands, April 2019

	Place and date of incorporation
Consolidated VIEs	
Beijing Jingdong 360 Degree E-commerce Co., Ltd. ("Jingdong 360")	Beijing, China, April 2007
Jiangsu Yuanzhou E-commerce Co., Ltd. ("Jiangsu Yuanzhou")	Jiangsu, China, September 2010

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

1. Principal activities and organization—continued

	Place and date of incorporation
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")	Shaanxi, China, June 2017
Consolidated VIEs' Subsidiaries	
Beijing Jingbangda Trade Co., Ltd. ("Beijing Jingbangda")	Beijing, China, August 2012
Hengqin Junze Management and Consulting Co., Ltd.	Guangdong, China, April 2017
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

- ***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.

- ***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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

1. Principal activities and organization—continued

• ***Consolidated variable interest entities—continued***

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 agreement 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.

• ***Exclusive purchase option agreements***

The Nominee Shareholders of the VIEs have granted the Group's relevant PRC subsidiaries the exclusive and irrevocable rights to purchase from the Nominee Shareholders, to the extent permitted under the 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 the 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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

1. Principal activities and organization—continued

- ***Exclusive technology consulting and services agreements—continued***

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 the PRC. Jingdong 360 has agreed to pay license fees to Jingdong Century and the amount of the license fees 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.

- ***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 the 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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

1. Principal activities and organization—continued

- ***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 the 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.

- ***Risks in relations to the VIE structure***

The Company believes that the contractual arrangements among its subsidiaries, the VIEs and its shareholders are in compliance with the current PRC laws and legally enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. As a result, the Company may be unable to consolidate the VIEs and its subsidiary in the consolidated financial statements. The Company's ability to control its VIEs also depends on the authorization by the shareholders of the VIEs to exercise voting rights on all matters requiring shareholders' approval in the VIEs. The Company believes that the agreements on authorization to exercise shareholder's voting power are legally enforceable. In addition, if the legal structure and contractual arrangements with its VIEs were found to be in violation of any future PRC laws and regulations, the Company may be subject to fines or other actions. The Company believes the possibility that it will no longer be able to control and consolidate its VIEs as a result of the aforementioned risks is remote.

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	2019
	RMB	RMB	RMB
Total assets	19,281,227	23,878,253	38,749,631
Total liabilities	19,547,831	26,717,946	43,734,593

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

1. Principal activities and organization—continued

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Total net revenues	15,926,297	37,561,128	59,306,001
Net loss	(115,318)	(2,646,122)	(2,268,090)

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Net cash provided by/(used in) operating activities	1,188,220	(1,144,849)	953,673
Net cash used in investing activities	(10,117,516)	(7,596,181)	(6,450,150)
Net cash provided by financing activities	9,626,497	8,902,074	5,542,926
Net increase in cash, cash equivalents, and restricted cash	697,201	161,044	46,449
Cash, cash equivalents, and restricted cash at beginning of year	21,959	719,160	880,204
Cash, cash equivalents, and restricted cash at end of year	719,160	880,204	926,653

As of December 31, 2017, 2018 and 2019, the total assets of the Group's consolidated VIEs (where appropriate, the term "VIEs" also refers to its subsidiaries as a whole) were mainly consisting of cash and cash equivalents, short-term investments, accounts receivable, inventories, prepayments and other current assets, investment securities, investment in equity investees, property, equipment and software, intangible assets, operating lease right-of-use assets and other non-current assets. As of December 31, 2017, 2018 and 2019, the total liabilities of the consolidated VIEs were mainly consisting of accounts payable, advance from customers, deferred revenues, accrued expenses and other current liabilities, operating lease 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 can have assets transferred out of the Group's consolidated VIEs. Therefore, the Group's relevant PRC subsidiaries consider that there is no asset in the Group's consolidated VIEs that can be used only to settle their obligations except for registered capitals and the PRC statutory reserves of the Group's consolidated VIEs amounting to RMB1,090,876 as of December 31, 2019. As the Group's consolidated VIEs 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. The total shareholders' deficit of the Group's consolidated VIEs was RMB266,604, RMB2,839,693 and RMB4,984,962 as of December 31, 2017, 2018 and 2019, 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. As the Group is conducting certain businesses in the PRC through the consolidated VIEs, the Group may provide additional financial support on a discretionary basis in the future, which could expose the Group to a loss.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

1. Principal activities and organization—continued

The Group periodically securitizes 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 its reorganization (Note 6), is a VIE of the Group while the Group or any subsidiary is not considered the primary beneficiary.

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 and the consolidated VIEs 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 consolidated 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 and the consolidated VIEs have been eliminated upon consolidation.

c. Reclassifications

In 2018, items related to restricted cash in the consolidated statements of cash flows for the year ended December 31, 2017 have been reclassified to conform to the current period presentation to facilitate comparison as a result of the adoption of Accounting Standards Update ("ASU") 2016-18, *Statement of cash flows (Topic 230): restricted cash*.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

d. Non-controlling interests

For the Company's consolidated subsidiaries and VIEs, 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, returns allowance, vendor and customer incentives, determination of the stand-alone selling price ("SSP"), 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, the discount rate for lease, redemption value of the redeemable preferred shares and consolidation of VIEs. Actual results may differ materially from those estimates.

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 and consolidated VIEs 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 Topic 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 gain of RMB213,482, a loss of RMB192,491 and a gain of RMB124,070 for the years ended December 31, 2017, 2018 and 2019, respectively.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

f. Foreign currency translation—continued

The consolidated 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 loss of RMB822,052, a gain of RMB2,696,784 and a gain of RMB793,671 for the years ended December 31, 2017, 2018 and 2019, 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, 2019 are solely for the convenience of the readers and were calculated at the rate of US$1.00=RMB6.9618, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 31, 2019. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on December 31, 2019, 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, 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.

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 Group also holds debt classified securities, and such investments are recorded as available-for-sale debt securities and held-to-maturity securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

j. Short-term investments—continued

income. Realized gains or losses are included in interest income in the consolidated statements of operations and comprehensive income/(loss) during the period in which the gain or loss is realized.

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.

The Group, in collaboration with JD Digits, provides consumer financing to the qualified customers in the online retail business, such consumer financing receivables are recorded as accounts receivable. Due to the legacy contractual arrangements with JD Digits, the Group remains as the legal owner of the consumer financing receivables, where JD Digits performs the related credit assessment.

JD Digits is obligated 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 were provided. The Group, in collaboration with JD Digits, 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. If there is strong evidence indicating that the accounts receivable are likely to be unrecoverable, the Group also makes specific allowance in the period in which a loss is determined to be probable. 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.

l. Inventories, net

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Cost of inventories is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventories to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

l. Inventories, net—continued

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 merchants maintain ownership of their inventories and therefore these products are not included in the Group's inventories.

m. Loan receivables, net

Loan receivables represent the consumer financing, in collaboration with JD Digits, provided to qualified individual customers on the Group's online marketplace. Due to the legacy contractual arrangements with JD Digits, the Group remains as the legal owner of the consumer financing receivables, including such loan receivables, where JD Digits performs the related credit assessment and absorbs the credit risks. The loan terms extended to the customers generally range from 1 month to 24 months. As JD Digits is obligated to purchase the receivables past due over certain agreed period of time from the Group at carrying values to absorb the credit risks, no provision for doubtful accounts was recorded for the years ended December 31, 2017, 2018 and 2019. The loan receivables were measured at amortized cost and reported in the consolidated balance sheets at outstanding principal. As of December 31, 2017, 2018 and 2019, the loan receivables with the collection period over one year amounting to RMB243,624, RMB105,455 and RMB179,886, respectively, were classified into other non-current assets in the consolidated balance sheets. Cash paid for loan originations and cash received from loan repayments are classified as investing activities in the consolidated statements of cash flows. The Group, in collaboration with JD Digits, periodically securitizes loan receivables through the transfer of those assets to securitization vehicles, please refer to Note 2(v).

n. Property, equipment and software, net

Property, equipment and software are stated at cost less accumulated depreciation and impairment. Property, equipment and software are depreciated at rates sufficient to write off their costs less impairment and residual value, if any, over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Category	Estimated useful lives
Electronic equipment	3-5 years
Office equipment	5 years
Vehicles	3-5 years
Logistics, warehouse and other heavy 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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

n. Property, equipment and software, net—continued

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).

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, 2018 and 2019, construction in progress in the amount of RMB3,196,516, RMB6,553,712 and RMB5,806,308, respectively, 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 50 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 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
Domain names and trademarks	5-20 years
Technology and 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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

r. Goodwill—continued

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 Financial Accounting Standards Board ("FASB") guidance on testing of goodwill for impairment, the Group first assesses 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 as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount of each reporting unit exceeds its fair value, an impairment loss equal to the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill will be recorded. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

s. Investment in equity investees

Investment in equity investees represents the Group's investments in privately held companies, 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 Topic 323, Investment—Equity Method and Joint Ventures ("ASC 323"), 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 of accumulated other comprehensive income 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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

s. Investment in equity investees—continued

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 funds 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 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 based on performance and financial position of the investee as well as other evidence of market value at each reporting date. Such assessment includes, but is not limited to, reviewing the investee's cash position, recent financing, as well as the financial and business performance. The Group 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.

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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

t. Investment securities—continued

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 in collaboration with JD Digits, periodically securitizes accounts receivable and loan receivables arising from consumer financing 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 Topic 810, *Consolidation*. 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 receivable are de-recognized in the consolidated balance sheets pursuant to ASC Topic 860, *Transfers and Servicing* ("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 rights 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 ignored when applying ASC 860, as long as the transferee will not be consolidated by the transferor.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

v. Nonrecourse securitization debt and transfer of financial assets—continued

Due to the Group's continuing involvement rights 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 were 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 were from 2018 to 2019, the securities were repaid as collections on the underlying collateralized assets occur. As of December 31, 2017, 2018 and 2019, the collateralized accounts receivable were RMB11,701,973, RMB3,116,309 and nil, respectively, and the collateralized loan receivables were RMB4,512,764, RMB1,281,361 and nil, 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, the Group revised certain structural arrangements to relinquish its continuing involvement rights when setting up the new securitization vehicles. In 2019, RMB21,500,000 (2017: RMB8,000,000, 2018: RMB17,500,000) consumer credit receivables financial assets were derecognized through the sales type arrangements, including accounts receivable of RMB15,302,084 (2017: RMB5,693,223, 2018: RMB12,632,342) and loan receivables of RMB6,197,916 (2017: RMB2,306,777, 2018: RMB4,867,658). Proceeds from the derecognition were RMB21,500,000 (2017: RMB8,000,000, 2018: RMB17,500,000), and JD Digits and other third-party investors acted as the servicers 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 the periods presented.

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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

x. Fair value—continued

would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The Group measures certain financial assets, including investments under the equity method on other-than-temporary basis, investments under the Measurement Alternative, 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.

y. Revenues

The Group adopted ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), from January 1, 2018, using the modified retrospective transition approach that increased retained earnings by approximately RMB256,994. Revenues for the years ended December 31, 2018 and 2019 were presented under ASC 606, and revenues for the year ended December 31, 2017 were not adjusted and continue to be presented under ASC Topic 605, *Revenue Recognition*. 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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

y. Revenues—continued

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, the 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. Revenues are recorded net of value-added taxes.

The Group recognizes revenues net of discounts and return allowances when the products are delivered and title is passed to customers. Significant judgement is required to estimate return allowances. For online retail 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 and 2019, liabilities for return allowances were RMB363,191 and RMB425,135, respectively, which were 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 were RMB381,165 and RMB454,298 as of December 31, 2018 and 2019, respectively, and were included in "Prepayments and other current assets".

The Group also sells prepaid cards which can be redeemed to purchase products sold on the JD Platform. 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. Upon the adoption of ASC 606, 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.

Revenue arrangements with multiple deliverables are divided into separate units of accounting based on the 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.

Net Product Revenues

The Group recognizes the product revenues from the online retail business 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 RMB236,268,621, RMB280,059,089 and RMB328,703,453, and revenues from the sales of general merchandise products were RMB95,555,789, RMB136,049,657 and RMB182,030,514, for the years ended December 31, 2017, 2018 and 2019, respectively. The Group's net product revenues were mainly generated by the JD Retail segment.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

Net Service Revenues

The Group charges commission fees to third-party merchants for participating in the Group's online marketplace, where the Group generally is acting as an agent and its performance obligation is to arrange for the provision of the specified goods or services by those third-party merchants. Upon successful sales, the Group charges the third-party merchants 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 allowances.

The Group provides marketing services to third-party merchants, suppliers and other business partners on its various website channels and third-party marketing affiliate's websites, including but not limited to pay for performance marketing services on which the customers are charged based on effective clicks on their product information, and display advertising services that allow customers to place advertisements on various websites. The Group recognizes revenues from pay for performance marketing services based on effective clicks, and recognizes revenues from display advertising services 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. The Group did not enter into material advertising-for-advertising barter transactions for the periods presented.

The Group opens its fulfillment infrastructure by offering comprehensive supply chain solutions to third parties through JD Logistics, primarily including warehousing, transportation, delivery and after-sales service. Revenues resulting from these services are recognized over time as the Group performs the services in the contracts because of the continuous transfer of control to the customers.

The Group offers 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).

JD Plus memberships provide the Group's core customers with a better shopping experience, access to an evolving suite of benefits that represent a single stand-ready obligation. Subscriptions are paid for at the time of or in advance of delivering the services. Revenues from such arrangements are recognized over the subscription period.

The Group offers comprehensive customer services, primarily include 7*24 hours customer services to respond to customers' post-sales requests, return and exchange services to facilitate customers' return, exchange and repair of defective goods. These services are free of charge. The Group also provides return/exchange logistics services to the customers, of which the revenues recognized were not material for the periods presented.

Revenues from online marketplace and marketing services were RMB25,390,981, RMB33,531,862 and RMB42,680,212 for the years ended December 31, 2017, 2018 and 2019,

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

Net Service Revenues—continued

respectively, which were mainly generated by the JD Retail segment. Revenues from logistics and other services were RMB5,116,363, RMB12,379,151 and RMB23,474,305, for the years ended December 31, 2017, 2018 and 2019, respectively, which were mainly generated by the New Businesses segment.

z. Contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenues recognized prior to invoicing when the Group has satisfied the Group's performance obligation and has the unconditional rights to payment. The allowance for doubtful accounts and authorized credits is estimated based on 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 balances of accounts receivable, net of allowance for doubtful accounts were RMB16,359,147, RMB11,109,988 and RMB6,190,588 as of December 31, 2017, 2018 and 2019, respectively.

Unearned revenues consist of payments received or awards to customers related to unsatisfied performance obligation 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, 2018, the Group's total unearned revenues were RMB15,461,245, of which RMB12,997,919 was recognized as revenues for the year ended December 31, 2019. The Group's total unearned revenues were RMB21,347,848 as of December 31, 2019.

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 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 rights to purchase discounted products in the future are not considered as a separate performance obligation under ASC 606, as the discount does not represent a material right 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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

aa. Customer incentives and loyalty programs—continued

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 revenues on the future purchase.

- J Coupons are given to a customer upon their qualified purchase or can be given for free to promote future purchases and are 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 as a separate performance obligation within the scope of ASC 606, as J Coupons represent a material right to the customer. Therefore, the delivered products and J Coupons awarded are treated as two distinct performance obligations identified in the contract. The total sales consideration is allocated based on management's best estimate of the relative SSP of each performance obligation. The amount allocated to J Coupons is deferred and recognized when 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, 2017, 2018 and 2019, the amount of expired J Coupons was not material.

Registered customers may also earn J Beans, which was launched 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. Thus J Beans is considered to be a separate performance obligation identified in the contract. Therefore, the sales consideration is allocated to the products and J Beans based on the relative SSP of the products and J Beans awarded. Consideration allocated to J Beans is initially recorded as deferred revenues, and recognized as revenues when J Beans are used or expired. J Beans will expire at the subsequent year end after issuance. For the years ended December 31, 2017, 2018 and 2019, 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 inventories, 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 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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

cc. Rebates and subsidies—continued

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) lease expenses of warehouses, delivery and pickup stations, and physical stores. The cost related to logistics services provided to third parties is classified in cost of revenues in the consolidated statements of operations and comprehensive income/(loss). Shipping cost included in fulfillment expenses amounted to RMB12,691,013, RMB15,216,351 and RMB17,858,972 for the years ended December 31, 2017, 2018 and 2019, respectively.

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).

Advertising costs, which consist primarily of online advertising, offline television, movie and outdoor advertising, and incentive programs to attract or retain consumers for the Group's online marketplace, are expensed as incurred, and totaled RMB12,375,922, RMB15,970,433 and RMB19,285,939 for the years ended December 31, 2017, 2018 and 2019, respectively.

ff. Research and development

Research and development expenses consist primarily of payroll and related expenses for research and development employees involved in designing, developing and maintaining technology platform, and improving artificial intelligence, big data and cloud technologies and services, and

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

ff. Research and development—continued

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. Research and development expenses are expensed as incurred. Software development costs are recorded in "Research and development" as incurred as the costs qualifying for capitalization have been insignificant.

gg. General and administrative

General and administrative expenses consist primarily of employee related expenses for general corporate functions, including accounting, finance, tax, legal and human relations; costs associated with these functions including facilities and equipment 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 Topic 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.

The Group uses the binominal option-pricing model to estimate the fair value of share options. The determination of estimated fair value of share-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 share option exercise behaviors, a risk-free interest rate, exercise multiple and expected dividend yield, 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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

hh. Share-based compensation—continued

subsidiaries. The Company estimates the Company's subsidiaries' enterprise value for purposes of recording share-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 RSUs 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 RSUs.

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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

ii. Income tax—continued

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, 2017, 2018 and 2019, the Group did not have any significant unrecognized uncertain tax positions.

jj. Leases

Before January 1, 2019, the Group adopted ASC Topic 840 ("ASC 840"), *Leases,* and each lease is classified at the inception date as either a capital lease or an operating lease.

The Group adopted the new lease accounting standard, ASC Topic 842, *Leases* ("ASC 842"), from January 1, 2019 using the modified retrospective transition approach through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients. The Group categorizes leases with contractual terms longer than twelve months as either operating or finance lease. However, the Group has no finance leases for any of the periods presented.

Right-of-use ("ROU") assets represent the Group's rights to use underlying assets for the lease term and lease liabilities represent the Group's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term, reduced by lease incentives received, plus any initial direct costs, using the discount rate for the lease at the commencement date. As the implicit rate in lease is not readily determinable for the Group's operating leases, the Group generally use the incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The Group's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Group accounts for lease and non-lease components separately.

The Group also enters into sale and leaseback transactions. The Group acts as the seller-lessee, transfers its assets to a third-party entity (the buyer-lessor) and then leases the transferred assets back from the buyer-lessor at an arm-length rental price. Upon consideration of ASC Topic 842-40-25-1 and ASC 606, the transfer of the underlying assets is considered as sales, and according to ASC 842, the leaseback transaction is classified as an operating lease. Therefore, the sale and the leaseback of the underlying assets are separately accounted for by the Group. Upon completion of the transaction, the legal titles of these assets are transferred to the third-party entity (the buyer-lessor), and the Group derecognizes these transferred assets and recognizes gains or losses from disposal of these assets in accordance with ASC Topic 360, *Property, Plant and Equipment*. The leaseback transactions are accounted for under ASC 842, and the ROU assets and lease liabilities are recognized at commencement date accordingly.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

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 income/(loss), change 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 change in unrealized gains/(losses) on available-for-sale equity securities for the year ended December 31, 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 ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For the calculation of diluted net income/(loss) per share, the weighted average number of ordinary shares is adjusted by the effect of dilutive potential ordinary shares, including unvested RSUs and ordinary shares issuable upon the exercise of outstanding share options using the treasury stock method. Additionally, the Company takes into account the effect of dilutive shares of entities in which the Company holds equity interests. The dilutive impact from equity interests mainly include equity investments accounted for using the equity method and the consolidated subsidiaries. The effect mentioned above is not included in the calculation of the diluted income/(loss) per share when inclusion of such effect 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, JD Retail and New Businesses, which are defined based on the products and services provided. JD Retail mainly consists of online retail, online marketplace and marketing services in China. New Businesses include logistics services provided to third parties, overseas business, technology initiatives, as well as asset management services to logistics property investors and sale of development properties by JD Property. 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).

nn. Statutory reserves

The Company's subsidiaries and consolidated VIEs established in the PRC are required to make appropriations to certain non-distributable reserve funds.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

nn. Statutory reserves—continued

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 the 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, 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 the 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, 2017, 2018 and 2019, profit appropriation to statutory surplus fund for the Group's entities incorporated in the PRC was approximately RMB503,028, RMB764,446 and RMB58,753, respectively. No appropriation to other reserve funds was made for any of the periods presented.

oo. Recent accounting pronouncements

Recently adopted accounting pronouncements

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 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 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

2. Summary of significant accounting policies—continued

oo. Recent accounting pronouncements—continued

Recently adopted accounting pronouncements—continued

adoption permitted. In July 2018, the FASB issued ASU 2018-11, and provided another transition approach 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 modified retrospective transition approach through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients. 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. Refer to Note 18 for further details.

Recently issued accounting pronouncements not yet adopted

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 adoption of this standard is not expected to have a material impact on the Group's 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 adoption of this standard is not expected to have a material impact on the Group's consolidated financial statements.

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, 2017, 2018 and 2019.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

3. Concentration and risks—continued

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, 2018 and 2019, majority 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 Chinese 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 purchases the consumer financing receivables past due over certain agreed period of time from the Group at carrying values without recourse and also agrees 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, RMB15,443,123 and RMB33,601,008 as of December 31, 2017, 2018 and 2019, 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 the 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$. Since June 2010, the RMB has fluctuated against the US$, 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% and 1% in 2018 and 2019,

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

3. Concentration and risks—continued

Foreign currency exchange rate risk—continued

respectively. It is difficult to predict how market forces or the 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, RMB3,239,613 and RMB2,940,859 as of December 31, 2017, 2018 and 2019, respectively.

5. Fair value measurement

As of December 31, 2017, 2018 and 2019, 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:

		Fair value measurement at reporting date using		
Description	Fair value as of December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB	RMB	RMB	RMB
Assets:				
Cash equivalents				
Money market funds	1,372,182	1,372,182	—	—
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	19,982,749	11,399,995	8,582,754	—

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

5. Fair value measurement—continued

Description	Fair value as of December 31, 2018	Fair value measurement at reporting date using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB	RMB	RMB	RMB
Assets:				
Cash equivalents				
Money market funds	1,373	1,373	—	—
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	17,837,766	15,902,946	1,934,820	—

Description	Fair value as of December 31, 2019	Fair value measurement at reporting date using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB	RMB	RMB	RMB
Assets:				
Cash equivalents				
Money market funds	3,590,620	3,590,620	—	—
Short-term investments				
Wealth management products	23,206,770	—	23,206,770	—
Investment securities				
Listed equity securities	21,417,104	21,417,104	—	—
Total assets	48,214,494	25,007,724	23,206,770	—

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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

5. Fair value measurement—continued

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, 2018 and 2019, gross unrealized gains of RMB23,755, RMB627 and RMB54,813 were recorded on wealth management products, respectively. No impairment charges were recorded for the years ended December 31, 2017, 2018 and 2019, respectively.

Investment securities

Listed equity securities. The Group values its listed equity securities using quoted prices for the underlying securities in active markets, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1. 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 recognizes 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:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Provision for Decline in Value	Fair Value
	RMB	RMB	RMB	RMB	RMB
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
December 31, 2019	18,329,057	5,008,610	(1,920,563)	—	21,417,104

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, 2019, the accumulated unrealized loss related to the investment in China Unicom was RMB688,141 (as of December 31, 2017 and 2018: RMB366,032 and RMB1,215,227).

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

5. Fair value measurement—continued

Investment securities—continued

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 and 2019, the Group purchased additional shares with a total amount of RMB1,121,792. As of December 31, 2019, the accumulated unrealized gain related to the investment in Vipshop was RMB1,077,422 (as of December 31, 2017 and 2018: unrealized loss of RMB37,064 and RMB2,004,447).

In 2017, the Group invested in Farfetch.com Limited ("Farfetch") with a total consideration of RMB2,713,285, and this investment was accounted for 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 initial public offering ("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, 2019, the accumulated unrealized gain related to the investment in Farfetch was RMB159,589 (as of December 31, 2018: RMB2,250,113).

In 2018, the Group invested in ESR Cayman Limited ("ESR") with a total consideration of RMB1,952,325, and this investment was accounted for as equity investment measured at fair value using the Measurement Alternative as of December 31, 2018. On November 1, 2019, ESR completed IPO on The Stock Exchange of Hong Kong Limited. Concurrently with ESR's IPO, the Group sold approximately 3.4% of its investment in ESR and started to account for the remaining investment at fair value. As of December 31, 2019, the accumulated unrealized gain related to the investment in ESR was RMB1,777,252.

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 months 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 is determined based on the prevailing interest rates in the market, which have been categorized as Level 2 in the fair value hierarchy. As of December 31, 2017, 2018 and 2019, the fair value of time deposits classified as cash equivalents and short-term investments amounted to RMB5,081,748, RMB12,050,507 and RMB11,189,560, respectively.

Unsecured senior notes. The carrying amounts of unsecured senior notes approximate to their fair values due to the fact that the related interest rates approximate to the 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, 2018 and 2019, the fair value of unsecured senior notes amounted to RMB6,527,960, RMB6,382,604 and RMB7,195,427, respectively.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

5. Fair value measurement—continued

Other financial instruments—continued

Short-term receivables and payables. Accounts receivable, loan receivables and prepayments and other current assets are financial assets with carrying values that approximate to 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 to fair value due to their short-term nature. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

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 borrowings and long-term borrowings approximates to fair value. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

Nonrecourse securitization debt. The carrying amount of nonrecourse securitization debt approximates to its fair value due to the fact that the related interest rates approximate to the 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 in the fair value hierarchy.

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 in the fair value hierarchy due to the significance of unobservable inputs using company-specific information.

Investment in equity investees. Investments in privately held companies and publicly traded companies included in 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, 2017, 2018 and 2019, and the impairment charges of RMB59,987, RMB593,138 and RMB1,612,139 were recorded in others, net in the consolidated statements of operations and comprehensive income/(loss) for the years ended December 31, 2017, 2018 and 2019, 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".

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

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 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 the 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 participants of employee stock ownership plan. The transaction was completed by June 30, 2017 and all of the cash consideration was received in 2017. After JD Digits's additional round of financing in 2018, the Group's percentage of Digits's pre-tax profit sharing has been diluted to approximately 36%, and if permitted by the regulation, the Group is entitled to convert its profit-sharing right into approximately 36% of JD Digits's equity interest.

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 rights 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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

6. JD Digits reorganization—continued

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 the period presented prior to July 1, 2017.

The following tables set forth the results of operations and cash flows of discontinued operations, which were included in the Group's consolidated financial statements:

	For the year ended December 31, 2017(*)
	RMB
Net revenues	2,392,903
Operating expenses	(2,067,622)
Income from operations of discontinued operations	325,281
Other expenses	(316,245)
Income from discontinued operations before tax	9,036
Income tax expenses	(2,121)
Net income from discontinued operations, net of tax	6,915
Net loss from discontinued operations attributable to non-controlling interests shareholders	(5,030)
Net income from discontinued operations attributable to mezzanine equity classified as non-controlling interests shareholders	281,021
Net loss from discontinued operations attributable to ordinary shareholders	(269,076)

	For the year ended December 31, 2017(*)
	RMB
Net cash used in discontinued operating activities	(2,485,741)
Net cash used in discontinued investing activities	(17,871,171)
Net cash provided by discontinued financing activities	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 sales 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, 2018 and 2019.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

6. JD Digits reorganization—continued

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, RMB3,902,238 and RMB1,728,568 as of December 31, 2017, 2018 and 2019, respectively (Note 30).

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, the carrying amount of the Group's equity investments measured at fair value using the Measurement Alternative was RMB17,104,784 and RMB17,580,557 as of December 31, 2018 and 2019, respectively, and the carrying amount of the Groups' investments under NAV practical expedient was RMB944,378 and RMB2,515,919 as of December 31, 2018 and 2019, respectively. For the years ended December 31, 2017, 2018 and 2019, the Group invested RMB6,217,682, RMB12,108,139 and RMB6,198,126 in multiple private companies and private equity funds accounted for under the Measurement Alternative and NAV practical expedient, respectively, which may have operational synergy with the Group's core business. During the year ended December 31, 2019, investment consideration for the top two investees were RMB3,380,825 and RMB1,296,245, respectively. During the year ended December 31, 2019, fair value changes recognized for equity investments which were measured using the Measurement Alternative and NAV practical expedient were not significant.

The Group accounted for the investment in AiHuiShou International Co. Ltd., ("AiHuiShou") under the Measurement Alternative. In June 2019, the Group signed series of agreements with AiHuiShou, an online second-hand consumer electronics trading platform. The Group merged its Paipai Secondhand business into AiHuiShou with certain exclusive traffic resources for the next five years, and additionally invested RMB138,582 in cash in exchange for additional preferred share investment in AiHuiShou. Total consideration for the above investment in AiHuiShou was RMB3,380,825.

Equity method

As of December 31, 2019, the Group's investments accounted for under the equity method totaled RMB15,479,331 (as of December 31, 2017 and 2018: RMB8,800,593 and RMB13,307,454), which mainly included the investment in Yonghui Superstores Co., Ltd, ("Yonghui") amounting to RMB5,508,062, the investment in Bitauto Holdings Limited ("Bitauto") amounting to RMB1,817,781, the investment in Dada Nexus Limited ("Dada") amounting to nil, the investment in Tuniu Corporation ("Tuniu") amounting to RMB457,443, the investment in Jiangsu Five Star Appliance Co., Ltd. ("Jiangsu Five Star") amounting to RMB1,317,045, and investment in Yixin Group Limited ("Yixin") amounting to RMB1,206,741. The Group applies the equity method of accounting to account for its

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

7. Investment in equity investees—continued

Equity method—continued

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 Group acquired additional ordinary shares from the existing shareholders of Yonghui, the Group'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 obtained significant influence by the rights to nominate two board members out of eleven. The Group received dividend of RMB114,845, RMB143,557 and RMB120,338 for the years ended December 31, 2017, 2018 and 2019, respectively, which have been recorded as a reduction to the carrying amount of investment in Yonghui.

Investment in Yonghui is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019
	RMB	RMB	RMB
Carrying value of investment in Yonghui	4,245,001	5,450,209	5,508,062
Proportionate share of Yonghui's net tangible and intangible assets	1,946,349	2,122,874	2,249,239
Positive basis difference	2,298,652	3,327,335	3,258,823
Positive basis difference has been assigned to:			
Goodwill	1,270,190	1,989,726	1,989,726
Amortizable intangible assets(*)	1,371,283	1,783,478	1,692,129
Deferred tax liabilities	(342,821)	(445,869)	(423,032)
	2,298,652	3,327,335	3,258,823
Cumulative gains in equity interest in Yonghui	124,917	250,538	428,729

(*) As of December 31, 2019, the weighted average remaining life of the intangible assets not included in Yonghui's consolidated financial statements was 15 years.

As of December 31, 2017, 2018 and 2019, the market value of the Group's investment in Yonghui was RMB9,666,167, RMB8,609,614 and RMB8,248,601 based on its quoted closing price, respectively.

The proportionate share of Yonghui's net income recorded in "share of results of equity investees" in the consolidated statements of operations and comprehensive income/(loss) was a gain of

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

7. Investment in equity investees—continued

Investment in Yonghui—continued

RMB122,893, RMB96,558 and RMB164,068 for the years ended December 31, 2017, 2018 and 2019, respectively. The following table includes the results of operations of Yonghui for each of the periods presented.

	For the year ended December 31, 2017	For the year ended December 31, 2018	For the year ended December 31, 2019
	RMB	RMB	RMB
Revenues	55,524,229	67,975,691	81,367,849
Gross profit	11,319,620	14,912,887	18,019,934
Income from operations	2,065,795	1,296,271	2,024,586
Net income	1,721,628	1,189,513	1,774,888
Net income attributable to shareholders	1,818,910	1,548,833	2,000,842
Percentage of ownership in Yonghui	10%	12%	12%
Proportionate share of Yonghui's net income, before basis adjustments	181,891	160,630	232,580
Basis adjustments	(58,998)	(64,072)	(68,512)
Proportionate share of Yonghui's net income	122,893	96,558	164,068

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 JD Platform 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. As of December 31, 2019, the Group held approximately 24% of Bitauto's issued and outstanding shares.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

7. Investment in equity investees—continued

Investment in Bitauto—continued

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

	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019
	RMB	RMB	RMB
Carrying value of investment in Bitauto(*)	2,128,409	2,544,367	1,817,781
Proportionate share of Bitauto's net tangible and intangible assets	2,228,925	2,619,609	2,347,924
Positive/(negative) basis difference	(100,516)	(75,242)	(530,143)
Positive/(negative) basis difference has been assigned to:			
Goodwill(*)	—	—	—
Amortizable intangible assets(**)	(100,516)	(75,242)	(530,143)
	(100,516)	(75,242)	(530,143)
Cumulative losses in equity interest in Bitauto	(3,696,754)	(3,280,796)	(3,910,223)

(*) In the first quarter of 2019, the Group conducted 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 impairment charge of RMB488,453 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 March 31, 2019.

(**) As of December 31, 2019, the negative basis difference between carrying value of investment in Bitauto and proportionate share of Bitauto's net tangible and intangible assets was RMB530,143. This difference would not be amortized.

As of December 31, 2017, 2018 and 2019, the market value of the Group's investment in Bitauto was approximately RMB3,773,634 and RMB3,087,400 and RMB1,793,871 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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

7. Investment in equity investees—continued

Investment in Dada—continued

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

	As of April 26, 2016
	RMB
Assets/investments received by the Group	
Dada's ordinary shares	2,164,050
Dada's preferred shares	1,298,700
Warrant to purchase Dada's preferred shares	45,450
	3,508,200

The investment in Dada's ordinary shares is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019
	RMB	RMB	RMB
Carrying value of investment in Dada's ordinary shares	139,147	—	—
Proportionate share of Dada's net tangible and intangible assets	(1,579,323)	(1,709,458)	(1,701,718)
Positive basis difference	1,718,470	1,709,458	1,701,718
Positive basis difference has been assigned to:			
Goodwill	1,605,891	1,605,891	1,605,891
Amortizable intangible assets(*)	150,105	138,089	127,770
Deferred tax liabilities	(37,526)	(34,522)	(31,943)
	1,718,470	1,709,458	1,701,718
Cumulative losses in equity interest in Dada's ordinary shares	(2,024,903)	(2,164,050)	(2,164,050)

(*) As of December 31, 2019, the weighted average remaining life of the intangible assets not included in Dada's consolidated financial statements was 6 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, 2019. 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 investment in Dada includes the preferred shares investment, the Group should continue to recognize Dada's losses up to the Group's carrying value in the preferred shares investment. As of December 31, 2019, the Group recognized a cumulative loss of

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

7. Investment in equity investees—continued

Investment in Dada—continued

RMB1,373,385 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, 2019, the carrying amount of preferred shares of Dada was RMB2,376,775.

Investment in Tuniu

In December 2014, the Group acquired 7% equity interest in Tuniu with cash consideration of RMB305,930. Tuniu is a leading online leisure travel company in China that is listed on 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 rights, for a period of 5 years, to operate the leisure travel channels on the JD Platform, 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.

Investment in Tuniu is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019
	RMB	RMB	RMB
Carrying value of investment in Tuniu(*)	947,500	858,566	457,443
Proportionate share of Tuniu's net tangible and intangible assets	779,525	714,009	633,295
Positive/(negative) basis difference	167,975	144,557	(175,852)
Positive/(negative) basis difference has been assigned to:			
Goodwill(*)	23,899	23,899	—
Amortizable intangible assets(**)	192,101	160,877	(175,852)
Deferred tax liabilities	(48,025)	(40,219)	—
	167,975	144,557	(175,852)
Cumulative losses in equity interest in Tuniu	(1,546,645)	(1,635,579)	(2,036,702)

(*) In the second and fourth quarter of 2019, the Group conducted impairment assessments 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 impairment charges of RMB222,212 and RMB86,072 in the second and fourth quarters of 2019, respectively, to write down the carrying value of its investment in Tuniu to its fair value, based on quoted closing prices of Tuniu as of June 30, 2019 and December 31, 2019, respectively.

(**) As of December 31, 2019, the negative basis difference between carrying value of investment in Tuniu and proportionate share of Tuniu's net tangible and intangible assets was RMB175,852. This difference would not be amortized.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

7. Investment in equity investees—continued

Investment in Tuniu—continued

As of December 31, 2017, 2018 and 2019, the market value of the Group's investment in Tuniu was approximately RMB1,304,082, RMB867,921 and RMB457,443 based on quoted closing price, respectively.

Investment in Jiangsu Five Star

In April 2019, the Group invested RMB1,274,257 with a combination of cash and assumption of the seller's debt as consideration to acquire ordinary shares of Jiangsu Five Star, a leading offline retailer of home appliances and consumer electronics, from its existing shareholder (the "Seller"), in exchange for 46% of Jiangsu Five Star's total equity interest. The Group also provided a fifteen months interest-bearing loan of RMB1,024,946 to the Seller and has the rights to purchase additional shares. Investment in Jiangsu Five Star is accounted for using the equity method as the Group obtained significant influence by the rights to nominate two board members out of five.

Investment in Jiangsu Five Star is accounted for using the equity method with the investment cost allocated as follows:

	As of April 29, 2019	As of December 31, 2019
	RMB	RMB
Carrying value of investment in Jiangsu Five Star	1,274,257	1,317,045
Proportionate share of Jiangsu Five Star's net tangible and intangible assets	432,310	480,438
Positive basis difference	841,947	836,607
Positive basis difference has been assigned to:		
Goodwill	586,325	586,325
Amortizable intangible assets(*)	208,840	206,069
Property(*)	131,990	127,641
Deferred tax liabilities	(85,208)	(83,428)
	841,947	836,607
Cumulative gains in equity interest in Jiangsu Five Star	—	42,788

(*) As of December 31, 2019, the weighted average remaining lives of the intangible assets and property were 19 years and 24 years, respectively.

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 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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

7. Investment in equity investees—continued

Investment in Yixin—continued

On November 16, 2017, Yixin successfully completed the global offering and traded on the Main Board of the Stock Exchange of Hong Kong Limited. 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 obtained significant influence by the rights to nominate 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 investment cost allocated as follows:

	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019
	RMB	RMB	RMB
Carrying value of investment in Yixin	860,992	1,044,537	1,206,741
Proportionate share of Yixin's net tangible and intangible assets	1,703,448	1,641,276	1,663,071
Negative basis difference	(842,456)	(596,739)	(456,330)
Cumulative gains in equity interest in Yixin	—	183,545	345,749

As of December 31, 2019, the negative basis difference between carrying value of investment in Yixin and proportionate share of Yixin's net tangible and intangible assets was RMB456,330. This difference would not be amortized. As of December 31, 2017, 2018 and 2019, the market value of the Group's investment in Yixin was approximately RMB3,586,393, RMB1,049,246 and RMB1,060,433 based on quoted closing price, respectively.

The Group summarizes the condensed financial information of the Group's equity investments under equity method as a group below in accordance with Rule 4-08 of Regulation S-X:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Operating data:			
Revenues	72,206,753	94,099,295	128,942,238
Gross profit	19,162,739	26,893,544	34,540,510
Loss from operations	(2,200,140)	(1,471,960)	(534,006)
Net loss	(2,549,137)	(1,722,715)	(564,940)
Net loss attributable to shareholders	(2,977,210)	(1,748,305)	(1,235,224)

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

7. Investment in equity investees—continued

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance sheet data:			
Current assets	78,125,211	110,276,278	117,073,881
Non-current assets	62,806,104	78,546,934	97,456,584
Current liabilities	58,734,790	80,643,552	94,482,219
Non-current liabilities	16,703,429	22,755,496	18,910,340
Redeemable stock	5,877,854	9,897,962	10,593,025
Non-controlling interests	717,106	431,498	380,510

The Group recorded its interests in Yonghui, Bitauto, Dada, Tuniu, Jiangsu Five Star and Yixin one quarter in arrears to enable the Group to provide its financial disclosure independent of the reporting schedule of these equity investees.

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 RMB59,987, RMB593,138 and RMB1,612,139 were recorded in others, net in the consolidated statements of operations and comprehensive income/(loss) for the years ended December 31, 2017, 2018 and 2019, respectively. As of December 31, 2019, the accumulated impairment of the Group's Measurement Alternative investments was RMB2,458,382. Impairment charges in connection with the equity method investments of nil, nil and RMB796,737 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, 2017, 2018 and 2019, respectively.

8. Accounts receivable, net

Accounts receivable, net consists of the following:

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Online retail and online marketplace receivables(*)	14,819,862	7,756,808	2,392,737
Logistics receivables	1,020,771	2,997,163	3,073,641
Advertising receivables and others	572,495	534,410	1,042,211
Accounts receivable	16,413,128	11,288,381	6,508,589
Allowance for doubtful accounts	(53,981)	(178,393)	(318,001)
Accounts receivable, net	16,359,147	11,109,988	6,190,588

(*) For the accounts receivable in relation to consumer financing business, which is recorded in online retail and online marketplace receivables, 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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

8. Accounts receivable, net—continued

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

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance at beginning of the year	(36,993)	(53,981)	(178,393)
Additions	(16,988)	(124,412)	(213,395)
Write-off	—	—	73,787
Balance at end of the year	(53,981)	(178,393)	(318,001)

9. Inventories, net

Inventories, net consist of the following:

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Products	41,840,945	44,678,983	58,795,341
Packing materials and others	358,207	219,961	223,234
Inventories	42,199,152	44,898,944	59,018,575
Inventory valuation allowance	(498,773)	(868,860)	(1,086,419)
Inventories, net	41,700,379	44,030,084	57,932,156

10. Property, equipment and software, net

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

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Electronic equipment	7,172,694	13,780,685	14,397,628
Building and building improvement	5,855,920	9,118,708	9,084,029
Logistics, warehouse and other heavy equipment	2,693,969	3,912,356	6,104,497
Vehicles	1,164,376	1,240,001	1,249,667
Leasehold improvement	827,408	1,318,735	2,100,120
Office equipment	287,282	406,534	388,841
Software	203,848	250,920	301,919
Total	18,205,497	30,027,939	33,626,701
Less: accumulated depreciation	(5,631,319)	(8,945,101)	(12,911,659)
Less: impairment	—	—	(60,971)
Net book value	12,574,178	21,082,838	20,654,071

Depreciation expenses were RMB2,310,065, RMB3,533,483 and RMB4,673,362 for the years ended December 31, 2017, 2018 and 2019, respectively.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

11. Land use rights, net

Land use rights, net consist of the following:

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Land use rights	7,254,974	10,860,924	11,380,221
Less: accumulated amortization	(204,165)	(385,266)	(488,479)
Net book value	7,050,809	10,475,658	10,891,742

Amortization expenses for land use rights were RMB84,405, RMB181,101 and RMB222,143 for the years ended December 31, 2017, 2018 and 2019, respectively.

As of December 31, 2019, amortization expenses related to the land use rights for future periods are estimated to be as follows:

	For the year ending December 31,					
	2020	2021	2022	2023	2024	2025 and thereafter
	RMB	RMB	RMB	RMB	RMB	RMB
Amortization expenses	228,572	228,572	228,572	228,572	228,572	9,748,882

12. Intangible assets, net

Intangible assets, net consist of the following:

	As of December 31, 2017				
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Impairment Amount	Net Carrying Amount
	Year	RMB	RMB	RMB	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
Domain names and trademark	19.5	3,250,789	(278,372)	(27,124)	2,945,293
Technology and others	6.2	1,040,668	(256,606)	(129,585)	654,477
Total	9.3	12,833,751	(5,984,325)	(156,709)	6,692,717

	As of December 31, 2018				
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Impairment Amount	Net Carrying Amount
	Year	RMB	RMB	RMB	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
Domain names and trademark	19.3	3,305,413	(453,423)	(27,124)	2,824,866
Technology and others	6.2	1,165,899	(403,270)	(145,001)	617,628
Total	9.3	13,013,606	(7,829,775)	(172,125)	5,011,706

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

12. Intangible assets, net—continued

	As of December 31, 2019				
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Impairment Amount	Net Carrying Amount
	Year	RMB	RMB	RMB	RMB
Strategic cooperation	5.0	6,075,289	(6,075,289)	—	—
Non-compete	8.0	2,467,005	(1,502,141)	—	964,864
Domain names and trademark	19.3	3,311,250	(633,360)	(27,124)	2,650,766
Technology and others	6.2	1,181,076	(541,671)	(145,001)	494,404
Total	9.3	13,034,620	(8,752,461)	(172,125)	4,110,034

Amortization expenses for intangible assets were RMB1,798,246, RMB1,845,450 and RMB932,550 for the years ended December 31, 2017, 2018 and 2019, respectively. The Group recorded an impairment charge of nil, RMB15,416 and nil for the years ended December 31, 2017, 2018 and 2019, respectively.

As of December 31, 2019, amortization expenses related to the intangible assets for future periods are estimated to be as follows:

	For the year ending December 31,					
	2020	2021	2022	2023	2024	2025 and thereafter
	RMB	RMB	RMB	RMB	RMB	RMB
Amortization expenses	633,717	625,153	460,885	339,733	229,864	1,820,682

13. Goodwill

The changes in the carrying amount of goodwill were as follows:

	JD Retail	New Businesses	Total
	RMB	RMB	RMB
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)

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

13. Goodwill—continued

	JD Retail	New Businesses	Total
	RMB	RMB	RMB
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
Balance as of December 31, 2019			
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, RMB6,901 and nil for the years ended December 31, 2017, 2018 and 2019, respectively.

14. Short-term borrowings

Short-term borrowings as of December 31, 2017, 2018 and 2019 amounted to RMB200,000, RMB147,264 and nil, 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.

15. Accounts payable

Accounts payable consists of the following:

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Vendor payable	62,548,717	66,701,380	74,639,015
Shipping charges payable and others	11,788,991	13,283,638	15,789,367
Total	74,337,708	79,985,018	90,428,382

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

16. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Deposits	9,787,387	12,870,155	14,619,420
Salary and welfare	3,131,752	3,952,163	5,037,530
Rental fee payables	400,632	653,105	332,893
Internet data center fee	212,143	387,478	614,712
Liabilities for return allowances(*)	—	363,191	425,135
Accrued administrative expenses	185,876	318,012	368,821
Professional fee	59,802	122,930	268,054
Vehicle fee	69,042	114,576	190,289
Interest payable	84,807	44,449	43,598
Payable related to employees' exercise of share-based awards	152,177	42,979	403,398
Others	1,034,222	1,423,642	2,352,330
Total	15,117,840	20,292,680	24,656,180

(*) Liabilities for return allowances were included in "Accounts receivable, net" as of December 31, 2017.

17. 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.

A summary of the Company's unsecured senior notes as of December 31, 2017, 2018 and 2019 is as follows:

	As of December 31,			Effective interest rate
	2017	2018	2019	
	RMB	RMB	RMB	
US$500,000 3.125% notes due 2021	3,242,565	3,413,264	3,477,276	3.37%
US$500,000 3.875% notes due 2026	3,204,792	3,372,879	3,435,216	4.15%
Carrying value	6,447,357	6,786,143	6,912,492	
Unamortized discount and debt issuance costs	86,843	77,057	63,708	
Total principal amounts of unsecured senior notes	6,534,200	6,863,200	6,976,200	

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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

17. Unsecured senior notes—continued

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 rights of payment to all of the Company's existing and future obligations expressly subordinated in rights of payment to the notes and rank at least equal in rights 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, 2019, the principal of the unsecured senior notes of RMB3,488,100 and RMB3,488,100 will be due in 2021 and 2026, respectively, and the aggregate amounts repayable of RMB3,488,100 and RMB3,488,100 were within a period of more than one year but not exceeding two years and within a period of more than five years, respectively.

18. Leases

The Group has operating leases for warehouses, stores, office spaces, delivery centers and other corporate assets that the Group utilizes under lease arrangements.

A summary of supplemental information related to operating leases as of December 31, 2019 is as follows:

	As of December 31, 2019
	RMB
Operating lease ROU assets	8,643,597
Operating lease liabilities-current	3,193,480
Operating lease liabilities-non-current	5,523,164
Total operating lease liabilities	8,716,644
Weighted average remaining lease term	4.4 years
Weighted average discount rate	4.7%

A summary of lease cost recognized in the Group's consolidated statements of operations and comprehensive income/(loss) and supplemental cash flow information related to operating leases is as follows:

	For the year ended December 31, 2019
	RMB
Operating lease cost	3,377,389
Short-term lease cost	1,212,899
Total(*)	4,590,288
Cash paid for operating leases	3,460,898

(*) The lease expenses based on ASC 840 were RMB3,086,709 and RMB4,571,036 for the years ended December 31, 2017 and 2018, respectively.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

18. Leases—continued

A summary of maturity of operating lease liabilities under the Group's non-cancelable operating leases as of December 31, 2019 is as follows:

	As of December 31, 2019
	RMB
2020	3,267,527
2021	2,187,920
2022	1,549,062
2023	1,085,230
2024	664,785
2025 and thereafter	926,265
Total lease payments	9,680,789
Less: interest	(964,145)
Present value of operating lease liabilities	8,716,644

As of December 31, 2019, the Group has no significant lease contract that has been entered into but not yet commenced.

As of December 31, 2018, the future minimum lease payments under the Group's non-cancelable operating lease agreements based on ASC 840 are as follows:

	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

19. Gain on sale of development properties

Gain on sale of development properties for the years ended December 31, 2017, 2018 and 2019 were nil, nil and RMB3,884,709, respectively. The gain on sale of development properties for the year ended December 31, 2019 was mainly derived from disposals of logistics facilities to JD Logistics Properties Core Fund, L.P. (the "Core Fund").

In 2018, the Group established JD Property to manage the expanding logistics facilities and other real estate properties. In February 2019, JD Property established Core Fund together with GIC Private Limited ("GIC"), Singapore's sovereign wealth fund, for a total committed capital of over RMB4.8 billion. The Group serves as the general partner and committed 20% of the total capital of Core Fund as a limited partner, and GIC committed the remaining 80%.

Furthermore, on February 27, 2019, the Group entered into definitive agreements with Core Fund, pursuant to which the Group will dispose of certain modern logistics facilities to Core Fund for a

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

19. Gain on sale of development properties—continued

total gross asset value of RMB10.9 billion, and concurrently lease back these completed facilities for operational purposes with an initial lease term of 5 to 6 years. The initial annual rent for the completed facilities is approximate RMB0.7 billion that increases by 3% per year throughout each 5 years period, and the rental rate will be adjusted based on the growth rate of fair market rent at the beginning of each 5 years period. Upon the expiry of the initial lease agreement, if the adjusted rental rate is acceptable, the Group may choose to renew the lease with the same terms and conditions. Core 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.

The investment committee of Core Fund, which comprises the representatives from the Group and GIC, will oversee the key operations of Core Fund. Given the control over Core Fund is shared between the Group and GIC, the Group does not consolidate Core Fund and investment in Core Fund is accounted for using the equity method as the Group obtained significant influence by the rights to nominate two members of the investment committee out of four. The lease back transaction is classified as an operating lease, and accounted for under ASC 842, the ROU assets and operating lease liabilities were recorded accordingly.

In the second half of 2019, the closing conditions for the asset group of completed logistics facilities were met and Core Fund signed definitive facility agreements with bank consortium to finance the purchase, therefore, the Group recorded a total disposal gain of RMB3,801,492 for the completed assets for the year ended December 31, 2019, which represents the excess of cash consideration of the net assets, including the consideration received and expected to receive, over the carrying value of the net assets disposed as of the disposal date. For the remaining logistics facilities under construction, the Group will derecognize these assets upon its completion and satisfaction of the hand-over condition.

20. Interest income and interest expense

Interest income and interest expense consist of the following:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Interest income:			
Interest income in relation to nonrecourse securitization debt charged to JD Digits	702,147	527,025	37,646
Interest income in relation to loans provided to JD Digits	569,395	119,047	40,628
Interest income in relation to bank deposits, wealth management products and others	1,258,948	1,471,849	1,707,298
Total	2,530,490	2,117,921	1,785,572
Interest expense:			
Interest expense in relation to nonrecourse securitization debt	(702,147)	(527,025)	(37,646)
Interest expense in relation to unsecured senior notes, bank borrowings and others	(261,595)	(327,513)	(687,364)
Total	(963,742)	(854,538)	(725,010)

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

21. Others, net

Others, net consist of the following:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Gain from business and investment disposals	74,965	1,320,266	1,199,407
Government financial incentives	843,447	614,658	2,222,223
Impairment of investments	(139,823)	(593,138)	(1,954,031)
Foreign exchange gains/(losses), net	213,482	(192,491)	124,070
Gains/(losses) from fair value change of long-term investments	—	(1,512,979)	3,495,709
Others	324,337	458,859	287,931
Total	1,316,408	95,175	5,375,309

Government financial incentives represent rewards provided by the relevant PRC municipal government authorities to the Group for business achievements made by the Group. Government financial incentives are recognized in others, net in the consolidated statements of operations and comprehensive income/(loss) when the government financial incentives are received and no further conditions need to be met. 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* ("VAT")

The Group is subject to statutory VAT rate of 13% prior to July 1, 2017, 11% from July 1, 2017 to April 30, 2018, 10% from May 1, 2018 to March 31, 2019 and 9% from April 1, 2019 for revenues from sales of audio, video products and books in the PRC. The Group is subject to statutory VAT rate of 17% prior to May 1, 2018, 16% from May 1, 2018 to March 31, 2019 and 13% from April 1, 2019 for sales of other products in the PRC. The Group is exempted from VAT for revenues from sales of books from January 1, 2014 to December 31, 2020 in comply with relevant VAT regulations of the PRC.

The Group is subject to VAT at the rate of 6% or 11%/10%/9% (11% prior to May 1, 2018, 10% from May 1, 2018 to March 31, 2019 and 9% from April 1, 2019) 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, which is reduced by 50% from July 1, 2019 to December 31, 2024.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

22. Taxation—continued

b) *Income tax*

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. 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 the 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 Company's subsidiaries incorporated in Hong Kong are subject to 16.5% Hong Kong profit tax on its taxable income generated from operations in Hong Kong for the year of assessment 2017/2018. Commencing from the year of assessment 2018/2019, the first Hong Kong dollars ("HK$") 2 million of profits earned by its 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, the Company is exempted from the Hong Kong income tax on its foreign-derived income. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

China

Under the PRC Enterprise Income Tax Law (the "EIT Law"), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. Most of the Group's PRC subsidiaries and consolidated VIEs are subject to the statutory income tax rate of 25%.

The EIT Law and its implementation rules permit certain High and New Technologies Enterprises, or HNTEs, to enjoy a reduced 15% enterprise income tax rate subject to these HNTEs meeting certain qualification criteria. In addition, the relevant EIT laws and regulations also provide that entities recognized as Software Enterprises are able to enjoy a tax holiday consisting of a two-year-exemption commencing from their first profitable calendar year and a 50% reduction in ordinary tax rate for the following three calendar years. 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 HNTE and enjoys a preferential income tax rate of 15%. The privileges cannot be applied simultaneously. Beijing Shangke applied the

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

22. Taxation—continued

b) *Income tax—continued*

China—continued

privilege of "software enterprise" and was exempted from income tax in 2017, and enjoyed a preferential income tax rate of 12.5% in 2018 and 2019.

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. Several entities of the Group are qualified as the enterprises within the Catalogue of Encouraged Industries in Western Regions and enjoyed 15% preferential income tax rate.

According to the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are 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 EIT 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 the 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 as a resident enterprise for the PRC tax purposes.

The EIT law also imposes a withholding income tax of 10% on dividends distributed by a Foreign Investment Enterprise ("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

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

22. Taxation—continued

b) *Income tax—continued*

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,		
	2017	2018	2019
	RMB	RMB	RMB
Income/(loss) before tax			
Income/(loss) from China operations	3,681,735	(578,300)	14,177,105
Loss from non-China operations	(3,560,775)	(1,795,378)	(484,573)
Total income/(loss) before tax	120,960	(2,373,678)	13,692,532
Income tax benefits/(expenses) applicable to China operations			
Current income tax expenses	(360,603)	(437,326)	(1,269,323)
Deferred tax benefits/(expenses)	221,010	10,454	(533,117)
Subtotal income tax expenses applicable to China operations	(139,593)	(426,872)	(1,802,440)
Total income tax expenses	(139,593)	(426,872)	(1,802,440)

Reconciliation of difference between the PRC statutory income tax rate and the Group's effective income tax rate for the years ended December 31, 2017, 2018 and 2019 is as follows:

	For the year ended December 31,		
	2017	2018	2019
Statutory income tax rate	25.0%	25.0%	25.0%
Tax effect of preferential tax rates and tax holiday	(942.7)%	8.3%	(8.1)%
Tax effect of tax-exempt entities	588.6%	(1.9)%	3.7%
Effect on tax rates in different tax jurisdiction	30.5%	2.2%	(3.9)%
Tax effect of non-deductible expenses	536.0%	(42.4)%	5.7%
Tax effect of non-taxable income	(14.0)%	3.8%	(1.0)%
Tax effect of Super Deduction and others	—	53.9%	(13.2)%
Changes in valuation allowance	(120.8)%	(66.7)%	5.0%
Expiration of loss carry forwards	12.8%	(0.2)%	—
Effective tax rates	115.4%	(18.0)%	13.2%

The following table sets forth the effect of tax holiday:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Tax holiday effect	1,140,251	198,118	1,115,598
Effect of tax holiday on basic net income/(loss) per share	0.40	0.07	0.38
Effect of tax holiday on diluted net income/(loss) per share	0.39	0.07	0.38

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

22. Taxation—continued

c) *Deferred tax assets and deferred tax liabilities*

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Deferred tax assets			
—Net operating loss carry forwards	1,162,287	2,028,350	2,775,074
—Deferred revenues	299,723	283,824	137,128
—Inventory valuation allowance	124,693	217,215	271,605
—Allowance for doubtful accounts	52,117	88,036	214,932
—Unrealized fair value losses for certain investments	—	482,027	356,259
Less: valuation allowance	(1,480,570)	(2,996,294)	(3,674,442)
Net deferred tax assets	158,250	103,158	80,556
Deferred tax liabilities			
—Intangible assets arisen from business combination	882,248	819,032	748,691
—Accelerated tax depreciation and others	—	9,441	590,297
Total deferred tax liabilities	882,248	828,473	1,338,988

As of December 31, 2019, the accumulated net operating loss of RMB5,413,758 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 RMB8,863,674 mainly arose from the Company's subsidiaries and consolidated VIEs established in the PRC and Indonesia, which can be carried forward to offset future taxable income and will expire during the period from 2020 to 2024.

A valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group evaluates a variety of factors including the Group's entities' operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

The Group has incurred net accumulated operating losses for income tax purposes since its inception. The Group believes that it is more likely than not that these net accumulated operating losses (except for the net operating loss generated by certain entities in 2017, 2018 and 2019) 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 amount of valuation allowance offset in deferred tax assets as of December 31, 2017, 2018 and 2019 was RMB1,480,570, RMB2,996,294 and RMB3,674,442, respectively.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

22. Taxation—continued

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

The movements of valuation allowance of deferred tax assets are as follows:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance at beginning of the year	1,626,680	1,480,570	2,996,294
Additions	807,558	2,755,222	7,635,196
Reversals	(953,668)	(1,239,498)	(6,957,048)
Balance at end of the year	1,480,570	2,996,294	3,674,442

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 (RMB15,973,564) 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 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 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 Jingdong Express Series A Preferred Shares, where applicable, to the redemption value from the issuance date to the earliest redemption date.

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 Jingdong Express Series A Preferred Shares. Jingdong Express Series A 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 determined that there was no embedded beneficial conversion feature attributable to 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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

23. Convertible redeemable non-controlling interests—continued

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

Dividend Rights

As regards dividends, Jingdong Express Series A Preferred Shares shall rank pari passu with the ordinary shares and the holders of Jingdong Express Series A Preferred Shares shall be entitled to the same amount of dividends as the 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.

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 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 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 Jingdong Express Series A Preferred Shares original issuance date, and prior to the consummation of a Qualified IPO, each holder of Jingdong Express Series A Preferred Shares shall have the rights at any time to require and demand Jingdong Express to redeem all or any portion of 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) 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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

23. Convertible redeemable non-controlling interests—continued

Redemption Rights—continued

Jingdong Express accretes changes in the redemption value over the period from the date of issuance to the earliest redemption date of 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.

Conversion Rights

Each Jingdong Express Series A Preferred Shares shall be convertible, at the option of the holder of 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 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, 2019, 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 holders of Jingdong Express Series A Preferred Shares holding at least 50% of Jingdong Express Series A Preferred Shares in issue elect to convert Jingdong Express Series A Preferred Shares.

The convertible redeemable non-controlling interests for the years ended December 31, 2018 and 2019 are summarized as follows:

	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 equity classified as non-controlling interests shareholders		2,492
Balance as of December 31, 2018	1,004,000,000	15,961,284
Net income from continuing operations attributable to mezzanine equity classified as non-controlling interests shareholders		3,100
Balance as of December 31, 2019	1,004,000,000	15,964,384

24. Financing for JD Health

In May 2019, the Group's healthcare subsidiary, JD Health International, Inc. ("JD Health") entered into definitive agreements for the non-redeemable series A preferred share financing

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

24. Financing for JD Health—continued

("JD Health Series A Preferred Shares") with a group of third-party investors. The total amount of financing raised was US$931 million, representing 13.5% of the ownership of JD Health on a fully diluted basis.

The Group determined that JD Health Series A Preferred Shares should be classified as non-controlling interests upon its issuance since they were not redeemable by the holders. As of December 31, 2019, among the proceeds received, RMB1,045,400 was recorded as non-controlling interests and RMB5,232,343 was recorded as additional paid-in capital.

25. Ordinary shares

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

In March 2014, the Company issued 351,678,637 ordinary shares to Huang River Investment Limited, a wholly owned subsidiary of Tencent Holdings Limited ("Tencent"), in connection with Tencent Transaction (Note 30). 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.

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.

In May 2019, the Company issued 8,127,302 Class A ordinary shares to Huang River Investment Limited (Note 30).

The ordinary shares reserved for future exercise of the RSUs and share options were 149,369,486,160,323,374 and 137,075,214 as of December 31, 2017, 2018 and 2019, respectively.

26. Share repurchase program

In September 2015, the Company's Board of Directors authorized a share repurchase program ("2015 share repurchase program") under which the Company may repurchase up to US$1,000,000 worth of its American depositary shares ("ADSs") over the following 24 months. In December 2018, the Company's Board of Directors authorized a share repurchase program ("2018 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.

Under the 2015 share repurchase program, the Company 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, and entered into structured repurchase agreements involving the use of capped call options for the purchase of shares during the year ended December 31, 2016. The Company paid an aggregate price of

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

26. Share repurchase program—continued

US$300,000 (RMB2,007,100) for the structured repurchase agreements during the year ended December 31, 2016, and received US$216,220 (RMB1,463,218) and US$107,239 (RMB737,501) upon the settlement of these agreements during the years ended December 31, 2016 and 2017, respectively, as the outcome of these arrangements was based entirely on the Company's stock price and did not require the Company to deliver either shares or cash, other than the initial investment, the entire transaction was recorded in the shareholders' equity.

No repurchase activity was incurred in 2017.

Under the 2018 share repurchase program, as of December 31, 2019, the Company repurchased 2,332,048 ADSs. For the year ended December 31, 2018, the Company 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. For the year ended December 31, 2019, the Company repurchased 935,848 ADSs for US$19,101 (RMB131,010) on the open market, at a weighted average price of US$20.41 per ADS.

The Company accounts for the repurchased ordinary shares under the cost method and includes such treasury stock as a component of the shareholders' equity.

27. Other comprehensive income

Changes in the composition of accumulated other comprehensive income attributable to ordinary shareholders for the years ended December 31, 2017, 2018 and 2019 are as follows:

	Foreign currency translation adjustments	Net unrealized gains/(losses) on available-for-sale securities	Total
	RMB	RMB	RMB
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
Other comprehensive income	749,865	54,186	804,051
Balances as of December 31, 2019	4,108,334	54,813	4,163,147

The income tax effects related to the accumulated other comprehensive income were insignificant for all periods presented.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

28. Share-based compensation

For the years ended December 31, 2017, 2018 and 2019, total share-based compensation expenses recognized were RMB2,780,062, RMB3,659,989 and RMB3,694,955, respectively. The following table sets forth the allocation of share-based compensation expenses:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Cost of revenues	27,513	71,983	82,243
Fulfillment	425,706	418,895	440,167
Marketing	135,749	190,499	258,860
Research and development	670,612	1,162,579	1,340,317
General and administrative	1,520,482	1,816,033	1,573,368
Total	2,780,062	3,659,989	3,694,955

Share incentive plan

The Company granted share-based awards to eligible employees and non-employees pursuant to a share incentive plan entitled "Share Incentive Plan", which was adopted on November 13, 2014 and governed the terms of the awards.

As of December 31, 2019, the Group had reserved 141,383,893 ordinary shares available to be granted as share-based awards under the Share Incentive Plan.

(1) Employee and non-employee awards

The RSUs and share options are generally scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of the Plans, shall be vested upon the end of the calendar year in which the awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years. Starting from the year ended December 31, 2016, certain awards had multiple tranches with tiered vesting commencement dates from 2016 to 2025, and each of the tranches is subject to a six-year vesting schedule.

Upon the reorganization of JD Digits, the employees' status of JD Digits changed from the employees of the Company's subsidiary to non-employees 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 were insignificant for all periods presented.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

28. Share-based compensation—continued

(1) Employee and non-employee awards—continued

RSUs

a) Service-based RSUs

A summary of activities of the service-based RSUs for the years ended December 31, 2017, 2018 and 2019 is presented as follows:

	Number of RSUs	Weighted-Average Grant-Date Fair Value
		US$
Unvested as of January 1, 2017	82,847,816	11.97
Granted	41,450,212	16.27
Vested	(12,005,700)	10.14
Forfeited or cancelled	(6,246,436)	13.42
Unvested as of December 31, 2017	106,045,892	13.77
Granted	40,383,436	18.95
Vested	(16,137,554)	12.47
Forfeited or cancelled	(11,795,682)	15.16
Unvested as of December 31, 2018	118,496,092	15.58
Granted	33,202,744	14.29
Vested	(20,423,568)	14.96
Forfeited or cancelled	(30,444,064)	15.36
Unvested as of December 31, 2019	100,831,204	15.35

As of December 31, 2017, 2018 and 2019, 5,719,884, 5,798,970 and 4,478,140 outstanding service-based RSUs were held by non-employees including employees of JD Digits, respectively.

For the years ended December 31, 2017, 2018 and 2019, total share-based compensation expenses recognized by the Group for the service-based RSUs granted were RMB2,462,881, RMB2,968,468 and RMB2,958,847, respectively.

As of December 31, 2019, there were RMB6,000,108 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 4.7 years.

The total fair value and intrinsic value of service-based RSUs vested was US$213,155 (RMB1,438,012), US$295,632 (RMB1,892,221) and US$312,962 (RMB2,125,609) during the years ended December 31, 2017, 2018 and 2019, respectively.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

28. Share-based compensation—continued

(1) Employee and non-employee awards—continued

RSUs—continued

b) Performance-based RSUs

A summary of activities of the performance-based RSUs for the years ended December 31, 2017, 2018 and 2019 is presented as follows:

	Number of RSUs	Weighted-Average Grant-Date Fair Value
		US$
Unvested as of January 1, 2017	310,002	6.33
Granted	—	—
Vested	(96,516)	6.33
Forfeited or cancelled	—	—
Unvested as of December 31, 2017	213,486	6.33
Granted	—	—
Vested	(103,788)	6.33
Forfeited or cancelled	(30,152)	6.33
Unvested as of December 31, 2018	79,546	6.33
Granted	—	—
Vested	(39,772)	6.33
Forfeited or cancelled	(19,888)	6.33
Unvested as of December 31, 2019	19,886	6.33

For the years ended December 31, 2017, 2018 and 2019, total share-based compensation expenses recognized by the Group for the performance-based RSUs granted were insignificant for all the periods presented.

As of December 31, 2019, there were RMB76 of unrecognized share-based compensation expenses related to the performance-based RSUs granted. The expenses are expected to be recognized over a weighted-average period of 1.1 years.

The total fair value and intrinsic value of the performance-based RSUs vested was US$1,371 (RMB9,400), US$2,555 (RMB16,181) and US$494 (RMB3,312) during the years ended December 31, 2017, 2018 and 2019, respectively.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

28. Share-based compensation—continued

(1) Employee and non-employee awards—continued

Share options

A summary of activities of the service-based share options for the years ended December 31, 2017, 2018 and 2019 is presented as follows:

	Number of Share Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
		US$	Year	US$
Outstanding as of January 1, 2017	21,659,016	6.23	7.3	142,433
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
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
Exercised	(3,299,962)	5.72		
Forfeited or cancelled	(2,223,650)	8.52		
Expired	—			
Outstanding as of December 31, 2019	10,224,124	6.39	4.3	114,720
Vested and expected to vest as of December 31, 2019	10,038,113	6.29	4.2	113,679
Exercisable as of December 31, 2019	9,129,940	5.72	4.1	108,594

As of December 31, 2017, 2018 and 2019, 1,379,780, 1,211,214 and 1,072,212 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, 2017, 2018 and 2019.

The total intrinsic value of options exercised during the years ended December 31, 2017, 2018 and 2019 was US$55,278 (RMB377,062), US$15,326 (RMB99,267) and US$31,762 (RMB219,918), 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, 2017, 2018 and 2019 was US$19,942 (RMB135,745), US$7,382(RMB48,555) and US$16,201(RMB112,153), respectively. Cash receivable from the exercises of share options of the Company as of December 31, 2017, 2018 and 2019 was US$2,201 (RMB14,380), US$449(RMB3,084) and US$3,127(RMB21,813), respectively.

For the years ended December 31, 2017, 2018 and 2019, total share-based compensation expenses recognized by the Group for the share options granted were RMB60,739, RMB32,558 and

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

28. Share-based compensation—continued

(1) Employee and non-employee awards—continued

Share options—continued

RMB3,837, respectively. As of December 31, 2019, there were RMB15,777 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 2.4 years.

(2) Founder awards

In May 2015, the board of directors of the Company approved a 10-year compensation plan for Mr. Richard Qiangdong Liu (Mr. Liu), the Founder. Under this plan, Mr. Liu will receive RMB0.001 per year in cash salary and zero cash bonus during the 10-year period. Mr. 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, 2017, 2018 and 2019, total share-based compensation expenses recognized for the Founder's share options granted were RMB227,326, RMB167,184 and RMB134,367, respectively.

As of December 31, 2019, there were RMB302,380 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 5.4 years.

(3) Share-based compensation of subsidiaries

In April 2018, JD Logistics granted share-based awards ("JD Logistics Plan") to eligible employees to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of JD Logistics. The JD Logistics Plan consists of share options, RSU and other types of awards. JD Logistics granted 187,844,000 and 83,476,500 share options of Jingdong Express to its employees for the years ended December 31, 2018 and 2019, respectively. The weighted average grant date fair value of options granted for the years ended December 31, 2018 and 2019 was US$1.39 and US$1.67 per share, respectively. For the years ended December 31, 2018 and 2019, total share-based compensation expenses for the share options granted under JD Logistics Plan were RMB400,968 and RMB572,109, respectively. As of December 31, 2019, there were RMB1,228,262 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 5.6 years.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

29. Net income/(loss) per share

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

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Numerator:			
Net income/(loss) from continuing operations attributable to ordinary shareholders	116,819	(2,491,633)	12,184,155
Net loss from discontinued operations attributable to ordinary shareholders	(269,076)	—	—
Net income/(loss) attributable to ordinary shareholders	(152,257)	(2,491,633)	12,184,155
Denominator:			
Weighted average number of shares—basic	2,844,826,014	2,877,902,678	2,912,637,241
Adjustments for dilutive options and RSUs	66,635,803	—	54,684,562
Weighted average number of shares—diluted	2,911,461,817	2,877,902,678	2,967,321,803
Basic net income/(loss) per share from continuing operations attributable to ordinary shareholders	0.04	(0.87)	4.18
Basic net loss per share from discontinued operations attributable to ordinary shareholders	(0.09)	—	—
Basic net income/(loss) per share attributable to ordinary shareholders	(0.05)	(0.87)	4.18
Diluted net income/(loss) per share from continuing operations attributable to ordinary shareholders	0.04	(0.87)	4.11
Diluted net loss per share from discontinued operations attributable to ordinary shareholders	(0.09)	—	—
Diluted net income/(loss) per share attributable to ordinary shareholders	(0.05)	(0.87)	4.11

Generally, basic net income/(loss) per share is computed using the weighted average number of ordinary shares outstanding during the respective year. Diluted net income/(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 income/(loss) per share in the periods presented where their inclusion would be anti-dilutive include RSUs and options to purchase ordinary shares of 146,268,314, 160,431,097 and 149,343,638 for the years ended December 31, 2017, 2018 and 2019 on a weighted average basis, respectively. For the years ended December 31, 2018 and 2019, 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 income/(loss) per share.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

30. Related party transactions

The table below sets forth the major related parties and their relationships with the Group as of December 31, 2019:

Name of related parties	Relationship with the Group
Tencent and its subsidiaries ("Tencent Group")	A shareholder of the Group
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
Core Fund	An investee of the Group
AiHuiShou and its subsidiaries ("AiHuiShou 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 years of 2018 and 2019.

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

Transactions	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Revenues:			
Services provided and products sold to Lexin Group	543,304	—	—
Commission from cooperation on advertising business with Tencent Group(**)	260,572	345,186	287,926
Services provided and products sold to Tencent Group(**)	31,505	276,728	398,700
Services provided and products sold to Dada Group	100,360	122,326	132,585
Services provided and products sold to AiHuiShou Group	—	8,781	349,257
Traffic support, marketing and promotion services provided to Bitauto Group	609,055	608,844	606,593
Traffic support, marketing and promotion services provided to Tuniu Group	132,042	132,008	131,621
Services provided and products sold to JD Digits	271,813	449,093	342,270
Operating expenses:			
Services received and purchases from Tencent Group(**)	674,727	1,175,849	2,222,196
Services received from Dada Group	694,207	938,627	1,565,470
Payment processing and other services received from JD Digits	2,936,416	3,930,847	4,980,748
Lease and property management services received from Core Fund	—	—	476,001
Services received from AiHuiShou Group	—	—	10,467
Other income:			
Income from non-compete agreement with Dada Group	80,447	78,771	82,123
Interest income from loans provided to JD Digits	871,014	179,556	40,632
Interest income from loans provided to Core Fund	—	—	75,496

Notes to the Consolidated Financial Statements—continued
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30. Related party transactions—continued

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

On May 10, 2019, the Company renewed the strategic cooperation agreement with Tencent, for a period of three years starting from May 27, 2019. Tencent continued to offer the Group prominent level 1 and level 2 access points on its Weixin platform to provide traffic support, and the two parties also intend to continue to cooperate in a number of areas including communications, advertising and membership services, among others. As part of the total consideration, the Company agreed to issue to Tencent a certain number of the Company's Class A ordinary shares for a consideration of approximately US$250 million at prevailing market prices at certain pre-determined dates during the three-year period, of which 8,127,302 Class A ordinary shares were issued in May 2019.

Revenues from related parties, excluding those from the major related parties as stated above, represented approximately 0.01%, 0.06% and 0.13% of total net revenues of the Group for the years ended December 31, 2017, 2018, and 2019, respectively. Transactions with related parties included in operating expenses, excluding those with the major related parties as stated above, represented 0.07%, 0.14% and 0.20% of total operating expenses of the Group for the years ended December 31, 2017, 2018, and 2019, respectively.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

30. Related party transactions—continued

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

	As of December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Due from Tencent Group	595,105	862,781	1,128,102
Due from JD Digits			
Loans provided to JD Digits(***)	11,747,066	4,427,907	365,089
Other receivables from/(payables to) JD Digits	328,969	(525,669)	1,363,479
Due from Core Fund			
Loans provided to Core Fund(***)	—	—	579,118
Other receivables from Core Fund	—	—	569,832
Due from AiHuiShou Group	—	2,025	—
Total	12,671,140	4,767,044	4,005,620
Due to Lexin Group	(1,367)	—	—
Due to Tuniu Group	(5,451)	(585)	(2,133)
Due to Dada Group	(7,378)	(118,135)	(208,123)
Due to AiHuiShou Group	—	—	(17,504)
Total	(14,196)	(118,720)	(227,760)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Bitauto Group	(1,379,965)	(771,121)	(164,528)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Tuniu Group	(346,568)	(214,560)	(82,939)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Dada Group	(331,354)	(269,225)	(207,096)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to AiHuiShou Group	—	—	(1,899,099)
Total	(2,057,887)	(1,254,906)	(2,353,662)
Other liabilities in relation to non-compete obligation to Dada Group	(415,082)	(354,236)	(276,976)
Total	(415,082)	(354,236)	(276,976)

(***) In relation to the loans provided to JD Digits and Core Fund, the Group charged JD Digits and Core Fund 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, 2018 and 2019, the Group recorded amount due from related parties other than the major related parties as stated above of RMB21,621, RMB265,421 and RMB228,447, which represented approximately 0.12%, 1.77% and 2.22% of the Group's total accounts receivable, net and prepayments and other current assets, respectively. As of December 31, 2017, 2018 and 2019, 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 other than the major related parties as stated above of RMB69,329, RMB168,621 and RMB279,769, which represented approximately 0.07%, 0.15% and 0.20% of the Group's total

Notes to the Consolidated Financial Statements—continued
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30. Related party transactions—continued

accounts payable, advance from customers, accrued expenses and other current liabilities, deferred revenues and other non-current liabilities, respectively.

(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 RMB497,239, RMB242,473 and RMB189,007 for the years ended December 31, 2017, 2018 and 2019, respectively. In connection with the consumer financing business, JD Digits charged the Group RMB793,218, RMB1,055,239, and RMB1,284,955, for the years ended December 31, 2017, 2018 and 2019 for payment processing services provided to the Group, respectively, which are included in "payment processing and other services from JD Digits" stated above.

The Group also transferred certain financial assets to JD Digits with or without recourse at fair value. The accounts receivable transferred with recourse were RMB167,897, RMB1,387,774, and nil for the years ended December 31, 2017, 2018 and 2019, respectively, which were not derecognized. The accounts receivable transferred without recourse were RMB1,583,968, RMB9,854,493, and RMB24,585,577 for the years ended December 31, 2017, 2018 and 2019, respectively, and were derecognized.

Mr. Richard Qiangdong Liu, the Group's Chairman of the board and the 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.

31. Segment reporting

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 revenues and

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

31. Segment reporting—continued

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, 2017, 2018 and 2019.

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Net revenues:			
JD Retail	356,020,374	447,502,173	552,245,141
New Businesses	6,021,508	14,665,281	23,932,278
Inter-segment(*)	(546,667)	(1,103,943)	(435,364)
Total segment net revenues	361,495,215	461,063,511	575,742,055
Unallocated items	836,539	956,248	1,146,429
Total consolidated net revenues	362,331,754	462,019,759	576,888,484
Operating income/(loss):			
JD Retail	4,956,264	7,049,222	13,775,339
New Businesses	(2,070,668)	(5,136,657)	(1,022,281)
Including: gain on sale of development properties (note 19)	*—*	*—*	*3,884,709*
Total segment operating income	2,885,596	1,912,565	12,753,058
Unallocated items(**)	(3,721,072)	(4,531,696)	(3,758,178)
Total consolidated operating income/(loss)	(835,476)	(2,619,131)	8,994,880
Total other income	956,436	245,453	4,697,652
Income/(loss) before tax	120,960	(2,373,678)	13,692,532

(*) The inter-segment eliminations mainly consist of services provided by JD Retail to overseas business, and certain services provided by JD Logistics to the vendors of JD Retail, which the Group records as a deduction of cost of revenues at the consolidated level.

(**) A summary of unallocated items for the years presented is as follows:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Share-based compensation	(2,780,062)	(3,659,989)	(3,694,955)
Amortization of intangible assets resulting from assets and business acquisitions	(1,777,549)	(1,805,638)	(885,385)
Effects of business cooperation arrangements	836,539	956,248	822,162
Impairment of goodwill and intangible assets	—	(22,317)	—
Total	(3,721,072)	(4,531,696)	(3,758,178)

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

32. 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 and consolidated VIEs 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 RMB3,546,241, RMB5,290,925 and RMB5,694,240 for the years ended December 31, 2017, 2018 and 2019, respectively.

33. Lines of credit and loan facilities

As of December 31, 2019, the Group had agreements with China commercial banks for unsecured revolving lines of credit, and increased its revolving lines of credit to RMB75,337,037. The Group was in compliance with the financial covenants, if any, under those lines of credit as of December 31, 2019. As of December 31, 2019, under the lines of credit, the Group had RMB23,297,902 used for the issuance of bank acceptance and RMB995,014 used for the bank guarantee.

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 London Interbank Offered Rate. The use of proceeds of the facilities was intended for general corporate purposes. In June 2018, the Group drew down US$450,000 under the facility commitment, and the borrowings will be due in 2022, which were recorded in long-term borrowings in the consolidated balance sheets. As of December 31, 2019, 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 expire one month prior to the final maturity date, which is sixty months after the date of this credit facilities agreement. As of December 31, 2019, the aggregate amounts repayable within a period of more than two years but not exceeding five years was US$450,000.

34. Commitments and contingencies

Operating lease commitments for offices and fulfillment infrastructures

The Group leases offices and fulfillment infrastructures under non-cancelable operating lease agreements. Future minimum lease payments under these non-cancelable operating lease agreements with initial terms longer than twelve months are disclosed as maturity of lease liabilities in Note 18.

Commitments for internet data center (IDC) service fee

The Group entered into non-cancelable IDC service agreements. The related expenses were RMB805,656, RMB1,498,935 and RMB2,493,830 for the years ended December 31, 2017, 2018 and 2019, respectively, and were charged to the consolidated statements of operations and comprehensive income/(loss) when incurred.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

34. Commitments and contingencies—continued

Commitments for internet data center (IDC) service fee—continued

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

	As of December 31, 2019
	RMB
2020	1,495,899
2021	1,248,228
2022	1,137,632
2023	753,652
2024	637,341
2025 and thereafter	749,163
	6,021,915

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 RMB7,093,075 as of December 31, 2019. 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 17 and Note 33, 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, 2017, 2018 and 2019.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

35. 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 and consolidated VIEs incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with the 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.

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 and consolidated VIEs 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 the PRC GAAP, totaling approximately RMB24,189,454 as of December 31, 2019; 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, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019 are disclosed in Note 37.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

36. Subsequent events

Public offering of unsecured senior notes

In January 2020, the Company issued fixed rate unsecured senior notes with two maturity dates for an aggregate principal amount of US$1,000,000. The public offering consists of US$700,000 of 3.375% notes due 2030 and US$300,000 of 4.125% notes due 2050. The notes are listed on the Singapore Stock Exchange. The Company received net proceeds from the offering of US$988,266, after deducting underwriting discounts and commissions and offering expenses. The Company intends to use the net proceeds from the offering for general corporate purposes and refinancing.

Share repurchase program

In March 2020, the Company's Board of Directors authorized a share repurchase program ("2020 share repurchase program") under which the Company may repurchase up to US$2,000,000 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. Under 2020 share repurchase program, as of the date of this report, the Company had repurchased approximately 1,191,370 ADSs for approximately US$44,132.

Drew down of Syndicated loan

As disclosed in Note 33, the Group entered into a 5-year US$1,000,000 term and revolving credit facilities agreement with a group of 24 arrangers in December 2017. In April 2020, the Group drew down US$550,000 under the facility commitment. The use of proceeds of the facilities was intended for general corporate purposes.

Private placement notes

In February, March and May 2020, Jingdong Century, a subsidiary of the Company, issued fixed rate private placement notes with three maturity dates for an aggregate principal amount of RMB7,000,000. The private placement consists of RMB3,000,000 of 2.65% notes due April 27, 2020, RMB2,000,000 of 2.75% notes due October 30, 2020 and RMB2,000,000 of 1.75% notes due August 18, 2020. The notes are listed on the inter-bank bond market of China. The Group intends to use the proceeds from the private placement for general corporate purposes.

Potential impact of novel coronavirus ("COVID-19")

From late January 2020, the COVID-19 was rapidly evolving in China and globally. Since then, the business and transportation disruptions in China have caused adverse impacts to the Group's operations and led to incremental costs, in particular, relating to the Group's retail and logistics business. Demands for large-ticket items, durable goods and discretionary products have also been negatively affected by the COVID-19 outbreak. The Group's results of operation and consolidated

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

36. Subsequent events—continued

Potential impact of novel coronavirus ("COVID-19")—continued

financial position of 2020 will be adversely affected to a certain extent, which will depend on the future developments of the outbreak, including new development concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable.

Financing for JD Industrial Technology, Inc.

On April 24, 2020, the Group entered into definitive agreements for the non-redeemable series A preferred share financing of JD Industrial Technology, Inc., a subsidiary of the Company, with investors including GGV Capital, Sequoia Capital China and CPE, among others. The total amount expected to be raised is US$230 million, representing 10.7% of equity interest of JD Industrial Technology, Inc. on a fully diluted basis, subject to closing conditions. JD Industrial Technology, Inc., operates an e-commerce platform that specializes in industrial maintenance, repair and operations products and services, and provides intelligent purchasing platform and supply chain solutions for corporate customers.

Issuance of Class A Ordinary Shares to Tencent

As disclosed in Note 30, on May 27, 2020, the Company issued 2,938,584 Class A ordinary shares to Huang River Investment Limited, as part of the total consideration of the strategic cooperation agreement with Tencent for the three-year period starting from May 27, 2019.

Acquisitions

Subsequent to December 31, 2019, the Group has signed definitive agreements to acquire the controlling equity interests in four companies in an aggregate consideration of approximately RMB1.7 billion. These four companies are principally engaged in the businesses of pharmaceutical, retail, e-commerce and real estate, respectively.

37. Parent company only condensed financial information

The Company performed a test on the restricted net assets of the consolidated subsidiaries and VIEs 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 periods presented. Certain information and footnote disclosures generally included in the 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.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

37. Parent company only condensed financial information—continued

As of December 31, 2019, 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

	As of December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note 2(g)
ASSETS				
Current assets:				
Cash and cash equivalents	8,964,809	2,196,796	6,575,639	944,531
Short term investments	—	755	767	110
Prepayments and other current assets	63,853	121,822	2,408	346
Amount due from related parties	715,671	1,555,288	3,186,818	457,758
Total current assets	9,744,333	3,874,661	9,765,632	1,402,745
Non-current assets:				
Investment in equity investees	7,514	—	—	—
Investments in subsidiaries and consolidated VIEs	45,675,625	64,127,171	81,301,020	11,678,161
Investment securities	35,893	12,978	13,192	1,895
Intangible assets, net	3,092,549	1,569,483	965,165	138,637
Other non-current assets	—	121,453	106,030	15,230
Total non-current assets	48,811,581	65,831,085	82,385,407	11,833,923
Total assets	58,555,914	69,705,746	92,151,039	13,236,668

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

37. Parent company only condensed financial information—continued

Condensed Balance Sheets—continued

	As of December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note 2(g)
LIABILITIES				
Current liabilities:				
Accounts payable	—	—	140	20
Taxes payable	—	—	4,497	646
Accrued expenses and other liabilities	67,743	60,190	238,650	34,279
Total current liabilities	67,743	60,190	243,287	34,945
Non-current liabilities:				
Long-term borrowings	—	3,088,440	3,139,290	450,931
Unsecured senior notes	6,447,357	6,786,143	6,912,492	992,917
Total non-current liabilities	6,447,357	9,874,583	10,051,782	1,443,848
Total liabilities	6,515,100	9,934,773	10,295,069	1,478,793
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; 2,520,271,138 Class A ordinary shares issued and 2,480,575,334 outstanding, 453,672,011 Class B ordinary shares issued and 443,739,929 outstanding as of December 31, 2019)	377	380	381	55
Additional paid-in capital	76,254,607	82,832,895	90,676,122	13,024,810
Statutory reserves	635,966	1,400,412	1,459,165	209,596
Treasury stock	(4,457,608)	(3,783,729)	(2,530,166)	(363,436)
Accumulated deficit	(22,234,609)	(24,038,081)	(11,912,679)	(1,711,149)
Accumulated other comprehensive income	1,842,081	3,359,096	4,163,147	597,999
Total shareholders' equity	52,040,814	59,770,973	81,855,970	11,757,875
Total liabilities and shareholders' equity	58,555,914	69,705,746	92,151,039	13,236,668

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

37. Parent company only condensed financial information—continued

Condensed Statements of Operations and Comprehensive Income

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note 2(g)
Operating expenses				
Marketing	(1,215,222)	(1,218,920)	(301,495)	(43,307)
General and administrative	(556,534)	(495,835)	(469,688)	(67,466)
Loss from operations	(1,771,756)	(1,714,755)	(771,183)	(110,773)
Share of income/(loss) of subsidiaries and consolidated VIEs	1,717,151	(653,408)	12,575,644	1,806,378
Interest income	66,848	220,186	163,974	23,553
Interest expense	(260,756)	(315,683)	(376,152)	(54,031)
Others, net	96,256	(27,973)	591,872	85,017
Net income/(loss)	(152,257)	(2,491,633)	12,184,155	1,750,144
Net income/(loss) attributable to ordinary shareholders	(152,257)	(2,491,633)	12,184,155	1,750,144
Net income/(loss)	(152,257)	(2,491,633)	12,184,155	1,750,144
Other comprehensive income:				
Foreign currency translation adjustments	(822,052)	2,696,784	749,865	107,711
Net change in unrealized gains/(losses) on available-for-sale securities:				
Unrealized gains, net of tax	1,473,014	237,585	312,723	44,920
Reclassification adjustment for gains recorded in net income, net of tax	(352,274)	(260,712)	(258,537)	(37,137)
Net unrealized gains/(losses) on available-for-sale securities	1,120,740	(23,127)	54,186	7,783
Total other comprehensive income	298,688	2,673,657	804,051	115,494
Total comprehensive income	146,431	182,024	12,988,206	1,865,638

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

37. Parent company only condensed financial information—continued

Condensed Statements of Cash Flows

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ Note 2(g)
Net cash provided by/(used in) operating activities	(105,219)	(233,195)	697,927	100,251
Cash flows from investing activities:				
Purchase of investment securities	—	(755)	—	—
Cash received from disposal of investment securities	—	7,893	—	—
Cash received from/(prepayments and investments in) subsidiaries and consolidated VIEs	2,359,092	(12,425,233)	5,202,711	747,323
Prepayments and investments in equity investees	(7,646)	—	—	—
Loans provided to JD Digits	(31,161)	(839,617)	(1,631,530)	(234,355)
Net cash provided by/(used in) investing activities	2,320,285	(13,257,712)	3,571,181	512,968
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares	—	3,531,870	—	—
Repurchase of ordinary shares	—	(205,886)	(131,010)	(18,818)
Proceeds from long-term borrowings	—	2,890,575	—	—
Proceeds from settlement of capped call options	737,501	—	—	—
Proceeds from issuance of ordinary shares pursuant to share-based awards	135,745	48,555	112,153	16,110
Upfront fee payment for long-term borrowings	—	(81,581)	—	—
Net cash provided by/(used in) financing activities	873,246	6,183,533	(18,857)	(2,708)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(240,077)	539,361	128,592	18,470
Net increase/(decrease) in cash, cash equivalents, and restricted cash	2,848,235	(6,768,013)	4,378,843	628,981
Cash, cash equivalents, and restricted cash at beginning of the year	6,116,574	8,964,809	2,196,796	315,550
Cash, cash equivalents, and restricted cash at end of the year	8,964,809	2,196,796	6,575,639	944,531

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 and consolidated VIEs.

For the Company only condensed financial information, the Company records its investments in subsidiaries and consolidated VIEs 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 and consolidated VIEs" and shares in the subsidiaries and consolidated VIEs' financial results are presented as "Share of income/(loss) of subsidiaries and consolidated VIEs" 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' consolidated financial statements.

Notes to the Consolidated Financial Statements—continued
(All amounts in thousands, except for share, per share data or otherwise noted)

38. Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2017, 2018 and 2019.

SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Group in respect of any period subsequent to December 31, 2019 and up to the date of this report. Except as disclosed elsewhere in this report, no dividends or distributions have been declared or made by the Company in respect of any period subsequent to December 31, 2019.

The following is the text of a report set out on pages IA-1 to IA-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JD.COM, INC. AND MERRILL LYNCH FAR EAST LIMITED, UBS SECURITIES HONG KONG LIMITED AND CLSA CAPITAL MARKETS LIMITED

Introduction

We report on the historical financial information of JD.com, Inc. and its subsidiaries (together, the "Company") set out on pages IA-3 to IA-90, which comprises the consolidated balance sheets as of December 31, 2017 and 2018, and the consolidated statements of operations and comprehensive income/(loss), the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for the years ended December 31, 2017 and 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IA-3 to IA-90 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated June 8, 2020 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in note 2a to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in note 2a to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the consolidated financial position of the Company as of December 31, 2017 and 2018 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation set out in note 2a to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information is stated with no adjustments to the Historical Financial Statements as defined on page IA-3 as were considered necessary.

Dividends

We refer to note 35 to the Historical Financial Information which states that no dividends have been paid by JD.com, Inc. in respect of the Track Record Period.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
June 8, 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Historical Financial Information in this report was prepared by the directors of the Company based on the consolidated financial statements of the Company for the years ended December 31, 2017 and 2018 (collectively referred as "Historical Financial Statements"). The consolidated financial statements for the years ended December 31, 2017 and 2018 were audited by PricewaterhouseCoopers Zhong Tian LLP, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") relating to the financial statements.

The Historical Financial Information is presented in Renminbi. All values are rounded to the nearest thousand except when otherwise indicated.

CONSOLIDATED BALANCE SHEETS

	Note	As of December 31, 2017	2018
		RMB'000	RMB'000
ASSETS			
Current assets			
Cash and cash equivalents	2(f)	25,688,327	34,262,445
Restricted cash	4	4,110,210	3,239,613
Short-term investments	5	8,587,852	2,035,575
Accounts receivable, net	8	16,359,147	11,109,988
Advance to suppliers		394,574	477,109
Inventories, net	9	41,700,379	44,030,084
Loan receivables, net	2(k)	5,132,698	2,716,475
Prepayments and other current assets		2,258,904	3,848,225
Amount due from related parties	27	10,796,561	3,136,265
Total current assets		115,028,652	104,855,779
Non-current assets			
Property, equipment and software, net	10	12,574,178	21,082,838
Construction in progress	2(m)	3,196,516	6,553,712
Intangible assets, net	12	6,692,717	5,011,706
Land use rights, net	11	7,050,809	10,475,658
Goodwill	13	6,650,570	6,643,669
Investment in equity investees	7	18,551,319	31,356,616
Investment securities	2(r), 5	10,027,813	15,901,573
Deferred tax assets	20	158,250	103,158
Other non-current assets		2,227,942	5,283,948
Amount due from related parties	27	1,896,200	1,896,200
Total non-current assets		69,026,314	104,309,078
Total assets		184,054,966	209,164,857

CONSOLIDATED BALANCE SHEETS—continued

	Note	As of December 31, 2017	As of December 31, 2018
		RMB'000	RMB'000
LIABILITIES			
Current liabilities (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB7,577,086 and RMB9,234,523 as of December 31, 2017 and 2018, respectively.)			
Short-term borrowings	14	200,000	147,264
Nonrecourse securitization debt	2(t)	12,684,881	4,397,670
Accounts payable	15	74,337,708	79,985,018
Advance from customers		13,605,298	13,017,603
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
Taxes payable	20	658,220	825,677
Amount due to related parties	27	54,342	215,614
Accrued expenses and other current liabilities	16	15,117,840	20,292,680
Total current liabilities		118,250,621	120,862,015
Non-current liabilities			
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
Nonrecourse securitization debt	2(t)	4,475,238	—
Unsecured senior notes	17	6,447,357	6,786,143
Deferred tax liabilities	20	882,248	828,473
Long-term borrowings	2(u),30	—	3,088,440
Other non-current liabilities		337,254	308,489
Total non-current liabilities		13,415,642	11,474,698
Total liabilities		131,666,263	132,336,713
Commitments and contingencies	31		
MEZZANINE EQUITY			
Convertible redeemable non-controlling interests	21	—	15,961,284
SHAREHOLDERS' EQUITY:			
JD.com, Inc. 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.)	22	377	380
Additional paid-in capital		76,254,607	82,832,895
Statutory reserves	2(ll)	635,966	1,400,412
Treasury stock	23	(4,457,608)	(3,783,729)
Accumulated deficit		(22,234,609)	(24,038,081)
Accumulated other comprehensive income	24	1,842,081	3,359,096
Total JD.com, Inc. shareholders' equity		52,040,814	59,770,973
Non-controlling interests	2(c)	347,889	1,095,887
Total shareholders' equity		52,388,703	60,866,860
Total liabilities, mezzanine equity and shareholders' equity		184,054,966	209,164,857

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)

	Note	For the year ended December 31, 2017	2018
		RMB'000	RMB'000
Net revenues	2(w),28		
Net product revenues		331,824,410	416,108,746
Net service revenues		30,507,344	45,911,013
Total net revenues		362,331,754	462,019,759
Cost of revenues	2(z)	(311,516,831)	(396,066,126)
Fulfillment	2(bb)	(25,865,128)	(32,009,658)
Marketing	2(cc)	(14,918,107)	(19,236,740)
Research and development	2(dd)	(6,652,374)	(12,144,383)
General and administrative	2(ee)	(4,214,790)	(5,159,666)
Impairment of goodwill and intangible assets	2(s)	—	(22,317)
Loss from operations		(835,476)	(2,619,131)
Other income/(expense)			
Share of results of equity investees	7	(1,926,720)	(1,113,105)
Interest income	18	2,530,490	2,117,921
Interest expense	18	(963,742)	(854,538)
Others, net	19	1,316,408	95,175
Income/(loss) before tax		120,960	(2,373,678)
Income tax expenses	20	(139,593)	(426,872)
Net loss from continuing operations		(18,633)	(2,800,550)
Net income from discontinued operations, net of tax		6,915	—
Net loss		(11,718)	(2,800,550)
Net loss from continuing operations attributable to non-controlling interests shareholders		(135,452)	(311,409)
Net loss from discontinued operations attributable to non-controlling interests shareholders		(5,030)	—
Net income from continuing operations attributable to mezzanine equity classified as non-controlling interests shareholders		—	2,492
Net income from discontinued operations attributable to mezzanine equity classified as non-controlling interests shareholders		281,021	—
Net loss attributable to ordinary shareholders		(152,257)	(2,491,633)
Including: Net loss from discontinued operations attributable to ordinary shareholders		(269,076)	—
Net income/(loss) from continuing operations attributable to ordinary shareholders		116,819	(2,491,633)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)—continued

	Note	For the year ended December 31, 2017	2018
		RMB'000	RMB'000
Net loss		(11,718)	(2,800,550)
Other comprehensive income:	24		
Foreign currency translation adjustments		(822,052)	2,696,784
Net change in unrealized gains on available-for-sale securities:			
Unrealized gains, net of tax		1,473,014	237,585
Reclassification adjustment for gains recorded in net income, net of tax		(352,274)	(260,712)
Net unrealized gains/(losses) on available-for-sale securities		1,120,740	(23,127)
Total other comprehensive income		298,688	2,673,657
Total comprehensive income/(loss)		286,970	(126,893)
Total comprehensive loss attributable to non-controlling interests shareholders		(140,482)	(311,409)
Total comprehensive income attributable to mezzanine equity classified as non-controlling interests shareholders		281,021	2,492
Total comprehensive income attributable to ordinary shareholders		146,431	182,024
Net income/(loss) per share (RMB)	26		
Basic			
Continuing operations		0.04	(0.87)
Discontinued operations		(0.09)	—
Net loss per share		(0.05)	(0.87)
Diluted			
Continuing operations		0.04	(0.87)
Discontinued operations		(0.09)	—
Net loss per share		(0.05)	(0.87)
Weighted average number of shares			
Basic		2,844,826,014	2,877,902,678
Diluted		2,911,461,817	2,877,902,678

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Cash flows from operating activities:		
Net loss	(11,718)	(2,800,550)
Loss from discontinued operations, net of income tax	(6,915)	—
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,192,716	5,560,034
Share-based compensation	2,780,062	3,659,989
(Gains)/losses from disposal of property, equipment and software	11,591	(11,166)
Deferred income tax	(221,010)	(10,454)
Amortization of discounts and issuance costs of the unsecured senior notes	13,426	13,649
Impairment of goodwill and intangible assets	—	22,317
Impairment of investments	139,823	593,138
Fair value losses of long-term investments	—	1,512,979
Gain from business and investment disposals	(74,965)	(1,320,266)
Share of results of equity investees	1,926,720	1,113,105
Foreign exchange (gains)/losses	(213,482)	192,491
Changes in operating assets and liabilities:		
Accounts receivable	(545,991)	4,287,004
Inventories	(12,788,337)	(2,342,058)
Advance to suppliers	(137,457)	(75,370)
Prepayments and other current assets	(328,041)	(899,139)
Amount due from related parties	2,456,933	1,769,930
Other non-current assets	(372,576)	44,990
Accounts payable	26,106,191	5,466,698
Advance from customers	2,138,964	(745,854)
Deferred revenues	(374,042)	(603,464)
Taxes payable	92,932	166,120
Accrued expenses and other current liabilities	4,624,014	5,158,390
Amount due to related parties	(66,370)	128,909
Net cash provided by continuing operating activities	29,342,468	20,881,422
Net cash used in discontinued operating activities	(2,485,741)	—
Net cash provided by operating activities	26,856,727	20,881,422

CONSOLIDATED STATEMENTS OF CASH FLOWS—continued

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Cash flows from investing activities:		
Purchase of short-term investments	(9,288,743)	(2,518,000)
Maturity of short-term investments	7,211,608	9,053,087
Purchase of investment securities	(7,824,277)	(4,562,283)
Cash received from disposal of investment securities	—	317,975
Cash paid for investments in equity investees	(6,207,880)	(17,398,204)
Cash received from disposal of equity investment	202,774	1,606,338
Cash paid for loan originations	(24,379,691)	(36,432,214)
Cash received from loan repayments	23,019,358	38,984,140
Purchase of property, equipment and software	(3,294,286)	(9,743,453)
Purchase of intangible assets	(8,774)	(130,797)
Cash paid for construction in progress	(3,267,277)	(7,358,939)
Purchase of land use rights	(4,785,538)	(4,136,305)
Cash paid for business combination, net of cash acquired	(160,658)	(19,578)
Loans (provided to)/settled by JD Digits	(6,187,891)	6,259,241
Proceeds from JD Digits reorganization (Note 6)	13,027,155	—
Net cash used in continuing investing activities	(21,944,120)	(26,078,992)
Net cash used in discontinued investing activities	(17,871,171)	—
Net cash used in investing activities	(39,815,291)	(26,078,992)
Cash flows from financing activities:		
Proceeds from issuance of ordinary shares	—	3,531,870
Repurchase of ordinary shares	—	(205,886)
Proceeds from settlement of capped call options	737,501	—
Proceeds from issuance of ordinary shares pursuant to share-based awards	135,745	48,555
Proceeds from issuance of convertible redeemable preferred shares of JD Logistics, net	—	15,958,792
Capital injection from non-controlling interest shareholders	209,725	805,561
Proceeds from short-term borrowings	700,000	1,179,422
Repayment of short-term borrowings	(2,356,888)	(1,200,000)
Proceeds from long-term borrowings	—	2,890,575
Proceeds from nonrecourse securitization debt	16,500,000	—
Repayment of nonrecourse securitization debt	(10,889,371)	(11,960,194)
Other financing activities	143,653	171,233
Net cash provided by continuing financing activities	5,180,365	11,219,928
Net cash provided by discontinued financing activities	14,054,620	—
Net cash provided by financing activities	19,234,985	11,219,928
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(641,534)	1,681,163
Net increase in cash, cash equivalents, and restricted cash	5,634,887	7,703,521
Cash, cash equivalents, and restricted cash at beginning of year	24,163,650	29,798,537
Cash, cash equivalents, and restricted cash at end of year	29,798,537	37,502,058
Supplemental cash flow disclosures of continuing operations:		
Cash paid for income taxes	(240,899)	(666,305)
Cash paid for interest	(577,306)	(421,035)
Supplemental disclosures of non-cash investing and financing activities:		
Equity investments obtained through commitment of future services and contribution of certain business	—	181,228

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary shares		Treasury stock				Accumulated other			Total
	Shares	Amount	Shares	Amount	Additional paid-in capital	Statutory reserves	comprehensive income/(loss)	Accumulated deficit	Non-controlling interests	Shareholders' equity
		RMB'000		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of December 31, 2016	2,938,708,899	377	(102,264,502)	(5,181,880)	59,258,417	132,938	1,543,393	(21,860,345)	269,962	34,162,862
Repurchase of ordinary shares	—	—	—	—	737,501	—	—	—	—	737,501
Accretion of redeemable non-controlling interests	—	—	—	—	(281,021)	—	—	—	—	(281,021)
Exercise of share-based awards	—	—	4,116,816	259,583	(114,556)	—	—	—	—	145,027
Share-based compensation and vesting of share-based awards	—	—	12,102,216	464,689	2,460,785	—	—	—	—	2,925,474
Net income/(loss)	—	—	—	—	—	—	—	128,764	(140,482)	(11,718)
Foreign currency translation adjustments	—	—	—	—	—	—	(822,052)	—	—	(822,052)
Net change in unrealized gains on available-for-sale securities	—	—	—	—	—	—	1,120,740	—	—	1,120,740
Statutory reserves	—	—	—	—	—	503,028	—	(503,028)	—	—
Change of the capital from non-controlling interest shareholders	—	—	—	—	—	—	—	—	231,055	231,055
Gain from JD Digits reorganization	—	—	—	—	14,193,481	—	—	—	(12,646)	14,180,835
Balance as of December 31, 2017	2,938,708,899	377	(86,045,470)	(4,457,608)	76,254,607	635,966	1,842,081	(22,234,609)	347,889	52,388,703
Cumulative effect of changes in accounting principles related to revenue recognition and financial instruments	—	—	—	—	—	—	(1,156,642)	1,452,607	—	295,965
Issuance of ordinary shares	27,106,948	3	—	—	3,531,867	—	—	—	—	3,531,870
Repurchase of ordinary shares	—	—	(2,792,400)	(205,886)	—	—	—	—	—	(205,886)
Accretion of convertible redeemable non-controlling interests	—	—	—	—	—	—	—	(2,492)	—	(2,492)
Exercise of share-based awards	—	—	1,077,036	67,982	(30,792)	—	—	—	—	37,190
Share-based compensation and vesting of share-based awards	—	—	16,241,342	811,783	2,447,238	—	—	—	400,968	3,659,989
Net loss	—	—	—	—	—	—	—	(2,489,141)	(311,409)	(2,800,550)
Foreign currency translation adjustments	—	—	—	—	—	—	2,696,784	—	—	2,696,784
Net change in unrealized gains on available-for-sale debt securities	—	—	—	—	—	—	(23,127)	—	—	(23,127)
Statutory reserves	—	—	—	—	—	764,446	—	(764,446)	—	—
Change of the capital from non-controlling interest shareholders	—	—	—	—	—	—	—	—	658,439	658,439
Share of changes in the equity investee's capital accounts	—	—	—	—	629,975	—	—	—	—	629,975
Balance as of December 31, 2018	2,965,815,847	380	(71,519,492)	(3,783,729)	82,832,895	1,400,412	3,359,096	(24,038,081)	1,095,887	60,866,860

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. Principal activities and organization

JD.com, Inc. (the "Company") is a leading technology driven e-commerce company transforming to become the leading supply chain based technology and service provider, providing products and services to consumers, third-party merchants, suppliers and other business partners through its subsidiaries, consolidated variable interest entities ("VIEs") (collectively, the "Group"). The Group operates e-commerce business, including online retail and online marketplace mainly through its retail mobile apps and www.jd.com website (collectively, "JD Platform"). The Group serves consumers through online retail, focusing on product selection, price and convenience, serves third-party merchants through online marketplace, offering programs that enable the merchants to sell their products on JD Platform and to fulfill the orders either by themselves or through the Group's logistic services. Leveraging its AI capabilities and technologies, the Group provides a variety of marketing services to business partners through its proprietary advertisement technology platform. Leveraging its nationwide fulfillment infrastructure, the Group provides comprehensive supply chain solutions, primarily including warehousing, transportation, delivery and after-sales service to third parties, including both third-party merchants and suppliers on JD Platform and other business partners, through the Group's logistics business ("JD Logistics").

Prior to June 2017, the Group offered financial services to its suppliers, third-party merchants 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. Upon the reorganization of JD Digits, the Group disposed all its equity stake in JD Digits and was entitled to a profit sharing right from 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 JD Digits's equity interest, subject to applicable regulatory approvals (Note 6).

In 2018, the Group established JD Property Management Group ("JD Property"), which owns, develops and manages the Group's logistics facilities and other real estate properties, to support JD Logistics and other third parties. By leveraging its fund management platform, JD Property can realize development profits and recycle capital from mature properties to fund new developments and scale the business.

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 and consolidated VIEs.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. Principal activities and organization—continued

As of December 31, 2018, the Company's major subsidiaries, consolidated VIEs and VIEs' subsidiaries are as follows:

	Equity interest held	Place and date of incorporation
Subsidiaries		
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
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 Asia Development Limited	100%	British Virgin Islands, February 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%	Shaanxi, China, May 2017
Xi'an Jingdong Xuncheng Logistics Co., Ltd.	100%	Shaanxi, 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
JD Health International Inc.	86%	Cayman Islands, November 2018
Consolidated VIEs		
Beijing Jingdong 360 Degree E-commerce Co., Ltd. ("Jingdong 360")		Beijing, China, April 2007
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")		Shaanxi, China, June 2017

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. Principal activities and organization—continued

	Equity interest held	Place and date of incorporation
Consolidated VIEs' Subsidiaries		
Beijing Jingbangda Trade Co., Ltd. ("Beijing Jingbangda")		Beijing, China, August 2012
Hengqin Junze Management and Consulting Co., Ltd.		Guangdong, China, April 2017
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

• *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.

• *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 agreement 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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. Principal activities and organization—continued

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.

• *Exclusive purchase option agreements*

The Nominee Shareholders of the VIEs have granted the Group's relevant PRC subsidiaries the exclusive and irrevocable rights to purchase from the Nominee Shareholders, to the extent permitted under the 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 the 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,

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. Principal activities and organization—continued

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 the PRC. Jingdong 360 has agreed to pay license fees to Jingdong Century and the amount of the license fees 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.

• *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 the 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. Principal activities and organization—continued

• 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 the 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.

• Risks in relations to the VIE structure

The Company believes that the contractual arrangements among its subsidiaries, the VIEs and its shareholders are in compliance with the current PRC laws and legally enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. As a result, the Company may be unable to consolidate the VIEs and its subsidiary in the consolidated financial statements. The Company's ability to control its VIEs also depends on the authorization by the shareholders of the VIEs to exercise voting rights on all matters requiring shareholders' approval in the VIEs. The Company believes that the agreements on authorization to exercise shareholder's voting power are legally enforceable. In addition, if the legal structure and contractual arrangements with its VIEs were found to be in violation of any future PRC laws and regulations, the Company may be subject to fines or other actions. The Company believes the possibility that it will no longer be able to control and consolidate its VIEs as a result of the aforementioned risks is remote.

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'000	RMB'000
Total assets	19,281,227	23,878,253
Total liabilities	19,547,831	26,717,946

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Total net revenues	15,926,297	37,561,128
Net loss	(115,318)	(2,646,122)

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. Principal activities and organization—continued

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Net cash provided by/(used in) operating activities	1,188,220	(1,144,849)
Net cash used in investing activities	(10,117,516)	(7,596,181)
Net cash provided by financing activities	9,626,497	8,902,074
Net increase in cash, cash equivalents, and restricted cash	697,201	161,044
Cash, cash equivalents, and restricted cash at beginning of year	21,959	719,160
Cash, cash equivalents, and restricted cash at end of year	719,160	880,204

As of December 31, 2017 and 2018, the total assets of the Group's consolidated VIEs (where appropriate, the term "VIEs" also refers to its subsidiaries as a whole) were mainly consisting of cash and cash equivalents, short-term investments, 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 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 can have assets transferred out of the Group's consolidated VIEs. Therefore, the Group's relevant PRC subsidiaries consider that there is no asset in the Group's consolidated VIEs that can be used only to settle their obligations except for registered capitals and the 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 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. The total shareholders' deficit of the Group's consolidated VIEs 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. As the Group is conducting certain businesses in the PRC through the consolidated VIEs, 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 securitizes 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(t).

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. Principal activities and organization—continued

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

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 and the consolidated VIEs 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 consolidated 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 and the consolidated VIEs have been eliminated upon consolidation.

c. Non-controlling interests

For the Company's consolidated subsidiaries and VIEs, 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.

d. 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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

d. Use of estimates—continued

accompanying notes. Significant accounting estimates are used for, but not limited to, returns allowance, vendor and customer incentives, determination of the stand-alone selling price ("SSP"), 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, redemption value of the redeemable preferred shares and consolidation of VIEs. Actual results may differ materially from those estimates.

e. 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 and consolidated VIEs 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 Topic 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 gain of RMB213,482 and a loss of RMB192,491 for the years ended December 31, 2017 and 2018, respectively.

The consolidated 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 loss of RMB822,052 and a gain of RMB2,696,784, for the years ended December 31, 2017 and 2018, respectively.

f. 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, which have original maturities of three months or less.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

g. 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.

h. 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 Group also holds debt classified securities, and such investments are recorded as available-for-sale debt securities and held-to-maturity securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income. Realized gains or losses are included in interest income in the consolidated statements of operations and comprehensive income/(loss) during the period in which the gain or loss is realized.

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.

i. 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.

The Group, in collaboration with JD Digits, provides consumer financing to the qualified customers in the online retail business, such consumer financing receivables are recorded as accounts receivable. Due to the legacy contractual arrangements with JD Digits, the Group remains as the legal owner of the consumer financing receivables, where JD Digits performs the related credit assessment.

JD Digits is obligated 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 were provided. The Group, in collaboration with JD Digits, periodically securitizes consumer financing receivables through the transfer of those assets to securitization vehicles, please refer to Note 2(t).

Other than the accounts receivable arising from the consumer financing, 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. If there is strong evidence indicating that the accounts receivable are likely to be

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

i. Accounts receivable, net—continued

unrecoverable, the Group also makes specific allowance in the period in which a loss is determined to be probable. 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.

j. Inventories, net

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Cost of inventories is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventories 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 merchants maintain ownership of their inventories and therefore these products are not included in the Group's inventories.

k. Loan receivables, net

Loan receivables represent the consumer financing, in collaboration with JD Digits, provided to qualified individual customers on our online marketplace. Due to the legacy contractual arrangements with JD Digits, the Group remains as the legal owner of the consumer financing receivables, including such loan receivables, where JD Digits performs the related credit assessment and absorbs the credit risks. The loan terms extended to the customers generally range from 1 month to 24 months. As JD Digits is obligated to purchase the receivables past due over certain agreed period of time from the Group at carrying values to absorb the credit risks, no provision for doubtful accounts was recorded for the years ended December 31, 2017 and 2018. The loan receivables were measured at amortized cost and reported in the consolidated balance sheets at outstanding principal. As of December 31, 2017 and 2018, the loan receivables with the collection period over one year amounting to RMB243,624 and RMB105,455, respectively, were classified into other non-current assets in the consolidated balance sheets. Cash paid for loan originations and cash received from loan repayments are classified as investing activities in the consolidated statements of cash flows. The Group, in collaboration with JD Digits, periodically securitizes loan receivables through the transfer of those assets to securitization vehicles, please refer to Note 2(t).

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

l. Property, equipment and software, net

Property, equipment and software are stated at cost less accumulated depreciation and impairment. Property, equipment and software are depreciated at rates sufficient to write off their costs less impairment and residual value, if any, over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Category	Estimated useful lives
Electronic equipment	3-5 years
Office equipment	5 years
Vehicles	3-5 years
Logistics, warehouse and other heavy 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).

m. 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 and 2017, 2018, construction in progress in the amount of RMB3,196,516 and RMB6,553,712, respectively, were primarily relating to the construction of office buildings and warehouses.

n. 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 50 years and represent the shorter of the estimated usage periods or the terms of the agreements.

o. 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 fair value to be assigned to each asset acquired. The acquired intangible assets are recognized and measured at fair value and are

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

o. Intangible assets, net—continued

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
Domain names and trademarks	5-20 years
Technology and others	2-10 years

p. 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 Financial Accounting Standards Board ("FASB") guidance on testing of goodwill for impairment, the Group first assesses 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 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.

q. 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 Topic 323, *Investment—Equity Method and Joint Ventures* ("ASC 323"), 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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

q. Investment in equity investees—continued

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 of accumulated other comprehensive income 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.

Prior to January 1, 2018, for other equity investments (including the private equity funds) that are not considered as debt securities or equity securities that have readily determinable fair values and over which the Group has neither significant influence nor control through investments in common stock or in-substance common stock, the cost method of accounting is used. Under the cost method, the Group carries the investment at cost and recognizes income to the extent of dividends received from the distribution of the equity investee's post-acquisition profits.

Upon the adoption of ASU 2016-01 "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01") on January 1, 2018, the Group measured long-term investments other than equity method investments at fair value through earnings.

Private equity funds pursue various investment strategies, including event driven and multi-strategy. Investments in private equity funds 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 an*d Disclosures* ("ASC 820") to estimate fair value using the net asset value per share (or its equivalent) of the investment ("NAV practical expedient").

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

q. Investment in equity investees—continued

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 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 based on performance and financial position of the investee as well as other evidence of market value at each reporting date. Such assessment includes, but is not limited to, reviewing the investee's cash position, recent financing, as well as the financial and business performance. The Group 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.

r. Investment securities

The Group invests in marketable equity securities to meet business objectives.

Prior to January 1, 2018, these marketable securities are reported at fair value, classified and accounted for as available-for-sale securities in investment securities. The treatment of a decline in the fair value of an individual security is based on whether the decline is other-than-temporary. The Group assesses its available-for-sale securities for other-than-temporary impairment by considering factors including, but not limited to, its ability and intent to hold the individual security, severity of the impairment, expected duration of the impairment and forecasted recovery of fair value. Investments classified as available-for-sale securities are reported at fair value with unrealized gains or losses, if any, recorded in accumulated other comprehensive income/(loss) as a component of shareholders' equity. If the Group determines a decline in fair value is other-than-temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is accounted for as a realized loss charged in others, net in the consolidated statements of operations and comprehensive income/(loss). The fair value of the investment would not be adjusted for subsequent recoveries in fair value.

Upon the adoption of ASU 2016-01 on January 1, 2018, the unrealized gains and losses on equity securities are recorded in others, net in the consolidated statements of operations and comprehensive income/(loss).

The Group recognizes 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

s. 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.

t. Nonrecourse securitization debt and transfer of financial assets

The Group, in collaboration with JD Digits, periodically securitizes accounts receivable and loan receivables arising from consumer financing 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 Topic 810, Consolidation. 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 receivable are de-recognized in the consolidated balance sheets pursuant to ASC Topic 860, Transfers and Servicing ("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 rights 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 ignored when applying ASC 860, as long as the transferee will not be consolidated by the transferor.

Due to the Group's continuing involvement rights in securitization vehicles prior to October 2017, the Group cannot derecognize the existing receivables through the transfer of the receivables to

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

t. Nonrecourse securitization debt and transfer of financial assets—continued

securitization vehicles. The proceeds from the financing type transactions were 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 were from 2018 to 2019, the securities were 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.

Beginning October 2017, the Group revised certain structural arrangements to relinquish its continuing involvement rights 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 (2017: RMB8,000,000), and JD Digits and other third-party investors acted as the servicers 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 the periods presented.

u. 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).

v. 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

v. Fair value—continued

The Group measures certain financial assets, including investments under the equity method on other-than-temporary basis, investments under the Measurement Alternative, 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.

w. Revenues

The Group operates e-commerce business, including online retail and online marketplace mainly through JD Platform. In the online retail business, the Group acquires products from suppliers and sells them directly to customers, and currently offers a wide range of product categories to customers. The online marketplace business enables merchants to sell their products to consumers. Customers primarily place their orders for products or services online, and payment for the purchased products or services is generally made either before delivery or upon delivery. Leveraging its nationwide fulfillment infrastructure, the Group provides logistics services to third parties through JD Logistics. The Group provides a variety of marketing services to third parties through proprietary advertisement technology platform. Prior to June 2017, the Group also offered financial services to its suppliers, third-party merchants 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).

Before January 1, 2018, the Group adopted ASC 605, Revenue Recognition, and recognizes revenues when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

w. Revenues—continued

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

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

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

The Group also sells prepaid cards which can be redeemed to purchase products sold on the website www.jd.com. The cash collected from the sales of prepaid cards is initially recorded in advance from customers in the consolidated balance sheets and subsequently recognized as revenues upon the sales of the respective products through redemption of prepaid cards are completed. The Group recognize revenue from the unredeemed prepaid cards until prepaid cards expire or when the likelihood of redemption becomes remote.

The Group adopted ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), from January 1, 2018, using the modified retrospective transition approach that increased retained earnings by approximately RMB256,994 resulted from the changes of account's treatment of unredeemed prepaid cards. Revenues for the years ended December 31, 2018 were presented under ASC 606, and revenues for the year ended December 31, 2017 were not adjusted and continue to be presented under ASC Topic 605, *Revenue Recognition*. 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, the 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. Revenues are recorded net of value-added taxes.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

w. Revenues—continued

The Group recognizes revenues net of discounts and return allowances when the products are delivered and title is passed to customers. Significant judgment is required to estimate return allowances. For online retail 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 were RMB363,191, which were 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 were RMB381,165 as of December 31, 2018, and were included in "Prepayments and other current assets".

Upon the adoption of ASC 606, 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.

Revenue arrangements with multiple deliverables are divided into separate units of accounting based on the 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.

Net Product Revenues

The Group offers a wide range of product categories to customers primarily through online retail business. The Group recognizes the product revenues from the online retail 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 RMB236,268,621 and RMB280,059,089, and revenues from the sales of general merchandise products were RMB95,555,789 and RMB136,049,657, for the years ended December 31, 2017 and 2018, respectively. The Group's net product revenues were mainly generated by the JD Retail segment.

Net Service Revenues

The Group charges commission fees to third-party merchants for participating in the Group's online marketplace, where the Group generally is acting as an agent and its performance obligation is to arrange for the provision of the specified goods or services by those third-party merchants. Upon successful sales, the Group charges the third-party merchants 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 allowances.

The Group provides marketing services to third-party merchants, suppliers and other business partners on its various website channels and third-party marketing affiliate's websites, including but not limited to pay for performance marketing services on which the customers are charged based on

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

w. Revenues—continued

Net Service Revenues—continued

effective clicks on their product information, and display advertising services that allow customers to place advertisements on various websites. The Group recognizes revenues from pay for performance marketing services based on effective clicks, and recognizes revenues from display advertising services 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. The Group did not enter into material advertising-for-advertising barter transactions for the periods presented.

The Group opens its fulfillment infrastructure by offering comprehensive supply chain solutions to third parties through JD Logistics, primarily including warehousing, transportation, delivery and after-sales service. Revenues resulting from these services are recognized over time as the Group performs the services in the contracts because of the continuous transfer of control to the customers.

The Group offers 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).

JD Plus memberships provide the Group's core customers with a better shopping experience, access to an evolving suite of benefits that represent a single stand-ready obligation. Subscriptions are paid for at the time of or in advance of delivering the services. Revenues from such arrangements are recognized over the subscription period.

The Group offers comprehensive customer services, primarily include 7*24 hours customer services to respond to customers' post-sales requests, return and exchange services to facilitate customers' return, exchange and repair of defective goods. These services are free of charge. The Group also provides return/exchange logistics services to the customers, of which the revenues recognized were not material for the periods presented.

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

x. Contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenues recognized prior to invoicing when the Group has satisfied the Group's performance obligation and has the unconditional rights to payment. The allowance for doubtful accounts and authorized credits is estimated based on the Group's assessment

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

x. Contract balances—continued

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 balances 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 revenues consist of payments received or awards to customers related to unsatisfied performance obligation 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 revenues were RMB16,471,175, of which RMB13,502,223 was recognized as revenues for the year ended December 31, 2018. The Group's total unearned revenues were 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.

y. 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 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 rights to purchase discounted products in the future are not considered as a separate performance obligation under ASC 606, as the discount does not represent a material right 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 revenues on the future purchase.
- J Coupons are given to a customer upon their qualified purchase or can be given for free to promote future purchases and are 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 as a separate performance obligation within the scope of ASC 606, as J Coupons represent a material right to the customer. Therefore, the delivered products and J Coupons awarded are treated as two distinct performance obligations identified in the contract. The total sales consideration is allocated based on management's best estimate of the relative SSP of each performance obligation. The amount allocated to J Coupons is deferred and recognized when J Coupons are redeemed or at the coupon's expiration, whichever occurs first. J Coupons have an expiration of one year after

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

y. Customer incentives and loyalty programs—continued

issuance. For the years ended December 31, 2017 and 2018, the amount of expired J Coupons was not material.

Registered customers may also earn J Beans, which was launched 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. Thus J Beans is considered to be a separate performance obligation identified in the contract. Therefore, the sales consideration is allocated to the products and J Beans based on the relative SSP of the products and J Beans awarded. Consideration allocated to J Beans is initially recorded as deferred revenues, and recognized as revenues when J Beans are used or expired. J Beans will expire at the subsequent year end after issuance. For the years ended December 31, 2017 and 2018, the amount of expired J Beans was not material.

z. Cost of revenues

Cost of revenues consists primarily of purchase price of products, inbound shipping charges, write-downs of inventories, 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 inventories, and recognized as cost of revenues upon sale of the products to the customers.

aa. 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.

bb. 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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

bb. Fulfillment—continued

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) lease expenses of warehouses, delivery and pickup stations, and physical stores. The cost related to logistics services provided to third parties is classified in cost of revenues in the consolidated statements of operations and comprehensive income/(loss). Shipping cost included in fulfillment expenses amounted to RMB12,691,013 and RMB15,216,351 for the years ended December 31, 2017 and 2018, respectively.

cc. 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).

Advertising costs, which consist primarily of online advertising, offline television, movie and outdoor advertising, and incentive programs to attract or retain consumers for the Group's online marketplace, are expensed as incurred, and totaled RMB12,375,922 and RMB15,970,433 for the years ended December 31, 2017 and 2018, respectively.

dd. Research and development

Research and development expenses consist primarily of payroll and related expenses for research and development employees involved in designing, developing and maintaining technology platform, and improving artificial intelligence, 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. Research and development expenses are expensed as incurred. Software development costs are recorded in "Research and development" as incurred as the costs qualifying for capitalization have been insignificant.

ee. General and administrative

General and administrative expenses consist primarily of employee related expenses for general corporate functions, including accounting, finance, tax, legal and human relations; costs associated with these functions including facilities and equipment depreciation expenses, rental and other general corporate related expenses.

ff. 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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

ff. Share-based compensation—continued

awards issued to employees in accordance with ASC Topic 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.* Prior to the adoption of ASU 2018-7, Non-employees' share-based awards are measured at fair value at the earlier of the commitment date or the date the services are completed. Awards granted to non-employees are re-measured at each reporting date using the fair value as at each period end until the measurement date, generally when the services are completed and awards are vested. Changes in fair value between the reporting dates are recognized by graded vesting method.

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.

The Group uses the binominal option-pricing model to estimate the fair value of share options. The determination of estimated fair value of share-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 share option exercise behaviors, a risk-free interest rate, exercise multiple and expected dividend yield, 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 share-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 RSUs 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 RSUs.

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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

ff. Share-based compensation—continued

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

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

hh. Leases

Up to December 31, 2018, the Group adopted ASC Topic 840 ("ASC 840"), Leases, as described below.

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

hh. Leases—continued

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.

ii. 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 income/(loss), change 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 change in unrealized gains/(losses) on available-for-sale equity securities for the year ended December 31, 2017, before the adoption of ASU 2016-01.

jj. Net income/(loss) per share

Basic net income/(loss) per share is computed by dividing net income/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For the calculation of diluted net income/(loss) per share, the weighted average number of ordinary shares is adjusted by the effect of dilutive potential ordinary shares, including unvested RSUs and ordinary shares issuable upon the exercise of outstanding share options using the treasury stock method. Additionally, the Company takes into account the effect of dilutive shares of entities in which the Company holds equity interests. The dilutive impact from equity interests mainly include equity investments accounted for using the equity method and the consolidated subsidiaries. The effect mentioned above is not included in the calculation of the diluted income/(loss) per share when inclusion of such effect would be anti-dilutive.

kk. 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, JD Retail and New Businesses, which are defined based on the products and services provided. JD Retail mainly consists of online retail, online marketplace and marketing services in China. New Businesses include logistics services provided to third parties, overseas business, technology initiatives, as well as asset

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

kk. Segment reporting—continued

management services to logistics property investors and sale of development properties by JD Property. 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).

ll. Statutory reserves

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

mm. Recent accounting pronouncements

<u>*Recently adopted accounting pronouncements*</u>

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

mm. Recent accounting pronouncements—continued

Recently adopted accounting pronouncements—continued

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.

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.

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

mm. Recent accounting pronouncements—continued

Recently adopted accounting pronouncements—continued

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.

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 nonemployees 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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

mm. Recent accounting pronouncements—continued

Recently issued accounting pronouncements not yet adopted—continued

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.

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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

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, 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, majority 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 Chinese 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 purchases the consumer financing receivables past due over certain agreed period of time from the Group at carrying values without recourse and also agrees 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 the PBOC or other Chinese foreign exchange regulatory bodies which require certain supporting documentation in order to process the remittance.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Concentration and risks—continued

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$. Since June 2010, the RMB has fluctuated against the US$, 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, respectively. It is difficult to predict how market forces or the 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.

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:

		Fair value measurement at reporting date using		
Description	Fair value as of December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB'000	RMB'000	RMB'000	RMB'000
Assets:				
Cash equivalents				
Money market funds	1,372,182	1,372,182	—	—
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	19,982,749	11,399,995	8,582,754	—

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5. Fair value measurement—continued

Description	Fair value as of December 31, 2018	Fair value measurement at reporting date using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB'000	RMB'000	RMB'000	RMB'000
Assets:				
Cash equivalents				
Money market funds	1,373	1,373	—	—
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	17,837,766	15,902,946	1,934,820	—

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.

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, 2017 and 2018, respectively.

Investment securities

Listed equity securities. The Group values its listed equity securities using quoted prices for the underlying securities in active markets, and accordingly, the Group classifies the valuation techniques

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5. Fair value measurement—continued

Investment securities—continued

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 recognizes 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:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Provision for decline in value	Fair Value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 accumulated 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 a total consideration of RMB2,713,285, and 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 initial public offering ("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.

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 months or less and longer than three months but less than one year have been classified as cash equivalents and short-term

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5. Fair value measurement—continued

Other financial instruments—continued

investments, respectively, in the consolidated balance sheets. The fair value of the Group's time deposits is determined based on the prevailing interest rates in the market, which have 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 and short-term investments amounted to RMB5,081,748 and RMB12,050,507, respectively.

Unsecured senior notes. The carrying amounts of unsecured senior notes approximate to their fair values due to the fact that the related interest rates approximate to the 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 to 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 to fair value due to their short-term nature. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

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 borrowings and long-term borrowings approximates to fair value. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

Nonrecourse securitization debt. The carrying amount of nonrecourse securitization debt approximates to its fair value due to the fact that the related interest rates approximate to the 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 in the fair value hierarchy.

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 in the fair value hierarchy due to the significance of unobservable inputs using company-specific information.

Investment in equity investees. Investments in privately held companies and publicly traded companies included in 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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5. Fair value measurement—continued

Assets and liabilities measured at fair value on a nonrecurring basis—continued

recent financing rounds completed by the investee companies. Certain investments in privately held companies without readily determinable fair value were measured using significant unobservable inputs (Level 3) as of December 31, 2017 and 2018, and the impairment charges of 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, 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".

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 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 the 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 participants of employee stock ownership plan. The transaction was completed by June 30, 2017 and all of the cash consideration was received in 2017. After JD Digits's additional round of financing in 2018, the Group's percentage of JD Digits's pre-tax profit sharing has been diluted to approximately 36%, and if permitted by the regulation, the Group is entitled to convert its profit-sharing right into approximately 36% of JD Digits's equity interest.

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 rights 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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. JD Digits reorganization—continued

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 the period presented prior to July 1, 2017.

The following tables set forth the results of operations and cash flows of discontinued operations, which were included in the Group's consolidated financial statements:

	For the year ended December 31, 2017(*)
	RMB'000
Net revenues	2,392,903
Operating expenses	(2,067,622)
Income from operations of discontinued operations	325,281
Other expenses	(316,245)
Income from discontinued operations before tax	9,036
Income tax expenses	(2,121)
Net income from discontinued operations, net of tax	6,915
Net loss from discontinued operations attributable to non-controlling interests shareholders	(5,030)
Net income from discontinued operations attributable to mezzanine equity classified as non-controlling interests shareholders	281,021
Net loss from discontinued operations attributable to ordinary shareholders	(269,076)

	For the year ended December 31, 2017(*)
	RMB'000
Net cash used in discontinued operating activities	(2,485,741)
Net cash used in discontinued investing activities	(17,871,171)
Net cash provided by discontinued financing activities	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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. JD Digits reorganization—continued

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 sales 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.

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 27).

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 Groups' 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

7. Investment in equity investees—continued

Equity method—continued

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 Group acquired additional ordinary shares from the existing shareholders of Yonghui, the Group'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 obtained significant influence by the rights 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 carrying amount of investment in Yonghui.

Investment in Yonghui is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Carrying value of investment in Yonghui	4,245,001	5,450,209
Proportionate share of Yonghui's net tangible and intangible assets	1,946,349	2,122,874
Positive basis difference	2,298,652	3,327,335
Positive basis difference has been assigned to:		
Goodwill	1,270,190	1,989,726
Amortizable intangible assets(*)	1,371,283	1,783,478
Deferred tax liabilities	(342,821)	(445,869)
	2,298,652	3,327,335
Cumulative gains in equity interest in Yonghui	124,917	250,538

(*) 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 RMB9,666,167 and RMB8,609,614 based on its quoted closing price, respectively.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

7. Investment in equity investees—continued

Equity method—continued

Investment in Yonghui—continued

The proportionate share of Yonghui's net income recorded in "share of results of equity investees" in the consolidated statements of operations and comprehensive income/(loss) was a gain of RMB122,893 and RMB96,558 for the years ended December 31, 2017 and 2018, respectively. The following table includes the results of operations of Yonghui for each of the periods presented.

	For the year ended December 31, 2017	For the year ended December 31, 2018
	RMB'000	RMB'000
Revenues	55,524,229	67,975,691
Gross profit	11,319,620	14,912,887
Income from operations	2,065,795	1,296,271
Net income	1,721,628	1,189,513
Net income attributable to shareholders	1,818,910	1,548,833
Percentage of ownership in Yonghui	10%	12%
Proportionate share of Yonghui's net income, before basis adjustments	181,891	160,630
Basis adjustments	(58,998)	(64,072)
Proportionate share of Yonghui's net income	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 JD Platform 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. As of December 31, 2018, the Group held approximately 24% of Bitauto's issued and outstanding shares.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

7. Investment in equity investees—continued

Equity method—continued

Investment in Bitauto—continued

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

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Carrying value of investment in Bitauto	2,128,409	2,544,367
Proportionate share of Bitauto's net tangible and intangible assets	2,228,925	2,619,609
Positive/(negative) basis difference	(100,516)	(75,242)
Positive/(negative) basis difference has been assigned to:		
Goodwill(*)	—	—
Amortizable intangible assets(*)	(100,516)	(75,242)
	(100,516)	(75,242)
Cumulative losses in equity interest in Bitauto	(3,696,754)	(3,280,796)

(*) 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

7. Investment in equity investees—continued

Equity method—continued

Investment in Dada—continued

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

	As of April 26, 2016
	RMB'000
Assets/investments received by the Group	
Dada's ordinary shares	2,164,050
Dada's preferred shares	1,298,700
Warrant to purchase Dada's preferred shares	45,450
	3,508,200

The investment in Dada's ordinary shares is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Carrying value of investment in Dada's ordinary shares	139,147	—
Proportionate share of Dada's net tangible and intangible assets	(1,579,323)	(1,709,458)
Positive basis difference	1,718,470	1,709,458
Positive basis difference has been assigned to:		
Goodwill	1,605,891	1,605,891
Amortizable intangible assets(*)	150,105	138,089
Deferred tax liabilities	(37,526)	(34,522)
	1,718,470	1,709,458
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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

7. Investment in equity investees—continued

Equity method—continued

Investment in Dada—continued

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.

Investment in Tuniu

In December 2014, the Group acquired 7% equity interest in Tuniu with cash consideration of RMB305,930. Tuniu is a leading online leisure travel company in China that is listed on 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 rights, for a period of 5 years, to operate the leisure travel channels on the JD Platform, 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.

Investment in Tuniu is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Carrying value of investment in Tuniu	947,500	858,566
Proportionate share of Tuniu's net tangible and intangible assets	779,525	714,009
Positive/(negative) basis difference	167,975	144,557
Positive/(negative) basis difference has been assigned to:		
Goodwill(*)	23,899	23,899
Amortizable intangible assets(*)	192,101	160,877
Deferred tax liabilities	(48,025)	(40,219)
	167,975	144,557
Cumulative losses in equity interest in Tuniu	(1,546,645)	(1,635,579)

(*) 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.

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 preferred shares. Yixin, a controlled subsidiary of

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

7. Investment in equity investees—continued

Equity method—continued

Investment in Yixin—continued

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. 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 obtained significant influence by the rights to nominate 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 investment cost allocated as follows：

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Carrying value of investment in Yixin	860,992	1,044,537
Proportionate share of Yixin's net tangible and intangible assets	1,703,448	1,641,276
Negative basis difference	(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 RMB1,049,246 based on quoted closing price, respectively.

The Group summarizes the condensed financial information of the Group's equity investments under equity method as a group below in accordance with Rule 4-08 of Regulation S-X:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Operating data:		
Revenues	72,206,753	94,099,295
Gross profit	19,162,739	26,893,544
Loss from operations	(2,200,140)	(1,471,960)
Net loss	(2,549,137)	(1,722,715)
Net loss attributable to shareholders	(2,977,210)	(1,748,305)

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

7. Investment in equity investees—continued

Equity method—continued

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Balance sheet data:		
Current assets	78,125,211	110,276,278
Non-current assets	62,806,104	78,546,934
Current liabilities	58,734,790	80,643,552
Non-current liabilities	16,703,429	22,755,496
Redeemable stock	5,877,854	9,897,962
Non-controlling interests	717,106	431,498

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.

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 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, 2017 and 2018, respectively. As of December 31, 2018, the accumulated impairment of the Group's Measurement Alternative investments was RMB846,243.

8. Accounts receivable, net

Accounts receivable, net consists of the following:

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Online retail and online marketplace receivables(*)	14,819,862	7,756,808
Logistics receivables	1,020,771	2,997,163
Advertising receivables and others	572,495	534,410
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

(*) For the accounts receivable in relation to consumer financing business, which is recorded in online retail and online marketplace receivables, 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

8. Accounts receivable, net—continued

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

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Balance at beginning of the year	(36,993)	(53,981)
Additions	(16,988)	(124,412)
Write-off	—	—
Balance at end of the year	(53,981)	(178,393)

9. Inventories, net

Inventories, net consist of the following:

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
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

10. Property, equipment and software, net

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

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Electronic equipment	7,172,694	13,780,685
Building and building improvement	5,855,920	9,118,708
Logistics, warehouse and other heavy 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)
Less: impairment	—	—
Net book value	12,574,178	21,082,838

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Land use rights, net

Land use rights, net consist of the following:

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
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 RMB84,405 and RMB181,101 for the years ended December 31, 2017 and 2018, respectively.

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,					
	2019	2020	2021	2022	2023	2024 and thereafter
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amortization expenses	218,729	218,729	218,729	218,729	218,729	9,382,013

12. Intangible assets, net

Intangible assets, net consist of the following:

	As of December 31, 2017				
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Impairment Amount	Net Carrying Amount
	Year	RMB'000	RMB'000	RMB'000	RMB'000
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
Domain names and trademark	19.5	3,250,789	(278,372)	(27,124)	2,945,293
Technology and others	6.2	1,040,668	(256,606)	(129,585)	654,477
Total	9.3	12,833,751	(5,984,325)	(156,709)	6,692,717

	As of December 31, 2018				
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Impairment Amount	Net Carrying Amount
	Year	RMB'000	RMB'000	RMB'000	RMB'000
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
Domain names and trademark	19.3	3,305,413	(453,423)	(27,124)	2,824,866
Technology and others	6.2	1,165,899	(403,270)	(145,001)	617,628
Total	9.3	13,013,606	(7,829,775)	(172,125)	5,011,706

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12. Intangible assets, net—continued

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	2024 and thereafter
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amortization expenses	930,990	624,849	614,610	455,693	337,344	2,048,220

13. Goodwill

The changes in the carrying amount of goodwill were as follows:

	JD Retail	New Businesses	Total
	RMB'000	RMB'000	RMB'000
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 and RMB6,901 for the years ended December 31, 2017 and 2018, respectively.

14. Short-term borrowings

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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

15. Accounts payable

Accounts payable consists of the following:

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
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

16. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Deposits	9,787,387	12,870,155
Salary and welfare	3,131,752	3,952,163
Rental fee payables	400,632	653,105
Internet data center fee	212,143	387,478
Liabilities for return allowances(*)	—	363,191
Accrued administrative expenses	185,876	318,012
Professional fee	59,802	122,930
Vehicle fee	69,042	114,576
Interest payable	84,807	44,449
Payable related to employees' exercise of share-based awards	152,177	42,979
Others	1,034,222	1,423,642
Total	15,117,840	20,292,680

(*) Liabilities for return allowances were included in "Accounts receivable, net" as of December 31, 2017.

17. 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

17. Unsecured senior notes—continued

A summary of the Company's unsecured senior notes as of December 31, 2017 and 2018 is as follows:

	As of December 31,		Effective interest rate
	2017	2018	
	RMB'000	RMB'000	
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	

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 rights of payment to all of the Company's existing and future obligations expressly subordinated in rights of payment to the notes and rank at least equal in rights 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

18. Interest income and interest expense

Interest income and interest expense consist of the following:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Interest income:		
Interest income in relation to nonrecourse securitization debt charged to JD Digits	702,147	527,025
Interest income in relation to loans provided to JD Digits	569,395	119,047
Interest income in relation to bank deposits, wealth management products and others	1,258,948	1,471,849
Total	2,530,490	2,117,921
Interest expense:		
Interest expense in relation to nonrecourse securitization debt	(702,147)	(527,025)
Interest expense in relation to unsecured senior notes, bank borrowings and others	(261,595)	(327,513)
Total	(963,742)	(854,538)

19. Others, net

Others, net consist of the following:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Gain from business and investment disposals	74,965	1,320,266
Government financial incentives	843,447	614,658
Impairment of investments	(139,823)	(593,138)
Foreign exchange gains/(losses), net	213,482	(192,491)
Losses from fair value change of long-term investments	—	(1,512,979)
Others	324,337	458,859
Total	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. Government financial incentives are recognized in others, net in the consolidated statements of operations and comprehensive income/(loss) when the government financial incentives are received and no further conditions need to be met. 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. Taxation

a) Value added tax ("VAT")

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.

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 gains. 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 the 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 Company'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

Under the PRC Enterprise Income Tax Law (the "EIT Law"), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. Most of the Group's PRC subsidiaries and consolidated VIEs are subject to the statutory income tax rate of 25%.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. Taxation—continued

b) Income tax—continued

China—continued

The EIT Law and its implementation rules permit certain High and New Technologies Enterprises, or HNTEs, to enjoy a reduced 15% enterprise income tax rate subject to these HNTEs meeting certain qualification criteria. In addition, the relevant EIT laws and regulations also provide that entities recognized as Software Enterprises are able to enjoy a tax holiday consisting of a two-year-exemption commencing from their first profitable calendar year and a 50% reduction in ordinary tax rate for the following three calendar years. 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 HNTE and enjoys a preferential income tax rate of 15%. The privileges cannot be applied simultaneously. Beijing Shangke applied the privilege of "software enterprise" and was exempted from income tax in 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 Catalog of Encouraged Industries in Western Regions (initially effective through the end of 2010 and further extended to 2020), or the Western Regions Catalog, subject to certain general restrictions described in the EIT Law and the related regulations. Several entities of the Group are qualified as the enterprises within the Catalog of Encouraged Industries in Western Regions and enjoyed 15% preferential income tax rate.

According to the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are 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 EIT 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 the 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 as a resident enterprise for the PRC tax purposes.

The EIT law also imposes a withholding income tax of 10% on dividends distributed by a Foreign Investment Enterprise ("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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. Taxation—continued

b) Income tax—continued

Withholding tax on undistributed dividends—continued

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,	
	2017	**2018**
	RMB'000	**RMB'000**
Income/(loss) before tax		
Income/(loss) from China operations	3,681,735	(578,300)
Loss from non-China operations	(3,560,775)	(1,795,378)
Total income/(loss) before tax	120,960	(2,373,678)
Income tax benefits/(expenses) applicable to China operations		
Current income tax expenses	(360,603)	(437,326)
Deferred tax benefits	221,010	10,454
Subtotal income tax expenses applicable to China operations	(139,593)	(426,872)
Total income tax expenses	(139,593)	(426,872)

Reconciliation of difference between the PRC statutory income tax rate and the Group's effective income tax rate for the years ended December 31, 2017 and 2018 is as follows:

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. Taxation—continued

b) Income tax—continued

The following table sets forth the effect of tax holiday:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Tax holiday effect	1,140,251	198,118
Effect of tax holiday on basic net income/(loss) per share (RMB)	0.40	0.07
Effect of tax holiday on diluted net income/(loss) per share (RMB)	0.39	0.07

c) Deferred tax assets and deferred tax liabilities

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
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 losses 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
—Accelerated tax depreciation and 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 and consolidated VIEs established in the 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.

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. Taxation—continued

c) Deferred tax assets and deferred tax liabilities—continued

assets will not be utilized in the future based on its estimate of the operation performance of these PRC entities. The amount of valuation allowance offset in deferred tax assets as of December 31, 2017, 2018 was RMB1,480,570 and RMB2,996,294, respectively.

The movements of valuation allowance of deferred tax assets are as follows:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Balance at beginning of the year	1,626,680	1,480,570
Additions	807,558	2,755,222
Reversals	(953,668)	(1,239,498)
Balance at end of the year	1,480,570	2,996,294

21. 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 (RMB15,973,564) 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 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 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 Jingdong Express Series A Preferred Shares, where applicable, to the redemption value from the issuance date to the earliest redemption date.

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 Jingdong Express Series A Preferred Shares. Jingdong Express Series A 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 determined that there was no embedded beneficial conversion feature attributable to 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

21. Convertible redeemable non-controlling interests—continued

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

Dividend Rights

As regards dividends, Jingdong Express Series A Preferred Shares shall rank pari passu with the ordinary shares and the holders of Jingdong Express Series A Preferred Shares shall be entitled to the same amount of dividends as the 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.

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 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 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 Jingdong Express Series A Preferred Shares original issuance date, and prior to the consummation of a Qualified IPO, each holder of Jingdong Express Series A Preferred Shares shall have the rights at any time to require and demand Jingdong Express to redeem all or any portion of 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) 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

21. Convertible redeemable non-controlling interests—continued

Redemption Rights—continued

Jingdong Express accretes changes in the redemption value over the period from the date of issuance to the earliest redemption date of 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.

Conversion Rights

Each Jingdong Express Series A Preferred Shares shall be convertible, at the option of the holder of 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 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 holders of Jingdong Express Series A Preferred Shares holding at least 50% of Jingdong Express Series A Preferred Shares in issue elect to convert Jingdong Express Series A Preferred Shares.

The convertible redeemable non-controlling interests for the years ended December 31, 2018 is summarized as follow:

	Number of shares	Amount
		RMB'000
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 equity classified as non-controlling interests shareholders		2,492
Balance as of December 31, 2018	1,004,000,000	15,961,284

22. Ordinary shares

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

In March 2014, the Company issued 351,678,637 ordinary shares to Huang River Investment Limited, a wholly owned subsidiary of Tencent, in connection with Tencent Transaction (Note 27). 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

22. Ordinary shares—continued

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.

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.

23. Share repurchase program

In September 2015, the Company's Board of Directors authorized a share repurchase program ("2015 share repurchase program") under which the Company may repurchase up to US$1,000,000 worth of its American depositary shares ("ADSs") over the following 24 months. In December 2018, the Company's Board of Directors authorized a share repurchase program ("2018 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.

Under the 2015 share repurchase program, the Company 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, and entered into structured repurchase agreements involving the use of capped call options for the purchase of shares during the year ended December 31, 2016. The Company paid an aggregate price of US$300,000 (RMB2,007,100) for the structured repurchase agreements during the year ended December 31, 2016, and received US$216,220 (RMB1,463,218) and US$107,239 (RMB737,501) upon the settlement of these agreements during the years ended December 31, 2016 and 2017, respectively, as the outcome of these arrangements was based entirely on the Company's stock price and did not require the Company to deliver either shares or cash, other than the initial investment, the entire transaction was recorded in the shareholders' equity.

No repurchase activity was incurred in 2017.

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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

24. Other comprehensive income

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

	Foreign currency translation adjustments	Net unrealized gains/(losses) on available-for-sale securities	Total
	RMB'000	RMB'000	RMB'000
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

The income tax effects related to the accumulated other comprehensive income were insignificant for all periods presented.

25. Share-based compensation

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

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Cost of revenues	27,513	71,983
Fulfillment	425,706	418,895
Marketing	135,749	190,499
Research and development	670,612	1,162,579
General and administrative	1,520,482	1,816,033
Total	2,780,062	3,659,989

Share incentive plan

The Company granted share-based awards to eligible employees and non-employees pursuant to a share incentive plan entitled "Share Incentive Plan", which was adopted on November 13, 2014 and governed the terms of the awards.

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.

(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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. Share-based compensation—continued

(1) Employee and non-employee awards—continued

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 the reorganization of JD Digits, the employees' status of JD Digits changed from the employees of the Company's subsidiary to non-employees 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 were insignificant for all periods presented.

RSUs

a) Service-based RSUs

A summary of activities of the service-based RSUs for the years ended December 31, 2017 and 2018 is presented as follows:

	Number of RSUs	Weighted-Average Grant-Date Fair Value
		US$
Unvested as of January 1, 2017	82,847,816	11.97
Granted	41,450,212	16.27
Vested	(12,005,700)	10.14
Forfeited or canceled	(6,246,436)	13.42
Unvested as of December 31, 2017	106,045,892	13.77
Granted	40,383,436	18.95
Vested	(16,137,554)	12.47
Forfeited or canceled	(11,795,682)	15.16
Unvested as of December 31, 2018	118,496,092	15.58

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

For the years ended December 31, 2017 and 2018, total share-based compensation expenses recognized by the Group for the service-based RSUs granted were 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 service-based RSUs vested was US$213,155 (RMB1,438,012) and US$295,632 (RMB1,892,221) during the years ended December 31, 2017 and 2018, respectively.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. Share-based compensation—continued

(1) Employee and non-employee awards—continued

RSUs—continued

b) Performance-based RSUs

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

	Number of RSUs	Weighted-Average Grant-Date Fair Value
		US$
Unvested as of January 1, 2017	310,002	6.33
Granted	—	—
Vested	(96,516)	6.33
Forfeited or canceled	—	—
Unvested as of December 31, 2017	213,486	6.33
Granted	—	—
Vested	(103,788)	6.33
Forfeited or canceled	(30,152)	6.33
Unvested as of December 31, 2018	79,546	6.33

For the years ended December 31, 2017 and 2018, total share-based compensation expenses recognized by the Group for the performance-based RSUs granted were insignificant for all the periods presented.

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 the performance-based RSUs vested was US$1,371 (RMB9,400) and US$2,555 (RMB16,181) during the years ended December 31, 2017 and 2018, respectively.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. Share-based compensation—continued

(1) Employee and non-employee awards—continued

Share options

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

Share options	Number of share options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
		US$	Year	US$'000
Outstanding as of January 1, 2017	21,659,016	6.23	7.3	142,433
Exercised	(4,116,816)	5.20		
Forfeited or canceled	(432,092)	5.92		
Expired	—			
Outstanding as of December 31, 2017	17,110,108	6.49	6.2	243,327
Exercised	(1,077,036)	5.23		
Forfeited or canceled	(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, 2017 and 2018.

The total intrinsic value of options exercised during the years ended December 31, 2017 and 2018 was US$55,278 (RMB377,062) and US$15,326 (RMB99,267), 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, 2017 and 2018 was US$19,942 (RMB135,745) and US$7,382(RMB48,555), respectively. Cash receivable from the exercises of share options of the Company as of December 31, 2017 and 2018 was US$2,201 (RMB14,380) and US$449(RMB3,084), respectively.

For the years ended December 31, 2017 and 2018, total share-based compensation expenses recognized by the Group for the share options granted were 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. Share-based compensation—continued

(2) Founder awards

In May 2015, the board of directors of the Company approved a 10-year compensation plan for Mr. Richard Qiangdong Liu (Mr. Liu), the Founder. Under this plan, Mr. Liu will receive RMB0.001 per year in cash salary and zero cash bonus during the 10-year period. Mr. 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, 2017 and 2018, total share-based compensation expenses recognized for the Founder's share options granted were 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 April 2018, JD Logistics granted share-based awards ("JD Logistics Plan") to eligible employees to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of JD Logistics. The JD Logistics 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 years ended December 31, 2018. The weighted average grant date fair value of options granted for the years ended December 31, 2018 was US$1.39 per share. For the years ended December 31, 2018, total share-based compensation expenses for the share options granted under JD Logistics Plan were 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

26. Net income/(loss) per share

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

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Numerator:		
Net income/(loss) from continuing operations attributable to ordinary shareholders	116,819	(2,491,633)
Net loss from discontinued operations attributable to ordinary shareholders	(269,076)	—
Net loss attributable to ordinary shareholders	(152,257)	(2,491,633)
Denominator:		
Weighted average number of shares—basic	2,844,826,014	2,877,902,678
Adjustments for dilutive options and RSUs	66,635,803	—
Weighted average number of shares—diluted	2,911,461,817	2,877,902,678
Basic net income/(loss) per share from continuing operations attributable to ordinary shareholders (RMB)	0.04	(0.87)
Basic net loss per share from discontinued operations attributable to ordinary shareholders (RMB)	(0.09)	—
Basic net income/(loss) per share attributable to ordinary shareholders (RMB)	(0.05)	(0.87)
Diluted net income/(loss) per share from continuing operations attributable to ordinary shareholders (RMB)	0.04	(0.87)
Diluted net loss per share from discontinued operations attributable to ordinary shareholders (RMB)	(0.09)	—
Diluted net income/(loss) per share attributable to ordinary shareholders (RMB)	(0.05)	(0.87)

Generally, basic net income/(loss) per share is computed using the weighted average number of ordinary shares outstanding during the respective year. Diluted net income/(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 income/(loss) per share in the periods presented where their inclusion would be anti-dilutive include RSUs and options to purchase ordinary shares of 146,268,314 and 160,431,097 for the years ended December 31, 2017 and 2018 on a weighted average basis, respectively. For the years 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 income/(loss) per share.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Related party transactions

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

Name of related parties	Relationship with the Group
Tencent and its subsidiaries ("Tencent Group")	A shareholder of the Group
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:

Transactions	For the year ended December 31, 2017	For the year ended December 31, 2018
	RMB'000	RMB'000
Revenues:		
Services provided and products sold to Lexin Group	543,304	—
Commission from cooperation on advertising business with Tencent Group(**)	260,572	345,186
Services provided and products sold to Tencent Group(**)	31,505	276,728
Services provided and products sold to Dada Group	100,360	122,326
Traffic support, marketing and promotion services provided to Bitauto Group	609,055	608,844
Traffic support, marketing and promotion services provided to Tuniu Group	132,042	132,008
Services provided and products sold to JD Digits	271,813	449,093
Operating expenses:		
Services received and purchases from Tencent Group(**)	674,727	1,175,849
Services received from Dada Group	694,207	938,627
Payment processing and other services received from JD Digits	2,936,416	3,930,847
Other income:		
Income from non-compete agreement with Dada Group	80,447	78,771
Interest income from loans provided to JD Digits	871,014	179,556

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

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Related party transactions—continued

of total operating expenses of the Group for the years ended December 31, 2017 and 2018, respectively.

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

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
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	4,756,019
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 other than the major 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.

(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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Related party transactions—continued

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 RMB497,239 and RMB242,473 for the years ended December 31, 2017 and 2018, respectively. In connection with the consumer financing business, JD Digits charged the Group RMB793,218 and RMB1,055,239, for the years ended December 31, 2017 and 2018 for payment processing services provided to the Group, respectively, which are included in "payment processing and other services from JD Digits" stated above.

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

Mr. Richard Qiangdong Liu, the Group's Chairman of the board and the 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.

28. Segment reporting

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 revenues 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

28. Segment reporting—continued

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

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Net revenues:		
JD Retail	356,020,374	447,502,173
New Businesses	6,021,508	14,665,281
Inter-segment(*)	(546,667)	(1,103,943)
Total segment net revenues	361,495,215	461,063,511
Unallocated items	836,539	956,248
Total consolidated net revenues	362,331,754	462,019,759
Operating income/(loss):		
JD Retail	4,956,264	7,049,222
New Businesses	(2,070,668)	(5,136,657)
Total segment operating income	2,885,596	1,912,565
Unallocated items(**)	(3,721,072)	(4,531,696)
Total consolidated operating loss	(835,476)	(2,619,131)
Total other income	956,436	245,453
Income/(loss) before tax	120,960	(2,373,678)

(*) The inter-segment eliminations mainly consist of services provided by JD Retail to overseas business, and certain services provided by JD Logistics to the vendors of JD Retail, which the Group records as a deduction of cost of revenues at the consolidated level.

(**) A summary of unallocated items for the years presented is as follows:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Share-based compensation	(2,780,062)	(3,659,989)
Amortization of intangible assets resulting from assets and business acquisitions	(1,777,549)	(1,805,638)
Effects of business cooperation arrangements	836,539	956,248
Impairment of goodwill and intangible assets	—	(22,317)
Total	(3,721,072)	(4,531,696)

29. 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 and consolidated VIEs 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 RMB3,546,241 and RMB5,290,925 for the years ended December 31, 2017 and 2018, respectively.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. 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 used for the issuance of bank acceptance, RMB1,229,346 used 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 London Interbank Offered Rate. The use of proceeds of the facilities was intended for general corporate purposes. In June 2018, the Group drew down US$450,000 under the facility commitment, and the borrowings will be due in 2022, which were recorded in long-term borrowings in the consolidated balance sheets.

31. Commitments and contingencies

Operating lease commitments for offices and fulfillment infrastructures

The Group leases office, fulfillment infrastructures under non-cancelable operating lease agreements. The rental expenses were RMB3,086,709 and RMB4,571,036 for the years ended December 31, 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'000
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

Commitments for internet data center (IDC) service fee

The Group entered into non-cancelable IDC service agreements. The related expenses were RMB805,656 and RMB1,498,935 for the years ended December 31, 2017 and 2018, respectively, and were charged to the consolidated statements of operations and comprehensive income/(loss) when incurred.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

31. Commitments and contingencies—continued

Commitments for internet data center (IDC) service fee—continued

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

	As of December 31, 2018
	RMB'000
2019	656,427
2020	76,015
2021	10,487
2022	7,636
2023	1,783
2024 and thereafter	3,267
	755,615

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 17 and Note 30, 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, 2017 and 2018.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. 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 and consolidated VIEs incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with the 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.

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 and consolidated VIEs 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 the 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, 2017 and 2018 are disclosed in Note 34.

33. Subsequent events

Financing of JD Health

In May 2019, the Group's healthcare subsidiary, JD Health International, Inc. ("JD Health") entered into definitive agreements for the non-redeemable series A preferred share financing ("JD Health Series A Preferred Shares") with a group of third-party investors. The total amount of financing raised was US$931 million, representing 13.5% of the ownership of JD Health on a fully diluted basis.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

33. Subsequent events—continued

Strategic cooperation with Tencent

On May 10, 2019, the Company renewed the strategic cooperation agreement with Tencent, for a period of three years starting from May 27, 2019. Tencent continued to offer the Group prominent level 1 and level 2 access points on its Weixin platform to provide traffic support, and the two parties also intend to continue to cooperate in a number of areas including communications, advertising and membership services, among others. As part of the total consideration, the Company agreed to issue to Tencent a certain number of the Company's Class A ordinary shares for a consideration of approximately US$250 million at prevailing market prices at certain pre-determined dates during the three-year period, of which 8,127,302 and 2,938,584 Class A ordinary shares were issued to Huang River Investment Limited in May 2019 and 2020, respectively.

Core Fund

In 2018, the Group established JD Property Management Group ("JD Property"), to manage the expanding logistics facilities and other real estate properties. JD Property develops and manages these properties, and the Group may seek opportunistic dispositions to optimize the Company's capital structure. In February 2019, JD Property established JD Logistics Properties Core Fund, L.P. ("Core Fund") together with Government Of Singapore Investment Corporation ("GIC") 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 Core Fund, and GIC committed the remaining 80% capital investment. The investment committee of Core Fund, which comprise the representatives from the Group and GIC, will oversee the key operations of Core Fund. Furthermore, the Group entered into a definitive agreement with Core Fund, pursuant to which the Group will dispose of certain of its modern logistics facilities to Core Fund, valuing at RMB10.9 billion, and concurrently lease back these completed facilities for operational purposes with an initial lease term of 5 to 6 years. Upon the expiry of the initial lease agreement, the Group may choose to renew the lease subject to certain conditions. In the second half of 2019, the closing conditions for the asset group of completed logistics facilities were met.

Public offering of unsecured senior notes

In January 2020, the Company issued fixed rate unsecured senior notes with two maturity dates for an aggregate principal amount of US$1,000,000. The public offering consists of US$700,000 of 3.375% notes due 2030 and US$300,000 of 4.125% notes due 2050. The notes are listed on the Singapore Stock Exchange. The Company received net proceeds from the offering of US$988,266, after deducting underwriting discounts and commissions and offering expenses. The Company intends to use the net proceeds from the offering for general corporate purposes and refinancing.

Share repurchase program

In 2019, the Company repurchased 935,848 ADSs for US$19,101 (RMB131,010) on the open market, at a weighted average price of US$20.41 per ADS, pursuant to the 2018 shares repurchase program.

In March 2020, the Company's Board of Directors authorized a share repurchase program ("2020 share repurchase program") under which the Company may repurchase up to US$2,000,000

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

33. Subsequent events—continued

Share repurchase program—continued

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. Under 2020 share repurchase program, as of April 8, 2020, the Company had repurchased approximately 1,191,370 ADSs for approximately US$44,132.

Drew down of Syndicated loan

As disclosed in Note 30, the Group entered into a 5-year US$1,000,000 term and revolving credit facilities agreement with a group of 24 arrangers in December 2017. In April 2020, the Group drew down US$550,000 under the facility commitment. The use of proceeds of the facilities was intended for general corporate purposes.

Private placement notes

In February, March and May 2020, Jingdong Century, a subsidiary of the Company, issued fixed rate private placement notes with three maturity dates for an aggregate principal amount of RMB7,000,000. The private placement consists of RMB3,000,000 of 2.65% notes due April 27, 2020, RMB2,000,000 of 2.75% notes due October 30, 2020 and RMB2,000,000 of 1.75% notes due August 18, 2020. The notes are listed on the inter-bank bond market of China. The Group intends to use the proceeds from the private placement for general corporate purposes.

Potential impact of coronavirus ("COVID-19")

From late January 2020, the COVID-19 was rapidly evolving in China and globally. Since then, the business and transportation disruptions in China have caused adverse impact to the Group's operations and led to incremental costs, in particular, relating to the Group's retail and logistics business. Demands for large-ticket items, durable goods and discretionary products have also been negatively affected by the COVID-19 outbreak. The Group's results of operation and consolidated financial position of 2020 will be adversely affected to a certain extent, which will depend on the future developments of the outbreak, including new development concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable.

Financing for JD Industrial Technology, Inc.

On April 24, 2020, the Group entered into definitive agreements for the non-redeemable series A preferred share financing of JD Industrial Technology, Inc., a subsidiary of the Company, with investors including GGV Capital, Sequoia Capital China and CPE, among others. The total amount expected to be raised is US$230 million, representing 10.7% of equity interest of JD Industrial Technology, Inc. on a fully diluted basis, subject to closing conditions. JD Industrial Technology, Inc., operates an e-commerce platform that specializes in industrial maintenance, repair and operations products and services, and provides intelligent purchasing platform and supply chain solutions for corporate customers.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Parent company only condensed financial information

The Company performed a test on the restricted net assets of the consolidated subsidiaries and VIEs 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 periods presented. Certain information and footnote disclosures generally included in the 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Parent company only condensed financial information—continued

Condensed Balance Sheets

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
ASSETS		
Current assets:		
Cash and cash equivalents	8,964,809	2,196,796
Short term investments	—	755
Prepayments and other current assets	63,853	121,822
Amount due from related parties	715,671	1,555,288
Total current assets	9,744,333	3,874,661
Non-current assets:		
Investment in equity investees	7,514	—
Investments in subsidiaries and consolidated VIEs	45,675,625	64,127,171
Investment securities	35,893	12,978
Intangible assets, net	3,092,549	1,569,483
Other non-current assets	—	121,453
Total non-current assets	48,811,581	65,831,085
Total assets	58,555,914	69,705,746
LIABILITIES		
Current liabilities:		
Accounts payable	—	—
Taxes payable	—	—
Accrued expenses and other liabilities	67,743	60,190
Total current liabilities	67,743	60,190
Non-current liabilities:		
Long-term borrowings	—	3,088,440
Unsecured senior notes	6,447,357	6,786,143
Total non-current liabilities	6,447,357	9,874,583
Total liabilities	6,515,100	9,934,773
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
Additional paid-in capital	76,254,607	82,832,895
Statutory reserves	635,966	1,400,412
Treasury stock	(4,457,608)	(3,783,729)
Accumulated deficit	(22,234,609)	(24,038,081)
Accumulated other comprehensive income	1,842,081	3,359,096
Total shareholders' equity	52,040,814	59,770,973
Total liabilities and shareholders' equity	58,555,914	69,705,746

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Parent company only condensed financial information—continued

Condensed Statements of Operations and Comprehensive Income

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Operating expenses		
Marketing	(1,215,222)	(1,218,920)
General and administrative	(556,534)	(495,835)
Loss from operations	(1,771,756)	(1,714,755)
Share of income/(loss) of subsidiaries and consolidated VIEs	1,717,151	(653,408)
Interest income	66,848	220,186
Interest expense	(260,756)	(315,683)
Others, net	96,256	(27,973)
Net loss	(152,257)	(2,491,633)
Net loss attributable to ordinary shareholders	(152,257)	(2,491,633)
Net loss	(152,257)	(2,491,633)
Other comprehensive income:		
Foreign currency translation adjustments	(822,052)	2,696,784
Net change in unrealized gains (losses) on available-for-sale securities:		
Unrealized gains, net of tax	1,473,014	237,585
Reclassification adjustment for gains recorded in net income, net of tax	(352,274)	(260,712)
Net unrealized gains/(losses) on available-for-sale securities	1,120,740	(23,127)
Total other comprehensive income	298,688	2,673,657
Total comprehensive income	146,431	182,024

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Parent company only condensed financial information—continued

Condensed Statements of Cash Flows

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Net cash used in operating activities	(105,219)	(233,195)
Cash flows from investing activities:		
Purchase of investment securities	—	(755)
Cash received from disposal of investment securities	—	7,893
Cash received from/(prepayments and investments in) subsidiaries and consolidated VIEs	2,359,092	(12,425,233)
Prepayments and investments in equity investees	(7,646)	—
Loans provided to JD Digits	(31,161)	(839,617)
Net cash provided by/(used in) investing activities	2,320,285	(13,257,712)
Cash flows from financing activities:		
Proceeds from issuance of ordinary shares	—	3,531,870
Repurchase of ordinary shares	—	(205,886)
Proceeds from long-term borrowings	—	2,890,575
Proceeds from settlement of capped call options	737,501	—
Proceeds from issuance of ordinary shares pursuant to share-based awards	135,745	48,555
Upfront fee payment for long-term borrowings	—	(81,581)
Net cash provided by financing activities	873,246	6,183,533
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(240,077)	539,361
Net increase/(decrease) in cash, cash equivalents, and restricted cash	2,848,235	(6,768,013)
Cash, cash equivalents, and restricted cash at beginning of the year	6,116,574	8,964,809
Cash, cash equivalents, and restricted cash at end of the year	8,964,809	2,196,796

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 and consolidated VIEs.

For the Company only condensed financial information, the Company records its investments in subsidiaries and consolidated VIEs 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 and consolidated VIEs" and shares in the subsidiaries and consolidated VIEs' financial results are presented as "Share of income/(loss) of subsidiaries and consolidated VIEs" 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' consolidated financial statements.

35. Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2017 and 2018.

III. SUBSEQUENT FINANCIAL STATEMENTS

The audited consolidated financial statements for the year ended December 31, 2019 have been prepared by the Company subsequent to December 31, 2018 and up to the date of this report. No dividends or distributions have been declared or made by the Company in respect of any period subsequent to December 31, 2018.

The following is the text of a report set out on pages IB-1 to IB-78, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JD.COM, INC. AND MERRILL LYNCH FAR EAST LIMITED, UBS SECURITIES HONG KONG LIMITED AND CLSA CAPITAL MARKETS LIMITED

Introduction

We report on the historical financial information of JD.com, Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages IB-3 to IB-78, which comprises the consolidated balance sheet of the Group as at December 31, 2019 and the consolidated statements of operations and comprehensive income, the consolidated statements of changes in shareholders' equity and the consolidated statement of cash flows of the Group for the year ended December 31, 2019 and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IB-3 to IB-78 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated June 8, 2020 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at December 31, 2019 and of the Group's financial performance and cash flows for the year ended December 31, 2019 in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page IB-3 have been made.

Dividends

We refer to Note 36 to the Historical Financial Information which states that no dividend was declared or paid by the Company in respect of the year ended December 31, 2019.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
June 8, 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the issued consolidated financial statements of the Group for the year ended December 31, 2019 ("Historical Financial Statements"). The consolidated financial statements have been prepared in accordance with the accounting policies which conform with the accounting principles generally accepted in the United States of America ("U.S. GAAP") and were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) relating to the consolidated financial statements and the effectiveness of internal control over financial reporting.

The Historical Financial Information is presented in Renminbi and United States Dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Consolidated Balance Sheet

	Notes	As of December 31, 2019	
		RMB'000	US$'000 Note 2(f)
ASSETS			
Current assets			
Cash and cash equivalents	2(g)	36,971,420	5,310,612
Restricted cash	4	2,940,859	422,428
Short-term investments	5	24,602,777	3,533,968
Accounts receivable, net	7	6,190,588	889,222
Advance to suppliers		593,130	85,198
Inventories, net	8	57,932,156	8,321,434
Loan receivables, net	2(l)	1,551,459	222,853
Prepayments and other current assets		4,078,102	585,783
Amount due from related parties	28	4,234,067	608,186
Total current assets		139,094,558	19,979,684
Non-current assets			
Property, equipment and software, net	9	20,654,071	2,966,772
Construction in progress	2(n)	5,806,308	834,024
Intangible assets, net	11	4,110,034	590,369
Land use rights, net	10	10,891,742	1,564,501
Operating lease right-of-use assets	16	8,643,597	1,241,575
Goodwill	12	6,643,669	954,303
Investment in equity investees	6	35,575,807	5,110,145
Investment securities	5	21,417,104	3,076,375
Deferred tax assets	20	80,556	11,571
Other non-current assets		6,806,258	977,658
Total non-current assets		120,629,146	17,327,293
Total assets		259,723,704	37,306,977

Consolidated Balance Sheet—continued

	Notes	As of December 31, 2019	
		RMB'000	US$'000 Note 2(f)
LIABILITIES			
Current liabilities (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB14,399,069 as of December 31, 2019. Note 1)			
Accounts payable	13	90,428,382	12,989,224
Advance from customers		16,078,619	2,309,549
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB796,193 as of December 31, 2019)		3,326,594	477,835
Taxes payable	20	2,015,788	289,550
Amount due to related parties	28	317,978	45,675
Accrued expenses and other current liabilities	14	24,656,180	3,541,639
Operating lease liabilities	16	3,193,480	458,715
Total current liabilities		140,017,021	20,112,187
Non-current liabilities			
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB1,747,020 as of December 31, 2019)		1,942,635	279,042
Unsecured senior notes	2(v)	6,912,492	992,917
Deferred tax liabilities	20	1,338,988	192,334
Long-term borrowings	2(v)	3,139,290	450,931
Operating lease liabilities	16	5,523,164	793,353
Other non-current liabilities		225,883	32,446
Total non-current liabilities		19,082,452	2,741,023
Total liabilities		159,099,473	22,853,210
Commitments and contingencies (Note 32)			
MEZZANINE EQUITY			
Convertible redeemable non-controlling interests	21	15,964,384	2,293,140
SHAREHOLDERS' EQUITY:			
JD.com, Inc. shareholders' equity			
Ordinary shares (US$0.00002 par value; 100,000,000,000 shares authorized; 2,520,271,138 Class A ordinary shares issued and 2,480,575,334 outstanding, 453,672,011 Class B ordinary shares issued and 443,739,929 outstanding as of December 31, 2019)	23	381	55
Additional paid-in capital		90,676,122	13,024,810
Statutory reserves	2(mm)	1,459,165	209,596
Treasury stock		(2,530,166)	(363,436)
Accumulated deficit		(11,912,679)	(1,711,149)
Accumulated other comprehensive income	25	4,163,147	597,999
Total JD.com, Inc. shareholders' equity		81,855,970	11,757,875
Non-controlling interests	2(c)	2,803,877	402,752
Total shareholders' equity		84,659,847	12,160,627
Total liabilities, mezzanine equity and shareholders' equity		259,723,704	37,306,977

Consolidated Statements of Operations and Comprehensive Income

	Notes	For the year ended December 31, 2019	
		RMB'000	US$'000 Note 2(f)
Net revenues			
Net product revenues	2(x)	510,733,967	73,362,344
Net service revenues		66,154,517	9,502,502
Total net revenues		576,888,484	82,864,846
Cost of revenues	2(aa)	(492,467,391)	(70,738,515)
Fulfillment	2(cc)	(36,968,041)	(5,310,127)
Marketing	2(dd)	(22,234,045)	(3,193,721)
Research and development	2(ee)	(14,618,677)	(2,099,842)
General and administrative	2(ff)	(5,490,159)	(788,612)
Impairment of goodwill and intangible assets		—	—
Gain on sale of development properties	17	3,884,709	558,004
Income from operations		8,994,880	1,292,033
Other income/(expense)			
Share of results of equity investees	6	(1,738,219)	(249,680)
Interest income	18	1,785,572	256,481
Interest expense	18	(725,010)	(104,141)
Others, net	19	5,375,309	772,115
Income before tax		13,692,532	1,966,808
Income tax expenses	20	(1,802,440)	(258,904)
Net income		11,890,092	1,707,904
Net loss attributable to non-controlling interests shareholders		(297,163)	(42,685)
Net income attributable to mezzanine equity classified as non-controlling interests shareholders		3,100	445
Net income attributable to ordinary shareholders		12,184,155	1,750,144
Net income		11,890,092	1,707,904
Other comprehensive income:	25		
Foreign currency translation adjustments		793,671	114,004
Net change in unrealized gains on available-for-sale securities:			
Unrealized gains, net of tax		312,723	44,920
Reclassification adjustment for gains recorded in net income, net of tax		(258,537)	(37,137)
Net unrealized gains on available-for-sale securities		54,186	7,783
Total other comprehensive income		847,857	121,787
Total comprehensive income		12,737,949	1,829,691
Total comprehensive loss attributable to non-controlling interests shareholders		(253,357)	(36,392)
Total comprehensive income attributable to mezzanine equity classified as non-controlling interests shareholders		3,100	445
Total comprehensive income attributable to ordinary shareholders		12,988,206	1,865,638
Net income per share	27		
Basic			
Net income per share(RMB)		4.18	0.60
Diluted			
Net income per share(RMB)		4.11	0.59
Weighted average number of shares			
Basic		2,912,637,241	2,912,637,241
Diluted		2,967,321,803	2,967,321,803

Consolidated Statement of Cash Flows

	For the year ended December 31, 2019	
	RMB'000	US$'000 Note2(f)
Cash flows from operating activities:		
Net income	11,890,092	1,707,904
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,828,055	837,148
Share-based compensation	3,694,955	530,746
Losses from disposal of property, equipment and software	65,492	9,407
Deferred income tax	533,117	76,577
Amortization of discounts and issuance costs of the unsecured senior notes	14,812	2,128
Impairment of investments	1,954,031	280,679
Fair value change of long-term investments	(3,495,709)	(502,127)
Gain from business and investment disposals	(1,199,407)	(172,284)
Gain on sale of development properties	(3,884,709)	(558,004)
Share of results of equity investees	1,738,219	249,680
Foreign exchange gains	(124,070)	(17,822)
Changes in operating assets and liabilities:		
Accounts receivable	3,936,793	565,485
Inventories	(13,915,610)	(1,998,852)
Advance to suppliers	(127,812)	(18,359)
Prepayments and other current assets	486,067	69,819
Operating lease right-of-use assets	(1,407,345)	(202,152)
Amount due from related parties	(1,500,728)	(215,566)
Other non-current assets	(408,937)	(58,740)
Accounts payable	10,391,341	1,492,623
Advance from customers	3,061,018	439,688
Deferred revenues	454,780	65,325
Taxes payable	722,781	103,821
Accrued expenses and other current liabilities	4,417,646	634,557
Operating lease liabilities	1,521,635	218,569
Amount due to related parties	134,713	19,350
Net cash provided by continuing operating activities	24,781,220	3,559,600
Net cash provided by operating activities	24,781,220	3,559,600
Cash flows from investing activities:		
Purchase of short-term investments	(24,501,345)	(3,519,398)
Maturity of short-term investments	2,018,324	289,914
Purchase of investment securities	(770,818)	(110,721)
Cash received from disposal of investment securities	1,009,088	144,946
Cash paid for investments in equity investees	(10,508,432)	(1,509,442)
Cash received from disposal of equity investment	3,606,308	518,014
Cash paid for loan originations	(43,560,458)	(6,257,068)
Cash received from loan repayments	44,592,432	6,405,302
Purchase of property, equipment and software	(2,597,069)	(373,045)
Purchase of intangible assets	(41,449)	(5,954)
Purchase of land use rights	(1,039,106)	(149,258)
Cash paid for construction in progress	(5,321,968)	(764,453)
Cash received from sale of development properties	7,905,251	1,135,518
Cash paid for business combination, net of cash acquired	(41,380)	(5,944)
Loans settled by JD Digits	4,148,796	595,937
Other investing activities	(247,531)	(35,556)
Net cash used in continuing investing activities	(25,349,357)	(3,641,208)
Net cash used in investing activities	(25,349,357)	(3,641,208)

Consolidated Statement of Cash Flows—continued

	For the year ended December 31, 2019	
	RMB'000	US$'000 Note2(f)
Cash flows from financing activities:		
Repurchase of ordinary shares	(131,010)	(18,818)
Proceeds from issuance of ordinary shares pursuant to share-based awards	112,153	16,110
Capital injection from non-controlling interest shareholders	6,648,761	955,035
Proceeds from short term borrowings	5,803,800	833,664
Repayment of short-term borrowings	(5,969,768)	(857,504)
Repayment of nonrecourse securitization debt	(3,886,227)	(558,222)
Other financing activities	(5,242)	(753)
Net cash provided by financing activities	2,572,467	369,512
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	405,891	58,302
Net increase in cash, cash equivalents, and restricted cash	2,410,221	346,206
Cash, cash equivalents, and restricted cash at beginning of year	37,502,058	5,386,834
Cash, cash equivalents, and restricted cash at end of year	39,912,279	5,733,040
Supplemental cash flow disclosures of continuing operations:		
Cash paid for income taxes	(807,622)	(116,008)
Cash paid for interest	(679,120)	(97,550)
Supplemental disclosures of non-cash investing and financing activities:		
Issuance of ordinary shares in connection with strategic cooperation agreement with Tencent	759,195	109,052
Equity investments obtained through commitment of future services and contribution of certain business	2,370,807	340,545
Right-of-use assets acquired under operating leases	4, 860,770	698,206

Consolidated Statement of Changes in Shareholders' Equity

	Ordinary shares		Treasury stock		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income	Accumulated deficit	Non-controlling interests	Total shareholders' equity
	Shares	Amount	Shares	Amount						
		RMB'000		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of January 1, 2019	2,965,815,847	380	(71,519,492)	(3,783,729)	82,832,895	1,400,412	3,359,096	(24,038,081)	1,095,887	60,866,860
Issuance of ordinary shares	8,127,302	1	—	—	759,194	—	—	—	—	759,195
Repurchase of ordinary shares	—	—	(1,871,696)	(131,010)	—	—	—	—	—	(131,010)
Accretion of convertible redeemable non-controlling interests	—	—	—	—	—	—	—	(3,100)	—	(3,100)
Exercise of share-based awards	—	—	3,299,962	210,336	(79,352)	—	—	—	(10,547)	120,437
Share-based compensation and vesting of share-based awards	—	—	20,463,340	1,174,237	1,948,609	—	—	—	572,109	3,694,955
Net income/(loss)	—	—	—	—	—	—	—	12,187,255	(297,163)	11,890,092
Foreign currency translation adjustments	—	—	—	—	—	—	749,865	—	43,806	793,671
Net change in unrealized gains on available-for-sale debt securities	—	—	—	—	—	—	54,186	—	—	54,186
Statutory reserves	—	—	—	—	—	58,753	—	(58,753)	—	—
Change of the capital from non-controlling interest shareholders	—	—	—	—	5,228,721	—	—	—	1,399,785	6,628,506
Share of changes in the equity investee's capital accounts	—	—	—	—	(13,945)	—	—	—	—	(13,945)
Balance as of December 31, 2019	2,973,943,149	381	(49,627,886)	(2,530,166)	90,676,122	1,459,165	4,163,147	(11,912,679)	2,803,877	84,659,847

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. Principal activities and organization

JD.com, Inc. (the "Company") is a leading technology driven e-commerce company transforming to become the leading supply chain based technology and service provider, providing products and services to consumers, third-party merchants, suppliers and other business partners through its subsidiaries, consolidated variable interest entities ("VIEs") (collectively, the "Group"). The Group operates e-commerce business, including online retail and online marketplace mainly through its retail mobile apps and www.jd.com website (collectively, "JD Platform"). The Group serves consumers through online retail, focusing on product selection, price and convenience, serves third-party merchants through online marketplace, offering programs that enable the merchants to sell their products on JD Platform and to fulfill the orders either by themselves or through the Group's logistic services. Leveraging its AI capabilities and technologies, the Group provides a variety of marketing services to business partners through its proprietary advertisement technology platform. Leveraging its nationwide fulfillment infrastructure, the Group provides comprehensive supply chain solutions, primarily including warehousing, transportation, delivery and after-sales service to third parties, including both third-party merchants and suppliers on JD Platform and other business partners, through the Group's logistics business ("JD Logistics").

In 2018, the Group established JD Property Management Group ("JD Property"), which owns, develops and manages the Group's logistics facilities and other real estate properties, to support JD Logistics and other third parties. By leveraging its fund management platform, JD Property can realize development profits and recycle capital from mature properties to fund new developments and scale the business.

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 and consolidated VIEs.

As of December 31, 2019, the Company's major subsidiaries, consolidated VIEs and VIEs' subsidiaries are as follows:

	Equity interest held	Place and date of incorporation
Subsidiaries		
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.	80%	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")	80%	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

1. Principal activities and organization—continued

	Equity interest held	Place and date of incorporation
Subsidiaries		
Beijing Jingdong Shangke Information Technology Co., Ltd. ("Beijing Shangke")	100%	Beijing, China, March 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 Asia Development Limited	100%	British Virgin Islands, February 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")	80%	Shaanxi, China, May 2017
Xi'an Jingdong Xuncheng Logistics Co., Ltd.	80%	Shaanxi, China, June 2017
Jingdong Express International Limited	80%	British Virgin Islands, November 2017
Beijing Jinghong Logistics Co., Ltd.	80%	Beijing, China, November 2017
JD Assets Holding Limited	100%	Cayman Islands, March 2018
JD Logistics Holding Limited	100%	Cayman Islands, March 2018
JD Health International Inc.	86%	Cayman Islands, November 2018
JD Jiankang Limited	100%	British Virgin Islands, April 2019
Consolidated VIEs		
Beijing Jingdong 360 Degree E-commerce Co., Ltd. ("Jingdong 360")		Beijing, China, April 2007
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")		Shaanxi, China, June 2017
Consolidated VIEs' Subsidiaries		
Beijing Jingbangda Trade Co., Ltd. ("Beijing Jingbangda")		Beijing, China, August 2012
Hengqin Junze Management and Consulting Co., Ltd.		Guangdong, China, April 2017
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

• ***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.

1. Principal activities and organization—continued

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.

• 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 agreement 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 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.

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 rights to purchase from the Nominee Shareholders, to the extent permitted under the 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 the 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 the PRC. Jingdong 360 has agreed to pay license fees to Jingdong Century and the amount of the license fees 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.

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 the 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 the 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.

• Risks in relations to the VIE structure

The Company believes that the contractual arrangements among its subsidiaries, the VIEs and its shareholders are in compliance with the current PRC laws and legally enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. As a result, the Company may be unable to consolidate the VIEs and its subsidiary in the consolidated financial statements. The Company's ability to control its VIEs also depends on the authorization by the shareholders of the VIEs to exercise voting rights on all matters requiring shareholders' approval in the VIEs. The Company believes that the agreements on authorization to exercise shareholder's voting power are legally enforceable. In addition, if the legal structure and contractual arrangements with its VIEs were found to be in violation of any future PRC laws and regulations, the Company may be subject to fines or other actions. The Company believes the possibility that it will no longer be able to control and consolidate its VIEs as a result of the aforementioned risks is remote.

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 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, 2019
	RMB'000
Total assets	38,749,631
Total liabilities	43,734,593

	For the year ended December 31, 2019
	RMB'000
Total net revenues	59,306,001
Net loss	(2,268,090)

	For the year ended December 31, 2019
	RMB'000
Net cash provided by operating activities	953,673
Net cash used in investing activities	(6,450,150)
Net cash provided by financing activities	5,542,926
Net increase in cash, cash equivalents, and restricted cash	46,449
Cash, cash equivalents, and restricted cash at beginning of year	880,204
Cash, cash equivalents, and restricted cash at end of year	926,653

As of December 31, 2019, the total assets of the Group's consolidated VIEs (where appropriate, the term "VIEs" also refers to its subsidiaries as a whole) were mainly consisting of cash and cash equivalents, short-term investments, accounts receivable, inventories, prepayments and other current assets, investment securities, investment in equity investees, property, equipment and software, intangible assets, operating lease right-of-use assets and other non-current assets. As of December 31, 2019, the total liabilities of consolidated VIEs were mainly consisting of accounts payable, advance from customers, deferred revenues, accrued expenses and other current liabilities, operating lease 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 can have assets transferred out of the Group's consolidated VIEs. Therefore, the Group's relevant PRC subsidiaries consider that there is no asset in the Group's consolidated VIEs that can be used only to settle their obligations except for registered capitals and the PRC statutory reserves of the Group's consolidated VIEs amounting to RMB1,090,876 as of December 31, 2019. As the Group's consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, the creditors do not have recourse to the

1. Principal activities and organization—continued

general credit of the Group's relevant PRC subsidiaries for all the liabilities of the Group's consolidated VIEs. The total shareholders' deficit of the Group's consolidated VIEs was RMB4,984,962 as of December 31, 2019.

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. As the Group is conducting certain businesses in the PRC through the consolidated VIEs, 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 securitizes 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(u).

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 and consolidated VIEs 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 consolidated 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 and consolidated VIEs have been eliminated upon consolidation.

c. Non-controlling interests

For the Company's consolidated subsidiaries and VIEs, non-controlling interests are recognized to reflect the portion of their equity that is not attributable, directly or indirectly, to the Company as the

2. Summary of significant accounting policies—continued

c. Non-controlling interests—continued

controlling shareholder. Non-controlling interests are classified as a separate line item in the equity section of the Group's consolidated balance sheet and have been separately disclosed in the Group's consolidated statement of operations and comprehensive income to distinguish the interests from that of the Company.

d. 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, returns allowance, vendor and customer incentives, determination of the stand-alone selling price ("SSP"), 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, the discount rate for lease, redemption value of the redeemable preferred shares and consolidation of VIEs. Actual results may differ materially from those estimates.

e. 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 and consolidated VIEs 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 Topic 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 statement of operations and comprehensive income. Total exchange gains was RMB124,070 for the year ended December 31, 2019.

The consolidated 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

2. Summary of significant accounting policies—continued

e. Foreign currency translation—continued

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 as a component of shareholders' equity. Total foreign currency translation adjustments to the Group's other comprehensive income was a gain of RMB793,671 for the year ended December 31, 2019.

f. Convenience translation

Translations of the consolidated balance sheet, the consolidated statement of operations and comprehensive income and the consolidated statement of cash flows from RMB into US$ as of and for the year ended December 31, 2019 are solely for the convenience of the readers and were calculated at the rate of US$1.00=RMB6.9618, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 31, 2019. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on December 31, 2019, or at any other rate.

g. 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, which have original maturities of three months or less.

h. 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 sheet, and is included in the total cash, cash equivalents, and restricted cash in the consolidated statement 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.

i. 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 statement of operations and comprehensive income. The Group also holds debt classified securities, and such investments are recorded as available-for-sale debt securities and held-to-maturity securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income. Realized gains or losses are included in interest income in the consolidated statement of operations and comprehensive income during the period in which the gain or loss is realized.

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.

2. Summary of significant accounting policies—continued

j. 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.

The Group, in collaboration with JD Digits, provides consumer financing to the qualified customers in the online retail business, such consumer financing receivables are recorded as accounts receivable. Due to the legacy contractual arrangements with JD Digits, the Group remains as the legal owner of the consumer financing receivables, where JD Digits performs the related credit assessment.

JD Digits is obligated 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 were provided. The Group, in collaboration with JD Digits, periodically securitizes consumer financing receivables through the transfer of those assets to securitization vehicles, please refer to Note 2(u).

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. If there is strong evidence indicating that the accounts receivable are likely to be unrecoverable, the Group also makes specific allowance in the period in which a loss is determined to be probable. 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 sheet.

k. Inventories, net

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Cost of inventories is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventories 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 statement of operations and comprehensive income.

The Group also provides fulfillment-related services in connection with the Group's online marketplace. Third-party merchants maintain ownership of their inventories and therefore these products are not included in the Group's inventories.

l. Loan receivables, net

Loan receivables represent the consumer financing, in collaboration with JD Digits, provided to qualified individual customers on the Group's online marketplace. Due to the legacy contractual

2. Summary of significant accounting policies—continued

l. Loan receivables, net—continued

arrangements with JD Digits, the Group remains as the legal owner of the consumer financing receivables, including such loan receivables, where JD Digits performs the related credit assessment and absorbs the credit risks. The loan terms extended to the customers generally range from 1 month to 24 months. As JD Digits is obligated to purchase the receivables past due over certain agreed period of time from the Group at carrying values to absorb the credit risks, no provision for doubtful accounts was recorded for the year ended December 31, 2019. The loan receivables were measured at amortized cost and reported in the consolidated balance sheets at outstanding principal. As of December 31, 2019, the loan receivables with the collection period over one year amounting to RMB179,886 were classified into other non-current assets in the consolidated balance sheet. Cash paid for loan originations and cash received from loan repayments are classified as investing activities in the consolidated statements of cash flows. The Group, in collaboration with JD Digits, periodically securitizes loan receivables through the transfer of those assets to securitization vehicles, please refer to Note 2(u).

m. Property, equipment and software, net

Property, equipment and software are stated at cost less accumulated depreciation and impairment. Property, equipment and software are depreciated at rates sufficient to write off their costs less impairment and residual value, if any, over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Category	Estimated useful lives
Electronic equipment	3-5 years
Office equipment	5 years
Vehicles	3-5 years
Logistics, warehouse and other heavy 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 statement of operations and comprehensive income.

n. 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

2. Summary of significant accounting policies—continued

n. Construction in progress—continued

December 31, 2019, construction in progress in the amount of RMB5,806,308 was primarily relating to the construction of office buildings and warehouses.

o. 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 50 years and represent the shorter of the estimated usage periods or the terms of the agreements.

p. 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 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
Domain names and trademarks	5-20 years
Technology and others	2-10 years

q. 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 Financial Accounting Standards Board ("FASB") guidance on testing of goodwill for impairment, the Group first assesses 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 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

2. Summary of significant accounting policies—continued

q. Goodwill—continued

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.

r. 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 Topic 323, *Investment—Equity Method and Joint Ventures* ("ASC 323"), 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 statement of operations and comprehensive income and its share of post-acquisition movements of accumulated other comprehensive income are recorded in accumulated other comprehensive income 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 funds 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

2. Summary of significant accounting policies—continued

r. Investment in equity investees—continued

expedient in ASC Topic 820, Fair Value Measurements an*d 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 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 statement of operations and comprehensive income. The Group makes assessment of whether an investment is impaired based on performance and financial position of the investee as well as other evidence of market value at each reporting date. Such assessment includes, but is not limited to, reviewing the investee's cash position, recent financing, as well as the financial and business performance. The Group recognizes an impairment loss equal to the difference between the carrying value and fair value in others, net in the consolidated statement of operations and comprehensive income if there is any.

s. 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 sheet, the unrealized gains and losses on equity securities are recorded in others, net in the consolidated statement of operations and comprehensive income upon the adoption of ASU 2016-01.

t. 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.

u. Nonrecourse securitization debt and transfer of financial assets

The Group, in collaboration with JD Digits, periodically securitizes accounts receivable and loan receivables arising from consumer financing through the transfer of those assets to securitization

2. Summary of significant accounting policies—continued

u. Nonrecourse securitization debt and transfer of financial assets—continued

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 Topic 810, Consolidation. 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 receivable are de-recognized in the consolidated balance sheet pursuant to ASC Topic 860, Transfers and Servicing ("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 rights 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 ignored when applying ASC 860, as long as the transferee will not be consolidated by the transferor.

Due to the Group's continuing involvement rights 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 were reported as current and non-current nonrecourse securitization debt in the consolidated balance sheet based on their respective expected repayment dates pursuant to ASC 860. While the contractual maturities of the asset-backed debt securities were from 2018 to 2019, the securities were repaid as collections on the underlying collateralized assets occur. As of December 31, 2019, the collateralized accounts receivable was nil and the collateralized loan receivables was nil. The interest expenses in relation to the nonrecourse securitization debt were charged back to JD Digits.

In 2019, RMB21,500,000 consumer credit receivables financial assets were derecognized through the sales type arrangements, including accounts receivable of RMB15,302,084 and loan receivables of RMB6,197,916. Proceeds from the derecognition were RMB21,500,000 and JD Digits and other third-party investors acted as the servicers 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 the period presented.

2. Summary of significant accounting policies—continued

v. 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 statement of operations and comprehensive income 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 statement of operations and comprehensive income.

w. Fair value

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The Group measures certain financial assets, including investments under the equity method on other-than-temporary basis, investments under the Measurement Alternative, 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.

2. Summary of significant accounting policies—continued

x. Revenues

The Group adopted ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), from January 1, 2018, using the modified retrospective transition approach.

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, the 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. Revenues are recorded net of value-added taxes.

The Group recognizes revenues net of discounts and return allowances when the products are delivered and title is passed to customers. Significant judgment is required to estimate return allowances. For online retail 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, 2019, liabilities for return allowances was RMB425,135, which were 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 RMB454,298 as of December 31, 2019 and were included in "Prepayments and other current assets".

The Group also sells prepaid cards which can be redeemed to purchase products sold on JD Platform. 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 sheet and subsequently recognized as revenues upon the sales of the respective products through redemption of prepaid cards are completed. Upon the adoption of ASC 606, 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.

Revenue arrangements with multiple deliverables are divided into separate units of accounting based on the 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.

2. Summary of significant accounting policies—continued

x. Revenues—continued

Net Product Revenues

The Group recognizes the product revenues from the online retail business 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 was RMB328,703,453 and revenues from the sales of general merchandise products was RMB182,030,514, for the year ended December 31, 2019. The Group's net product revenues were mainly generated by the JD Retail segment.

Net Service Revenues

The Group charges commission fees to third-party merchants for participating in the Group's online marketplace, where the Group generally is acting as an agent and its performance obligation is to arrange for the provision of the specified goods or services by those third-party merchants. Upon successful sales, the Group charges the third-party merchants 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 allowances.

The Group provides marketing services to third-party merchants, suppliers and other business partners on its various website channels and third-party marketing affiliate's websites, including but not limited to pay for performance marketing services on which the customers are charged based on effective clicks on their product information, and display advertising services that allow customers to place advertisements on various websites. The Group recognizes revenues from pay for performance marketing services based on effective clicks, and recognizes revenues from display advertising services 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. The Group did not enter into material advertising-for-advertising barter transactions for the period presented.

The Group opens its fulfillment infrastructure by offering comprehensive supply chain solutions to third parties through JD Logistics, primarily including warehousing, transportation, delivery and after-sales service. Revenues resulting from these services are recognized over time as the Group performs the services in the contracts because of the continuous transfer of control to the customers.

JD Plus memberships provide the Group's core customers with a better shopping experience, access to an evolving suite of benefits that represent a single stand-ready obligation. Subscriptions are paid for at the time of or in advance of delivering the services. Revenues from such arrangements are recognized over the subscription period.

The Group offers comprehensive customer services, primarily include 7*24 hours customer services to respond to customers' post-sales requests, return and exchange services to facilitate customers' return, exchange and repair of defective goods. These services are free of charge. The Group also provides return/exchange logistics services to the customers, of which the revenues recognized were not material for the period presented.

2. Summary of significant accounting policies—continued

x. Revenues—continued

Net Service Revenues—continued

Revenues from online marketplace and marketing services was RMB42,680,212 for the year ended December 31, 2019, which were mainly generated by the JD Retail segment. Revenues from logistics and other services was RMB23,474,305 for the year ended December 31, 2019, which were mainly generated by the New Businesses segment.

y. Contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenues recognized prior to invoicing when the Group has satisfied the Group's performance obligation and has the unconditional rights to payment. The allowance for doubtful accounts and authorized credits is estimated based on 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 balances of accounts receivable, net of allowance for doubtful accounts was RMB6,190,588 as of December 31, 2019.

Unearned revenues consist of payments received or awards to customers related to unsatisfied performance obligation at the end of the period, included in current and non-current deferred revenues and advance from customers in the Group's consolidated balance sheet. As of December 31, 2018, the Group's total unearned revenues were RMB15,461,245, of which RMB12,997,919 was recognized as revenues for the year ended December 31, 2019. The Group's total unearned revenues were RMB21,347,848 as of December 31, 2019.

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.

z. Customer incentives and loyalty programs

The Group provides two types of discounted coupons, referred to as D Coupons and J Coupons, for free to its customers to incentivize purchase.

- D Coupons are given to a customer upon 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 rights to purchase discounted products in the future are not considered as a separate performance obligation under ASC 606, as the discount does not represent a material right 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 revenues on the future purchase.

2. Summary of significant accounting policies—continued

z. Customer incentives and loyalty programs—continued

- J Coupons are given to a customer upon their qualified purchase or can be given for free to promote future purchases and are 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 as a separate performance obligation within the scope of ASC 606, as J Coupons represent a material right to the customer. Therefore, the delivered products and J Coupons awarded are treated as two distinct performance obligations identified in the contract. The total sales consideration is allocated based on management's best estimate of the relative SSP of each performance obligation. The amount allocated to J Coupons is deferred and recognized when 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 year ended December 31, 2019, the amount of expired J Coupons was not material.

Registered customers may also earn J Beans, which was launched 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. Thus J Beans is considered to be a separate performance obligation identified in the contract. Therefore, the sales consideration is allocated to the products and J Beans based on the relative SSP of the products and J Beans awarded. Consideration allocated to J Beans is initially recorded as deferred revenues, and recognized as revenues when J Beans are used or expired. J Beans will expire at the subsequent year end after issuance. For the year ended December 31, 2019, the amount of expired J Beans was not material.

aa. Cost of revenues

Cost of revenues consists primarily of purchase price of products, inbound shipping charges, write-downs of inventories, 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 inventories, and recognized as cost of revenues upon sale of the products to the customers.

bb. Rebates and subsidies

The Group periodically receives considerations from certain vendors, representing rebates for products sold and subsidies for the sales of the vendors' products over a period of time. The rebates are not sufficiently separable from the Group's purchase of the vendors' products and they do not represent a reimbursement of costs incurred by the Group to sell vendors' products. The Group accounts for the rebates received from its vendors as a reduction to the prices it pays for the products purchased and therefore the Group records such amounts as a reduction of cost of revenues when recognized in the consolidated statement of operations and comprehensive income. 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

2. Summary of significant accounting policies—continued

bb. Rebates and subsidies—continued

rebates is recognized as the Group makes progress towards the purchase threshold. Subsidies are calculated based on the volume of products sold through the Group and are recorded as a reduction of cost of revenues when the sales have been completed and the amount is determinable.

cc. Fulfillment

Fulfillment 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) lease expenses of warehouses, delivery and pickup stations, and physical stores. The cost related to logistics services provided to third parties is classified in cost of revenues in the consolidated statement of operations and comprehensive income. Shipping cost included in fulfillment expenses amounted to RMB17,858,972 for the year ended December 31, 2019.

dd. Marketing

Marketing expenses consist primarily of advertising costs, public relations expenditures, and payroll and related expenses for employees involved in marketing and business development activities. The Group pays commissions to participants in the associates program when their customer referrals result in successful product sales and records such costs in marketing in the consolidated statement of operations and comprehensive income.

Advertising costs, which consist primarily of online advertising, offline television, movie and outdoor advertising, and incentive programs to attract or retain consumers for the Group's online marketplace, are expensed as incurred, and totaled RMB19,285,939 for the year ended December 31, 2019.

ee. Research and development

Research and development expenses consist primarily of payroll and related expenses for research and development employees involved in designing, developing and maintaining technology platform, and improving artificial intelligence, 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. Research and development expenses are expensed as incurred. Software development costs are recorded in "Research and development" as incurred as the costs qualifying for capitalization have been insignificant.

ff. General and administrative

General and administrative expenses consist primarily of employee related expenses for general corporate functions, including accounting, finance, tax, legal and human relations; costs associated with these functions including facilities and equipment depreciation expenses, rental and other general corporate related expenses.

2. Summary of significant accounting policies—continued

gg. 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 Topic 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.

The Group uses the binominal option-pricing model to estimate the fair value of share options. The determination of estimated fair value of share-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 share option exercise behaviors, a risk-free interest rate, exercise multiple and expected dividend yield, 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 share-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 RSUs 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 RSUs.

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.

2. Summary of significant accounting policies—continued

hh. Income tax

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. The Group follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statements carrying amounts and tax bases of existing assets and liabilities by applying enacted statutory tax rates that will be in effect in the period in which the temporary differences are expected to reverse. The Group records a valuation allowance to reduce the amount of deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statement of operations and comprehensive income in the period of change. Deferred tax assets and liabilities are classified as non-current in the consolidated balance sheet.

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, 2019, the Group did not have any significant unrecognized uncertain tax positions.

ii. Leases

The Group adopted the new lease accounting standard, ASC Topic 842, *Leases* ("ASC 842"), from January 1, 2019 using the modified retrospective transition approach through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients. The Group categorizes leases with contractual terms longer than twelve months as either operating or finance lease. However, the Group has no finance leases for any of the period presented.

Right-of-use ("ROU") assets represent the Group's rights to use underlying assets for the lease term and lease liabilities represent the Group's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term, reduced by lease incentives received, plus any initial direct costs, using the discount rate for the lease at the commencement date. As the implicit rate in lease is not readily determinable for the Group's operating leases, the Group generally use the

2. Summary of significant accounting policies—continued

ii. Leases—continued

incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The Group's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Group accounts for lease and non-lease components separately.

The Group also enters into sale and leaseback transactions. The Group acts as the seller-lessee, transfers its assets to a third-party entity (the buyer-lessor) and then leases the transferred assets back from the buyer-lessor at an arm-length rental price. Upon consideration of ASC Topic 842-40-25-1 and ASC 606, the transfer of the underlying assets is considered as sales, and according to ASC 842, the leaseback transaction is classified as an operating lease. Therefore, the sale and the leaseback of the underlying assets are separately accounted for by the Group. Upon completion of the transaction, the legal titles of these assets are transferred to the third-party entity (the buyer-lessor), and the Group derecognizes these transferred assets and recognizes gains or losses from disposal of these assets in accordance with ASC Topic 360, *Property, Plant and Equipment*. The leaseback transactions are accounted for under ASC 842, and the ROU assets and lease liabilities are recognized at commencement date accordingly.

jj. Comprehensive income

Comprehensive income 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 for the period presented includes net income, change in unrealized gains on available-for-sale debt securities, foreign currency translation adjustments, and share of change in other comprehensive income of equity investees.

kk. Net income per share

Basic net income per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For the calculation of diluted net income per share, the weighted average number of ordinary shares is adjusted by the effect of dilutive potential ordinary shares, including unvested RSUs and ordinary shares issuable upon the exercise of outstanding share options using the treasury stock method. Additionally, the Company takes into account the effect of dilutive shares of entities in which the Company holds equity interests. The dilutive impact from equity interests mainly include equity investments accounted for using the equity method and the consolidated subsidiaries. The effect mentioned above is not included in the calculation of the diluted income per share when inclusion of such effect would be anti-dilutive.

ll. Segment reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker ("CODM"), or decision making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is the Chief Executive Officer.

2. Summary of significant accounting policies—continued

ll. Segment reporting—continued

The Group's principal operations are organized into two major business segments, JD Retail and New Businesses, which are defined based on the products and services provided. JD Retail mainly consists of online retail, online marketplace and marketing services in China. New Businesses include logistics services provided to third parties, overseas business, technology initiatives, as well as asset management services to logistics property investors and sale of development properties by JD Property.

mm. Statutory reserves

The Company's subsidiaries and the consolidated VIEs 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 the 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, 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 the 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 year ended December 31, 2019, profit appropriation to statutory surplus fund for the Group's entities incorporated in the PRC was approximately RMB58,753. No appropriation to other reserve funds was made for any of the period presented.

2. Summary of significant accounting policies—continued

nn. Recent accounting pronouncements

Recently adopted accounting pronouncements

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 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 is 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 approach 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 modified retrospective transition approach through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients. 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. Refer to Note 16 for further details.

Recently issued accounting pronouncements not yet adopted

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 adoption of this standard is not expected to have a material impact on the Group's 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 adoption of this standard is not expected to have a material impact on the Group's consolidated financial statements.

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 year ended December 31, 2019.

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, 2019, majority 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 Chinese 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 sheet. JD Digits purchases the consumer financing receivables past due over certain agreed period of time from the Group at carrying values without recourse and also agrees 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 RMB33,601,008 as of December 31, 2019. 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 the PBOC or other Chinese foreign exchange regulatory bodies which require certain supporting documentation in order to process the remittance.

Foreign currency exchange rate risk

Since June 2010, the RMB has fluctuated against the US$, at times significantly and unpredictably. The depreciation of the RMB against the US$ was approximately 1% in 2019. It is

3. Concentration and risks—continued

Foreign currency exchange rate risk—continued

difficult to predict how market forces or the 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 RMB2,940,859 as of December 31, 2019.

5. Fair value measurement

As of December 31, 2019, 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:

		Fair value measurement at reporting date using		
Description	**Fair value as of December 31, 2019**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Assets:				
Cash equivalents				
Money market funds	3,590,620	3,590,620	—	—
Short-term investments				
Wealth management products	23,206,770	—	23,206,770	—
Investment securities				
Listed equity securities	21,417,104	21,417,104	—	—
Total assets	48,214,494	25,007,724	23,206,770	—

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 sheet 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.

5. **Fair value measurement—continued**

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, 2019, gross unrealized gains of RMB54,813 were recorded on wealth management products. No impairment charges were recorded for the year ended December 31, 2019.

Investment securities

Listed equity securities. The Group values its listed equity securities using quoted prices for the underlying securities in active markets, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1.

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

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Provision for Decline in Value	Fair Value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2019	18,329,057	5,008,610	(1,920,563)	—	21,417,104

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, 2019, the accumulated unrealized loss related to the investment in China Unicom was RMB688,141.

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 and 2019, the Group purchased additional shares with a total amount of RMB1,121,792. As of December 31, 2019, the accumulated unrealized gain related to the investment in Vipshop was RMB1,077,422.

In 2017, the Group invested in Farfetch.com Limited ("Farfetch") with a total consideration of RMB2,713,285, and this investment was accounted for 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 initial public offering ("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, 2019, the accumulated unrealized gain related to the investment in Farfetch was RMB159,589.

In 2018, the Group invested in ESR Cayman Limited ("ESR") with a total consideration of RMB1,952,325, and this investment was accounted for as equity investment measured at fair value using the Measurement Alternative as of December 31, 2018. On November 1, 2019, ESR completed IPO on The Stock Exchange of Hong Kong Limited. Concurrently with ESR's IPO, the Group sold approximately 3.4% of its investment in ESR and started to account for the remaining investment at

5. Fair value measurement—continued

Investment securities—continued

fair value. As of December 31, 2019, the accumulated unrealized gain related to the investment in ESR was RMB1,777,252.

Other financial instruments

The following are other financial instruments not measured at fair value in the consolidated balance sheet, but for which the fair value is estimated for disclosure purposes.

Time deposits. Time deposits with original maturities of three months 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 sheet. The fair value of the Group's time deposits is determined based on the prevailing interest rates in the market, which have been categorized as Level 2 in the fair value hierarchy. As of December 31, 2019, the fair value of time deposits classified as cash equivalents and short-term investments amounted to RMB11,189,560.

Unsecured senior notes. The carrying amounts of unsecured senior notes approximate to their fair values due to the fact that the related interest rates approximate to the 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, 2019, the fair value of unsecured senior notes amounted to RMB7,195,427.

Short-term receivables and payables. Accounts receivable, loan receivables and prepayments and other current assets are financial assets with carrying values that approximate to 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 to fair value due to their short-term nature. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

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 borrowings and long-term borrowings approximates to fair value. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

Nonrecourse securitization debt. The carrying amount of nonrecourse securitization debt approximates to its fair value due to the fact that the related interest rates approximate to the 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 in the fair value hierarchy.

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 in the fair value hierarchy due to the significance of unobservable inputs using company-specific information.

5. Fair value measurement—continued

Assets and liabilities measured at fair value on a nonrecurring basis—continued

Investment in equity investees. Investments in privately held companies and publicly traded companies included in investment in equity investees in the consolidated balance sheet 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, 2019, and the impairment charges of RMB1,612,139 was recorded in others, net in the consolidated statement of operations and comprehensive income for the year ended December 31, 2019. The valuation methodology used to estimate the fair value of investments in publicly traded companies and associated impairment charges are discussed in Note 6—"Investment in equity investees".

6. Investment in equity investees

Measurement Alternative and NAV practical expedient

Beginning on January 1, 2018, the Group adopted ASU 2016-01, the carrying amount of the Group's equity investments measured at fair value using the Measurement Alternative was RMB17,580,557 as of December 31, 2019, and the carrying amount of the Groups' investments under NAV practical expedient was RMB2,515,919 as of December 31, 2019. For the year ended December 31, 2019, the Group invested RMB6,198,126 in multiple private companies and private equity funds accounted for under the Measurement Alternative and NAV practical expedient, which may have operational synergy with the Group's core business. During the year ended December 31, 2019, investment consideration for the top two investees were RMB3,380,825 and RMB1,296,245, respectively. During the year ended December 31, 2019, fair value changes recognized for equity investments which were measured using the Measurement Alternative and NAV practical expedient were not significant.

The Group accounted for the investment in AiHuiShou International Co. Ltd., ("AiHuiShou") under the Measurement Alternative. In June 2019, the Group signed series of agreements with AiHuiShou, an online second-hand consumer electronics trading platform. The Group merged its Paipai Secondhand business into AiHuiShou with certain exclusive traffic resources for the next five years, and additionally invested RMB138,582 in cash in exchange for additional preferred share investment in AiHuiShou. Total consideration for the above investment in AiHuiShou was RMB3,380,825.

Equity method

As of December 31, 2019, the Group's investments accounted for under the equity method totaled RMB15,479,331, which mainly included the investment in Yonghui Superstores Co., Ltd, ("Yonghui") amounting to RMB5,508,062, the investment in Bitauto Holdings Limited ("Bitauto") amounting to RMB1,817,781, the investment in Dada Nexus Limited ("Dada") amounting to nil, the

6. Investment in equity investees—continued

Equity method—continued

investment in Tuniu Corporation ("Tuniu") amounting to RMB457,443, the investment in Jiangsu Five Star Appliance Co., Ltd. ("Jiangsu Five Star") amounting to RMB1,317,045, and investment in Yixin Group Limited ("Yixin") amounting to RMB1,206,741. 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 Group acquired additional ordinary shares from the existing shareholders of Yonghui, the Group'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 obtained significant influence by the rights to nominate two board members out of eleven. The Group received dividend of RMB120,338 for the year ended December 31, 2019, which have been recorded as a reduction to the carrying amount of investment in Yonghui.

Investment in Yonghui is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2019
	RMB'000
Carrying value of investment in Yonghui	5,508,062
Proportionate share of Yonghui's net tangible and intangible assets	2,249,239
Positive basis difference	3,258,823
Positive basis difference has been assigned to:	
Goodwill	1,989,726
Amortizable intangible assets(*)	1,692,129
Deferred tax liabilities	(423,032)
	3,258,823
Cumulative gains in equity interest in Yonghui	428,729

(*) As of December 31, 2019, the weighted average remaining life of the intangible assets not included in Yonghui's consolidated financial statements was 15 years.

As of December 31, 2019, the market value of the Group's investment in Yonghui was RMB8,248,601 based on its quoted closing price.

The proportionate share of Yonghui's net income recorded in "share of results of equity investees" in the consolidated statement of operations and comprehensive income was a gain of

6. Investment in equity investees—continued

Investment in Yonghui—continued

RMB164,068 for the year ended December 31, 2019. The following table includes the results of operations of Yonghui for the period presented.

	For the year ended December 31, 2019
	RMB'000
Revenues	81,367,849
Gross profit	18,019,934
Income from operations	2,024,586
Net income	1,774,888
Net income attributable to shareholders	2,000,842
Percentage of ownership in Yonghui	12%
Proportionate share of Yonghui's net income, before basis adjustments	232,580
Basis adjustments	(68,512)
Proportionate share of Yonghui's net income	164,068

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 JD Platform 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. As of December 31, 2019, the Group held approximately 24% of Bitauto's issued and outstanding shares.

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

	As of December 31, 2019
	RMB'000
Carrying value of investment in Bitauto(*)	1,817,781
Proportionate share of Bitauto's net tangible and intangible assets	2,347,924
Negative basis difference	(530,143)
Negative basis difference has been assigned to:	
Goodwill(*)	—
Amortizable intangible assets(**)	(530,143)
	(530,143)
Cumulative losses in equity interest in Bitauto	(3,910,223)

(*) In the first quarter of 2019, the Group conducted 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

6. Investment in equity investees—continued

Investment in Bitauto—continued

prospects of Bitauto, and concluded the decline in fair value of the investment was other-than-temporary. Accordingly, the Group recorded impairment charge of RMB488,453 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 March 31, 2019.

(**) As of December 31, 2019, the negative basis difference between carrying value of investment in Bitauto and proportionate share of Bitauto's net tangible and intangible assets was RMB530,143. This difference would not be amortized.

As of December 31, 2019, the market value of the Group's investment in Bitauto was approximately RMB1,793,871 based on its quoted closing price.

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.

The investment in Dada's ordinary shares is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2019
	RMB'000
Carrying value of investment in Dada's ordinary shares	—
Proportionate share of Dada's net tangible and intangible assets	(1,701,718)
Positive basis difference	1,701,718
Positive basis difference has been assigned to:	
Goodwill	1,605,891
Amortizable intangible assets(*)	127,770
Deferred tax liabilities	(31,943)
	1,701,718
Cumulative losses in equity interest in Dada's ordinary shares	(2,164,050)

(*) As of December 31, 2019, the weighted average remaining life of the intangible assets not included in Dada's consolidated financial statements was 6 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, 2019. 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

6. Investment in equity investees—continued

Investment in Dada—continued

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 investment in Dada includes the preferred shares investment, the Group should continue to recognize Dada's losses up to the Group's carrying value in the preferred shares investment. As of December 31, 2019, the Group recognized a cumulative loss of RMB1,373,385 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, 2019, the carrying amount of preferred shares of Dada was RMB2,376,775.

Investment in Tuniu

In December 2014, the Group acquired 7% equity interest in Tuniu with cash consideration of RMB305,930. Tuniu is a leading online leisure travel company in China that is listed on 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 rights, for a period of 5 years, to operate the leisure travel channels on the JD Platform, 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.

Investment in Tuniu is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2019
	RMB'000
Carrying value of investment in Tuniu(*)	457,443
Proportionate share of Tuniu's net tangible and intangible assets	633,295
Negative basis difference	(175,852)
Negative basis difference has been assigned to:	
Goodwill(*)	—
Amortizable intangible assets(**)	(175,852)
	(175,852)
Cumulative losses in equity interest in Tuniu	(2,036,702)

(*) In the second and fourth quarters of 2019, the Group conducted impairment assessments 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 impairment charges of RMB222,212 and RMB86,072 in the second and fourth quarters of 2019, respectively, to write down the carrying value of its investment in Tuniu to its fair value, based on quoted closing prices of Tuniu as of June 30, 2019 and December 31, 2019, respectively.

(**) As of December 31, 2019, the negative basis difference between carrying value of investment in Tuniu and proportionate share of Tuniu's net tangible and intangible assets was RMB175,852. This difference would not be amortized.

6. Investment in equity investees—continued

Investment in Tuniu—continued

As of December 31, 2019, the market value of the Group's investment in Tuniu was approximately RMB457,443 based on quoted closing price.

Investment in Jiangsu Five Star

In April 2019, the Group invested RMB1,274,257 with a combination of cash and assumption of the seller's debt as consideration to acquire ordinary shares of Jiangsu Five Star, a leading offline retailer of home appliances and consumer electronics, from its existing shareholder (the "Seller"), in exchange for 46% of Jiangsu Five Star's total equity interest. The Group also provided a fifteen months interest-bearing loan of RMB1,024,946 to the Seller and has the rights to purchase additional shares. Investment in Jiangsu Five Star is accounted for using the equity method as the Group obtained significant influence by the rights to nominate two board members out of five.

Investment in Jiangsu Five Star is accounted for using the equity method with the investment cost allocated as follows:

	As of April 29, 2019	As of December 31, 2019
	RMB'000	RMB'000
Carrying value of investment in Jiangsu Five Star	1,274,257	1,317,045
Proportionate share of Jiangsu Five Star's net tangible and intangible assets	432,310	480,438
Positive basis difference	841,947	836,607
Positive basis difference has been assigned to:		
Goodwill	586,325	586,325
Amortizable intangible assets(*)	208,840	206,069
Property(*)	131,990	127,641
Deferred tax liabilities	(85,208)	(83,428)
	841,947	836,607
Cumulative gains in equity interest in Jiangsu Five Star	—	42,788

(*) As of December 31, 2019, the weighted average remaining lives of the intangible assets and property were 19 years and 24 years, respectively.

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 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. 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 obtained significant influence by the rights

6. Investment in equity investees—continued

Investment in Yixin—continued

to nominate 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 investment cost allocated as follows：

	As of December 31, 2019
	RMB'000
Carrying value of investment in Yixin	1,206,741
Proportionate share of Yixin's net tangible and intangible assets	1,663,071
Negative basis difference	(456,330)
Cumulative gains in equity interest in Yixin	345,749

As of December 31, 2019, the negative basis difference between carrying value of investment in Yixin and proportionate share of Yixin's net tangible and intangible assets was RMB456,330. This difference would not be amortized. As of December 31, 2019, the market value of the Group's investment in Yixin was approximately RMB1,060,433 based on quoted closing price.

The Group summarizes the condensed financial information of the Group's equity investments under equity method as a group below in accordance with Rule 4-08 of Regulation S-X:

	For the year ended December 31, 2019
	RMB'000
Operating data:	
Revenues	128,942,238
Gross profit	34,540,510
Loss from operations	(534,006)
Net loss	(564,940)
Net loss attributable to shareholders	(1,235,224)

	As of December 31, 2019
	RMB'000
Balance sheet data:	
Current assets	117,073,881
Non-current assets	97,456,584
Current liabilities	94,482,219
Non-current liabilities	18,910,340
Redeemable stock	10,593,025
Non-controlling interests	380,510

The Group recorded its interests in Yonghui, Bitauto, Dada, Tuniu, Jiangsu Five Star and Yixin one quarter in arrears to enable the Group to provide its financial disclosure independent of the reporting schedule of these equity investees.

6. Investment in equity investees—continued

The Group performs impairment assessments 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 RMB1,612,139 was recorded in others, net in the consolidated statement of operations and comprehensive income for the year ended December 31, 2019. As of December 31, 2019, the accumulated impairment of the Group's Measurement Alternative investments was RMB2,458,382. Impairment charges in connection with the equity method investments of RMB796,737 were recorded in share of results of equity investees in the consolidated statement of operations and comprehensive income for the year ended December 31, 2019.

7. Accounts receivable, net

Accounts receivable, net consists of the following:

	As of December 31, 2019
	RMB'000
Online retail and online marketplace receivables(*)	2,392,737
Logistics receivables	3,073,641
Advertising receivables and others	1,042,211
Accounts receivable	6,508,589
Allowance for doubtful accounts	(318,001)
Accounts receivable, net	6,190,588

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

	For the year ended December 31, 2019
	RMB'000
Balance as of January 1, 2019	(178,393)
Additions	(213,395)
Write-off	73,787
Balance as of December 31, 2019	(318,001)

(*) For the accounts receivable in relation to consumer financing business, which is recorded in online retail and online marketplace receivables, 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 was provided.

8. Inventories, net

Inventories, net consist of the following:

	As of December 31, 2019
	RMB'000
Products	58,795,341
Packing materials and others	223,234
Inventories	59,018,575
Inventory valuation allowance	(1,086,419)
Inventories, net	57,932,156

9. Property, equipment and software, net

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

	As of December 31, 2019
	RMB'000
Electronic equipment	14,397,628
Building and building improvement	9,084,029
Logistics, warehouse and other heavy equipment	6,104,497
Vehicles	1,249,667
Leasehold improvement	2,100,120
Office equipment	388,841
Software	301,919
Total	33,626,701
Less: accumulated depreciation	(12,911,659)
Less: impairment	(60,971)
Net book value	20,654,071

Depreciation expenses were RMB4,673,362 for the year ended December 31, 2019.

10. Land use rights, net

Land use rights, net consist of the following:

	As of December 31, 2019
	RMB'000
Land use rights	11,380,221
Less: accumulated amortization	(488,479)
Net book value	10,891,742

Amortization expenses for land use rights were RMB222,143 for the year ended December 31, 2019.

10. Land use rights, net—continued

As of December 31, 2019, amortization expenses related to the land use rights for future periods are estimated to be as follows:

	For the year ending December 31,					
	2020	2021	2022	2023	2024	2025 and thereafter
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amortization expenses	228,572	228,572	228,572	228,572	228,572	9,748,882

11. Intangible assets, net

Intangible assets, net consist of the following:

	As of December 31, 2019				
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Impairment Amount	Net Carrying Amount
	Year	RMB'000	RMB'000	RMB'000	RMB'000
Strategic cooperation	5.0	6,075,289	(6,075,289)	—	—
Non-compete	8.0	2,467,005	(1,502,141)	—	964,864
Domain names and trademark	19.3	3,311,250	(633,360)	(27,124)	2,650,766
Technology and others	6.2	1,181,076	(541,671)	(145,001)	494,404
Total	9.3	13,034,620	(8,752,461)	(172,125)	4,110,034

Amortization expenses for intangible assets were RMB932,550 for the year ended December 31, 2019. The Group recorded no impairment charge for the year ended December 31, 2019.

As of December 31, 2019, amortization expenses related to the intangible assets for future periods are estimated to be as follows:

	For the year ending December 31,					
	2020	2021	2022	2023	2024	2025 and thereafter
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amortization expenses	633,717	625,153	460,885	339,733	229,864	1,820,682

12. Goodwill

The changes in the carrying amount of goodwill were as follows:

	JD Retail	New Businesses	Total
	RMB'000	RMB'000	RMB'000
Balance as of January 1, 2019			
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
Balance as of December 31, 2019			
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 no impairment charge for the year ended December 31, 2019.

13. Accounts payable

Accounts payable consists of the following:

	As of December 31, 2019
	RMB'000
Vendor payable	74,639,015
Shipping charges payable and others	15,789,367
Total	90,428,382

14. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of December 31, 2019
	RMB'000
Deposits	14,619,420
Salary and welfare	5,037,530
Rental fee payables	332,893
Internet data center fee	614,712
Liabilities for return allowances	425,135
Accrued administrative expenses	368,821
Professional fee	268,054
Vehicle fee	190,289
Interest payable	43,598
Payable related to employees' exercise of share-based awards	403,398
Others	2,352,330
Total	24,656,180

15. 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.

A summary of the Company's unsecured senior notes as of December 31, 2019 is as follows:

	As of December 31, 2019	Effective interest rate
	RMB'000	
US$500,000 3.125% notes due 2021	3,477,276	3.37%
US$500,000 3.875% notes due 2026	3,435,216	4.15%
Carrying value	6,912,492	
Unamortized discount and debt issuance costs	63,708	
Total principal amounts of unsecured senior notes	6,976,200	

15. Unsecured senior notes—continued

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 sheet. 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 rights of payment to all of the Company's existing and future obligations expressly subordinated in rights of payment to the notes and rank at least equal in rights 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, 2019, the principal of the unsecured senior notes of RMB3,488,100 and RMB3,488,100 will be due in 2021 and 2026, respectively, and the aggregate amounts repayable of RMB3,488,100 and RMB3,488,100 were within a period of more than one year but not exceeding two years and within a period of more than five years, respectively.

16. Leases

The Group has operating leases for warehouses, stores, office spaces, delivery centers and other corporate assets that the Group utilizes under lease arrangements.

A summary of supplemental information related to operating leases as of December 31, 2019 is as follows:

	As of December 31, 2019
	RMB'000
Operating lease ROU assets	8,643,597
Operating lease liabilities-current	3,193,480
Operating lease liabilities-non-current	5,523,164
Total operating lease liabilities	8,716,644
Weighted average remaining lease term	4.4 years
Weighted average discount rate	4.7%

16. Leases—continued

A summary of lease cost recognized in the Group's consolidated statement of operations and comprehensive income and supplemental cash flow information related to operating leases is as follows:

	For the year ended December 31, 2019
	RMB'000
Operating lease cost	3,377,389
Short-term lease cost	1,212,899
Total	4,590,288
Cash paid for operating leases	3,460,898

A summary of maturity of operating lease liabilities under the Group's non-cancelable operating leases as of December 31, 2019 is as follows:

	As of December 31, 2019
	RMB'000
2020	3,267,527
2021	2,187,920
2022	1,549,062
2023	1,085,230
2024	664,785
2025 and thereafter	926,265
Total lease payments	9,680,789
Less: interest	(964,145)
Present value of operating lease liabilities	8,716,644

As of December 31, 2019, the Group has no significant lease contract that has been entered into but not yet commenced.

17. Gain on sale of development properties

Gain on sale of development properties for the year ended December 31, 2019 was RMB3,884,709. The gain on sale of development properties was mainly derived from disposals of logistics facilities to JD Logistics Properties Core Fund, L.P. (the "Core Fund").

In 2018, the Group established JD Property to manage the expanding logistics facilities and other real estate properties. In February 2019, JD Property established Core Fund together with GIC Private Limited ("GIC"), Singapore's sovereign wealth fund, for a total committed capital of over RMB4.8 billion. The Group serves as the general partner and committed 20% of the total capital of Core Fund as a limited partner, and GIC committed the remaining 80%.

Furthermore, on February 27, 2019, the Group entered into definitive agreements with Core Fund, pursuant to which the Group will dispose of certain modern logistics facilities to Core Fund for a total gross asset value of RMB10.9 billion, and concurrently lease back these completed facilities for

17. Gain on sale of development properties—continued

operational purposes with an initial lease term of 5 to 6 years. The initial annual rent for the completed facilities is approximate RMB0.7 billion that increases by 3% per year throughout each 5 years period, and the rental rate will be adjusted based on the growth rate of fair market rent at the beginning of each 5 years period. Upon the expiry of the initial lease agreement, if the adjusted rental rate is acceptable, the Group may choose to renew the lease with the same terms and conditions. Core 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.

The investment committee of Core Fund, which comprises the representatives from the Group and GIC, will oversee the key operations of Core Fund. Given the control over Core Fund is shared between the Group and GIC, the Group does not consolidate Core Fund and investment in Core Fund is accounted for using the equity method as the Group obtained significant influence by the rights to nominate two members of the investment committee out of four. The lease back transaction is classified as an operating lease, and accounted for under ASC 842, the ROU assets and operating lease liabilities were recorded accordingly.

In the second half of 2019, the closing conditions for the asset group of completed logistics facilities were met and Core Fund signed definitive facility agreements with bank consortium to finance the purchase, therefore, the Group recorded a total disposal gain of RMB3,801,492 for the completed assets for the year ended December 31, 2019, which represents the excess of cash consideration of the net assets, including the consideration received and expected to receive, over the carrying value of the net assets disposed of as of the disposal date. For the remaining logistics facilities under construction, the Group will derecognize these assets upon its completion and satisfaction of the hand-over condition.

18. Interest income and interest expense

Interest income and interest expense consist of the following:

	For the year ended December 31, 2019
	RMB'000
Interest income:	
Interest income in relation to nonrecourse securitization debt charged to JD Digits	37,646
Interest income in relation to loans provided to JD Digits	40,628
Interest income in relation to bank deposits, wealth management products and others	1,707,298
Total	1,785,572
Interest expense:	
Interest expense in relation to nonrecourse securitization debt	(37,646)
Interest expense in relation to unsecured senior notes, bank borrowings and others	(687,364)
Total	(725,010)

19. Others, net

Others, net consist of the following:

	For the year ended December 31, 2019
	RMB'000
Gain from business and investment disposals	1,199,407
Government financial incentives	2,222,223
Impairment of investments	(1,954,031)
Foreign exchange gains, net	124,070
Gains from fair value change of long-term investments	3,495,709
Others	287,931
Total	5,375,309

Government financial incentives represent rewards provided by the relevant PRC municipal government authorities to the Group for business achievements made by the Group. Government financial incentives are recognized in others, net in the consolidated statement of operations and comprehensive income when the government financial incentives are received and no further conditions need to be met. 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.

20. Taxation

a) *Value added tax ("VAT")*

The Group is subject to statutory VAT rate of 10% from May 1, 2018 to March 31, 2019 and 9% from April 1, 2019 for revenues from sales of audio, video products and books in the PRC. The Group is subject to statutory VAT rate of 16% from May 1, 2018 to March 31, 2019 and 13% from April 1, 2019 for sales of other products in the PRC. The Group is exempted from VAT for revenues from sales of books from January 1, 2014 to December 31, 2020 in comply with relevant VAT regulations of the PRC.

The Group is subject to VAT at the rate of 6% or 10%/9% (10% from May 1, 2018 to March 31, 2019 and 9% from April 1, 2019) 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, which is reduced by 50% from July 1, 2019 to December 31, 2024.

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 gains. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

20. Taxation—continued

b) *Income tax—continued*

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in the 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 their taxable income generated from operations in Indonesia.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the Company's 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 year of assessment 2017/2018. Commencing from the year of assessment 2018/2019, the first Hong Kong dollars ("HK$") 2 million of profits earned by its 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, the Company is exempted from the Hong Kong income tax on its foreign-derived income. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

China

Under the PRC Enterprise Income Tax Law (the "EIT Law"), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. Most of the Group's PRC subsidiaries and the consolidated VIEs are subject to the statutory income tax rate of 25%.

The EIT Law and its implementation rules permit certain High and New Technologies Enterprises, or HNTEs, to enjoy a reduced 15% enterprise income tax rate subject to these HNTEs meeting certain qualification criteria. In addition, the relevant EIT laws and regulations also provide that entities recognized as Software Enterprises are able to enjoy a tax holiday consisting of a two-year-exemption commencing from their first profitable calendar year and a 50% reduction in ordinary tax rate for the following three calendar years. 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 HNTE and enjoys a preferential income tax rate of 15%. The privileges cannot be applied simultaneously. Beijing Shangke applied the privilege of "software enterprise" and enjoyed a preferential income tax rate of 12.5% in 2019.

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 Catalog of Encouraged Industries in Western Regions (initially effective through the end of 2010 and further extended to 2020), or the Western Regions Catalog, subject to certain general restrictions described in the EIT Law and the related regulations. Several entities of the Group are qualified as the enterprises within the Catalog of Encouraged Industries in Western Regions and enjoyed 15% preferential income tax rate.

20. Taxation—continued

b) *Income tax—continued*

China—continued

According to the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are 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 EIT 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 the 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 as a resident enterprise for the PRC tax purposes.

The EIT law also imposes a withholding income tax of 10% on dividends distributed by a Foreign Investment Enterprise ("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.

20. Taxation—continued

b) *Income tax—continued*

Withholding tax on undistributed dividends—continued

The components of income before tax are as follows:

	For the year ended December 31, 2019
	RMB'000
Income before tax	
Income from China operations	14,177,105
Loss from non-China operations	(484,573)
Total income before tax	13,692,532
Income tax expenses applicable to China operations	
Current income tax expenses	(1,269,323)
Deferred tax expenses	(533,117)
Subtotal income tax expenses applicable to China operations	(1,802,440)
Total income tax expenses	(1,802,440)

Reconciliation of difference between the PRC statutory income tax rate and the Group's effective income tax rate for the year ended December 31, 2019 is as follows:

	For the year ended December 31, 2019
Statutory income tax rate	25.0%
Tax effect of preferential tax rates and tax holiday	(8.1)%
Tax effect of tax-exempt entities	3.7%
Effect on tax rates in different tax jurisdiction	(3.9)%
Tax effect of non-deductible expenses	5.7%
Tax effect of non-taxable income	(1.0)%
Tax effect of Super Deduction and others	(13.2)%
Changes in valuation allowance	5.0%
Effective tax rates	13.2%

The following table sets forth the effect of tax holiday:

	For the year ended December 31, 2019
	RMB'000
Tax holiday effect	1,115,598
Effect of tax holiday on basic net income per share (RMB)	0.38
Effect of tax holiday on diluted net income per share (RMB)	0.38

20. Taxation—continued

c) *Deferred tax assets and deferred tax liabilities*

	As of December 31, 2019
	RMB'000
Deferred tax assets	
—Net operating loss carry forwards	2,775,074
—Deferred revenues	137,128
—Inventory valuation allowance	271,605
—Allowance for doubtful accounts	214,932
—Unrealized fair value losses for certain investments	356,259
Less: valuation allowance	(3,674,442)
Net deferred tax assets	80,556
Deferred tax liabilities	
—Intangible assets arisen from business combination	748,691
—Accelerated tax depreciation and others	590,297
Total deferred tax liabilities	1,338,988

As of December 31, 2019, the accumulated net operating loss of RMB5,413,758 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 RMB8,863,674 mainly arose from the Company's subsidiaries and the consolidated VIEs established in the PRC and Indonesia, which can be carried forward to offset future taxable income and will expire during the period from 2020 to 2024.

A valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group evaluates a variety of factors including the Group's entities' operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

The Group has incurred net accumulated operating losses for income tax purposes since its inception. The Group believes that it is more likely than not that these net accumulated operating losses 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's amount of valuation allowance offset in deferred tax assets as of December 31, 2019 was RMB3,674,442.

The movements of valuation allowance of deferred tax assets are as follows:

	For the year ended December 31, 2019
	RMB'000
Balance as of January 1, 2019	2,996,294
Additions	7,635,196
Reversals	(6,957,048)
Balance as of December 31, 2019	3,674,442

21. 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 (RMB15,973,564) 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 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 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 Jingdong Express Series A Preferred Shares, where applicable, to the redemption value from the issuance date to the earliest redemption date.

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 Jingdong Express Series A Preferred Shares. Jingdong Express Series A 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 determined that there was no embedded beneficial conversion feature attributable to 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 Jingdong Express Series A Preferred Shares are as follows:

Dividend Rights

As regards dividends, Jingdong Express Series A Preferred Shares shall rank pari passu with the ordinary shares and the holders of Jingdong Express Series A Preferred Shares shall be entitled to the same amount of dividends as the 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.

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 Jingdong Express Series A Preferred Shares and the holders of ordinary shares shall vote together and not as a separate class.

21. Convertible redeemable non-controlling interests—continued

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 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 Jingdong Express Series A Preferred Shares original issuance date, and prior to the consummation of a Qualified IPO, each holder of Jingdong Express Series A Preferred Shares shall have the rights at any time to require and demand Jingdong Express to redeem all or any portion of 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) 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 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.

Conversion Rights

Each Jingdong Express Series A Preferred Shares shall be convertible, at the option of the holder of 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 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, 2019, 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 holders of Jingdong Express Series A Preferred Shares holding at least 50% of Jingdong Express Series A Preferred Shares in issue elect to convert Jingdong Express Series A Preferred Shares.

21. Convertible redeemable non-controlling interests—continued

Conversion Rights—continued

The convertible redeemable non-controlling interests for the year ended December 31, 2019 are summarized as follows:

	Number of shares	Amount
		RMB'000
Balance as of January 1, 2019	1,004,000,000	15,961,284
Net income attributable to mezzanine equity classified as non-controlling interests shareholders		3,100
Balance as of December 31, 2019	1,004,000,000	15,964,384

22. Financing for JD Health

In May 2019, the Group's healthcare subsidiary, JD Health International, Inc. ("JD Health") entered into definitive agreements for the non-redeemable series A preferred share financing ("JD Health Series A Preferred Shares") with a group of third-party investors. The total amount of financing raised was US$931 million, representing 13.5% of the ownership of JD Health on a fully diluted basis.

The Group determined that JD Health Series A Preferred Shares should be classified as non-controlling interests upon its issuance since they were not redeemable by the holders. As of December 31, 2019, among the proceeds received, RMB1,045,400 was recorded as non-controlling interests and RMB5,232,343 was recorded as additional paid-in capital.

23. Ordinary shares

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

In March 2014, the Company issued 351,678,637 ordinary shares to Huang River Investment Limited, a wholly owned subsidiary of Tencent Holdings Limited ("Tencent"), in connection with Tencent Transaction (Note 28). 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.

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.

In May 2019, the Company issued 8,127,302 Class A ordinary shares to Huang River Investment Limited (Note 28).

The ordinary shares reserved for future exercise of the RSUs and share options was 137,075,214 as of December 31, 2019.

24. Share repurchase program

In December 2018, the Company's Board of Directors authorized a share repurchase program ("2018 share repurchase program") under which the Company may repurchase up to US$1,000,000 worth of its American depositary shares ("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.

Under the 2018 share repurchase program, as of December 31, 2019, the Company repurchased 2,332,048 ADSs. For the year ended December 31, 2019, the Company repurchased 935,848 ADSs for US$19,101 (RMB131,010) on the open market, at a weighted average price of US$20.41 per ADS.

The Company accounts for the repurchased ordinary shares under the cost method and includes such treasury stock as a component of the shareholders' equity.

25. Other comprehensive income

Changes in the composition of accumulated other comprehensive income attributable to ordinary shareholders for the year ended December 31, 2019 are as follows:

	Foreign currency translation adjustments	Net unrealized gains on available-for-sale securities	Total
	RMB'000	RMB'000	RMB'000
Balance as of January 1, 2019	3,358,469	627	3,359,096
Other comprehensive income	749,865	54,186	804,051
Balance as of December 31, 2019	4,108,334	54,813	4,163,147

The income tax effects related to the accumulated other comprehensive income were insignificant for the period presented.

26. Share-based compensation

For the year ended December 31, 2019, total share-based compensation expenses recognized were RMB3,694,955. The following table sets forth the allocation of share-based compensation expenses:

	For the year ended December 31, 2019
	RMB'000
Cost of revenues	82,243
Fulfillment	440,167
Marketing	258,860
Research and development	1,340,317
General and administrative	1,573,368
Total	3,694,955

26. Share-based compensation—continued

Share incentive plan

The Company granted share-based awards to eligible employees and non-employees pursuant to a share incentive plan entitled "Share Incentive Plan", which was adopted on November 13, 2014 and governed the terms of the awards.

As of December 31, 2019, the Group had reserved 141,383,893 ordinary shares available to be granted as share-based awards under the Share Incentive Plan.

(1) Employee and non-employee awards

The RSUs and share options are generally scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of the Plans, shall be vested upon the end of the calendar year in which the awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years. Starting from the year ended December 31, 2016, certain awards had multiple tranches with tiered vesting commencement dates from 2016 to 2025, and each of the tranches is subject to a six-year vesting schedule.

Upon the reorganization of JD Digits, the employees' status of JD Digits changed from the employees of the Company's subsidiary to non-employees 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 were insignificant for the period presented.

RSUs

a) Service-based RSUs

A summary of activities of the service-based RSUs for the year ended December 31, 2019 is presented as follows:

	Number of RSUs	Weighted-Average Grant-Date Fair Value
		US$
Unvested as of January 1, 2019	118,496,092	15.58
Granted	33,202,744	14.29
Vested	(20,423,568)	14.96
Forfeited or canceled	(30,444,064)	15.36
Unvested as of December 31, 2019	100,831,204	15.35

As of December 31, 2019, 4,478,140 outstanding service-based RSUs were held by non-employees including employees of JD Digits.

For the year ended December 31, 2019, total share-based compensation expenses recognized by the Group for the service-based RSUs granted was RMB2,958,847.

26. Share-based compensation—continued

(1) Employee and non-employee awards—continued

RSUs—continued

a) Service-based RSUs—continued

As of December 31, 2019, there were RMB6,000,108 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 4.7 years.

The total fair value and intrinsic value of service-based RSUs vested was US$312,962 (RMB2,125,609) during the year ended December 31, 2019.

b) Performance-based RSUs

A summary of activities of the performance-based RSUs for the year ended December 31, 2019 is presented as follows:

	Number of RSUs	Weighted-Average Grant-Date Fair Value
		US$
Unvested as of January 1, 2019	79,546	6.33
Granted	—	—
Vested	(39,772)	6.33
Forfeited or canceled	(19,888)	6.33
Unvested as of December 31, 2019	19,886	6.33

For the year ended December 31, 2019, total share-based compensation expenses recognized by the Group for the performance-based RSUs granted were insignificant for the period presented.

As of December 31, 2019, there were RMB76 of unrecognized share-based compensation expenses related to the performance-based RSUs granted. The expenses are expected to be recognized over a weighted-average period of 1.1 years.

The total fair value and intrinsic value of the performance-based RSUs vested was US$494 (RMB3,312) during the year ended December 31, 2019.

26. Share-based compensation—continued

(1) Employee and non-employee awards—continued

Share options

A summary of activities of the service-based share options for the year ended December 31, 2019 is presented as follows:

	Number of Share Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
		US$	Year	US$'000
Outstanding as of January 1, 2019	15,747,736	6.55	5.3	72,658
Exercised	(3,299,962)	5.72		
Forfeited or canceled	(2,223,650)	8.52		
Outstanding as of December 31, 2019	10,224,124	6.39	4.3	114,720
Vested and expected to vest as of December 31, 2019	10,038,113	6.29	4.2	113,679
Exercisable as of December 31, 2019	9,129,940	5.72	4.1	108,594

As of December 31, 2019, 1,072,212 outstanding share options were held by non-employees mainly including employees of JD Digits.

There was no option granted during the year ended December 31, 2019.

The total intrinsic value of options exercised during the year ended December 31, 2019 was US$31,762 (RMB219,918). 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 year ended December 31, 2019 was US$16,201 (RMB112,153). Cash receivable from the exercises of share options of the Company as of December 31, 2019 was US$3,127 (RMB21,813).

For the year ended December 31, 2019, total share-based compensation expenses recognized by the Group for the share options granted were RMB3,837. As of December 31, 2019, there were RMB15,777 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 2.4 years.

(2) Founder awards

In May 2015, the board of directors of the Company approved a 10-year compensation plan for Mr. Richard Qiangdong Liu (Mr. Liu), the Founder. Under this plan, Mr. Liu will receive RMB0.001 per year in cash salary and zero cash bonus during the 10-year period. Mr. 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.

26. Share-based compensation—continued

(2) Founder awards—continued

For the year ended December 31, 2019, total share-based compensation expenses recognized for the Founder's share options granted were RMB134,367.

As of December 31, 2019, there were RMB302,380 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 5.4 years.

(3) Share-based compensation of subsidiaries

In April 2018, JD Logistics granted share-based awards ("JD Logistics Plan") to eligible employees to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of JD Logistics. The JD Logistics Plan consists of share options, RSU and other types of awards. JD Logistics granted 83,476,500 share options of Jingdong Express to its employees for the year ended December 31, 2019. The weighted average grant date fair value of options granted for the year ended December 31, 2019 was US$1.67 per share. For the year ended December 31, 2019, total share-based compensation expenses for the share options granted under JD Logistics Plan were RMB572,109. As of December 31, 2019, there were RMB1,228,262 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 5.6 years.

27. Net income per share

Basic and diluted net income per share for the year presented is calculated as follows:

	For the year ended December 31, 2019
	RMB'000
Numerator:	
Net income attributable to ordinary shareholders	12,184,155
Denominator:	
Weighted average number of shares—basic	2,912,637,241
Adjustments for dilutive options and RSUs	54,684,562
Weighted average number of shares—diluted	2,967,321,803
Basic net income per share attributable to ordinary shareholders (RMB)	4.18
Diluted net income per share attributable to ordinary shareholders (RMB)	4.11

Generally, basic net income per share is computed using the weighted average number of ordinary shares outstanding during the respective year. Diluted net income 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 income per share in the period presented where their inclusion would be anti-dilutive include RSUs and options to purchase ordinary shares of 149,343,638 for the year ended December 31, 2019 on a weighted average basis. For the year ended December 31, 2019, 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 income per share.

28. Related party transactions

The table below sets forth the major related parties and their relationships with the Group as of December 31, 2019:

Name of related parties	Relationship with the Group
Tencent and its subsidiaries ("Tencent Group")	A shareholder 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
Core Fund	An investee of the Group
AiHuiShou and its subsidiaries ("AiHuiShou Group")	An investee of the Group

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

Transactions	For the year ended December 31, 2019
	RMB'000
Revenues:	
Commission from cooperation on advertising business with Tencent Group(*)	287,926
Services provided and products sold to Tencent Group(*)	398,700
Services provided and products sold to Dada Group	132,585
Services provided and products sold to AiHuiShou Group	349,257
Traffic support, marketing and promotion services provided to Bitauto Group	606,593
Traffic support, marketing and promotion services provided to Tuniu Group	131,621
Services provided and products sold to JD Digits	342,270
Operating expenses:	
Services received and purchases from Tencent Group(*)	2,222,196
Services received from Dada Group	1,565,470
Payment processing and other services received from JD Digits	4,980,748
Lease and property management services received from Core Fund	476,001
Services received from AiHuiShou Group	10,467
Other income:	
Income from non-compete agreement with Dada Group	82,123
Interest income from loans provided to JD Digits	40,632
Interest income from loans provided to Core Fund	75,496

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

On May 10, 2019, the Company renewed the strategic cooperation agreement with Tencent, for a period of three years starting from May 27, 2019. Tencent continued to offer the Group prominent level 1 and level 2 access points on its Weixin platform to provide traffic support, and the two parties also intend to continue to cooperate in a number of areas including communications, advertising and membership services, among others. As part of the total consideration, the Company agreed to issue to Tencent a certain number of the Company's Class A ordinary shares for a consideration of

28. Related party transactions—continued

approximately US$250 million at prevailing market prices at certain pre-determined dates during the three-year period, of which 8,127,302 Class A ordinary shares were issued in May 2019.

Revenues from related parties, excluding those from the major related parties as stated above, represented approximately 0.13% of total net revenues of the Group for the year ended December 31, 2019. Transactions with related parties included in operating expenses, excluding those with the major related parties as stated above, represented 0.20% of total operating expenses of the Group for the year ended December 31, 2019.

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

	As of December 31, 2019
	RMB'000
Due from Tencent Group	1,128,102
Due from JD Digits	
Loans provided to JD Digits(**)	365,089
Other receivables from JD Digits	1,363,479
Due from Core Fund	
Loans provided to Core Fund(**)	579,118
Other receivables from Core Fund	569,832
Total	4,005,620
Due to Tuniu Group	(2,133)
Due to Dada Group	(208,123)
Due to AiHuiShou Group	(17,504)
Total	(227,760)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Bitauto Group	(164,528)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Tuniu Group	(82,939)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Dada Group	(207,096)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to AiHuiShou Group	(1,899,099)
Total	(2,353,662)
Other liabilities in relation to non-compete obligation to Dada Group	(276,976)
Total	(276,976)

(**) In relation to the loans provided to JD Digits and Core Fund, the Group charged JD Digits and Core Fund based on fair market interest rate, and cash flows resulted from the loans were presented within investing activities in the consolidated statement of cash flows.

As of December 31, 2019, the Group recorded amount due from related parties other than the major related parties as stated above of RMB228,447, which represented approximately 2.22% of the Group's total accounts receivable, net and prepayments and other current assets, respectively. As of December 31, 2019, 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 other than the major related parties as stated above of RMB279,769, which

28. Related party transactions—continued

represented approximately 0.20% of the Group's total accounts payable, advance from customers, accrued expenses and other current liabilities, deferred revenues and other non-current liabilities, respectively.

(c) Other information related to related party transactions:

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 was RMB189,007 for the year ended December 31, 2019. In connection with the consumer financing business, JD Digits charged the Group RMB1,284,955 for the year ended December 31, 2019 for payment processing services provided to the Group, which are included in "payment processing and other services from JD Digits" stated above.

The Group also transferred certain financial assets to JD Digits with or without recourse at fair value. The accounts receivable transferred without recourse was RMB24,585,577 for the year ended December 31, 2019 was derecognized.

Mr. Richard Qiangdong Liu, the Group's Chairman of the board and the 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 the period presented.

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

29. Segment reporting

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 revenues 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.

29. Segment reporting—continued

The table below provides a summary of the Group's operating segment results for the year ended December 31, 2019.

	For the year ended December 31, 2019
	RMB'000
Net revenues:	
JD Retail	552,245,141
New Businesses	23,932,278
Inter-segment(*)	(435,364)
Total segment net revenues	575,742,055
Unallocated items	1,146,429
Total consolidated net revenues	576,888,484
Operating income/(loss):	
JD Retail	13,775,339
New Businesses	(1,022,281)
Including: gain on sale of development properties (note 17)	*3,884,709*
Total segment operating income	12,753,058
Unallocated items(**)	(3,758,178)
Total consolidated operating income	8,994,880
Total other income	4,697,652
Income before tax	13,692,532

(*) The inter-segment eliminations mainly consist of services provided by JD Retail to overseas business, and certain services provided by JD Logistics to the vendors of JD Retail, which the Group records as a deduction of cost of revenues at the consolidated level.

(**) A summary of unallocated items for the year presented is as follows：

	For the year ended December 31, 2019
	RMB'000
Share-based compensation	(3,694,955)
Amortization of intangible assets resulting from assets and business acquisitions	(885,385)
Effects of business cooperation arrangements	822,162
Total	(3,758,178)

30. 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 and the consolidated VIEs 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 RMB5,694,240 for the year ended December 31, 2019.

31. Lines of credit and loan facilities

As of December 31, 2019, the Group had agreements with China commercial banks for unsecured revolving lines of credit, and increased its revolving lines of credit to RMB75,337,037. The Group was in compliance with the financial covenants, if any, under those lines of credit as of December 31, 2019. As of December 31, 2019, under the lines of credit, the Group had RMB23,297,902 used for the issuance of bank acceptance and RMB995,014 used for the bank guarantee.

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 London Interbank Offered Rate. The use of proceeds of the facilities was intended for general corporate purposes. In June 2018, the Group drew down US$450,000 under the facility commitment, and the borrowings will be due in 2022, which were recorded in long-term borrowings in the consolidated balance sheet. As of December 31, 2019, 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 expire one month prior to the final maturity date, which is sixty months after the date of this credit facilities agreement. As of December 31, 2019, the aggregate amounts repayable within a period of more than two years but not exceeding five years was US$450,000.

32. Commitments and contingencies

Operating lease commitments for offices and fulfillment infrastructures

The Group leases offices and fulfillment infrastructures under non-cancelable operating lease agreements. Future minimum lease payments under these non-cancelable operating lease agreements with initial terms longer than twelve months are disclosed as maturity of lease liabilities in Note 16.

Commitments for internet data center (IDC) service fee

The Group entered into non-cancelable IDC service agreements. The related expenses was RMB2,493,830 for the year ended December 31, 2019 and was charged to the consolidated statement of operations and comprehensive income when incurred.

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

	As of December 31, 2019
	RMB'000
2020	1,495,899
2021	1,248,228
2022	1,137,632
2023	753,652
2024	637,341
2025 and thereafter	749,163
	6,021,915

32. Commitments and contingencies—continued

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 RMB7,093,075 as of December 31, 2019. 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 15 and Note 31, 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, 2019.

33. 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 and the consolidated VIEs incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with the 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.

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

33. Restricted net assets—continued

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 and the consolidated VIEs 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 the PRC GAAP, totaling approximately RMB24,189,454 as of December 31, 2019; therefore in accordance with Rules 4-08 (e) (3) of Regulation S-X, the condensed parent company only financial statements as of December 31, 2019 and for the year ended December 31, 2019 are disclosed in Note 36.

34. Subsequent events

Public offering of unsecured senior notes

In January 2020, the Company issued fixed rate unsecured senior notes with two maturity dates for an aggregate principal amount of US$1,000,000. The public offering consists of US$700,000 of 3.375% notes due 2030 and US$300,000 of 4.125% notes due 2050. The notes are listed on the Singapore Stock Exchange. The Company received net proceeds from the offering of US$988,266, after deducting underwriting discounts and commissions and offering expenses. The Company intends to use the net proceeds from the offering for general corporate purposes and refinancing.

Share repurchase program

In March 2020, the Company's Board of Directors authorized a share repurchase program ("2020 share repurchase program") under which the Company may repurchase up to US$2,000,000 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. Under 2020 share repurchase program, as of the date of this report, the Company had repurchased approximately 1,191,370 ADSs for approximately US$44,132.

Drew down of Syndicated loan

As disclosed in Note 31, the Group entered into a 5-year US$1,000,000 term and revolving credit facilities agreement with a group of 24 arrangers in December 2017. In April 2020, the Group

34. Subsequent events—continued

Drew down of Syndicated loan—continued

drew down US$550,000 under the facility commitment. The use of proceeds of the facilities was intended for general corporate purposes.

Private placement notes

In February, March and May 2020, Jingdong Century, a subsidiary of the Company, issued fixed rate private placement notes with three maturity dates for an aggregate principal amount of RMB7,000,000. The private placement consists of RMB3,000,000 of 2.65% notes due April 27, 2020, RMB2,000,000 of 2.75% notes due October 30, 2020 and RMB2,000,000 of 1.75% notes due August 18, 2020. The notes are listed on the inter-bank bond market of China. The Group intends to use the proceeds from the private placement for general corporate purposes.

Potential impact of novel coronavirus ("COVID-19")

From late January 2020, the COVID-19 was rapidly evolving in China and globally. Since then, the business and transportation disruptions in China have caused adverse impacts to the Group's operations and led to incremental costs, in particular, relating to the Group's retail and logistics business. Demands for large-ticket items, durable goods and discretionary products have also been negatively affected by the COVID-19 outbreak. The Group's results of operation and consolidated financial position of 2020 will be adversely affected to a certain extent, which will depend on the future developments of the outbreak, including new development concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable.

Financing for JD Industrial Technology, Inc.

On April 24, 2020, the Group entered into definitive agreements for the non-redeemable series A preferred share financing of JD Industrial Technology, Inc., a subsidiary of the Company, with investors including GGV Capital, Sequoia Capital China and CPE, among others. The total amount expected to be raised is US$230 million, representing 10.7% of equity interest of JD Industrial Technology, Inc. on a fully diluted basis, subject to closing conditions. JD Industrial Technology, Inc., operates an e-commerce platform that specializes in industrial maintenance, repair and operations products and services, and provides intelligent purchasing platform and supply chain solutions for corporate customers.

Issuance of Class A Ordinary Shares to Tencent

As disclosed in Note 28, on May 27, 2020, the Company issued 2,938,584 Class A ordinary shares to Huang River Investment Limited, as part of the total consideration of the strategic cooperation agreement with Tencent for the three-year period starting from May 27, 2019.

Acquisitions

Subsequent to December 31, 2019, the Group has signed definitive agreements to acquire the controlling equity interests in four companies in an aggregate consideration of approximately RMB1.7 billion. These four companies are principally engaged in the businesses of pharmaceutical, retail, e-commerce and real estate, respectively.

35. Parent company only condensed financial information

The Company performed a test on the restricted net assets of the consolidated subsidiaries and VIEs in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3),

35. Parent company only condensed financial information—continued

"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 period presented. Certain information and footnote disclosures generally included in the 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, 2019, 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.

35. Parent company only condensed financial information—continued

Condensed Balance Sheet

	As of December 31, 2019	
	RMB'000	US$'000 Note 2(f)
ASSETS		
Current assets:		
Cash and cash equivalents	6,575,639	944,531
Short term investments	767	110
Prepayments and other current assets	2,408	346
Amount due from related parties	3,186,818	457,758
Total current assets	9,765,632	1,402,745
Non-current assets:		
Investments in subsidiaries and consolidated VIEs	81,301,020	11,678,161
Investment securities	13,192	1,895
Intangible assets, net	965,165	138,637
Other non-current assets	106,030	15,230
Total non-current assets	82,385,407	11,833,923
Total assets	92,151,039	13,236,668
LIABILITIES		
Current liabilities:		
Accounts payable	140	20
Taxes payable	4,497	646
Accrued expenses and other liabilities	238,650	34,279
Total current liabilities	243,287	34,945
Non-current liabilities:		
Long-term borrowings	3,139,290	450,931
Unsecured senior notes	6,912,492	992,917
Total non-current liabilities	10,051,782	1,443,848
Total liabilities	10,295,069	1,478,793
SHAREHOLDERS' EQUITY:		
Ordinary shares (US$0.00002 par value; 100,000,000,000 shares authorized; 2,520,271,138 Class A ordinary shares issued and 2,480,575,334 outstanding, 453,672,011 Class B ordinary shares issued and 443,739,929 outstanding as of December 31, 2019)	381	55
Additional paid-in capital	90,676,122	13,024,810
Statutory reserves	1,459,165	209,596
Treasury stock	(2,530,166)	(363,436)
Accumulated deficit	(11,912,679)	(1,711,149)
Accumulated other comprehensive income	4,163,147	597,999
Total shareholders' equity	81,855,970	11,757,875
Total liabilities and shareholders' equity	92,151,039	13,236,668

35. Parent company only condensed financial information—continued

Condensed Statement of Operations and Comprehensive Income

	For the year ended December 31, 2019	
	RMB'000	US$'000 Note 2(f)
Operating expenses		
Marketing	(301,495)	(43,307)
General and administrative	(469,688)	(67,466)
Loss from operations	(771,183)	(110,773)
Share of income of subsidiaries and consolidated VIEs	12,575,644	1,806,378
Interest income	163,974	23,553
Interest expense	(376,152)	(54,031)
Others, net	591,872	85,017
Net income	12,184,155	1,750,144
Net income attributable to ordinary shareholders	12,184,155	1,750,144
Net income	12,184,155	1,750,144
Other comprehensive income:		
Foreign currency translation adjustments	749,865	107,711
Net change in unrealized gains on available-for-sale securities:		
Unrealized gains, net of tax	312,723	44,920
Reclassification adjustment for gains recorded in net income, net of tax	(258,537)	(37,137)
Net unrealized gains on available-for-sale securities	54,186	7,783
Total other comprehensive income	804,051	115,494
Total comprehensive income	12,988,206	1,865,638

Condensed Statement of Cash Flows

	For the year ended December 31, 2019	
	RMB'000	US$'000 Note 2(f)
Net cash provided by operating activities	697,927	100,251
Cash flows from investing activities:		
Cash received from subsidiaries and consolidated VIEs	5,202,711	747,323
Loans provided to JD Digits	(1,631,530)	(234,355)
Net cash provided by investing activities	3,571,181	512,968
Cash flows from financing activities:		
Repurchase of ordinary shares	(131,010)	(18,818)
Proceeds from issuance of ordinary shares pursuant to share-based awards	112,153	16,110
Net cash used in financing activities	(18,857)	(2,708)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	128,592	18,470
Net increase in cash, cash equivalents, and restricted cash	4,378,843	628,981
Cash, cash equivalents, and restricted cash at beginning of the year	2,196,796	315,550
Cash, cash equivalents, and restricted cash at end of the year	6,575,639	944,531

35. Parent company only condensed financial information—continued

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 and consolidated VIEs.

For the Company only condensed financial information, the Company records its investments in subsidiaries and the consolidated VIEs 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 sheet as "Investments in subsidiaries and consolidated VIEs" and shares in the subsidiaries and consolidated VIEs' financial results are presented as "Share of income of subsidiaries and consolidated VIEs" in the condensed statement of operations and comprehensive income. The parent company only condensed financial information should be read in conjunction with the Group's consolidated financial statements.

36. Dividends

No Dividends have been paid or declared by the Company during the year ended December 31, 2019.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Group in respect of any period subsequent to December 31, 2019 and up to the date of this report. Except as disclosed elsewhere in this report, no dividends or distributions have been declared or made by the Company in respect of any period subsequent to December 31, 2019.

The following is the text of a report set out on pages IC-1 to IC-2, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. The information set out below is the unaudited interim condensed consolidated financial statements of the Company for the three months ended March 31, 2020, and does not form part of the Accountants' Report from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as set out in Appendix IB to this prospectus, and is included herein for information purpose only.

Deloitte. 德勤

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF JD.COM, INC.
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial statements of JD.com, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages IC-3 to IC-65, which comprise the condensed consolidated balance sheet of the Group as of March 31, 2020 and the related condensed consolidated statement of operations and comprehensive income, condensed consolidated statement of changes in shareholders' equity and condensed consolidated statement of cash flows of the Group for the three-month period then ended, and certain explanatory notes. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") issued by the Hong Kong Institute of Certified Public Accountants. A review of these interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with U.S. GAAP.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
June 8, 2020

Unaudited Interim Condensed Consolidated Balance Sheets

	Notes	As of		
		December 31, 2019	March 31, 2020	
		RMB'000	RMB'000	US$'000 Note 2(f)
ASSETS				
Current assets				
Cash and cash equivalents	2(g)	36,971,420	43,529,407	6,147,527
Restricted cash	4	2,940,859	2,246,361	317,247
Short-term investments	2(i)	24,602,777	29,364,492	4,147,059
Accounts receivable, net	7	6,190,588	8,264,122	1,167,117
Advance to suppliers		593,130	1,565,622	221,108
Inventories, net	8	57,932,156	50,584,695	7,143,924
Loan receivables, net	2(l)	1,551,459	1,648,356	232,792
Prepayments and other current assets		4,078,102	4,654,583	657,353
Amount due from related parties	23	4,234,067	2,528,439	357,084
Assets held for sale	14	—	165,994	23,443
Total current assets		139,094,558	144,552,071	20,414,654
Non-current assets				
Property, equipment and software, net		20,654,071	17,487,942	2,469,769
Construction in progress		5,806,308	6,264,929	884,777
Intangible assets, net		4,110,034	3,960,438	559,321
Land use rights, net		10,891,742	10,432,470	1,473,346
Operating lease right-of-use assets	13	8,643,597	8,444,918	1,192,650
Goodwill		6,643,669	6,643,669	938,265
Investment in equity investees	6	35,575,807	36,772,791	5,193,310
Investment securities	5	21,417,104	20,780,630	2,934,786
Deferred tax assets	16	80,556	80,556	11,377
Assets held for sale	14	—	2,982,545	421,216
Other non-current assets		6,806,258	7,292,783	1,029,937
Total non-current assets		120,629,146	121,143,671	17,108,754
Total assets		259,723,704	265,695,742	37,523,408

Unaudited Interim Condensed Consolidated Balance Sheets—continued

	Notes	As of		
		December 31, 2019	March 31, 2020	
		RMB'000	RMB'000	US$'000 Note 2(f)
LIABILITIES				
Current liabilities (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB14,399,069 and RMB15,376,040 as of December 31, 2019 and March 31, 2020, respectively. Note 1)				
Short-term debts	9	—	8,601,811	1,214,808
Accounts payable	10	90,428,382	76,485,078	10,801,757
Advance from customers		16,078,619	16,150,898	2,280,943
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB796,193 and RMB555,288 as of December 31, 2019 and March 31, 2020, respectively)		3,326,594	4,115,192	581,176
Taxes payable	16	2,015,788	1,180,931	166,779
Amount due to related parties	23	317,978	1,265,959	178,788
Accrued expenses and other current liabilities	11	24,656,180	25,375,911	3,583,765
Operating lease liabilities	13	3,193,480	3,406,984	481,158
Liabilities held for sale	14	—	14,736	2,081
Total current liabilities		140,017,021	136,597,500	19,291,255
Non-current liabilities				
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB1,747,020 and RMB1,491,653 as of December 31, 2019 and March 31, 2020, respectively)		1,942,635	1,912,741	270,131
Unsecured senior notes	12	6,912,492	13,943,189	1,969,154
Deferred tax liabilities	16	1,338,988	1,277,404	180,404
Long-term borrowings	2(q)	3,139,290	3,188,295	450,273
Operating lease liabilities	13	5,523,164	5,325,542	752,110
Other non-current liabilities		225,883	206,812	29,207
Total non-current liabilities		19,082,452	25,853,983	3,651,279
Total liabilities		159,099,473	162,451,483	22,942,534
Commitments and contingencies (Note 27)				
MEZZANINE EQUITY				
Convertible redeemable non-controlling interests	17	15,964,384	15,965,166	2,254,712

Unaudited Interim Condensed Consolidated Balance Sheets—continued

	Notes	As of		
		December 31, 2019	March 31, 2020	
		RMB'000	RMB'000	US$'000 Note 2(f)
SHAREHOLDERS' EQUITY:				
JD.com, Inc. shareholders' equity				
Ordinary shares (US$0.00002 par value; 100,000,000,000 shares authorized; 2,520,271,138 Class A ordinary shares issued and 2,480,575,334 outstanding, 453,672,011 Class B ordinary shares issued and 443,739,929 outstanding as of December 31, 2019; 2,523,062,068 Class A ordinary shares issued and 2,484,240,636 outstanding, 450,881,081 Class B ordinary shares issued and 442,090,839 outstanding as of March 31, 2020.)	18	381	381	54
Additional paid-in capital		90,676,122	91,402,064	12,908,437
Statutory reserves		1,459,165	1,459,165	206,073
Treasury stock		(2,530,166)	(2,634,318)	(372,037)
Accumulated deficit		(11,912,679)	(10,839,858)	(1,530,880)
Accumulated other comprehensive income	20	4,163,147	4,902,433	692,356
Total JD.com, Inc. shareholders' equity		81,855,970	84,289,867	11,904,003
Non-controlling interests	2(c)	2,803,877	2,989,226	422,159
Total shareholders' equity		84,659,847	87,279,093	12,326,162
Total liabilities, mezzanine equity and shareholders' equity		259,723,704	265,695,742	37,523,408

Unaudited Interim Condensed Consolidated Statements of Operations and Comprehensive Income

	Notes	For the three months ended March 31,		
		2019	2020	
		RMB'000	RMB'000	US$'000 Note 2(f)
Net revenues				
Net product revenues	2(s)	108,651,270	130,093,138	18,372,661
Net service revenues		12,429,789	16,112,071	2,275,459
Total net revenues		121,081,059	146,205,209	20,648,120
Cost of revenues	2(v)	(102,897,352)	(123,669,699)	(17,465,498)
Fulfillment	2(x)	(8,063,332)	(10,399,790)	(1,468,731)
Marketing	2(y)	(3,940,399)	(4,468,316)	(631,047)
Research and development	2(z)	(3,716,545)	(3,935,159)	(555,751)
General and administrative	2(aa)	(1,321,075)	(1,411,796)	(199,384)
Gain on sale of development properties		83,218	—	—
Income from operations		1,225,574	2,320,449	327,709
Other income/(expense)				
Share of results of equity investees	6	(717,422)	(1,120,220)	(158,205)
Interest income		312,575	523,054	73,869
Interest expense		(187,445)	(207,100)	(29,248)
Others, net	15	6,886,036	(132,556)	(18,720)
Income before tax		7,519,318	1,383,627	195,405
Income tax expenses	16	(279,640)	(326,444)	(46,103)
Net income		7,239,678	1,057,183	149,302
Net loss attributable to non-controlling interests shareholders		(80,203)	(16,420)	(2,319)
Net income attributable to mezzanine equity classified as non-controlling interests shareholders		748	782	110
Net income attributable to ordinary shareholders		7,319,133	1,072,821	151,511
Net income		7,239,678	1,057,183	149,302
Other comprehensive income:	20			
Foreign currency translation adjustments		(854,914)	778,641	109,965
Net change in unrealized gains/(losses) on available-for-sale securities:				
Unrealized gains, net of tax		3,197	109,145	15,414
Reclassification adjustment for gains recorded in net income, net of tax		(3,762)	(97,776)	(13,809)
Net unrealized gains/(losses) on available-for-sale securities		(565)	11,369	1,605
Total other comprehensive income/(loss)		(855,479)	790,010	111,570
Total comprehensive income		6,384,199	1,847,193	260,872
Total comprehensive income/(loss) attributable to non-controlling interests shareholders		(80,203)	34,304	4,845
Total comprehensive income attributable to mezzanine equity classified as non-controlling interests shareholders		748	782	110
Total comprehensive income attributable to ordinary shareholders		6,463,654	1,812,107	255,917
Net income per share	22			
Basic (RMB)		2.53	0.37	0.05
Diluted (RMB)		2.48	0.36	0.05
Weighted average number of shares				
Basic		2,893,977,289	2,926,684,966	2,926,684,966
Diluted		2,952,050,583	2,998,786,445	2,998,786,445

Unaudited Interim Condensed Consolidated Statements of Cash Flows

	For the three months ended March 31,		
	2019	2020	
	RMB'000	RMB'000	US$'000 Note2(f)
Cash flows from operating activities:			
Net income	7,239,678	1,057,183	149,302
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation and amortization	1,673,068	1,405,625	198,512
Share-based compensation	618,046	976,514	137,910
(Gains)/losses from disposal of property, equipment and software	(2,794)	2,189	309
Deferred income tax	161,412	(83,646)	(11,813)
Gains from extinguishment of debt	—	(11,101)	(1,568)
Amortization of discounts and issuance costs of the unsecured senior notes	3,555	4,476	632
Impairment of investments	329,128	26,063	3,681
Fair value change of long-term investments	(5,750,537)	669,703	94,580
Gain from business and investment disposals	—	(15,000)	(2,118)
Gain on sale of development properties	(83,218)	—	—
Share of results of equity investees	717,422	1,120,220	158,205
Foreign exchange gains	(56,218)	(19,188)	(2,710)
Changes in operating assets and liabilities:			
Accounts receivable	2,136,974	(2,228,784)	(314,764)
Inventories	5,780,708	7,361,268	1,039,610
Advance to suppliers	59,050	(975,667)	(137,791)
Prepayments and other current assets	286,003	(427,802)	(60,416)
Operating lease right-of-use assets	308,388	198,679	28,059
Amount due from related parties	(1,368,932)	1,448,434	204,558
Other non-current assets	(287,513)	(104,537)	(14,763)
Accounts payable	(8,107,032)	(13,428,780)	(1,896,506)
Advance from customers	692,916	73,587	10,392
Deferred revenues	(159,791)	758,703	107,149
Taxes payable	(378,247)	(1,022,517)	(144,407)
Accrued expenses and other current liabilities	(265,315)	693,039	97,876
Operating lease liabilities	(191,711)	15,882	2,243
Amount due to related parties	(31,789)	962,980	135,999
Net cash provided by/(used in) operating activities	3,323,251	(1,542,477)	(217,839)
Cash flows from investing activities:			
Purchase of short-term investments	(4,215,741)	(27,351,214)	(3,862,729)
Maturity of short-term investments	2,014,416	22,605,000	3,192,436
Purchase of investment securities	—	(191,026)	(26,978)
Cash received from disposal of investment securities	350,665	258,618	36,524
Cash paid for investments in equity investees	(4,166,593)	(1,539,615)	(217,435)
Cash received from disposal of equity investment	52,672	34,000	4,802
Cash paid for loan originations	(9,456,490)	(11,417,361)	(1,612,439)
Cash received from loan repayments	10,556,992	11,332,052	1,600,391
Purchase of property, equipment and software	(784,029)	(425,097)	(60,035)
Purchase of intangible assets	(23,267)	(410)	(58)
Purchase of land use rights	(185,836)	(132,402)	(18,699)
Cash paid for construction in progress	(1,402,827)	(1,653,755)	(233,555)
Cash received from sale of development properties	2,513,916	203,936	28,801
Cash paid for business combination, net of cash acquired	—	(41,167)	(5,814)
Loans settled by JD Digits	3,643,137	365,089	51,560
Other investing activities	—	(243,000)	(34,318)
Net cash used in investing activities	(1,102,985)	(8,196,352)	(1,157,546)

Unaudited Interim Condensed Consolidated Statements of Cash Flows—continued

	For the three months ended March 31,		
	2019	2020	
	RMB'000	RMB'000	US$'000 Note2(f)
Cash flows from financing activities:			
Repurchase of ordinary shares	(131,010)	(311,776)	(44,031)
Proceeds from issuance of ordinary shares pursuant to share-based awards	3,052	42,338	5,979
Capital injection from non-controlling interests shareholders	827	29,000	4,096
Proceeds from short-term debts	4,503,800	8,601,811	1,214,807
Repayment of short-term debts	(3,732,349)	(5,000)	(706)
Proceeds from unsecured senior notes	—	6,803,716	960,868
Repurchase of unsecured senior notes	—	(72,326)	(10,214)
Repayment of nonrecourse securitization debt	(3,200,271)	—	—
Other financing activities	—	(1,353)	(191)
Net cash provided by/(used in) financing activities	(2,555,951)	15,086,410	2,130,608
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(423,213)	609,365	86,059
Net increase/(decrease) in cash, cash equivalents, and restricted cash	(758,898)	5,956,946	841,282
Cash, cash equivalents, and restricted cash at beginning of the period	37,502,058	39,912,279	5,636,691
Cash, cash equivalents, and restricted cash at end of the period	36,743,160	45,869,225	6,477,973
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	(108,835)	(621,392)	(87,757)
Cash paid for interest	(95,246)	(97,637)	(13,789)
Supplemental disclosures of non-cash investing and financing activities:			
Right-of-use assets acquired under operating leases	583,390	777,762	109,841

Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

	Ordinary shares		Treasury stock		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income	Accumulated deficit	Non-controlling interests	Total shareholders' equity
	Shares	Amount	Shares	Amount						
		RMB'000		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of January 1, 2019	2,965,815,847	380	(71,519,492)	(3,783,729)	82,832,895	1,400,412	3,359,096	(24,038,081)	1,095,887	60,866,860
Repurchase of ordinary shares	—	—	(1,871,696)	(131,010)	—	—	—	—	—	(131,010)
Accretion of convertible redeemable non-controlling interests	—	—	—	—	—	—	—	(748)	—	(748)
Exercise of share-based awards	—	—	549,092	34,999	(16,024)	—	—	—	—	18,975
Share-based compensation and vesting of share-based awards	—	—	2,073,982	71,913	439,611	—	—	—	106,522	618,046
Net income/(loss)	—	—	—	—	—	—	—	7,319,881	(80,203)	7,239,678
Foreign currency translation adjustments	—	—	—	—	—	—	(854,914)	—	—	(854,914)
Net change in unrealized gains on available-for-sale debt securities	—	—	—	—	—	—	(565)	—	—	(565)
Change of the capital from non-controlling interests shareholders	—	—	—	—	—	—	—	—	827	827
Share of changes in the equity investee's capital accounts	—	—	—	—	(7,304)	—	—	—	—	(7,304)
Balance as of March 31, 2019	2,965,815,847	380	(70,768,114)	(3,807,827)	83,249,178	1,400,412	2,503,617	(16,718,948)	1,123,033	67,749,845

	Ordinary shares		Treasury stock		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income	Accumulated deficit	Non-controlling interests	Total shareholders' equity
	Shares	Amount	Shares	Amount						
		RMB'000		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of January 1, 2020	2,973,943,149	381	(49,627,886)	(2,530,166)	90,676,122	1,459,165	4,163,147	(11,912,679)	2,803,877	84,659,847
Repurchase of ordinary shares	—	—	(2,382,740)	(311,776)	—	—	—	—	—	(311,776)
Accretion of convertible redeemable non-controlling interests	—	—	—	—	—	—	—	(782)	—	(782)
Exercise of share-based awards	—	—	2,349,640	149,763	(42,701)	—	—	—	—	107,062
Share-based compensation and vesting of share-based awards	—	—	2,049,312	57,861	768,643	—	—	—	150,010	976,514
Net income/(loss)	—	—	—	—	—	—	—	1,073,603	(16,420)	1,057,183
Foreign currency translation adjustments	—	—	—	—	—	—	727,917	—	50,724	778,641
Net change in unrealized gains on available-for-sale debt securities	—	—	—	—	—	—	11,369	—	—	11,369
Change of the capital from non-controlling interests shareholders	—	—	—	—	—	—	—	—	1,035	1,035
Balance as of March 31, 2020	2,973,943,149	381	(47,611,674)	(2,634,318)	91,402,064	1,459,165	4,902,433	(10,839,858)	2,989,226	87,279,093

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activities and organization

JD.com, Inc. (the "Company") is a leading technology driven e-commerce company transforming to become the leading supply chain based technology and service provider, providing products and services to consumers, third-party merchants, suppliers and other business partners through its subsidiaries, consolidated variable interest entities ("VIEs") (collectively, the "Group"). The Group operates e-commerce business, including online retail and online marketplace mainly through its retail mobile apps and www.jd.com website (collectively, "JD Platform"). The Group serves consumers through online retail, focusing on product selection, price and convenience, serves third-party merchants through online marketplace, offering programs that enable the merchants to sell their products on JD Platform and to fulfill the orders either by themselves or through the Group's logistic services. Leveraging its AI capabilities and technologies, the Group provides a variety of marketing services to business partners through its proprietary advertisement technology platform. Leveraging its nationwide fulfillment infrastructure, the Group provides comprehensive supply chain solutions, primarily including warehousing, transportation, delivery and after-sales service to third parties, including both third-party merchants and suppliers on JD Platform and other business partners, through the Group's logistics business ("JD Logistics").

Prior to June 2017, the Group offered financial services to its suppliers, third-party merchants 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. Upon the reorganization of JD Digits, the Group disposed all its equity stake in JD Digits and was entitled to a profit sharing right from 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 JD Digits's equity interest, subject to applicable regulatory approvals.

In 2018, the Group established JD Property Management Group ("JD Property"), which owns, develops and manages the Group's logistics facilities and other real estate properties, to support JD Logistics and other third parties. By leveraging its fund management platform, JD Property can realize development profits and recycle capital from mature properties to fund new developments and scale the business.

The Group's principal operations and geographic markets are in the People's Republic of China ("PRC"). The accompanying unaudited interim condensed consolidated financial statements include the financial statements of the Company, its subsidiaries and consolidated VIEs.

1. Principal activities and organization—continued

As of March 31, 2020, the Company's major subsidiaries, consolidated VIEs and VIEs' subsidiaries are as follows:

	Equity interest held	Place and date of incorporation
Subsidiaries		
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.	80%	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")	80%	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
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.	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 Asia Development Limited	100%	British Virgin Islands, February 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")	80%	Shaanxi, China, May 2017
Xi'an Jingdong Xuncheng Logistics Co., Ltd.	80%	Shaanxi, China, June 2017
Jingdong Express International Limited	80%	British Virgin Islands, November 2017
Beijing Jinghong Logistics Co., Ltd.	80%	Beijing, China, November 2017
JD Assets Holding Limited	100%	Cayman Islands, March 2018
JD Logistics Holding Limited	100%	Cayman Islands, March 2018
JD Health International Inc.	86%	Cayman Islands, November 2018
JD Jiankang Limited	100%	British Virgin Islands, April 2019

	Place and date of incorporation
Consolidated VIEs	
Beijing Jingdong 360 Degree E-commerce Co., Ltd. ("Jingdong 360")	Beijing, China, April 2007
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")	Shaanxi, China, June 2017

1. Principal activities and organization—continued

	Place and date of incorporation
Consolidated VIEs' Subsidiaries	
Beijing Jingbangda Trade Co., Ltd. ("Beijing Jingbangda")	Beijing, China, August 2012
Hengqin Junze Management and Consulting Co., Ltd.	Guangdong, China, April 2017
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

• *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.

• *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 agreement 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

1. Principal activities and organization—continued

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 unaudited interim condensed 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.

• *Exclusive purchase option agreements*

The Nominee Shareholders of the VIEs have granted the Group's relevant PRC subsidiaries the exclusive and irrevocable rights to purchase from the Nominee Shareholders, to the extent permitted under the 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 the 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

1. Principal activities and organization—continued

service operation of Jingdong 360 and in the territory of the PRC. Jingdong 360 has agreed to pay license fees to Jingdong Century and the amount of the license fees 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.

• 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 the 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

1. Principal activities and organization—continued

the VIEs' board of directors in accordance with applicable laws and the articles of association of the 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.

• Risks in relations to the VIE structure

The Company believes that the contractual arrangements among its subsidiaries, the VIEs and its shareholders are in compliance with the current PRC laws and legally enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. As a result, the Company may be unable to consolidate the VIEs and its subsidiary in the unaudited interim condensed consolidated financial statements. The Company's ability to control its VIEs also depends on the authorization by the shareholders of the VIEs to exercise voting rights on all matters requiring shareholders' approval in the VIEs. The Company believes that the agreements on authorization to exercise shareholder's voting power are legally enforceable. In addition, if the legal structure and contractual arrangements with its VIEs were found to be in violation of any future PRC laws and regulations, the Company may be subject to fines or other actions. The Company believes the possibility that it will no longer be able to control and consolidate its VIEs as a result of the aforementioned risks is remote.

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 unaudited interim condensed consolidated financial statements with intercompany transactions eliminated:

	As of	
	December 31, 2019	March 31, 2020
	RMB'000	RMB'000
Total assets	38,749,631	38,688,626
Total liabilities	43,734,593	44,339,461

	For the three months ended March 31,	
	2019	2020
	RMB'000	RMB'000
Total net revenues	12,028,070	16,314,403
Net income/(loss)	410,899	(630,740)

	For the three months ended March 31,	
	2019	2020
	RMB'000	RMB'000
Net cash used in operating activities	(120,877)	(484,624)
Net cash used in investing activities	(2,308,369)	(966,039)
Net cash provided by financing activities	2,572,603	1,480,977
Net increase in cash, cash equivalents, and restricted cash	143,357	30,314
Cash, cash equivalents, and restricted cash at beginning of the period	880,204	926,653
Cash, cash equivalents, and restricted cash at end of the period	1,023,561	956,967

1. Principal activities and organization—continued

As of December 31, 2019 and March 31, 2020, the total assets of the Group's consolidated VIEs (where appropriate, the term "VIEs" also refers to its subsidiaries as a whole) were mainly consisting of cash and cash equivalents, short-term investments, accounts receivable, inventories, prepayments and other current assets, investment securities, investment in equity investees, property, equipment and software, intangible assets, operating lease right-of-use assets and other non-current assets. As of December 31, 2019 and March 31, 2020, the total liabilities of the consolidated VIEs were mainly consisting of short-term debts, accounts payable, advance from customers, deferred revenues, accrued expenses and other current liabilities, operating lease liabilities and liabilities to the Group's other subsidiaries. These balances have been reflected in the Group's unaudited interim condensed 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 can have assets transferred out of the Group's consolidated VIEs. Therefore, the Group's relevant PRC subsidiaries consider that there is no asset in the Group's consolidated VIEs that can be used only to settle their obligations except for registered capitals and the PRC statutory reserves of the Group's consolidated VIEs amounting to RMB1,090,876 as of March 31, 2020. As the Group's consolidated VIEs 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. The total shareholders' deficit of the Group's consolidated VIEs was RMB4,984,962 and RMB5,650,835 as of December 31, 2019 and March 31, 2020, 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. As the Group is conducting certain businesses in the PRC through the consolidated VIEs, 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 securitizes 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(p).

JD Digits, which was deconsolidated from the Group since June 30, 2017 as a result of its reorganization, is a VIE of the Group while neither the Group nor any subsidiary is considered the primary beneficiary.

2. Summary of significant accounting policies

a. Basis of presentation

The unaudited interim condensed 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 unaudited interim condensed consolidated financial statements are summarized below.

2. Summary of significant accounting policies—continued

a. Basis of presentation—continued

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for the consolidated financial statements. Certain information and note disclosures normally included in the Group's annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted consistent with Article 10 of Regulation S-X. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments as necessary for the fair statement of the Group's financial position, results of operations and cash flows as of March 31, 2020 and for the three months ended March 31, 2019 and 2020. The consolidated balance sheet as of December 31, 2019 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by U.S. GAAP. The unaudited interim condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the unaudited interim condensed consolidated financial statements have read or have access to the audited consolidated financial statements for the preceding fiscal years. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related footnotes for the year ended December 31, 2019. Results for the three months ended March 31, 2020 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

The unaudited interim condensed consolidated financial statements are presented in Renminbi and United States Dollars and all values are rounded to the nearest thousand except when otherwise indicated.

b. Principles of consolidation

The unaudited interim condensed consolidated financial statements include the financial statements of the Company, its subsidiaries and the consolidated VIEs 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 consolidated 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 and the consolidated VIEs have been eliminated upon consolidation.

c. Non-controlling interests

For the Company's consolidated subsidiaries and VIEs, non-controlling interests are recognized to reflect the portion of their equity that is not attributable, directly or indirectly, to the Company as the

2. Summary of significant accounting policies—continued

c. Non-controlling interests—continued

controlling shareholder. Non-controlling interests are classified as a separate line item in the equity section of the Group's unaudited interim condensed consolidated balance sheets and have been separately disclosed in the Group's unaudited interim condensed consolidated statements of operations and comprehensive income to distinguish the interests from that of the Company.

d. Use of estimates

The preparation of the unaudited interim condensed 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 unaudited interim condensed consolidated financial statements and accompanying notes. Significant accounting estimates are used for, but not limited to, returns allowance, vendor and customer incentives, determination of the stand-alone selling price ("SSP"), 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 including expected credit losses, 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, the discount rate for lease, redemption value of the redeemable preferred shares and consolidation of VIEs. Actual results may differ materially from those estimates.

e. 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 and consolidated VIEs 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 Topic 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 unaudited interim condensed consolidated statements of operations and comprehensive income. Total exchange gains were RMB56,218 and RMB19,188 for the three months ended March 31, 2019 and 2020, respectively.

The unaudited interim condensed consolidated 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

2. Summary of significant accounting policies—continued

e. Foreign currency translation—continued

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 as a component of shareholders' equity. Total foreign currency translation adjustments to the Group's other comprehensive income were a loss of RMB854,914 and a gain of RMB778,641 for the three months ended March 31, 2019 and 2020, respectively.

f. Convenience translation

Translations of the unaudited interim condensed consolidated balance sheets, the unaudited interim condensed consolidated statements of operations and comprehensive income and the unaudited interim condensed consolidated statements of cash flows from RMB into US$ as of and for the three months ended March 31, 2020 are solely for the convenience of the readers and were calculated at the rate of US$1.00=RMB7.0808, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on March 31, 2020. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on March 31, 2020, or at any other rate.

g. 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, which have original maturities of three months or less.

h. Restricted cash

Cash that is restricted as to withdrawal or for use or pledged as security is reported separately on the face of the unaudited interim condensed consolidated balance sheets, and is included in the total cash, cash equivalents, and restricted cash in the unaudited interim condensed 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.

i. 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 unaudited interim condensed consolidated statements of operations and comprehensive income. The Group also holds debt classified securities, and such investments are recorded as available-for-sale debt securities and held-to-maturity securities. Available-for-sale debt securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income. Realized gains or losses are included in interest income in the unaudited interim condensed consolidated statements of operations and comprehensive income during the period in which the gain or loss is realized.

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.

2. Summary of significant accounting policies—continued

j. 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.

The Group, in collaboration with JD Digits, provides consumer financing to the qualified customers in the online retail business, such consumer financing receivables are recorded as accounts receivable. Due to the legacy contractual arrangements with JD Digits, the Group remains as the legal owner of the consumer financing receivables, where JD Digits performs the related credit assessment.

JD Digits is obligated to purchases 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 were provided. The Group, in collaboration with JD Digits, periodically securitizes consumer financing receivables through the transfer of those assets to securitization vehicles, please refer to Note 2(p).

Other than the accounts receivable arising from the consumer financing, beginning on January 1, 2020, the Group evaluates its accounts receivable for expected credit losses on a regular basis. The Group maintains an estimated allowance for credit losses to reduce its accounts receivable to the amount that it believes will be collected. The Group uses the length of time a balance has been outstanding, the payment history, creditworthiness and financial conditions of the customers and industry trend as credit quality indicators to monitor the Group's receivables within the scope of expected credit losses model and use these as a basis to develop the Group's expected loss estimates. The Group adjusts the allowance percentage periodically when there are significant differences between estimated bad debts and actual bad debts. If there is strong evidence indicating that the accounts receivable is likely to be unrecoverable, the Group also makes specific allowance in the period in which a loss is determined to be probable. Accounts receivable balances are written off after all collection efforts have been exhausted. Please refer to Note 2(o) for adoption of expected credit losses model.

The accounts receivable with the collection period over one year are classified into other non-current assets in the unaudited interim condensed consolidated balance sheets.

k. Inventories, net

Inventories, net, consisting of products available for sale, are stated at the lower of cost and net realizable value. Cost of inventories is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventories 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 unaudited interim condensed consolidated statements of operations and comprehensive income.

The Group also provides fulfillment-related services in connection with the Group's online marketplace. Third-party merchants maintain ownership of their inventories and therefore these products are not included in the Group's inventories.

2. Summary of significant accounting policies—continued

l. Loan receivables, net

Loan receivables, net represent the consumer financing, in collaboration with JD Digits, provided to qualified individual customers on the Group's online marketplace. Due to the legacy contractual arrangements with JD Digits, the Group remains as the legal owner of the consumer financing receivables, including such loan receivables, where JD Digits performs the related credit assessment and absorbs the credit risks. The loan terms extended to the customers generally range from 1 month to 24 months. As JD Digits is obligated to purchase the receivables past due over certain agreed period of time from the Group at carrying values to absorb the credit risks, no provision for doubtful accounts was recorded for the three months ended March 31, 2019 and 2020. The loan receivables were measured at amortized cost and reported in the unaudited interim condensed consolidated balance sheets at outstanding principal. As of December 31, 2019 and March 31, 2020, the loan receivables with the collection period over one year amounting to RMB179,886 and RMB215,389, respectively, were classified into other non-current assets in the unaudited interim condensed consolidated balance sheets. Cash paid for loan originations and cash received from loan repayments are classified as investing activities in the unaudited interim condensed consolidated statements of cash flows. The Group, in collaboration with JD Digits, periodically securitizes loan receivables through the transfer of those assets to securitization vehicles, please refer to Note 2(p).

m. 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 Topic 323, *Investment—Equity Method and Joint Ventures* ("ASC 323"), 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 unaudited interim condensed consolidated statements of operations and comprehensive income and its share of post-acquisition movements of accumulated other comprehensive income are recorded in accumulated other comprehensive income 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.

2. Summary of significant accounting policies—continued

m. Investment in equity investees—continued

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 funds 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 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 unaudited interim condensed consolidated statements of operations and comprehensive income. The Group makes assessment of whether an investment is impaired based on performance and financial position of the investee as well as other evidence of market value at each reporting date. Such assessment includes, but is not limited to, reviewing the investee’s cash position, recent financing, as well as the financial and business performance. The Group recognizes an impairment loss equal to the difference between the carrying value and fair value in others, net in the unaudited interim condensed consolidated statements of operations and comprehensive income if there is any.

n. 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 unaudited interim condensed consolidated balance sheets, the unrealized gains and losses on equity securities are recorded in others, net in the unaudited interim condensed consolidated statements of operations and comprehensive income upon the adoption of ASU 2016-01.

o. Current expected credit losses impairment

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial*

2. Summary of significant accounting policies—continued

o. Current expected credit losses impairment—continued

Instruments ("ASC 326"), which requires entities to measure all expected credit losses for financial assets held at the reporting date using a current expected credit loss model based on historical experience, current conditions, and reasonable and supportable forecasts.

The Group adopted ASC 326 on January 1, 2020 using the modified retrospective transition approach. Based on the nature of the Group's financial instruments within the scope of this standard, which are primarily accounts receivable and other receivables, the adoption of the new standard did not have a material effect on the unaudited interim condensed consolidated financial statements.

p. Nonrecourse securitization debt and transfer of financial assets

The Group, in collaboration with JD Digits, periodically securitizes accounts receivable and loan receivables arising from consumer financing 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 Topic 810, *Consolidation*. 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 receivable are de-recognized in the unaudited interim condensed consolidated balance sheets pursuant to ASC Topic 860, *Transfers and Servicing* ("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 rights 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 ignored when applying ASC 860, as long as the transferee will not be consolidated by the transferor.

Due to the Group's continuing involvement rights 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 were reported as current and non-current nonrecourse securitization debt in the unaudited interim condensed consolidated balance sheets based on their respective expected repayment dates pursuant to ASC 860. While the contractual

2. Summary of significant accounting policies—continued

p. Nonrecourse securitization debt and transfer of financial assets—continued

maturities of the asset-backed debt securities were from 2018 to 2019, the securities were repaid as collections on the underlying collateralized assets occur. As of December 31, 2019 and March 31, 2020, the collateralized accounts receivable and the collateralized loan receivables were nil.

Beginning October 2017, the Group revised certain structural arrangements to relinquish its continuing involvement rights when setting up the new securitization vehicles. For the three months ended March 31, 2020, RMB3,000,000 (for the three months ended March 31, 2019: RMB2,500,000) consumer credit receivables financial assets were derecognized through the sales type arrangements, including accounts receivable of RMB2,324,592 (for the three months ended March 31, 2019: RMB1,727,030) and loan receivables of RMB675,408 (for the three months ended March 31, 2019: RMB772,970), proceeds from the derecognition were RMB3,000,000 (for the three months ended March 31, 2019: RMB2,500,000), and JD Digits and other third-party investors acted as the servicers 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 the periods presented.

q. 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 unaudited interim condensed consolidated statements of operations and comprehensive income 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 unaudited interim condensed consolidated statements of operations and comprehensive income.

r. Fair value

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The Group measures certain financial assets, including investments under the equity method on other-than-temporary basis, investments under the Measurement Alternative, 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

2. Summary of significant accounting policies—continued

r. Fair value—continued

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.

s. Revenues

The Group adopted ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), from January 1, 2018, using the modified retrospective transition approach.

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, the 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. Revenues are recorded net of value-added taxes.

The Group recognizes revenues net of discounts and return allowances when the products are delivered and title is passed to customers. Significant judgement is required to estimate return allowances. For online retail 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, 2019 and March 31, 2020, liabilities for return allowances were RMB425,135 and RMB440,652, respectively, which were included in "Accrued expenses and other current liabilities". The rights to

2. Summary of significant accounting policies—continued

s. Revenues—continued

recover products from customers associated with the Group's liabilities for return allowances are the Group's assets, which were RMB454,298 and RMB469,451 as of December 31, 2019 and March 31, 2020, respectively, and were included in "Prepayments and other current assets".

The Group also sells prepaid cards which can be redeemed to purchase products sold on the JD Platform. In accordance with ASC 606, the cash collected from the sales of prepaid cards is initially recorded in advance from customers in the unaudited interim condensed consolidated balance sheets and subsequently recognized as revenues upon the sales of the respective products through redemption of prepaid cards are completed. Upon the adoption of ASC 606, 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.

Revenue arrangements with multiple deliverables are divided into separate units of accounting based on the 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.

Net Product Revenues

The Group recognizes the product revenues from the online retail business 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 RMB70,701,598 and RMB77,630,952, and revenues from the sales of general merchandise products were RMB37,949,672 and RMB52,462,186, for the three months ended March 31, 2019 and 2020, respectively. The Group's net product revenues were mainly generated by the JD Retail segment.

Net Service Revenues

The Group charges commission fees to third-party merchants for participating in the Group's online marketplace, where the Group generally is acting as an agent and its performance obligation is to arrange for the provision of the specified goods or services by those third-party merchants. Upon successful sales, the Group charges the third-party merchants 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 allowances.

The Group provides marketing services to third-party merchants, suppliers and other business partners on its various website channels and third-party marketing affiliate's websites, including but not limited to pay for performance marketing services on which the customers are charged based on effective clicks on their product information, and display advertising services that allow customers to place advertisements on various websites. The Group recognizes revenues from pay for performance marketing services based on effective clicks, and recognizes revenues from display advertising services ratably over the period during which the advertising services are provided or on the number of times

2. Summary of significant accounting policies—continued

s. Revenues—continued

Net Service Revenues—continued

that the advertisement has been displayed based on cost per thousand impressions. The Group did not enter into material advertising-for-advertising barter transactions for the periods presented.

The Group opens its fulfillment infrastructure by offering comprehensive supply chain solutions to third parties through JD Logistics, primarily including warehousing, transportation, delivery and after-sales service. Revenues resulting from these services are recognized over time as the Group performs the services in the contracts because of the continuous transfer of control to the customers.

JD Plus memberships provide the Group's core customers with a better shopping experience, access to an evolving suite of benefits that represent a single stand-ready obligation. Subscriptions are paid for at the time of or in advance of delivering the services. Revenues from such arrangements are recognized over the subscription period.

The Group offers comprehensive customer services, primarily include 7*24 hours customer services to respond to customers' post-sales requests, return and exchange services to facilitate customers' return, exchange and repair of defective goods. These services are free of charge. The Group also provides return/exchange logistics services to the customers, of which the revenues recognized were not material for the periods presented.

Revenues from online marketplace and marketing services were RMB8,143,717 and RMB9,526,815 for the three months ended March 31, 2019 and 2020, respectively, which were mainly generated by the JD Retail segment. Revenues from logistics and other services were RMB4,286,072 and RMB6,585,256 for the three months ended March 31, 2019 and 2020, respectively, which were mainly generated by the New Businesses segment.

t. Contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenues recognized prior to invoicing when the Group has satisfied the Group's performance obligation and has the unconditional rights to payment. The allowance for doubtful accounts and authorized credits is estimated based on 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 balances of accounts receivable, net of allowance for doubtful accounts were RMB6,190,588 and RMB8,264,122 as of December 31, 2019 and March 31, 2020, respectively.

Unearned revenues consist of payments received or awards to customers related to unsatisfied performance obligation at the end of the period, included in current and non-current deferred revenues and advance from customers in the Group's unaudited interim condensed consolidated balance sheets. As of December 31, 2019, the Group's total unearned revenues were RMB21,347,848, of which RMB11,593,554 was recognized as revenues for the three months ended March 31, 2020. The Group's total unearned revenues were RMB22,178,831 as of March 31, 2020.

2. Summary of significant accounting policies—continued

t. Contract balances—continued

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.

u. 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 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 rights to purchase discounted products in the future are not considered as a separate performance obligation under ASC 606, as the discount does not represent a material right 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 revenues on the future purchase.
- J Coupons are given to a customer upon their qualified purchase or can be given for free to promote future purchases and are 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 as a separate performance obligation within the scope of ASC 606, as J Coupons represent a material right to the customer. Therefore, the delivered products and J Coupons awarded are treated as two distinct performance obligations identified in the contract. The total sales consideration is allocated based on management's best estimate of the relative SSP of each performance obligation. The amount allocated to J Coupons is deferred and recognized when 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 periods presented, the amount of expired J Coupons was not material.

Registered customers may also earn J Beans, which was launched 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. Thus J Beans is considered to be a separate performance obligation identified in the contract. Therefore, the sales consideration is allocated to the products and J Beans based on the relative SSP of the products and J Beans awarded. Consideration allocated to J Beans is initially recorded as deferred revenues, and recognized as revenues when J Beans are used or expired. J Beans will expire at the subsequent year end after issuance. For the periods presented, the amount of expired J Beans was not material.

2. Summary of significant accounting policies—continued

v. Cost of revenues

Cost of revenues consists primarily of purchase price of products, inbound shipping charges, write-downs of inventories, 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 inventories, and recognized as cost of revenues upon sale of the products to the customers.

w. 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 unaudited interim condensed consolidated statements of operations and comprehensive income. 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.

x. 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) lease expenses of warehouses, delivery and pickup stations, and physical stores. The cost related to logistics services provided to third parties is classified in cost of revenues in the unaudited interim condensed consolidated statements of operations and comprehensive income. Shipping cost included in fulfillment expenses amounted to RMB3,822,077 and RMB5,130,512 for the three months ended March 31, 2019 and 2020, respectively.

y. 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 unaudited interim condensed consolidated statements of operations and comprehensive income.

Advertising costs, which consist primarily of online advertising, offline television, movie and outdoor advertising, and incentive programs to attract or retain consumers for the Group's online

2. Summary of significant accounting policies—continued

y. Marketing—continued

marketplace, are expensed as incurred, and totaled RMB2,991,732 and RMB3,661,414 for the three months ended March 31, 2019 and 2020, respectively.

z. Research and development

Research and development expenses consist primarily of payroll and related expenses for research and development employees involved in designing, developing and maintaining technology platform, and improving artificial intelligence, 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. Research and development expenses are expensed as incurred. Software development costs are recorded in "Research and development" as incurred as the costs qualifying for capitalization have been insignificant.

aa. General and administrative

General and administrative expenses consist primarily of employee related expenses for general corporate functions, including accounting, finance, tax, legal and human relations; costs associated with these functions including facilities and equipment depreciation expenses, rental and other general corporate related expenses.

bb. 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 Topic 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.

The Group uses the binominal option-pricing model to estimate the fair value of share options. The determination of estimated fair value of share-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

2. Summary of significant accounting policies—continued

bb. Share-based compensation—continued

Company over the expected term of the awards, actual and projected employee share option exercise behaviors, a risk-free interest rate, exercise multiple and expected dividend yield, 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 share-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 RSUs 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 RSUs.

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.

cc. 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 unaudited interim condensed consolidated statements of operations and comprehensive income in the period of change. Deferred tax assets and liabilities are classified as non-current in the unaudited interim condensed consolidated balance sheets.

The Group recognizes in its unaudited interim condensed 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,

2. Summary of significant accounting policies—continued

cc. Income tax—continued

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 unaudited interim condensed 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, 2019 and March 31, 2020, the Group did not have any significant unrecognized uncertain tax positions.

dd. Leases

Before January 1, 2019, the Group adopted ASC Topic 840 ("ASC 840"), *Leases,* and each lease is classified at the inception date as either a capital lease or an operating lease.

The Group adopted the new lease accounting standard, ASC Topic 842, *Leases* ("ASC 842"), from January 1, 2019 using the modified retrospective transition approach through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients. The Group categorizes leases with contractual terms longer than twelve months as either operating or finance lease. However, the Group has no finance leases for any of the periods presented.

Right-of-use ("ROU") assets represent the Group's rights to use underlying assets for the lease term and lease liabilities represent the Group's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term, reduced by lease incentives received, plus any initial direct costs, using the discount rate for the lease at the commencement date. As the implicit rate in lease is not readily determinable for the Group's operating leases, the Group generally use the incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The Group's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Group accounts for lease and non-lease components separately.

The Group also enters into sale and leaseback transactions. The Group acts as the seller-lessee, transfers its assets to a third-party entity (the buyer-lessor) and then leases the transferred assets back from the buyer-lessor at an arm-length rental price. Upon consideration of ASC Topic 842-40-25-1 and ASC 606, the transfer of the underlying assets is considered as sales, and according to ASC 842, the leaseback transaction is classified as an operating lease. Therefore, the sale and the leaseback of the underlying assets are separately accounted for by the Group. Upon completion of the transaction, the legal titles of these assets are transferred to the third-party entity (the buyer-lessor), and the Group derecognizes these transferred assets and recognizes gains or losses from disposal of these assets in accordance with ASC Topic 360, *Property, Plant and Equipment*. The leaseback transactions are

2. Summary of significant accounting policies—continued

dd. Leases—continued

accounted for under ASC 842, and the ROU assets and lease liabilities are recognized at commencement date accordingly.

ee. Comprehensive income

Comprehensive income 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 for the periods presented includes net income, change in unrealized gains on available-for-sale debt securities, foreign currency translation adjustments, and share of change in other comprehensive income of equity investees.

ff. Net income per share

Basic net income per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For the calculation of diluted net income per share, the weighted average number of ordinary shares is adjusted by the effect of dilutive potential ordinary shares, including unvested RSUs and ordinary shares issuable upon the exercise of outstanding share options using the treasury stock method. Additionally, the Company takes into account the effect of dilutive shares of entities in which the Company holds equity interests. The dilutive impact from equity interests mainly include equity investments accounted for using the equity method and the consolidated subsidiaries. The effect mentioned above is not included in the calculation of the diluted income per share when inclusion of such effect would be anti-dilutive.

gg. 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, JD Retail and New Businesses, which are defined based on the products and services provided. JD Retail mainly consists of online retail, online marketplace and marketing services in China. New Businesses include logistics services provided to third parties, overseas business, technology initiatives, as well as asset management services to logistics property investors and sale of development properties by JD Property.

hh. Recent accounting pronouncements

Recently adopted accounting pronouncements

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

2. Summary of significant accounting policies—continued

hh. Recent accounting pronouncements—continued

Recently adopted accounting pronouncements—continued

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 is permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Group adopted the new standard beginning January 1, 2020 using the modified retrospective transition approach. The impact of adopting the new standard was not material to the unaudited interim condensed 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 adopted the new standard beginning January 1, 2020 with no material impact on the Group's unaudited interim condensed consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

In January 2020, the FASB issued ASU 2020-01, *Investments—Equity Securities* (Topic 321), *Investments—Equity Method and Joint Ventures* (Topic 323), which clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, *Investments—Equity Method and Joint Ventures*, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period, for periods for which financial statements have not yet been issued. The Group is currently evaluating the impact of this update on its consolidated financial statements.

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 periods presented.

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

3. Concentration and risks—continued

Concentration of credit risk—continued

dates. As of December 31, 2019 and March 31, 2020, majority 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 Chinese 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 unaudited interim condensed consolidated balance sheets. JD Digits purchases the consumer financing receivables past due over certain agreed period of time from the Group at carrying values without recourse and also agrees 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 RMB33,601,008 and RMB37,369,616 as of December 31, 2019 and March 31, 2020, 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 the 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$. Since June 2010, the RMB has fluctuated against the US$, at times significantly and unpredictably. The depreciation of the RMB against the US$ was approximately 1% in 2019. The depreciation of the RMB against the US$ was approximately 2% for the three months ended March 31, 2020. It is difficult to predict how market forces or the 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 RMB2,940,859 and RMB2,246,361 as of December 31, 2019 and March 31, 2020, respectively.

5. Fair value measurement

As of December 31, 2019 and March 31, 2020, 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, 2019	Fair value measurement at reporting date using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB'000	RMB'000	RMB'000	RMB'000
Assets:				
Cash equivalents				
Money market funds	3,590,620	3,590,620	—	—
Short-term investments				
Wealth management products	23,206,770	—	23,206,770	—
Investment securities				
Listed equity securities	21,417,104	21,417,104	—	—
Total assets	48,214,494	25,007,724	23,206,770	—

Description	Fair value as of March 31, 2020	Fair value measurement at reporting date using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB'000	RMB'000	RMB'000	RMB'000
Assets:				
Cash equivalents				
Money market funds	737,876	737,876	—	—
Short-term investments				
Wealth management products	26,529,672	—	26,529,672	—
Investment securities				
Listed equity securities	20,780,630	20,780,630	—	—
Total assets	48,048,178	21,518,506	26,529,672	—

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 unaudited interim condensed consolidated balance sheets at fair value on a recurring basis.

5. Fair value measurement—continued

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.

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, 2019 and March 31, 2020, gross unrealized gains of RMB54,813 and RMB88,246 were recorded on wealth management products, respectively. No impairment charges were recorded for the three months ended March 31, 2019 and 2020, respectively.

Investment securities

Listed equity securities. The Group values its listed equity securities using quoted prices for the underlying securities in active markets, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1. Starting from January 1, 2018, upon adoption of ASU 2016-01, unrealized gains and losses during the periods are recognized in others, net in the unaudited interim condensed consolidated statements of operations and comprehensive income.

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

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2019	18,329,057	5,008,610	(1,920,563)	21,417,104
March 31, 2020	18,477,597	5,592,543	(3,289,510)	20,780,630

In 2017, the Group invested in China United Network Communications Limited ("China Unicom") with a total consideration of RMB5,000,000 for approximately 2.4% of China Unicom's equity interest. As of March 31, 2020, the accumulated unrealized loss related to the investment in China Unicom was RMB1,178,624 (as of December 31, 2019: unrealized loss of RMB688,141).

In 2017, the Group invested in Vipshop Holdings Ltd. ("Vipshop") with a total consideration of RMB2,794,547 for approximately 5.5% of Vipshop's equity interest. In 2018 and 2019, the Group purchased additional shares with a total amount of RMB1,121,792. As of March 31, 2020, the accumulated unrealized gain related to the investment in Vipshop was RMB1,660,042 (as of December 31, 2019: unrealized gain of RMB1,077,422).

In 2017, the Group invested in Farfetch.com Limited ("Farfetch") with a total consideration of RMB2,713,285. On September 21, 2018, Farfetch completed its initial public offering on New York Stock Exchange. Concurrently with Farfetch's initial public offering ("IPO"), the Group purchased

5. Fair value measurement—continued

Investment securities—continued

additional shares with a total amount of RMB186,155, and started to account for the investment at fair value. As of March 31, 2020, the accumulated unrealized loss related to the investment in Farfetch was RMB528,081 (as of December 31, 2019: unrealized gain of RMB159,589).

In 2018, the Group invested in ESR Cayman Limited ("ESR") with a total consideration of RMB1,952,325. On November 1, 2019, ESR completed its IPO on The Stock Exchange of Hong Kong Limited. Concurrently with ESR's IPO, the Group sold approximately 3.4% of its investment in ESR and started to account for the remaining investment at fair value. As of March 31, 2020, the accumulated unrealized gain related to the investment in ESR was RMB1,672,225 (as of December 31, 2019: unrealized gain of RMB1,777,252).

Other financial instruments

The followings are other financial instruments not measured at fair value in the unaudited interim condensed consolidated balance sheets, but for which the fair value is estimated for disclosure purposes.

Time deposits. Time deposits with original maturities of three months 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 unaudited interim condensed consolidated balance sheets. The fair value of the Group's time deposits is determined based on the prevailing interest rates in the market, which have been categorized as Level 2 in the fair value hierarchy. As of December 31, 2019 and March 31, 2020, the fair value of time deposits classified as cash equivalents and short-term investments amounted to RMB11,189,560 and RMB29,403,944, respectively.

Unsecured senior notes. The Group determines the fair value of its unsecured senior notes using quoted prices in less active markets, and accordingly the Group categorizes the unsecured senior notes as Level 2 in the fair value hierarchy. As of December 31, 2019 and March 31, 2020, the fair value of unsecured senior notes amounted to RMB7,195,427 and RMB14,413,004, respectively.

Short-term receivables and payables. Accounts receivable, loan receivables and prepayments and other current assets are financial assets with carrying values that approximate to 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 to fair value due to their short-term nature. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

Short-term debts and long-term borrowings. Interest rates under the short-term debt and long-term borrowing agreements with the lending parties were determined based on the prevailing interest rates in the market. The carrying value of short-term debts and long-term borrowings approximates to fair value. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

5. Fair value measurement—continued

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 in the fair value hierarchy due to the significance of unobservable inputs using company-specific information.

Investment in equity investees. Investments in privately held companies and publicly traded companies included in investment in equity investees in the unaudited interim condensed 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, 2019 and March 31, 2020, and the impairment charges of RMB29,128 and RMB20,139 were recorded in others, net in the unaudited interim condensed consolidated statements of operations and comprehensive income for the three months ended March 31, 2019 and 2020, respectively. The valuation methodology used to estimate the fair value of investments in publicly traded companies and associated impairment charges are discussed in Note 6—"Investment in equity investees".

6. Investment in equity investees

Measurement Alternative and NAV practical expedient

Under ASU 2016-01, the carrying amount of the Group's equity investments measured at fair value using the Measurement Alternative was RMB17,580,557 and RMB17,921,500 as of December 31, 2019 and March 31, 2020, respectively, and the carrying amount of the Group's investments under NAV practical expedient was RMB2,515,919 and RMB3,376,469 as of December 31, 2019 and March 31, 2020, respectively. For the three months ended March 31, 2019 and 2020, the Group invested RMB1,406,442 and RMB1,127,843 in multiple private companies and private equity funds accounted for under the Measurement Alternative and NAV practical expedient, respectively, which may have operational synergy with the Group's core business. During the three months ended March 31, 2020, fair value changes recognized for equity investments which were measured using the Measurement Alternative and NAV practical expedient were not significant.

The Group accounted for the investment in AiHuiShou International Co. Ltd., ("AiHuiShou") under the Measurement Alternative. In June 2019, the Group signed series of agreements with AiHuiShou, an online second-hand consumer electronics trading platform. The Group merged its Paipai Secondhand business into AiHuiShou with certain exclusive traffic resources for the next five years, and additionally invested RMB138,582 in cash in exchange for additional preferred share investment in AiHuiShou. Total consideration for the above investment in AiHuiShou was RMB3,380,825.

6. Investment in equity investees—continued

Equity method

As of March 31, 2020, the Group's investments accounted for under the equity method totaled RMB15,474,822 (as of December 31, 2019: RMB15,479,331), which mainly included the investment in Yonghui Superstores Co., Ltd, ("Yonghui") amounting to RMB5,812,216, the investment in Bitauto Holdings Limited ("Bitauto") amounting to RMB1,585,724, the investment in Dada Nexus Limited ("Dada") amounting to nil, the investment in Tuniu Corporation ("Tuniu") amounting to RMB378,829, the investment in Jiangsu Five Star Appliance Co., Ltd. ("Jiangsu Five Star") amounting to RMB881,187, and investment in Yixin Group Limited ("Yixin") amounting to RMB794,041. 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. In May 2018 and February 2020, the Group acquired additional ordinary shares from the existing shareholders of Yonghui, the Group'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 RMB5,776,853 in cash. Investment in Yonghui is accounted for using the equity method as the Group obtained significant influence by the rights to nominate two board members out of eleven.

Investment in Yonghui is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2019	As of March 31, 2020
	RMB'000	RMB'000
Carrying value of investment in Yonghui	5,508,062	5,812,216
Proportionate share of Yonghui's net tangible and intangible assets	2,249,239	2,327,244
Positive basis difference	3,258,823	3,484,972
Positive basis difference has been assigned to:		
Goodwill	1,989,726	2,128,213
Amortizable intangible assets(*)	1,692,129	1,809,012
Deferred tax liabilities	(423,032)	(452,253)
	3,258,823	3,484,972
Cumulative gains in equity interest in Yonghui	428,729	414,104

(*) As of March 31, 2020, the weighted average remaining life of the intangible assets not included in Yonghui's consolidated financial statements was 15 years.

As of December 31, 2019 and March 31, 2020, the market value of the Group's investment in Yonghui was RMB8,248,601 and RMB11,564,173 based on its quoted closing price, respectively.

6. Investment in equity investees—continued

Equity method—continued

Investment in Bitauto

On February 16, 2015, the Group completed its investment in Bitauto through the subscription of newly issued ordinary shares, representing approximately 25% of the outstanding ordinary shares of Bitauto. Bitauto is a leading provider of internet content and marketing services for China's fast-growing automotive industry that is listed on Nasdaq. Total consideration for the initial investment in Bitauto was RMB5,496,188 with a combination of RMB2,450,920 in cash and RMB3,045,268 in the form of future services, including exclusive access to the new and used car channels on the JD Platform 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. As of March 31, 2020, the Group held approximately 24% of Bitauto's issued and outstanding shares.

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

	As of December 31, 2019	As of March 31, 2020
	RMB'000	RMB'000
Carrying value of investment in Bitauto(*)	1,817,781	1,585,724
Proportionate share of Bitauto's net tangible and intangible assets	2,347,924	2,115,867
Negative basis difference	(530,143)	(530,143)
Negative basis difference has been assigned to:		
Goodwill(*)	—	—
Amortizable intangible assets(**)	(530,143)	(530,143)
	(530,143)	(530,143)
Cumulative losses in equity interest in Bitauto	(3,910,223)	(4,142,280)

(*) In the first quarter of 2019, the Group conducted 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 impairment charge of RMB488,453 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 March 31, 2019.

(**) As of March 31, 2020, the negative basis difference between carrying value of investment in Bitauto and proportionate share of Bitauto's net tangible and intangible assets was RMB530,143. This difference would not be amortized.

As of December 31, 2019 and March 31, 2020, the market value of the Group's investment in Bitauto was approximately RMB1,793,871 and RMB1,275,557 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

6. Investment in equity investees—continued

Equity method—continued

Investment in Dada—continued

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:

	As of April 26, 2016
	RMB'000
Assets/investments received by the Group	
Dada's ordinary shares	2,164,050
Dada's preferred shares	1,298,700
Warrant to purchase Dada's preferred shares	45,450
	3,508,200

The investment in Dada's ordinary shares is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2019	As of March 31, 2020
	RMB'000	RMB'000
Carrying value of investment in Dada's ordinary shares	—	—
Proportionate share of Dada's net tangible and intangible assets	(1,701,718)	(1,699,784)
Positive basis difference	1,701,718	1,699,784
Positive basis difference has been assigned to:		
Goodwill	1,605,891	1,605,891
Amortizable intangible assets(*)	127,770	125,190
Deferred tax liabilities	(31,943)	(31,297)
	1,701,718	1,699,784
Cumulative losses in equity interest in Dada's ordinary shares	(2,164,050)	(2,164,050)

(*) As of March 31, 2020, the weighted average remaining life of the intangible assets not included in Dada's consolidated financial statements was 6 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 March 31, 2020. 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

6. Investment in equity investees—continued

Equity method—continued

Investment in Dada—continued

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 investment in Dada includes the preferred shares investment, the Group should continue to recognize Dada's losses up to the Group's carrying value in the preferred shares investment. As of March 31, 2020, the Group recognized a cumulative loss of RMB1,666,703 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 March 31, 2020, the carrying amount of preferred shares of Dada was RMB2,141,997.

Investment in Tuniu

In December 2014, the Group acquired 7% equity interest in Tuniu with cash consideration of RMB305,930. Tuniu is a leading online leisure travel company in China that is listed on 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 rights, for a period of 5 years, to operate the leisure travel channels on the JD Platform, 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.

Investment in Tuniu is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2019	As of March 31, 2020
	RMB'000	RMB'000
Carrying value of investment in Tuniu(*)	457,443	378,829
Proportionate share of Tuniu's net tangible and intangible assets	633,295	554,681
Negative basis difference	(175,852)	(175,852)
Negative basis difference has been assigned to:		
Goodwill(*)	—	—
Amortizable intangible assets(**)	(175,852)	(175,852)
Deferred tax liabilities	—	—
	(175,852)	(175,852)
Cumulative losses in equity interest in Tuniu	(2,036,702)	(2,115,316)

(*) In the second and fourth quarter of 2019, the Group conducted impairments 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 impairment charges of RMB222,212 and RMB86,072 in the second and

6. Investment in equity investees—continued

Equity method—continued

Investment in Tuniu—continued

fourth quarter of 2019, respectively, to write down the carrying value of its investment in Tuniu to its fair value, based on quoted closing prices of Tuniu as of June 30, 2019 and December 31, 2019, respectively.

(**) As of March 31, 2020, the negative basis difference between carrying value of investment in Tuniu and proportionate share of Tuniu's net tangible and intangible assets was RMB175,852. This difference would not be amortized.

As of December 31, 2019 and March 31, 2020, the market value of the Group's investment in Tuniu was approximately RMB457,443 and RMB184,359 based on quoted closing price, respectively.

Investment in Jiangsu Five Star

In April 2019, the Group invested RMB1,274,257 with a combination of cash and assumption of the seller's debt as consideration to acquire ordinary shares of Jiangsu Five Star, a leading offline retailer of home appliances and consumer electronics, from its existing shareholder (the "Seller"), in exchange for 46% of Jiangsu Five Star's total equity interest. The Group also provided a fifteen months interest-bearing loan of RMB1,024,946 to the Seller and has the rights to purchase additional shares. Investment in Jiangsu Five Star is accounted for using the equity method as the Group obtained significant influence by the rights to nominate two board members out of five.

Investment in Jiangsu Five Star is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2019	As of March 31, 2020
	RMB'000	RMB'000
Carrying value of investment in Jiangsu Five Star	1,317,045	881,187
Proportionate share of Jiangsu Five Star's net tangible and intangible assets	480,438	50,990
Positive basis difference	836,607	830,197
Positive basis difference has been assigned to:		
Goodwill	586,325	586,325
Amortizable intangible assets(*)	206,069	200,848
Property(*)	127,641	124,316
Deferred tax liabilities	(83,428)	(81,292)
	836,607	830,197
Cumulative gains/(losses) in equity interest in Jiangsu Five Star	42,788	(393,070)

(*) As of March 31, 2020, the weighted average remaining lives of the intangible assets and property were 19 years and 24 years, respectively.

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 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.

6. Investment in equity investees—continued

Equity method—continued

Investment in Yixin—continued

On November 16, 2017, Yixin successfully completed the global offering and traded on the Main Board of the Stock Exchange of Hong Kong Limited. 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 obtained significant influence by the rights to nominate 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 investment cost allocated as follows:

	As of December 31, 2019	As of March 31, 2020
	RMB'000	RMB'000
Carrying value of investment in Yixin(*)	1,206,741	794,041
Proportionate share of Yixin's net tangible and intangible assets	1,663,071	1,646,057
Negative basis difference(**)	(456,330)	(852,016)
Cumulative gains/(losses) in equity interest in Yixin	345,749	(66,951)

(*) In the first quarter of 2020, the Group conducted impairment assessment on its investment in Yixin considering the duration and severity of the decline of Yixin's stock price after the investment, as well as the financial condition, operating performance and the prospects of Yixin, and concluded the decline in fair value of the investment was other-than-temporary. Accordingly, the Group recorded impairment charge of RMB395,686 to write down the carrying value of its investment in Yixin to its fair value, based on quoted closing price of Yixin's stock as of March 31, 2020.

(**) As of March 31, 2020, the negative basis difference between carrying value of investment in Yixin and proportionate share of Yixin's net tangible and intangible assets was RMB852,016. This difference would not be amortized. As of December 31, 2019 and March 31, 2020, the market value of the Group's investment in Yixin was approximately RMB1,060,433 and RMB794,041 based on quoted closing price, respectively.

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 RMB29,128 and RMB20,139 were recorded in others, net in the unaudited interim condensed consolidated statements of operations and comprehensive income for the three months ended March 31, 2019 and 2020, respectively. As of March 31, 2020, the accumulated impairment of the Group's Measurement Alternative investments was RMB2,478,521. Impairment charges in connection with the equity method investments of RMB488,453 and RMB395,686 were recorded in share of results of equity investees in the unaudited interim condensed consolidated statements of operations and comprehensive income for the three months ended March 31, 2019 and 2020, respectively.

7. Accounts receivable, net

Accounts receivable, net consists of the following:

	As of	
	December 31, 2019	March 31, 2020
	RMB'000	RMB'000
Online retail and online marketplace receivables(*)	2,392,737	5,058,978
Logistics receivables	3,073,641	2,853,865
Advertising receivables and others	1,042,211	831,405
Accounts receivable	6,508,589	8,744,248
Allowance for doubtful accounts	(318,001)	(480,126)
Accounts receivable, net	6,190,588	8,264,122

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

	As of	
	December 31, 2019	March 31, 2020
	RMB'000	RMB'000
Balance at beginning of the period	(178,393)	(318,001)
Addition/allowance for credit losses	(213,395)	(163,771)
Write-off	73,787	1,646
Balance at end of the period	(318,001)	(480,126)

(*) For the accounts receivable in relation to consumer financing business, which is recorded in online retail and online marketplace receivables, 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.

8. Inventories, net

Inventories, net consist of the following:

	As of	
	December 31, 2019	March 31, 2020
	RMB'000	RMB'000
Products	58,795,341	52,304,585
Packing materials and others	223,234	225,657
Inventories	59,018,575	52,530,242
Inventory valuation allowance	(1,086,419)	(1,945,547)
Inventories, net	57,932,156	50,584,695

9. Short-term debts

Short-term debts consist of private placement notes and borrowings from financial institutions, all of these debts are repayable within one year.

9. Short-term debts—continued

In February and March 2020, Jingdong Century, a subsidiary of the Company, issued fixed rate private placement notes with two maturity dates for an aggregate principal amount of RMB5,000,000. The private placement consists of RMB3,000,000 of 2.65% notes due April 27, 2020 and RMB2,000,000 of 2.75% notes due October 30, 2020. The notes are listed on the inter-bank bond market of China. The Group intends to use the proceeds from the private placement mainly for general corporate purposes. As of December 31, 2019 and March 31, 2020, the private placement notes amounted to nil and RMB5,000,000, respectively.

As of December 31, 2019 and March 31, 2020, short-term borrowings from financial institutions amounted to nil and RMB3,601,811, respectively. The weighted average interest rate for the outstanding borrowings as of March 31, 2020 was approximately 2.82% per annum.

10. Accounts payable

Accounts payable consists of the following:

	As of	
	December 31, 2019	March 31, 2020
	RMB'000	RMB'000
Vendor payable	74,639,015	61,940,725
Shipping charges payable and others	15,789,367	14,544,353
Total	90,428,382	76,485,078

11. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of	
	December 31, 2019	March 31, 2020
	RMB'000	RMB'000
Deposits	14,619,420	14,924,649
Salary and welfare	5,037,530	4,426,487
Rental fee payables of short-term leases	332,893	365,125
Internet data center fee	614,712	831,929
Liabilities for return allowances	425,135	440,652
Accrued administrative expenses	368,821	393,510
Professional fee	268,054	345,172
Vehicle fee	190,289	196,031
Interest payable	43,598	162,371
Payable related to employees' exercise of share-based awards	403,398	715,399
Other payable in relation to non-compete obligation to Dada and its subsidiaries ("Dada Group")	83,093	84,390
Others	2,269,237	2,490,196
Total	24,656,180	25,375,911

12. 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 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 unaudited interim condensed consolidated balance sheets.

In January 2020, 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 January 14, 2020. The unsecured senior notes were issued at a discount amounting to RMB36,805. The debt issuance costs of RMB44,681 were presented as a direct deduction from the principal amount of the unsecured senior notes in the unaudited interim condensed consolidated balance sheets. The proceeds from issuance of the unsecured senior notes were used for general corporate purposes. During the three months ended March 31, 2020, the Group repurchased the Company's unsecured senior notes with a total principal amounts of US$12,000 (RMB84,970) at a reacquisition price of US$10,224 (RMB72,326) from the open market. The repurchased unsecured senior notes were derecognized from the Group's unaudited interim condensed consolidated balance sheets, and the relevant repurchase gains amounting to RMB11,101 were recognized in interest expense in the unaudited interim condensed consolidated statements of operations and comprehensive income.

A summary of the Company's unsecured senior notes as of December 31, 2019 and March 31, 2020 is as follows:

	As of		Effective interest rate
	December 31, 2019	March 31, 2020	
	RMB'000	RMB'000	
US$500,000 3.125% notes due 2021	3,477,276	3,533,579	3.37%
US$500,000 3.875% notes due 2026	3,435,216	3,490,692	4.15%
US$700,000 3.375% notes due 2030	—	4,886,298	3.47%
US$300,000 4.125% notes due 2050	—	2,032,620	4.25%
Carrying value	6,912,492	13,943,189	
Unamortized discount and debt issuance costs	63,708	141,990	
Total principal amounts of unsecured senior notes	6,976,200	14,085,179	

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 rights of payment to all of the Company's existing and future obligations expressly subordinated in rights of payment to the notes and rank at least equal in rights of payment with all of the Company's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law).

12. Unsecured senior notes—continued

As of March 31, 2020, the principal of the unsecured senior notes of RMB3,542,550, RMB3,542,550, RMB4,924,145 and RMB2,075,934 will be due in 2021, 2026, 2030 and 2050, respectively. The principal of the unsecured senior notes will be due according to the following schedule:

	Principal amounts
	RMB'000
Within 1 year	—
Between 1 to 2 years	3,542,550
Between 2 to 3 years	—
Between 3 to 4 years	—
Between 4 to 5 years	—
Beyond 5 years	10,542,629
Total	14,085,179

13. Leases

The Group has operating leases for warehouses, stores, office spaces, delivery centers and other corporate assets that the Group utilizes under lease arrangements.

A summary of supplemental information related to operating leases as of December 31, 2019 and March 31, 2020 is as follows:

	As of	
	December 31, 2019	March 31, 2020
	RMB'000	RMB'000
Operating lease ROU assets	8,643,597	8,444,918
Operating lease liabilities-current	3,193,480	3,406,984
Operating lease liabilities-non-current	5,523,164	5,325,542
Total operating lease liabilities	8,716,644	8,732,526
Weighted average remaining lease term	4.4 years	4.3 years
Weighted average discount rate	4.7%	4.7%

A summary of lease cost recognized in the unaudited interim condensed consolidated statements of operations and comprehensive income and supplemental cash flow information related to operating leases is as follows:

	For the three months ended March 31,	
	2019	2020
	RMB'000	RMB'000
Operating lease cost	750,348	923,685
Short-term lease cost	257,202	364,965
Total	1,007,550	1,288,650
Cash paid for operating leases	694,603	714,968

13. Leases—continued

A summary of maturity of operating lease liabilities under the Group's non-cancelable operating leases as of March 31, 2020 is as follows:

	As of March 31, 2020
	RMB'000
Remainder of 2020	2,752,033
2021	2,400,189
2022	1,644,285
2023	1,109,649
2024	681,076
2025 and thereafter	1,111,961
Total lease payments	9,699,193
Less: interest	(966,667)
Present value of operating lease liabilities	8,732,526

As of March 31, 2020, the Group has no significant lease contract that has been entered into but not yet commenced.

14. Assets and liabilities held for sale

In 2018, the Group established JD Property to manage the expanding logistics facilities and other real estate properties. In February 2019, JD Property established JD Logistics Properties Core Fund, L.P. ("Core Fund") together with GIC Private Limited ("GIC"), Singapore's sovereign wealth fund, for a total committed capital of over RMB4.8 billion. The Group serves as the general partner and committed 20% of the total capital of Core Fund as a limited partner, and GIC committed the remaining 80%.

Furthermore, on February 27, 2019, the Group entered into definitive agreements with Core Fund, pursuant to which the Group will dispose of certain modern logistics facilities to Core Fund for a total gross asset value of RMB10.9 billion, and concurrently lease back these completed facilities for operational purposes with an initial lease term of 5 to 6 years. The initial annual rent for the completed facilities is approximate RMB0.7 billion that increases by 3% per year throughout each 5 years' period, and the rental rate will be adjusted based on the growth rate of fair market rent at the beginning of each 5 years' period. Upon the expiry of the initial lease agreement, if the adjusted rental rate is acceptable, the Group may choose to renew the lease with the same terms and conditions. Core 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.

The investment committee of Core Fund, which comprises the representatives from the Group and GIC, oversee the key operations of Core Fund. Given the control over Core Fund is shared between the Group and GIC, the Group does not consolidate Core Fund and investment in Core Fund is accounted for using the equity method as the Group obtained significant influence by the rights to nominate two members of the investment committee out of four. The lease back transaction is classified as an operating lease, and accounted for under ASC 842, the ROU assets and operating lease liabilities were recorded accordingly.

14. Assets and liabilities held for sale—continued

In the second half of 2019, the closing conditions for the asset group of completed logistics facilities were met and Core Fund signed definitive facility agreements with bank consortium to finance the purchase, therefore, the Group recorded a total disposal gain of RMB3,801,492 for the completed assets for the year ended December 31, 2019, which represents the excess of cash consideration of the net assets, including the consideration received and expected to receive, over the carrying value of the net assets disposed as of the disposal date. For the remaining logistics facilities under construction, the Group will derecognize these assets upon its completion and satisfaction of the hand-over condition.

In January 2020, the Group's board of directors approved the proposal to establish another logistics investment fund, JD Logistics Properties Core Fund II, L.P. ("Core Fund II"), together with GIC to replicate the successful experience of Core Fund. The Group will serve as general partner and commit 10% of the total capital of Core Fund II as a limited partner, and GIC will commit the remaining 90%.

Furthermore, on January 20, 2020, the Group entered into definitive agreements with Core Fund II to sell certain of its modern logistics facilities for a total gross asset value of approximately RMB4.6 billion within the following 12 months, and will concurrently lease back some of these completed facilities for operational purposes. Core Fund II will also use leverage to finance the purchase, and the closing of the purchase will be subject to certain conditions, including the availability of debt financing. The related assets and liabilities associated with the sale agreements were classified as assets/liabilities held for sale in the unaudited interim condensed consolidated balance sheets. As of March 31, 2020, regarding the logistics facilities to be sold to Core Fund II, the Group classified cash and cash equivalents of RMB93,457 into current assets held for sale, and all related property, equipment and software and land use rights into non-current assets held for sale.

15. Others, net

Others, net consist of the following:

	For the three months ended March 31,	
	2019	2020
	RMB'000	RMB'000
Gain from business and investment disposals	—	15,000
Government financial incentives	1,276,272	425,815
Impairment of investments	(329,128)	(26,063)
Foreign exchange gains	56,218	19,188
Gains/(losses) from fair value change of long-term investments	5,750,537	(669,703)
Others	132,137	103,207
Total	6,886,036	(132,556)

Government financial incentives represent rewards provided by the relevant PRC municipal government authorities to the Group for business achievements made by the Group. Government financial incentives are recognized in others, net in the unaudited interim condensed consolidated statements of operations and comprehensive income when the government financial incentives are

15. Others, net—continued

received and no further conditions need to be met. 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.

16. Taxation

a) Value added tax ("VAT")

The Group is subject to statutory VAT rate of 10% from January 1, 2019 to March 31, 2019 and 9% from April 1, 2019 for revenues from sales of audio, video products and books in the PRC. The Group is subject to statutory VAT rate of 16% from January 1, 2019 to March 31, 2019 and 13% from April 1, 2019 for sales of other products in the PRC. The Group is exempted from VAT for revenues from sales of books from January 1, 2014 to December 31, 2020 in comply with relevant VAT regulations of the PRC.

The Group is subject to VAT at the rate of 6% or 10%/9% (10% from January 1, 2019 to March 31, 2019 and 9% from April 1, 2019) for revenues from logistics services, and 6% for revenues from online advertising and other services. Meanwhile, certain exemptions on VAT payable are eligible for revenues derived from delivery services involving residents' necessities since January 1, 2020; and the exemption expiration date will be determined by the government contingent on the novel coronavirus ("COVID-19") development.

The Group is also subject to cultural undertaking development fees at the rate of 3% on revenues from online advertising services in the PRC, which is reduced by 50% from July 1, 2019 to December 31, 2024.

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 gains. 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 the 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 Company's subsidiaries incorporated in Hong Kong are subject to 16.5% Hong Kong profit tax on its taxable income generated

16. Taxation—continued

b) *Income tax—continued*

Hong Kong—continued

from operations in Hong Kong for the year of assessment 2017/2018. Commencing from the year of assessment 2018/2019, the first Hong Kong dollars ("HK$") 2 million of profits earned by its 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, the Company is exempted from the Hong Kong income tax on its foreign-derived income. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

China

Under the PRC Enterprise Income Tax Law (the "EIT Law"), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. Most of the Group's PRC subsidiaries and consolidated VIEs are subject to the statutory income tax rate of 25%.

The EIT Law and its implementation rules permit certain High and New Technologies Enterprises, or HNTEs, to enjoy a reduced 15% enterprise income tax rate subject to these HNTEs meeting certain qualification criteria. In addition, the relevant EIT laws and regulations also provide that entities recognized as Software Enterprises are able to enjoy a tax holiday consisting of a two-year-exemption commencing from their first profitable calendar year and a 50% reduction in ordinary tax rate for the following three calendar years. 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 HNTE and enjoys a preferential income tax rate of 15%. The privileges cannot be applied simultaneously. Beijing Shangke applied the privilege of "software enterprise" and enjoyed a preferential income tax rate of 12.5% in 2019 and 2020.

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. Several entities of the Group are qualified as the enterprises within the Catalogue of Encouraged Industries in Western Regions and enjoyed 15% preferential income tax rate.

According to the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are 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.

16. Taxation—continued

b) *Income tax—continued*

China—continued

The components of income tax expenses and effective income tax rate are as follows:

	For the three months ended March 31,	
	2019	2020
	RMB'000	RMB'000
Current income tax expenses	(118,228)	(410,090)
Deferred tax benefits/(expenses)	(161,412)	83,646
Total income tax expenses	(279,640)	(326,444)
Effective income tax rate	3.7%	23.6%

For interim income tax reporting, the Group estimates its annual effective tax rate and applies it to its year-to-date ordinary income. The tax effects of unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates are reflected in the interim periods presented.

17. 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 (RMB15,973,564) 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 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 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 Jingdong Express Series A Preferred Shares, where applicable, to the redemption value from the issuance date to the earliest redemption date.

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 Jingdong Express Series A Preferred Shares. Jingdong Express Series A 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 determined that there was no embedded beneficial conversion feature attributable to 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.

17. Convertible redeemable non-controlling interests—continued

The convertible redeemable non-controlling interests as of December 31, 2019 and March 31, 2020 are summarized as follows:

	Number of shares	Amount
		RMB'000
Balance as of January 1, 2019	1,004,000,000	15,961,284
Net income attributable to mezzanine equity classified as non-controlling interests shareholders		3,100
Balance as of December 31, 2019	1,004,000,000	15,964,384
Balance as of January 1, 2020	1,004,000,000	15,964,384
Net income attributable to mezzanine equity classified as non-controlling interests shareholders		782
Balance as of March 31, 2020	1,004,000,000	15,965,166

18. Ordinary shares

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

In March 2014, the Company issued 351,678,637 ordinary shares to Huang River Investment Limited, a wholly owned subsidiary of Tencent Holdings Limited ("Tencent"), in connection with Tencent Transaction (Note 23). 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.

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.

In May 2019, the Company issued 8,127,302 Class A ordinary shares to Huang River Investment Limited (Note 23).

The ordinary shares reserved for future exercise of the RSUs and share options were 137,075,214 and 136,299,600 as of December 31, 2019 and March 31, 2020, respectively.

19. Share repurchase program

In December 2018, the Company's Board of Directors authorized a share repurchase program ("2018 share repurchase program") under which the Company may repurchase up to US$1,000,000 worth of its American depositary shares ("ADSs") over the following 12 months.

Under the 2018 share repurchase program, as of March 31, 2020, the Company repurchased 2,332,048 ADSs. In December 2018, the Company 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. In January 2019, the Company repurchased 935,848 ADSs for US$19,101 (RMB131,010) on the open market, at a weighted average price of US$20.41 per ADS.

19. Share repurchase program—continued

In March 2020, the Company's Board of Directors authorized a share repurchase program ("2020 share repurchase program") under which the Company may repurchase up to US$2,000,000 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.

Under the 2020 share repurchase program, the Company repurchased 1,191,370 ADSs for US$44,132 (RMB311,776) on the open market, at a weighted average price of US$37.04 per ADS for the three months ended March 31, 2020.

The Company accounts for the repurchased ordinary shares under the cost method and includes such treasury stock as a component of the shareholders' equity.

20. Other comprehensive income

Changes in the composition of accumulated other comprehensive income attributable to ordinary shareholders for the three months ended March 31, 2019 and 2020 are as follows:

	Foreign currency translation adjustments	Net unrealized gains/(losses) on available-for-sale securities	Total
	RMB'000	RMB'000	RMB'000
Balances as of January 1, 2019	3,358,469	627	3,359,096
Other comprehensive loss	(854,914)	(565)	(855,479)
Balances as of March 31, 2019	2,503,555	62	2,503,617
Balances as of January 1, 2020	4,108,334	54,813	4,163,147
Other comprehensive income	727,917	11,369	739,286
Balances as of March 31, 2020	4,836,251	66,182	4,902,433

The income tax effects related to the accumulated other comprehensive income were insignificant for all periods presented.

21. Share-based compensation

For the three months ended March 31, 2019 and 2020, total share-based compensation expenses recognized were RMB618,046 and RMB976,514, respectively. The following table sets forth the allocation of share-based compensation expenses:

	For the three months ended March 31,	
	2019	2020
	RMB'000	RMB'000
Cost of revenues	13,029	20,860
Fulfillment	57,538	131,878
Marketing	39,183	77,072
Research and development	226,955	360,599
General and administrative	281,341	386,105
Total	618,046	976,514

21. Share-based compensation—continued

Share incentive plan

The Company granted share-based awards to eligible employees and non-employees pursuant to a share incentive plan entitled "Share Incentive Plan", which was adopted on November 13, 2014 and governed the terms of the awards.

As of March 31, 2020, the Group had reserved 167,130,938 ordinary shares available to be granted as share-based awards under the Share Incentive Plan.

(1) Employee and non-employee awards

The RSUs and share options are generally scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of the Plans, shall be vested upon the end of the calendar year in which the awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years. Starting from the year ended December 31, 2016, certain awards had multiple tranches with tiered vesting commencement dates from 2016 to 2025, and each of the tranches is subject to a six-year vesting schedule.

Upon the reorganization of JD Digits, the employees' status of JD Digits changed from the employees of the Company's subsidiary to non-employees 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 were insignificant for all periods presented.

(2) Founder awards

In May 2015, the board of directors of the Company approved a 10-year compensation plan for Mr. Richard Qiangdong Liu (Mr. Liu), the Founder. Under this plan, Mr. Liu will receive RMB0.001 per year in cash salary and zero cash bonus during the 10-year period. Mr. 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.

(3) Share-based compensation of subsidiaries

In April 2018, JD Logistics granted share-based awards ("JD Logistics Plan") to eligible employees to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of JD Logistics. The JD Logistics Plan consists of share options, RSU and other types of awards. For the three months ended March 31, 2019 and 2020, total share-based compensation expenses for the share options granted under JD Logistics Plan were RMB106,522 and RMB150,010, respectively.

22. Net income per share

Basic and diluted net income per share for each of the periods presented are calculated as follows:

	For the three months ended March 31,	
	2019	2020
	RMB'000	RMB'000
Numerator:		
Net income attributable to ordinary shareholders	7,319,133	1,072,821
Denominator:		
Weighted average number of shares—basic	2,893,977,289	2,926,684,966
Adjustments for dilutive options and RSUs	58,073,294	72,101,479
Weighted average number of shares—diluted	2,952,050,583	2,998,786,445
Basic net income per share attributable to ordinary shareholders (RMB)	2.53	0.37
Diluted net income per share attributable to ordinary shareholders (RMB)	2.48	0.36

Generally, basic net income per share is computed using the weighted average number of ordinary shares outstanding during the respective period. Diluted net income per share is computed using the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the respective period. The potentially dilutive ordinary shares that were not included in the calculation of diluted net income per share in the periods presented where their inclusion would be anti-dilutive include RSUs and options to purchase ordinary shares of 160,959,659 and 139,416,623 for the three months ended March 31, 2019 and 2020 on a weighted average basis, respectively. For the three months ended March 31, 2019 and 2020, 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 income per share.

23. Related party transactions

The table below sets forth the major related parties and their relationships with the Group as of March 31, 2020:

Name of related parties	Relationship with the Group
Tencent and its subsidiaries ("Tencent Group")	A shareholder 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 Group	An investee of the Group
JD Digits	An entity and its subsidiaries controlled by the Founder
Core Fund	An investee of the Group
AiHuiShou and its subsidiaries ("AiHuiShou Group")	An investee of the Group

23. Related party transactions—continued

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

Transactions	For the three months ended March 31, 2019	2020
	RMB'000	RMB'000
Revenues:		
Commission from cooperation on advertising business with Tencent Group(*)	52,284	99,138
Services provided and products sold to Tencent Group(*)	61,872	36,026
Services provided and products sold to Dada Group	31,387	31,034
Services provided and products sold to AiHuiShou Group	2,668	149,518
Traffic support, marketing and promotion services provided to Bitauto Group	149,571	151,233
Traffic support, marketing and promotion services provided to Tuniu Group	32,455	32,815
Services provided and products sold to JD Digits	51,008	92,621
Operating expenses:		
Services received and purchases from Tencent Group(*)	258,531	610,702
Services received from Dada Group	269,395	416,360
Payment processing and other services received from JD Digits	968,713	1,545,347
Lease and property management services received from Core Fund	—	176,020
Services received from AiHuiShou Group	—	7,643
Other income:		
Income from non-compete agreement with Dada Group	20,090	20,781
Interest income from loans provided to JD Digits	11,942	5,825
Interest income from loans provided to Core Fund	—	6,511

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

On May 10, 2019, the Company renewed the strategic cooperation agreement with Tencent, for a period of three years starting from May 27, 2019. Tencent continued to offer the Group prominent level 1 and level 2 access points on its Weixin platform to provide traffic support, and the two parties also intend to continue to cooperate in a number of areas including communications, advertising and membership services, among others. As part of the total consideration, the Company agreed to issue to Tencent a certain number of the Company's Class A ordinary shares for a consideration of approximately US$250 million at prevailing market prices at certain pre-determined dates during the three-year period, of which 8,127,302 Class A ordinary shares were issued in May 2019.

Revenues from related parties, excluding those from the major related parties as stated above, represented approximately 0.04% and 0.15% of total net revenues of the Group for the three months ended March 31, 2019 and 2020, respectively. Transactions with related parties included in operating expenses, excluding those with the major related parties as stated above, represented 0.23% and 0.24% of total operating expenses of the Group for the three months ended March 31, 2019 and 2020, respectively.

23. Related party transactions—continued

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

	As of	
	December 31, 2019	March 31, 2020
	RMB'000	RMB'000
Due from Tencent Group	1,128,102	1,320,641
Due from JD Digits		
Loans provided to JD Digits(**)	365,089	—
Other receivables from JD Digits	1,363,479	—
Due from Core Fund		
Loans provided to Core Fund(**)	579,118	510,466
Other receivables from Core Fund	569,832	354,581
Total	4,005,620	2,185,688
Due to Tuniu Group	(2,133)	(2,107)
Due to Dada Group	(208,123)	(281,480)
Due to AiHuiShou Group	(17,504)	(48,047)
Due to JD Digits	—	(822,223)
Total	(227,760)	(1,153,857)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Bitauto Group	(164,528)	(13,295)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Tuniu Group	(82,939)	(50,124)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Dada Group	(207,096)	(191,564)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to AiHuiShou Group	(1,899,099)	(1,791,958)
Total	(2,353,662)	(2,046,941)
Other liabilities in relation to non-compete obligation to Dada Group	(276,976)	(260,202)
Total	(276,976)	(260,202)

(**) In relation to the loans provided to JD Digits and Core Fund, the Group charged JD Digits and Core Fund based on fair market interest rate, and cash flows resulted from the loans were presented within investing activities in the unaudited interim condensed consolidated statements of cash flows.

As of December 31, 2019 and March 31, 2020, the Group recorded amount due from related parties other than the major related parties as stated above of RMB228,447 and RMB342,751, which represented approximately 2.22% and 2.65% of the Group's total accounts receivable, net and prepayments and other current assets, respectively. As of December 31, 2019 and March 31, 2020, 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 other than the major related parties as stated above of RMB279,769 and RMB112,102, which represented approximately 0.20% and 0.09% of the Group's total accounts payable, advance from customers, accrued expenses and other current liabilities, deferred revenues and other non-current liabilities, respectively.

23. Related party transactions—continued

(c) Other information related to related party transactions:

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 RMB76,144 and RMB110,985 for the three months ended March 31, 2019 and 2020, respectively. In connection with the consumer financing business, JD Digits charged the Group RMB272,503 and RMB317,695, for the three months ended March 31, 2019 and 2020 for payment processing services provided to the Group, respectively, which are included in "payment processing and other services received from JD Digits" stated above.

The Group also transferred certain financial assets to JD Digits with or without recourse at fair value. The accounts receivable transferred with recourse were nil for the three months ended March 31, 2019 and 2020, which were not derecognized. The accounts receivable transferred without recourse were RMB3,338,858 and RMB5,770,884 for the three months ended March 31, 2019 and 2020, respectively, and were derecognized.

Mr. Richard Qiangdong Liu, the Group's Chairman of the board and the 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.

24. Segment reporting

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 revenues 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.

24. Segment reporting—continued

The table below provides a summary of the Group's operating segment results for the three months ended March 31, 2019 and 2020.

	For the three months ended March 31,	
	2019	2020
	RMB'000	RMB'000
Net revenues:		
JD Retail	116,151,096	139,419,443
New Businesses	4,940,518	6,588,393
Inter-segment(*)	(242,661)	(125,609)
Total segment net revenues	120,848,953	145,882,227
Unallocated items	232,106	322,982
Total consolidated net revenues	121,081,059	146,205,209
Operating income/(loss):		
JD Retail	3,193,875	4,452,534
New Businesses	(1,138,725)	(1,196,651)
Including: gain on sale of development properties	*83,218*	—
Total segment operating income	2,055,150	3,255,883
Unallocated items(**)	(829,576)	(935,434)
Total consolidated operating income	1,225,574	2,320,449
Total other income/(expense)	6,293,744	(936,822)
Income before tax	7,519,318	1,383,627

(*) The inter-segment eliminations mainly consist of services provided by JD Retail to overseas business, and certain services provided by JD Logistics to the vendors of JD Retail, which the Group records as a deduction of cost of revenues at the consolidated level.

(**) A summary of unallocated items for the periods presented is as follows：

	For the three months ended March 31,	
	2019	2020
	RMB'000	RMB'000
Share-based compensation	(618,046)	(976,514)
Amortization of intangible assets resulting from assets and business acquisitions	(443,636)	(147,161)
Effects of business cooperation arrangements	232,106	188,241
Total	(829,576)	(935,434)

25. 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 and consolidated VIEs 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 RMB1,464,239 and RMB1,439,275 for the three months ended March 31, 2019 and 2020, respectively.

26. Lines of credit and loan facilities

As of March 31, 2020, the Group had agreements with commercial banks for unsecured revolving lines of credit, and increased its revolving lines of credit to RMB81,152,438. The Group was in compliance with the financial covenants, under those lines of credit as of March 31, 2020. As of March 31, 2020, under the lines of credit, the Group had RMB3,601,811 used for the liquidity loans, RMB1,940,000 used for the private placement notes, RMB13,629,068 used for the issuance of bank acceptance, RMB1,145,605 used for the bank guarantee and RMB5,700 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 London Interbank Offered Rate. The use of proceeds of the facilities was intended for general corporate purposes. In June 2018, the Group drew down US$450,000 under the facility commitment, and the borrowings will be due in 2022, which were recorded in long-term borrowings in the unaudited interim condensed consolidated balance sheets. As of March 31, 2020, balance of US$550,000 remain available under the credit facilities agreement, with a commitment fee of 0.2% per annum on the undrawn portion, which will expire one month prior to the final maturity date, which is sixty months after the date of this credit facilities agreement. As of March 31, 2020, the aggregate amounts repayable within a period of more than two years but not exceeding five years was US$450,000. Subsequently in April 2020, the Group drew down US$550,000 under the facility commitment.

27. Commitments and contingencies

Operating lease commitments for offices and fulfillment infrastructures

The Group leases offices and fulfillment infrastructures under non-cancelable operating lease agreements. Future minimum lease payments under these non-cancelable operating lease agreements with initial terms longer than twelve months are disclosed as maturity of lease liabilities in Note 13.

Commitments for internet data center (IDC) service fee

The Group entered into non-cancelable IDC service agreements. The related expenses were RMB541,347 and RMB743,793 for the three months ended March 31, 2019 and 2020, respectively, and were charged to the unaudited interim condensed consolidated statements of operations and comprehensive income when incurred.

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

	As of March 31, 2020
	RMB'000
Remainder of 2020	1,172,954
2021	1,382,689
2022	1,257,169
2023	844,998
2024	686,136
2025 and thereafter	804,740
	6,148,686

27. Commitments and contingencies—continued

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 unaudited interim condensed consolidated financial statements amounted to RMB6,864,841 as of March 31, 2020. 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 12 and Note 26, 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, 2019 and March 31, 2020.

28. Subsequent events

Financing for JD Industrial Technology, Inc.

On April 24, 2020, the Group entered into definitive agreements for the non-redeemable series A preferred share financing of JD Industrial Technology, Inc., a subsidiary of the Company, with investors including GGV Capital, Sequoia Capital China and CPE, among others. The total amount expected to be raised is US$230 million, representing 10.7% of equity interest of JD Industrial Technology, Inc. on a fully diluted basis, subject to closing conditions. JD Industrial Technology, Inc., operates an e-commerce platform that specializes in industrial maintenance, repair and operations products and services, and provides intelligent purchasing platform and supply chain solutions for corporate customers.

Potential impact of COVID-19

From late January 2020, the COVID-19 was rapidly evolving in China and globally. Since then, the business and transportation disruptions in China have caused adverse impacts to the Group's

28. Subsequent events—continued

Potential impact of COVID-19—continued

operations and led to incremental costs, in particular, relating to the Group's retail and logistics business. Demands for large-ticket items, durable goods and discretionary products have also been negatively affected by the COVID-19 outbreak. The Group's consolidated financial position and results of operation in future periods of 2020 will be adversely affected to a certain extent, which will depend on the future developments of the outbreak, including new development concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable.

Acquisitions

Subsequent to March 31, 2020, the Group has signed definitive agreements to acquire the controlling equity interests in three companies in an aggregate consideration of approximately RMB1.6 billion. These three companies are principally engaged in the businesses of retail, e-commerce and real estate, respectively.

Private placement of notes

In May 2020, Jingdong Century, a subsidiary of the Company, issued RMB2,000,000 of 1.75% fixed rate private placement notes due August 18, 2020. The notes are listed on the inter-bank bond market of China. The Group intends to use the proceeds from the private placement for general corporate purposes.

Issuance of Class A Ordinary Shares to Tencent

As disclosed in Note 23, on May 27, 2020, the Company issued 2,938,584 Class A ordinary shares to Huang River Investment Limited, as part of the total consideration of the strategic cooperation agreement with Tencent for the three-year period starting from May 27, 2019.

The following information does not form part of the accountants' report on the historical financial information for the year ended December 31, 2019 of the Group (the "Accountants' Report") from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of JD.com, Inc. (the "Company"), as set out in Appendix IB to this prospectus, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix IB to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY

The following unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group attributable to the ordinary shareholders of the Company as of December 31, 2019, as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group, had the Global Offering been completed as of December 31, 2019 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of December 31, 2019 as derived from the Accountants' Report, the text of which is set out in Appendix IB to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of December 31, 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of December 31, 2019	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS
	(in thousands of RMB) (Note 1)	(in thousands of RMB) (Note 2)	(in thousands of RMB)	RMB (Note 3)	RMB (Note 4)	HK$ (Note 5)	HK$ (Note 5)
Based on the indicative offer price of HK$236.00 per Offer Share	71,134,628	28,523,661	99,658,289	32.60	65.20	35.42	70.84

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of December 31, 2019 is derived from the Accountants' Report set out in Appendix IB to this prospectus, which is based on the audited consolidated net assets of the Group attributable to ordinary shareholders of the Company as of December 31, 2019 of RMB81,855,970,000 with adjustments for goodwill and intangible assets attributable to the ordinary shareholders of the Company of RMB6,643,669,000 and RMB4,077,673,000, respectively.

(2) The estimated net proceeds from the Global Offering are based on 133,000,000 Offer Shares at the indicative offer price of HK$236.00 per Offer Share after deduction of the estimated listing and share issue costs (including underwriting fees and other related expenses) expected to be incurred by the Company subsequent to December 31, 2019 and without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company. For the purpose of calculating the estimated net proceeds from the

Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK$1.00 to RMB0.9205, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on May 29, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Hong Kong dollars have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 3,057,315,263 Shares were in issue assuming that the Global Offering had been completed on December 31, 2019 without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares by the Company.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents two Shares.

(5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company, the balances stated in Renminbi are converted into Hong Kong dollars at the exchange rate of RMB1.00 to HK$1.0864, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on May 29, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

(6) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the ordinary shareholders of the Company to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2019.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of JD.com, Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of JD.com, Inc. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at December 31, 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated June 8, 2020 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of Global Offering on the Group's financial position as at December 31, 2019 as if the Global Offering had taken place at December 31, 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for the year ended December 31, 2019, on which an accountants' report set out in Appendix IB to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at December 31, 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
June 8, 2020

SUMMARY OF THE CONSTITUTION OF OUR COMPANY

1. Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on March 6, 2014 and effective on May 28, 2014 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection".

2. Articles of Association

The Articles of Association of the Company were conditionally adopted on March 6, 2014 and effective on May 28, 2014 and include provisions to the following effect:

2.1 Ordinary Shares

The Company's ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Ordinary shares are issued in registered form. Shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

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 the 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 if: (1) Mr. Richard Qiangdong Liu ceases to be a director of the Company (a "**Director**", and together with the other directors of the Company, the "**Directors**") and the chief executive officer of the Company, (2) Mr. Richard Qiangdong Liu ceases to be the ultimate beneficial owner of any outstanding Class B ordinary shares or of any entity which holds Class B ordinary shares; and (3) Mr. Richard Qiangdong Liu being permanently unable to attend board meetings and manage the business affairs of the Company as a result of incapacity solely due to his then physical and/or mental condition.

2.2 Dividends

The holders of ordinary shares are entitled to such dividends as may be declared by the board of Directors. In addition, shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by the directors. Under Cayman Islands law, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or the Company's share premium account, and provided further that a dividend may not 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.

Dividends received by each Class B ordinary share and Class A ordinary share in any dividend distribution shall be the same.

Any dividend unclaimed after a period of six years from the date of declaration of such dividend may be forfeited by the board of Directors and, if so forfeited, shall revert to the Company.

2.3 Voting Rights

Holders of Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of the shareholders, except as may otherwise be required by law or provided for in the 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 issued and outstanding voting shares in the Company present in person or by proxy.

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 the 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 the Company, as permitted by the Companies Law and the Memorandum and Articles of Association.

Under the Memorandum and Articles of Association, so long as the total issued and outstanding Class B ordinary shares constitute a majority of the aggregate voting rights powers of the Company 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 shareholders on May 28, 2014, any amendments to the 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 the Company 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 the aggregate voting rights.

2.4 Transfer of Shares

Any of the 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 the board of Directors.

However, the 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 the Company has a lien. The board of Directors may also decline to register any transfer of any ordinary share unless:

(a) the instrument of transfer is lodged with the Company, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as the board of Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of shares;

(c) the instrument of transfer is properly stamped, if required;

(d) in the case of a transfer to joint holders, the transfer is not to more than four joint holders;

(e) the ordinary shares transferred are free of any lien in favor of the Company; or

(f) any fee related to the transfer has been paid to the Company.

If the 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.

2.5 Liquidation

On a winding up of the Company, if the assets available for distribution among the 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 the 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 the Company for unpaid calls or otherwise. If the 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 the shareholders in proportion to the par value of the shares held by them.

2.6 Redemption, Repurchase and Surrender of Shares

The Company may issue shares on terms that such shares are subject to redemption, at the option of the Company 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 the board of Directors or by a special resolution of the shareholders. The Company may also repurchase any of the Company's shares provided that the manner and terms of such purchase have been approved by the board of Directors or by ordinary resolution of the shareholders, or are otherwise authorized by the Memorandum and Articles of Association. Under the Companies Law, the redemption or repurchase of any share may be paid out of the 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 the 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, the Company may accept the surrender of any fully paid share for no consideration.

2.7 Variation of Rights of Shares

The rights attaching to any class of shares may, subject to any rights or restrictions for the time being attached to any class, be materially adversely varied with the consent in writing of the holders of a majority of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

2.8 General Meetings of Shareholders

Shareholders' general meetings may be held in such place within or outside the Cayman Islands as the board of Directors considers appropriate.

As a Cayman Islands exempted company, the Company is not obliged by the Companies Law to call shareholders' annual general meetings. The Memorandum and Articles of Association provide that the Company may (but are not obliged to) in each year hold a general meeting as its annual general meeting. The Company undertakes it will (i) hold annual general meeting every year after the Listing and (ii) put forth a resolution at or before our next annual general meeting of the Company after the Listing which is expected to be held around mid-2021 to revise the Articles of Association to comply with Rule 19C.07(4) of the Hong Kong Listing Rules, even though there may not be any resolutions to be approved by the shareholders at any such meetings. See "Information about the Listing—Our Articles of Association" for further details.

Shareholders' annual general meetings and any other general meetings of the shareholders may be convened by a majority of the board of Directors or the chairman. The board of Directors shall give not less than seven days' notice of a shareholders' meeting to those persons whose names appear as members in the Company's register of members on the date the notice is given (or on any other date determined by the directors to be the record date for such meeting) and who are entitled to vote at the meeting. The Company undertakes it will (i) provide 14 days' notice for any general meetings after the Listing and (ii) put forth a resolution at or before the next annual general meeting of the Company after the Listing which is expected to be held around mid-2021 to revise the Articles of Association, so that the minimum notice period required to convene a general meeting will be 14 days. See "Information about the Listing—Our Articles of Association" for further details.

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. The Memorandum and Articles of Association allow one or more shareholder holding shares representing in aggregate not less than one-third of the votes attaching to the issued and outstanding shares of the Company entitled to vote at general meetings, to requisition an extraordinary general meeting, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, the Memorandum and Articles of Association do not provide the shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders. The Company will put forth a resolution at or before its next annual general meeting which is expected to be held around mid-2021 after the Listing to revise the Articles of Association, so that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda will be 10% of the voting rights, on a one vote per share basis, in the share capital of the Company. See "Waivers from Strict Compliance with the Hong Kong Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous

Provisions) Ordinance" and "Information about the Listing—Our Articles of Association" for further details.

2.9 Appointment and Removal of Directors

The Articles of Association provide that unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than three, and there shall be no maximum number of Directors.

The Articles of Association provide that the Company may by ordinary resolution appoint any person to be a Director or remove any Director. Each Director shall hold office until the expiration of his term as provided in the written agreement relating to the Director's term, if any, and until his successor shall have been elected or appointed, vacates his office in accordance with the provisions of the Articles of Association, or is removed by the shareholders. In addition, the board by the affirmative vote of a simple majority of the remaining Directors present and voting at a board meeting, which shall include the affirmative vote of Mr. Richard Qiandong Liu as long as Mr. Richard Qiandong Liu is a Director, may at any time and from time to time appoint any person as a Director to fill a casual vacancy arising from the resignation of a former Director or as an addition to the existing board.

The office of a Director shall be vacated if:

(a) he becomes bankrupt or makes any arrangement or composition with his creditors;

(b) he dies or is found to be or becomes of unsound mind;

(c) he resigns his office by notice in writing to the Company;

(d) without special leave of absence from the board of Directors, he is absent from meetings of the board of Directors for three consecutive meetings, and the board of Directors resolves that his office be vacated; or

(e) if he is removed from office pursuant to any other provision of the Articles.

2.10 Proceedings of the Board

The quorum necessary for the transaction of the business of the Directors shall be a majority of the then existing Directors and, as long as Mr. Richard Qiandong Liu is a Director, shall include Mr. Richard Qiandong Liu provided, however, a quorum shall nevertheless exist at a meeting at which a quorum would exist but for the fact that Mr. Richard Qiandong Liu voluntarily recuses himself and notifies the board of Directors of his decision to recuse himself before or at the meeting or Mr. Richard Qiandong Liu is permanently unable to attend board meetings as a result of incapacity solely due to his then physical condition (which, for avoidance of doubt, does not include any confinement against his will) and/or his then mental condition. The Company will put forth a resolution at or before its next annual general meeting after the Listing which is expected to be held around mid-2021 to revise its Articles of Association, so that the quorum necessary for the transaction of the business of the directors shall be a majority of the members of the board of directors. See "Information about the Listing—Our Articles of Association" for further details.

The Directors may regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In the case of an equality of votes, Mr. Richard Qiandong Liu (provided he remains a Director) shall have a second or casting vote.

2.11 Changes in Share Capital

The Company may by ordinary resolution:

(a) increase the share capital by such, to be divided into shares of such classes and amount, as the resolution shall prescribe;

(b) consolidate and divide all or any of its share capital into shares or larger amount than its existing shares;

(c) convert all or any of its paid up shares into stock and reconvert that stock into paid up shares of any denomination

(d) subdivide its existing shares, or any of them into shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and

(e) cancel any shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled.

2.12 Directors' Power to Issue Shares

Subject to the provisions, if any, in the Memorandum and Articles of Association and to any direction that may be given by the Company in a general meeting, the Directors may in their absolute discretion and without approval of the shareholders, issue shares, grant rights over existing shares or issue other securities in one or more series as they deem necessary and appropriate and determine designations, powers, preferences, privileges and other rights, including dividend rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers and rights associated with the shares held by existing shareholders, at such times and on such other terms as they think proper.

2.13 Directors Borrowing Powers

The board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock and other such securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

2.14 Disclosure of Interest in Contracts with the Company or any of our Subsidiaries

A Director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with the Company shall declare the nature of his interest at a meeting of the Directors. A general notice given to the Directors by any Director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract or transaction which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made or transaction so consummated.

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 shall be counted and he may be counted in the quorum at any meeting of the Directors at which any such contract or transaction or proposed contract or transaction shall come before the meeting for consideration.

2.15 Remuneration of Directors

The remuneration of the Directors may be determined by the Directors or by ordinary resolution.

The Directors shall be entitled to be paid their traveling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Directors, or any committee of the Directors, or general meetings of the Company, or otherwise in connection with the business of the Company, or to receive such fixed allowance in respect thereof as may be determined by the Directors from time to time, or a combination partly of one such method and partly the other.

2.16 Restriction on Ownership of Securities

There are no provisions in the Articles of Association relating to restrictions on ownership of the Company's shares or securities.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2. Incorporation

The Company was registered in the Cayman Islands as an exempted company with limited liability by way of continuation on January 16, 2014 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

3. Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancelation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4. Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5. Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6. Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7. Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8. Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9. Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10. Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11. Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12. Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13. Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17. Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18. Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19. Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

  (i) on or in respect of the shares, debentures or other obligations of the Company; or

  (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20. Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21. General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

Further Information About Us

Our Incorporation

We were incorporated in the BVI on November 6, 2006 and subsequently redomiciled to the Cayman Islands on January 16, 2014 as an exempted company under the laws of the Cayman Islands. We have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance with an address at Room 1901, 19th Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. CHIU, Ming King (趙明璟) has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong.

As we are incorporated in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in "Summary of our Constitution and Cayman Companies Law" in Appendix III.

Changes in Our Share Capital

As at the Latest Practicable Date, we had an authorized share capital of US$2,000,000 divided into 99,000,000,000 Class A ordinary shares of a nominal or par value of US$0.00002 each and 1,000,000,000 Class B ordinary shares of a nominal or par value of US$0.00002, and our issued share capital was 2,526,000,652 Class A ordinary shares and 450,881,081 Class B ordinary shares.

The following tables set out the changes in the share capital of our Company during the periods presented in this document:

	Fiscal year ended December 31, 2017		
	Class A ordinary share	Class B ordinary share	Shareholders' Equity
			(US$)
Balance as at January 1, 2017	2,467,134,904	471,573,995	58,774
Class A ordinary shares converted from Class B ordinary shares in relation to share-based awards	10,211,686	(10,211,686)	—
Balance as at December 31, 2017	2,477,346,590	461,362,309	58,774

	Fiscal year ended December 31, 2018		
	Class A ordinary share	Class B ordinary share	Shareholders' Equity
			(US$)
Balance as at January 1, 2018	2,477,346,590	461,362,309	58,774
Issuance of shares	27,106,948	—	542
Class A ordinary shares converted from Class B ordinary shares in relation to share-based awards	3,019,792	(3,019,792)	—
Balance as at December 31, 2018	2,507,473,330	458,342,517	59,316

	Fiscal year ended December 31, 2019		
	Class A ordinary share	Class B ordinary share	Shareholders' Equity
			(US$)
Balance as at January 1, 2019	2,507,473,330	458,342,517	59,316
Issuance of shares	8,127,302	—	163
Class A ordinary shares converted from Class B ordinary shares in relation to share-based awards	4,670,506	(4,670,506)	—
Balance as at December 31, 2019	2,520,271,138	453,672,011	59,479

Changes in the Share Capital of Our Major Subsidiaries

The following alterations in the share capital of our Major Subsidiaries have taken place within the two years immediately preceding the date of this document:

Xi'an Jingdong Xuncheng Logistics Co., Ltd. (西安京東訊成物流有限公司), or, Xi'an Jingdong Xuncheng

On March 14, 2019, the registered capital of Xi'an Jingdong Xuncheng was increased from RMB10,000,000 to RMB50,000,000.

Further Information About Our Business

Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document and are or may be material:

1. a subscription agreement, by and between the Company and Google LLC, dated as of June 18, 2018, pursuant to which Google LLC agreed to subscribe for and purchase, and the Company agreed to issue and sell to Google LLC, certain Class A ordinary shares for a total consideration of approximately US$549,999,975, pursuant to the terms and conditions set forth therein (the "**Google Subscription Agreement**");

2. an investor rights agreement, by and between the Company and Google LLC, dated as of June 18, 2018, pursuant to which the Company and Google LLC agreed to govern certain of their rights, duties and obligations after consummation of the transactions contemplated by the Google Subscription Agreement;

3. a strategic cooperation agreement, dated May 10, 2019, by and among Shenzhen Tencent Computer Systems Co., Ltd. (深圳市騰訊計算機系統有限公司), the Company and Chongqing Jingdong Haijia E-Commerce Co., Ltd. (重慶京東海嘉電子商務有限公司), pursuant to which the parties thereto agreed to, within the cooperation period specified therein, cooperate and procure the cooperation of their respective affiliated companies in a number of areas including, among others, user traffic access, advertising, membership systems and data;

4. a share subscription agreement, dated May 10, 2019, by and between the Company and Huang River Investment Limited, pursuant to which the Company agreed to issue and sell to Huang River Investment Limited, and Huang River Investment Limited agreed to

subscribe for and purchase from the Company, certain Class A ordinary shares for a total consideration of US$253,160,000, pursuant to the terms and conditions set forth therein; and

5. the Hong Kong Underwriting Agreement.

Our Intellectual Property Rights

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, 2019, we owned approximately 1,200 computer software copyrights in China relating to various aspects of our operations and maintained approximately 11,700 trademark registrations inside China and approximately 1,900 trademark registrations outside China. We had approximately 4,300 trademark applications inside China and approximately 1,700 outside China. As of December 31, 2019, we had approximately 2,700 patents granted in China, approximately 160 patents granted outside China, approximately 7,100 patent applications pending in China and approximately 410 patent applications pending outside China. As of December 31, 2019, we had registered approximately 6,600 domain names. Our registered domain names include jd.com, 360buy.com, jdcloud.com and jdwl.com, among others.

Summary of the Contractual Arrangements

As described in "History and Corporate Structure—Contractual Arrangements", our Company or its Major Subsidiaries entered into the following contracts in relation to the Contractual Arrangements that are material to our Group:

1. a loan agreement by and among Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司) ("**Jingdong Century**"), and Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲), dated November 20, 2017, pursuant to which Jingdong Century agreed to provide a loan of RMB324 million to Richard Qiangdong Liu (劉強東), RMB180 million to Pang Zhang (張雱) and RMB216 million to Yayun Li (李婭雲);

2. an equity pledge agreement by and among Jindong Century, Richard Qiangdong Liu (劉強東), Pang Zhang (張雱), Yayun Li (李婭雲) and Beijing Jingdong 360 Degree E-Commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司) (**"Jingdong 360")** dated June 15, 2016, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to pledge all of their equity interests in Jingdong 360 to Jingdong Century;

3. a power of attorney dated June 15, 2016 executed by Richard Qiangdong Liu (劉強東) in favor of Jingdong Century, pursuant to which Richard Qiangdong Liu (劉強東) agreed to, among other things, exclusively authorize a designated person of Jingdong Century to exercise all of his rights as shareholder of Jingdong 360;

4. a power of attorney dated June 15, 2016 executed by Pang Zhang (張雱) in favor of Jingdong Century, pursuant to which Pang Zhang (張雱) agreed to, among other things, exclusively authorize a designated person of Jingdong Century to exercise all of her rights as shareholder of Jingdong 360;

5. a power of attorney dated June 15, 2016 executed by Yayun Li (李婭雲) in favor of Jingdong Century, pursuant to which Yayun Li (李婭雲) agreed to, among other things,

exclusively authorize a designated person of Jingdong Century to exercise all of her rights as shareholder of Jingdong 360;

6. an exclusive technology consulting and service agreement between Jingdong Century and Jingdong 360 dated June 15, 2016, pursuant to which Jingdong 360 agreed to engage Jingdong Century as the exclusive provider of technology consulting and services in return for service fees;

7. an intellectual property rights license agreement entered into by Jingdong Century, certain subsidiaries of Jingdong Century and Jingdong 360 dated December 25, 2013, pursuant to which Jingdong Century and certain of its subsidiaries agreed to grant Jingdong 360 a non-exclusive right to use certain of its trademarks, patents, copyrights to computer software and other copyrights within China in return for license fees;

8. a business cooperation agreement by and among Jingdong Century, Shanghai Shengdayuan Information Technology Co., Ltd. (上海晟達元信息技術有限公司) ("**Shanghai Shengdayuan**") and Jingdong 360 dated May 29, 2012, pursuant to which Jingdong 360 agreed to provide services to Jingdong Century and Shanghai Shengdayuan, including operating websites, 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, in return for service fees;

9. an exclusive purchase option agreement by and among Jingdong Century, Jingdong 360, Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) dated June 15, 2016, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to grant Jingdong Century an exclusive and irrevocable option to purchase, or designate one or more person(s) to purchase, from Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) all or part of their equity interests in Jingdong 360;

10. a business operations agreement by and among Jingdong Century, Jingdong 360, Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) dated November 20, 2017, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to appoint candidates nominated by Jingdong Century to be the directors on the board of directors of Jingdong 360, and cause the persons recommended by Jingdong Century to be appointed as the general manager, chief financial officer and other senior executives of Jingdong 360;

11. a loan agreement by and among Jingdong Century, Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) dated June 15, 2016, pursuant to which Jingdong Century agreed to provide a loan of RMB9.9 million to Richard Qiangdong Liu (劉強東), RMB5.5 million to Pang Zhang (張雱) and RMB6.6 million to Yayun Li (李婭雲);

12. an equity pledge agreement by and among Jingdong Century, Richard Qiangdong Liu (劉強東), Pang Zhang (張雱), Yayun Li (李婭雲) and Jiangsu Yuanzhou E-Commerce Co., Ltd. (江蘇圓周電子商務有限公司) ("**Jiangsu Yuanzhou**") dated June 15, 2016, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to pledge all of their equity interests in Jiangsu Yuanzhou to Jingdong Century;

13. a power of attorney dated June 15, 2016 executed by Richard Qiangdong Liu (劉強東) in favor of Jingdong Century, pursuant to which Richard Qiangdong Liu (劉強東) agreed to, among other things, exclusively authorize a designated person of Jingdong Century to exercise all of his rights as shareholder of Jiangsu Yuanzhou;

14. a power of attorney dated June 15, 2016 executed by Pang Zhang (張雱) in favor of Jingdong Century, pursuant to which Pang Zhang (張雱) agreed to, among other things, exclusively authorize a designated person of Jingdong Century to exercise all of her rights as shareholder of Jiangsu Yuanzhou;

15. a power of attorney dated June 15, 2016 executed by Yayun Li (李婭雲) in favor of Jingdong Century, pursuant to which Yayun Li (李婭雲) agreed to, among other things, exclusively authorize a designated person of Jingdong Century to exercise all of her rights as shareholder of Jiangsu Yuanzhou;

16. an exclusive technology consulting and service agreement between Jingdong Century and Jiangsu Yuanzhou dated June 15, 2016, pursuant to which Jiangsu Yuanzhou agreed to engage Jingdong Century as the exclusive provider of technology consulting and services in return for service fees;

17. an amended and restated intellectual property rights license agreement entered into by Jingdong Century, certain subsidiaries of Jingdong Century and Jiangsu Yuanzhou dated December 18, 2013, pursuant to which Jingdong Century and certain of its subsidiaries agreed to grant Jiangsu Yuanzhou a non-exclusive right to use certain of its trademarks, patents, copyrights to computer software and other copyrights within China in return for license fees;

18. an exclusive purchase option agreement by and among Jingdong Century, Jiangsu Yuanzhou, Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) dated June 15, 2016, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to grant Jingdong Century an exclusive and irrevocable option to purchase, or designate one or more person(s) to purchase, from Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) all or part of their equity interests in Jiangsu Yuanzhou;

19. a business operations agreement by and among Jingdong Century, Jiangsu Yuanzhou, Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) dated June 15, 2016, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to appoint candidates nominated by Jingdong Century to be the directors on the board of directors of Jiangsu Yuanzhou, and cause the persons recommended by Jingdong Century to be appointed as the general manager, chief financial officer and other senior executives of Jiangsu Yuanzhou;

20. a loan agreement by and among Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司) ("**Xi'an Jingxundi**"), Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) dated June 23, 2017, pursuant to which Xi'an Jingxundi agreed to provide a loan of RMB450,000 to Richard Qiangdong Liu (劉強東), RMB250,000 to Pang Zhang (張雱) and RMB300,000 to Yayun Li (李婭雲);

21. an equity pledge agreement by and among Xi'an Jingxundi, Richard Qiangdong Liu (劉強東) and Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司) ("**Xi'an Jingdong Xincheng**") dated June 23, 2017, pursuant to which

Richard Qiangdong Liu (劉強東) agreed to pledge all of his equity interests in Xi'an Jingdong Xincheng to Xi'an Jingxundi;

22. an equity pledge agreement by and among Xi'an Jingxundi, Pang Zhang (張雱) and Xi'an Jingdong Xincheng dated June 23, 2017, pursuant to which Pang Zhang (張雱) agreed to pledge all of her equity interests in Xi'an Jingdong Xincheng to Xi'an Jingxundi;

23. an equity pledge agreement by and among Xi'an Jingxundi, Yayun Li (李婭雲) and Xi'an Jingdong Xincheng dated June 23, 2017, pursuant to which Yayun Li (李婭雲) agreed to pledge all of her equity interests in Xi'an Jingdong Xincheng to Xi'an Jingxundi;

24. a power of attorney dated June 23, 2017 executed by Richard Qiangdong Liu (劉強東) in favor of Xi'an Jingxundi, pursuant to which Richard Qiangdong Liu (劉強東) agreed to, among other things, exclusively authorize a designated person of Xi'an Jingxundi to exercise all of his rights as shareholder of Xi'an Jingdong Xincheng;

25. a power of attorney dated June 23, 2017 executed by Pang Zhang (張雱) in favor of Xi'an Jingxundi, pursuant to which Pang Zhang (張雱) agreed to, among other things, exclusively authorize a designated person of Xi'an Jingxundi to exercise all of her rights as shareholder of Xi'an Jingdong Xincheng;

26. a power of attorney dated June 23, 2017 executed by Yayun Li (李婭雲) in favor of Xi'an Jingxundi, pursuant to which Yayun Li (李婭雲) agreed to, among other things, exclusively authorize a designated person of Xi'an Jingxundi to exercise all of her rights as shareholder of Xi'an Jingdong Xincheng;

27. an exclusive technology consulting and service agreement between Xi'an Jingxundi and Xi'an Jingdong Xincheng dated June 23, 2017, pursuant to which Xi'an Jingdong Xincheng agreed to engage Xi'an Jingxundi as the exclusive provider of technology consulting and services in return for service fees;

28. an exclusive purchase option agreement by and among Xi'an Jingxundi, Xi'an Jingdong Xincheng, Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) dated June 23, 2017, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to grant Xi'an Jingxundi an exclusive and irrevocable option to purchase, or designate one or more person(s) to purchase, from Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) all or part of their equity interests in Xi'an Jingdong Xincheng;

29. a business operations agreement by and among Xi'an Jingxundi, Xi'an Jingdong Xincheng, Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) dated June 23, 2017, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to appoint candidates nominated by Xi'an Jingxundi to be the directors on the board of directors of Xi'an Jingdong Xincheng, and cause the persons recommended by Xi'an Jingxundi to be appointed as the general manager, chief financial officer and other senior executives of Xi'an Jingdong Xincheng;

30. a loan agreement by and among Jingdong Century, Richard Qiangdong Liu (劉強東), Yayun Li (李婭雲) and Pang Zhang (張雱), dated September 8, 2016, pursuant to which Jingdong Century agreed to provide a loan of RMB36 million to Richard Qiangdong Liu (劉強東), RMB20 million to Pang Zhang (張雱) and RMB24 million to Yayun Li (李婭雲);

31. an equity pledge agreement by and among Jingdong Century, Richard Qiangdong Liu (劉強東), Yayun Li (李婭雲), Pang Zhang (張雱) and Jiangsu Jingdong Bangneng Investment

Management Co., Ltd. (江蘇京東邦能投資管理有限公司) ("**Jiangsu Jingdong Bangneng**") dated September 8, 2016, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to pledge all of their equity interests in Jiangsu Jingdong Bangneng to Jingdong Century;

32. a power of attorney dated September 8, 2016 executed by Richard Qiangdong Liu (劉強東) in favor of Jingdong Century, pursuant to which Richard Qiangdong Liu (劉強東) agreed to, among other things, exclusively authorize a designated person of Jingdong Century to exercise all of his rights as shareholder of Jiangsu Jingdong Bangneng;

33. a power of attorney dated September 8, 2016 executed by Pang Zhang (張雱) in favor of Jingdong Century, pursuant to which Pang Zhang (張雱) agreed to, among other things, exclusively authorize a designated person of Jingdong Century to exercise all of her rights as shareholder of Jiangsu Jingdong Bangneng;

34. a power of attorney dated September 8, 2016 executed by Yayun Li (李婭雲) in favor of Jingdong Century, pursuant to which Yayun Li (李婭雲) agreed to, among other things, exclusively authorize a designated person of Jingdong Century to exercise all of her rights as shareholder of Jiangsu Jingdong Bangneng;

35. an exclusive technology consulting and service agreement between Jingdong Century and Jiangsu Jingdong Bangneng dated September 8, 2016, pursuant to which Jiangsu Jingdong Bangneng agreed to engage Jingdong Century as the exclusive provider of technology consulting and services in return for service fees;

36. an exclusive purchase option agreement by and among Jingdong Century, Jiangsu Jingdong Bangneng, Richard Qiangdong Liu (劉強東), Yayun Li (李婭雲) and Pang Zhang (張雱) dated September 8, 2016, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to grant Jingdong Century an exclusive and irrevocable option to purchase, or designate one or more person(s) to purchase, from Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) all or part of their equity interests in Jiangsu Jingdong Bangneng; and

37. a business operations agreement by and among Jingdong Century, Jiangsu Jingdong Bangneng, Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) dated September 8, 2016, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) agreed to appoint candidates nominated by Jingdong Century to be the directors on the board of directors of Jiangsu Jingdong Bangneng, and cause the persons recommended by Jingdong Century to be appointed as the general manager, chief financial officer and other senior executives of Jiangsu Jingdong Bangneng.

These contracts are made available on our Company's website at **http://ir.jd.com** pursuant to the Hong Kong Stock Exchange's Guidance Letter HKEX-GL94-18 and Listing Decision HKEX-LD43-3.

Further Information About Directors and Executive Officers

Disclosure of Interests

See "Major Shareholders" for disclosure of interests of directors and executive officers.

Directors' Service Contracts

We have entered into employment agreements with each of our directors who is also an officer. See "Directors and Senior Management—Compensation—Employment Agreements and Indemnification Agreements."

Each of our directors has been nominated pursuant to our Articles of Association. Each of our directors shall hold office until the expiration of such director's term as provided in the written agreement or until such director's successor is elected or appointed and duly qualified. No annual directors' fees are payable to our directors other than our independent directors under the current arrangement. We pay annual fees and grant share-based awards to our independent directors under the current arrangement.

Directors' Remuneration

See "Directors and Senior Management—Compensation" for a discussion of Directors' remuneration.

Disclosures relating to Directors and Experts

Save as disclosed in this document:

- None of our directors nor any of the persons listed in "—Other Information—Qualification of Experts" below is materially interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities, or are proposed to be acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities.
- None of our directors nor any of the persons listed in "—Other Information—Qualification of Experts" below is materially interested in any contract or arrangement with us subsisting at the date of this document which is unusual in its nature or conditions or which is significant in relation to our business as a whole.
- None of the persons listed in "—Other Information—Qualification of Experts" below has any shareholding in us or any of our Major Subsidiaries or has the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in us or any of our Major Subsidiaries.

Share Incentive Plan

See "Directors and Senior Management—Compensation" for details about our Share Incentive Plan.

Other Information

Estate duty

Our directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Litigation

See "Our Business—Legal and Administrative Proceedings" for further information.

Joint Sponsors

The Joint Sponsors made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Class A ordinary shares in issue, the Class A ordinary shares to be issued pursuant to the Global Offering (including the additional Class A ordinary shares which may be issued pursuant to the exercise of the Over-allotment Option), the Class A ordinary shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and the Class A ordinary shares to be issued after the conversion of Class B ordinary shares. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

Merrill Lynch Far East Limited, UBS Securities Hong Kong Limited and CLSA Capital Markets Limited satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

The fee payable to each of the Joint Sponsors is US$500,000 and is payable by our Company.

No Material Adverse Change

Our directors confirm that save as disclosed in this document there has been no material adverse change in our financial or trading position since December 31, 2019 (being the date to which our latest audited consolidated financial statements were prepared).

Qualification of Experts

The following are the qualifications of the experts (as defined under the Hong Kong Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in this document:

Name	Qualification
Merrill Lynch Far East Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
UBS Securities Hong Kong Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 7 (providing automated trading services) of the regulated activities as defined under the SFO
CLSA Capital Markets Limited	A licensed corporation under the SFO for type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountant and Registered Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance (Cap.588)
PricewaterhouseCoopers	Certified Public Accountant under Professional Accountants Ordinance (Cap. 50) Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap.588)
Shihui Partners	Legal adviser to Company as to PRC law
Maples and Calder (Hong Kong) LLP	Legal adviser to Company as to Cayman Islands law

Consents of Experts

Each of the experts above has given and has not withdrawn its consent to the issue of this document with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

Preliminary Expenses

Our Company did not incur any material preliminary expenses.

Promoter

Our Company has no promoter for the purpose of the Hong Kong Listing Rules. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this document.

Binding Effect

This document shall have the effect, if an application is made in pursuance of this document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

Bilingual Prospectus

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Miscellaneous

- Save as disclosed in this document or otherwise waived or exempted from disclosure pursuant to the waivers and exemptions disclosed in this document, within the two years immediately preceding the date of this document:
  - to the best of our knowledge, neither we nor any of our Major Subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
  - no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
  - save for underwriting discounts paid to the managers of the issuance of our US$1 billion notes in January 2020 and the RMB3 billion, RMB2 billion and RMB2

billion private placement notes Jingdong Century, a subsidiary of the Company, issued in February 2020, March 2020 and May 2020, respectively, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any share capital or debentures of our Company or any of our Major Subsidiaries;

  - no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
  - there is no arrangement under which future dividends are waived or agreed to be waived.

- Our branch register of members will be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Unless the directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by our share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.
- Our directors confirm that:
  - there has not been any interruption in our business which may have or have had a material adverse effect on our financial position in the 12 months immediately preceding the date of this document; and
  - save for US$1 billion notes we issued in April 2016 and US$1 billion notes we issued in January 2020 and the RMB2 billion private placement notes and RMB2 billion private placement notes Jingdong Century, a subsidiary of the Company, issued in March 2020 and May 2020, respectively, we and our Major Subsidiaries have no outstanding debentures or convertible debt securities.
- The English version of this document shall prevail over the Chinese version.

Documents Delivered to the Registrar of Companies

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- a copy of the **GREEN** Application Form;
- a copy of each of the material contracts referred to in the section headed "Statutory and General Information—Further Information About Our Business—Summary of Material Contracts" in Appendix IV to this document; and
- the written consents referred to in the section headed "Statutory and General Information—Other Information—Consents of Experts" in Appendix IV to this document.

Documents Available for Inspection

Copies of the following documents will be available for inspection at the office of Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- the Memorandum and Articles of Association of our Company;
- our audited consolidated financial statements for the years ended December 31, 2017, 2018 and 2019;
- the Accountants' Report for the year ended December 31, 2019, the report on review of interim condensed consolidated financial statements for the three-month period ended March 31, 2020 and the report on the unaudited pro forma financial information from Deloitte Touche Tohmatsu, the texts of which are set out in Appendices IB, IC and II to this document;
- the Accountant's Report for the years ended December 31, 2017 and 2018 from PricewaterhouseCoopers, the texts of which are set out in Appendix IA to this document;
- the legal opinion issued by Shihui Partners, our PRC legal adviser, in respect of certain aspects of us;
- the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our Cayman Islands legal adviser, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III to this document;
- the material contracts referred to in the section headed "Statutory and General Information—Further Information About Our Business—Summary of Material Contracts" in Appendix IV to this document;
- the written consents referred to in the section headed "Statutory and General Information—Other Information—Consents of Experts" in Appendix IV to this document; and
- the Cayman Companies Law.

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