

JD.com, Inc.  
Form 20-F  
April 27, 2018  
[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

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

OR

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

OR

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

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

OR

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

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

Commission file number: 001-36450

**JD.com, Inc.**

(Exact name of Registrant as specified in its charter)

**N/A**

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

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

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

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

---

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

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

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

**None**  
(Title of Class)

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

**None**  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

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

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

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Emerging growth company ☐

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

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

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

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

U.S. GAAP ☒

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

Other ☐

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

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

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

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

---

Table of Contents

**TABLE OF CONTENTS**

<u>INTRODUCTION</u>		1
<u>FORWARD-LOOKING INFORMATION</u>		1
<u>PART I</u>		2
Item 1.	<u>Identity of Directors, Senior Management and Advisers</u>	2
Item 2.	<u>Offer Statistics and Expected Timetable</u>	2
Item 3.	<u>Key Information</u>	2
Item 4.	<u>Information on the Company</u>	52
Item 4A.	<u>Unresolved Staff Comments</u>	88
Item 5.	<u>Operating and Financial Review and Prospects</u>	88
Item 6.	<u>Directors, Senior Management and Employees</u>	113
Item 7.	<u>Major Shareholders and Related Party Transactions</u>	123
Item 8.	<u>Financial Information</u>	129
Item 9.	<u>The Offer and Listing</u>	130
Item 10.	<u>Additional Information</u>	131
Item 11.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	143
Item 12.	<u>Description of Securities Other than Equity Securities</u>	144
<u>PART II</u>		147
Item 13.	<u>Defaults, Dividend Arrearages and Delinquencies</u>	147
Item 14.	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	147
Item 15.	<u>Controls and Procedures</u>	147
Item 16A.	<u>Audit Committee Financial Expert</u>	148
Item 16B.	<u>Code of Ethics</u>	148
Item 16C.	<u>Principal Accountant Fees and Services</u>	148
Item 16D.	<u>Exemptions from the Listing Standards for Audit Committees</u>	149
Item 16E.	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	149
Item 16F.	<u>Change in Registrant's Certifying Accountant</u>	150
Item 16G.	<u>Corporate Governance</u>	150
Item 16H.	<u>Mine Safety Disclosure</u>	150
<u>PART III</u>		151
Item 17.	<u>Financial Statements</u>	151
Item 18.	<u>Financial Statements</u>	151
Item 19.	<u>Exhibits</u>	151
<u>SIGNATURES</u>		156

Table of Contents

**INTRODUCTION**

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

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

**FORWARD-LOOKING INFORMATION**

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

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

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

Table of Contents

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

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

**PART I**

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

Not applicable.

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

Not applicable.

**Item 3. Key Information**

**A. Selected Financial Data**

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



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

December 31, 2016 and 2017 and selected consolidated cash flows data for the years ended December 31, 2015, 2016 and 2017 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. JD Finance is reflected as discontinued operations in these selected consolidated financial statements. The selected consolidated statements of operations data for the years ended December 31, 2013 and 2014, selected consolidated balance sheets data as of December 31, 2013, 2014 and 2015 and selected consolidated cash flows data for the years ended December 31, 2013 and 2014 have been derived from our audited consolidated financial statements not included in this annual report, and JD Finance is not reflected as discontinued operations in these selected consolidated financial statements as the impact of JD Finance was not material during these periods. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and Item 5. Operating and Financial Review and Prospects below. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

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

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

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

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

**Other income/(expense):**

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

**Net loss from continuing  
operations**

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

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

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

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

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

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

(4) (5) (1)

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

445 281 43

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

Table of Contents**Exchange Rate Information**

Our business is primarily conducted in China and almost all of our revenues are denominated in RMB. However, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then current exchange rates, for the convenience of the readers. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.5063 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System as of December 29, 2017. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 20, 2018, the exchange rate was RMB6.2945 to US\$1.00.

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

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

Source: Federal Reserve Statistical Release

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

**B. Capitalization and Indebtedness**

Not applicable.



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

Not applicable.

Table of Contents

**D. Risk Factors**

**Risks Related to Our Business**

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

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

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



Table of Contents

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

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

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

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

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

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

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



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

Table of Contents

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

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

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

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

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

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

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



Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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



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

Table of Contents

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

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

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



Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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



Table of Contents

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

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

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

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

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



Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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



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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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



Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

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



Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

**Risks Related to Our Corporate Structure**

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

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

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

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

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

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

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

Table of Contents

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

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

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

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





Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

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

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

We may also decide to finance our wholly foreign-owned subsidiaries in China by means of capital contributions. These capital contributions must be approved by or registered with the Ministry of Commerce or its local counterpart. SAFE issued SAFE Circular No. 19, which took effect on June 1, 2015. SAFE Circular No. 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC. Foreign-invested enterprises' use of the converted RMB for purposes beyond the business scope, for entrusted loans or for inter-company RMB loans, however, are subject to SAFE restrictions under SAFE Circular No. 19. On June 9, 2016, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or SAFE Circular No. 16, effective on the same day. SAFE Circular No. 16 amends the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. However, the use of RMB capital converted from foreign currency registered capital of a foreign-invested company may not be altered without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. The applicable SAFE regulations may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from offerings of our securities, to our consolidated variable interest entities and the subsidiaries of our wholly foreign-owned subsidiaries in China, and we may not be able to convert the foreign currency into RMB to invest in or establish certain other PRC companies in China.

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

consolidated variable interest entities.

Table of Contents

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

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

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

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

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

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



Table of Contents

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

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

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

**Risks Related to Doing Business in China**

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

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

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



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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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



Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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



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

Table of Contents

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

## Table of Contents

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

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

## **Risks Related to Our ADSs**

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

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





Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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



Table of Contents

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

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

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

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of NASDAQ. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

**Item 4. Information on the Company**

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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



Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

**B. Business Overview**

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

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

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

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

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

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

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

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

Table of Contents

**Core Philosophy**

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

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

**Our Strategies**

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

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

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

Table of Contents

**Our Business Model**

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

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

***Online Direct Sales***

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

***Retail Infrastructure***

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

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

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

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

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



Table of Contents

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

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

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

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

To provide customers with a more dynamic and interactive integrated omni-channel shopping experience, we have opened up hundreds