

*The following is the text of a report set out on pages IA-1 to IA-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

**ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JD.COM, INC. AND MERRILL LYNCH FAR EAST LIMITED, UBS SECURITIES HONG KONG LIMITED AND CLSA CAPITAL MARKETS LIMITED**

***Introduction***

We report on the historical financial information of JD.com, Inc. and its subsidiaries (together, the "Company") set out on pages IA-3 to IA-90, which comprises the consolidated balance sheets as of December 31, 2017 and 2018, and the consolidated statements of operations and comprehensive income/(loss), the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for the years ended December 31, 2017 and 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IA-3 to IA-90 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated June 8, 2020 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

***Directors' responsibility for the Historical Financial Information***

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in note 2a to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

***Reporting accountant's responsibility***

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in note 2a to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Opinion***

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the consolidated financial position of the Company as of December 31, 2017 and 2018 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation set out in note 2a to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance*****Adjustments***

The Historical Financial Information is stated with no adjustments to the Historical Financial Statements as defined on page IA-3 as were considered necessary.

***Dividends***

We refer to note 35 to the Historical Financial Information which states that no dividends have been paid by JD.com, Inc. in respect of the Track Record Period.

**PricewaterhouseCoopers**  
Certified Public Accountants  
Hong Kong  
June 8, 2020

**I. HISTORICAL FINANCIAL INFORMATION OF THE COMPANY**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Historical Financial Information in this report was prepared by the directors of the Company based on the consolidated financial statements of the Company for the years ended December 31, 2017 and 2018 (collectively referred as "Historical Financial Statements"). The consolidated financial statements for the years ended December 31, 2017 and 2018 were audited by PricewaterhouseCoopers Zhong Tian LLP, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") relating to the financial statements.

The Historical Financial Information is presented in Renminbi. All values are rounded to the nearest thousand except when otherwise indicated.

## CONSOLIDATED BALANCE SHEETS

	Note	As of December 31,	
		2017	2018
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents . . . . .	2(f)	25,688,327	34,262,445
Restricted cash . . . . .	4	4,110,210	3,239,613
Short-term investments . . . . .	5	8,587,852	2,035,575
Accounts receivable, net . . . . .	8	16,359,147	11,109,988
Advance to suppliers . . . . .		394,574	477,109
Inventories, net . . . . .	9	41,700,379	44,030,084
Loan receivables, net . . . . .	2(k)	5,132,698	2,716,475
Prepayments and other current assets . . . . .		2,258,904	3,848,225
Amount due from related parties . . . . .	27	10,796,561	3,136,265
<b>Total current assets</b> . . . . .		<u>115,028,652</u>	<u>104,855,779</u>
<b>Non-current assets</b>			
Property, equipment and software, net . . . . .	10	12,574,178	21,082,838
Construction in progress . . . . .	2(m)	3,196,516	6,553,712
Intangible assets, net . . . . .	12	6,692,717	5,011,706
Land use rights, net . . . . .	11	7,050,809	10,475,658
Goodwill . . . . .	13	6,650,570	6,643,669
Investment in equity investees . . . . .	7	18,551,319	31,356,616
Investment securities . . . . .	2(r), 5	10,027,813	15,901,573
Deferred tax assets . . . . .	20	158,250	103,158
Other non-current assets . . . . .		2,227,942	5,283,948
Amount due from related parties . . . . .	27	1,896,200	1,896,200
<b>Total non-current assets</b> . . . . .		<u>69,026,314</u>	<u>104,309,078</u>
<b>Total assets</b> . . . . .		<u>184,054,966</u>	<u>209,164,857</u>

## CONSOLIDATED BALANCE SHEETS—continued

	Note	As of December 31,	
		2017	2018
		RMB'000	RMB'000
<b>LIABILITIES</b>			
<b>Current liabilities</b> (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB7,577,086 and RMB9,234,523 as of December 31, 2017 and 2018, respectively.)			
Short-term borrowings	14	200,000	147,264
Nonrecourse securitization debt	2(t)	12,684,881	4,397,670
Accounts payable	15	74,337,708	79,985,018
Advance from customers		13,605,298	13,017,603
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB813,525 and RMB863,480 as of December 31, 2017 and 2018, respectively)		1,592,332	1,980,489
Taxes payable	20	658,220	825,677
Amount due to related parties	27	54,342	215,614
Accrued expenses and other current liabilities	16	15,117,840	20,292,680
<b>Total current liabilities</b>		<b>118,250,621</b>	<b>120,862,015</b>
<b>Non-current liabilities</b>			
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB1,273,545 and RMB463,153 as of December 31, 2017 and 2018, respectively)		1,273,545	463,153
Nonrecourse securitization debt	2(t)	4,475,238	—
Unsecured senior notes	17	6,447,357	6,786,143
Deferred tax liabilities	20	882,248	828,473
Long-term borrowings	2(u),30	—	3,088,440
Other non-current liabilities		337,254	308,489
<b>Total non-current liabilities</b>		<b>13,415,642</b>	<b>11,474,698</b>
<b>Total liabilities</b>		<b>131,666,263</b>	<b>132,336,713</b>
<b>Commitments and contingencies</b>	31		
<b>MEZZANINE EQUITY</b>			
Convertible redeemable non-controlling interests	21	—	15,961,284
<b>SHAREHOLDERS' EQUITY:</b>			
<b>JD.com, Inc. shareholders' equity</b>			
Ordinary shares (US\$0.00002 par value; 100,000,000,000 shares authorized; 2,477,346,590 Class A ordinary shares issued and 2,406,652,132 outstanding, 461,362,309 Class B ordinary shares issued and 446,011,297 outstanding as of December 31, 2017; 2,507,473,330 Class A ordinary shares issued and 2,447,926,638 outstanding, 458,342,517 Class B ordinary shares issued and 446,369,717 outstanding as of December 31, 2018.)	22	377	380
Additional paid-in capital		76,254,607	82,832,895
Statutory reserves	2(II)	635,966	1,400,412
Treasury stock	23	(4,457,608)	(3,783,729)
Accumulated deficit		(22,234,609)	(24,038,081)
Accumulated other comprehensive income	24	1,842,081	3,359,096
<b>Total JD.com, Inc. shareholders' equity</b>		<b>52,040,814</b>	<b>59,770,973</b>
Non-controlling interests	2(c)	347,889	1,095,887
<b>Total shareholders' equity</b>		<b>52,388,703</b>	<b>60,866,860</b>
<b>Total liabilities, mezzanine equity and shareholders' equity</b>		<b>184,054,966</b>	<b>209,164,857</b>

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)

	Note	For the year ended December 31,	
		2017	2018
		RMB'000	RMB'000
<b>Net revenues</b>	2(w),28		
Net product revenues .....		331,824,410	416,108,746
Net service revenues .....		30,507,344	45,911,013
<b>Total net revenues</b> .....		<u>362,331,754</u>	<u>462,019,759</u>
Cost of revenues .....	2(z)	(311,516,831)	(396,066,126)
Fulfillment .....	2(bb)	(25,865,128)	(32,009,658)
Marketing .....	2(cc)	(14,918,107)	(19,236,740)
Research and development .....	2(dd)	(6,652,374)	(12,144,383)
General and administrative .....	2(ee)	(4,214,790)	(5,159,666)
Impairment of goodwill and intangible assets .....	2(s)	—	(22,317)
<b>Loss from operations</b> .....		<u>(835,476)</u>	<u>(2,619,131)</u>
<b>Other income/(expense)</b>			
Share of results of equity investees .....	7	(1,926,720)	(1,113,105)
Interest income .....	18	2,530,490	2,117,921
Interest expense .....	18	(963,742)	(854,538)
Others, net .....	19	1,316,408	95,175
<b>Income/(loss) before tax</b> .....		120,960	(2,373,678)
Income tax expenses .....	20	(139,593)	(426,872)
<b>Net loss from continuing operations</b> .....		<u>(18,633)</u>	<u>(2,800,550)</u>
Net income from discontinued operations, net of tax .....		6,915	—
<b>Net loss</b> .....		<u>(11,718)</u>	<u>(2,800,550)</u>
Net loss from continuing operations attributable to non-controlling interests shareholders .....		(135,452)	(311,409)
Net loss from discontinued operations attributable to non-controlling interests shareholders .....		(5,030)	—
Net income from continuing operations attributable to mezzanine equity classified as non-controlling interests shareholders .....		—	2,492
Net income from discontinued operations attributable to mezzanine equity classified as non-controlling interests shareholders .....		281,021	—
<b>Net loss attributable to ordinary shareholders</b> .....		<u>(152,257)</u>	<u>(2,491,633)</u>
<b>Including:</b> Net loss from discontinued operations attributable to ordinary shareholders .....		(269,076)	—
<b>Net income/(loss) from continuing operations attributable to ordinary shareholders</b> .....		<u>116,819</u>	<u>(2,491,633)</u>

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/  
(LOSS)—continued

	Note	For the year ended December 31,	
		2017 RMB'000	2018 RMB'000
<b>Net loss</b> .....		(11,718)	(2,800,550)
Other comprehensive income:	24		
Foreign currency translation adjustments .....		(822,052)	2,696,784
Net change in unrealized gains on available-for-sale securities:			
Unrealized gains, net of tax .....		1,473,014	237,585
Reclassification adjustment for gains recorded in net income, net of tax .....		(352,274)	(260,712)
Net unrealized gains/(losses) on available-for-sale securities .....		1,120,740	(23,127)
Total other comprehensive income .....		298,688	2,673,657
<b>Total comprehensive income/(loss)</b> .....		286,970	(126,893)
Total comprehensive loss attributable to non-controlling interests shareholders .....		(140,482)	(311,409)
Total comprehensive income attributable to mezzanine equity classified as non-controlling interests shareholders .....		281,021	2,492
<b>Total comprehensive income attributable to ordinary shareholders</b> .....		146,431	182,024
<b>Net income/(loss) per share (RMB)</b>	26		
Basic			
Continuing operations .....		0.04	(0.87)
Discontinued operations .....		(0.09)	—
Net loss per share .....		(0.05)	(0.87)
Diluted			
Continuing operations .....		0.04	(0.87)
Discontinued operations .....		(0.09)	—
Net loss per share .....		(0.05)	(0.87)
<b>Weighted average number of shares</b>			
Basic .....		2,844,826,014	2,877,902,678
Diluted .....		2,911,461,817	2,877,902,678

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
<b>Cash flows from operating activities:</b>		
Net loss	(11,718)	(2,800,550)
Loss from discontinued operations, net of income tax	(6,915)	—
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,192,716	5,560,034
Share-based compensation	2,780,062	3,659,989
(Gains)/losses from disposal of property, equipment and software	11,591	(11,166)
Deferred income tax	(221,010)	(10,454)
Amortization of discounts and issuance costs of the unsecured senior notes	13,426	13,649
Impairment of goodwill and intangible assets	—	22,317
Impairment of investments	139,823	593,138
Fair value losses of long-term investments	—	1,512,979
Gain from business and investment disposals	(74,965)	(1,320,266)
Share of results of equity investees	1,926,720	1,113,105
Foreign exchange (gains)/losses	(213,482)	192,491
Changes in operating assets and liabilities:		
Accounts receivable	(545,991)	4,287,004
Inventories	(12,788,337)	(2,342,058)
Advance to suppliers	(137,457)	(75,370)
Prepayments and other current assets	(328,041)	(899,139)
Amount due from related parties	2,456,933	1,769,930
Other non-current assets	(372,576)	44,990
Accounts payable	26,106,191	5,466,698
Advance from customers	2,138,964	(745,854)
Deferred revenues	(374,042)	(603,464)
Taxes payable	92,932	166,120
Accrued expenses and other current liabilities	4,624,014	5,158,390
Amount due to related parties	(66,370)	128,909
<b>Net cash provided by continuing operating activities</b>	<b>29,342,468</b>	<b>20,881,422</b>
<b>Net cash used in discontinued operating activities</b>	<b>(2,485,741)</b>	<b>—</b>
<b>Net cash provided by operating activities</b>	<b>26,856,727</b>	<b>20,881,422</b>



## CONSOLIDATED STATEMENTS OF CASH FLOWS—continued

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
<b>Cash flows from investing activities:</b>		
Purchase of short-term investments	(9,288,743)	(2,518,000)
Maturity of short-term investments	7,211,608	9,053,087
Purchase of investment securities	(7,824,277)	(4,562,283)
Cash received from disposal of investment securities	—	317,975
Cash paid for investments in equity investees	(6,207,880)	(17,398,204)
Cash received from disposal of equity investment	202,774	1,606,338
Cash paid for loan originations	(24,379,691)	(36,432,214)
Cash received from loan repayments	23,019,358	38,984,140
Purchase of property, equipment and software	(3,294,286)	(9,743,453)
Purchase of intangible assets	(8,774)	(130,797)
Cash paid for construction in progress	(3,267,277)	(7,358,939)
Purchase of land use rights	(4,785,538)	(4,136,305)
Cash paid for business combination, net of cash acquired	(160,658)	(19,578)
Loans (provided to)/settled by JD Digits	(6,187,891)	6,259,241
Proceeds from JD Digits reorganization (Note 6)	13,027,155	—
<b>Net cash used in continuing investing activities</b>	<b>(21,944,120)</b>	<b>(26,078,992)</b>
<b>Net cash used in discontinued investing activities</b>	<b>(17,871,171)</b>	<b>—</b>
<b>Net cash used in investing activities</b>	<b>(39,815,291)</b>	<b>(26,078,992)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of ordinary shares	—	3,531,870
Repurchase of ordinary shares	—	(205,886)
Proceeds from settlement of capped call options	737,501	—
Proceeds from issuance of ordinary shares pursuant to share-based awards	135,745	48,555
Proceeds from issuance of convertible redeemable preferred shares of JD Logistics, net	—	15,958,792
Capital injection from non-controlling interest shareholders	209,725	805,561
Proceeds from short-term borrowings	700,000	1,179,422
Repayment of short-term borrowings	(2,356,888)	(1,200,000)
Proceeds from long-term borrowings	—	2,890,575
Proceeds from nonrecourse securitization debt	16,500,000	—
Repayment of nonrecourse securitization debt	(10,889,371)	(11,960,194)
Other financing activities	143,653	171,233
<b>Net cash provided by continuing financing activities</b>	<b>5,180,365</b>	<b>11,219,928</b>
<b>Net cash provided by discontinued financing activities</b>	<b>14,054,620</b>	<b>—</b>
<b>Net cash provided by financing activities</b>	<b>19,234,985</b>	<b>11,219,928</b>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(641,534)	1,681,163
<b>Net increase in cash, cash equivalents, and restricted cash</b>	<b>5,634,887</b>	<b>7,703,521</b>
Cash, cash equivalents, and restricted cash at beginning of year	24,163,650	29,798,537
<b>Cash, cash equivalents, and restricted cash at end of year</b>	<b>29,798,537</b>	<b>37,502,058</b>
<b>Supplemental cash flow disclosures of continuing operations:</b>		
Cash paid for income taxes	(240,899)	(666,305)
Cash paid for interest	(577,306)	(421,035)
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Equity investments obtained through commitment of future services and contribution of certain business	—	181,228

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary shares		Treasury stock		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income/(loss)	Accumulated deficit	Non-controlling interests	Total Shareholders' equity
	Shares	Amount	Shares	Amount						
<b>Balance as of December 31, 2016</b>	2,938,708,899	377	(102,264,502)	(5,181,880)	59,258,417	132,938	1,543,393	(21,860,345)	269,962	34,162,862
Repurchase of ordinary shares	—	—	—	—	737,501	—	—	—	—	737,501
Accretion of redeemable non-controlling interests	—	—	—	—	(281,021)	—	—	—	—	(281,021)
Exercise of share-based awards	—	—	4,116,816	259,583	(114,556)	—	—	—	—	145,027
Share-based compensation and vesting of share-based awards	—	—	12,102,216	464,689	2,460,785	—	—	128,764	(140,482)	2,925,474
Net income/(loss)	—	—	—	—	—	—	(822,052)	—	—	(11,718)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	(822,052)
Net change in unrealized gains on available-for-sale securities	—	—	—	—	—	—	1,120,740	—	—	1,120,740
Statutory reserves	—	—	—	—	—	503,028	—	(503,028)	—	—
Change of the capital from non-controlling interest shareholders	—	—	—	—	—	—	—	—	231,055	231,055
Gain from JD Digits reorganization	—	—	—	—	14,193,481	—	—	—	(12,646)	14,180,835
<b>Balance as of December 31, 2017</b>	2,938,708,899	377	(86,045,470)	(4,457,608)	76,254,607	635,966	1,842,081	(22,234,609)	347,889	52,388,703
Cumulative effect of changes in accounting principles related to revenue recognition and financial instruments	—	—	—	—	—	—	(1,156,642)	1,452,607	—	295,965
Issuance of ordinary shares	27,106,948	3	—	—	3,531,867	—	—	—	—	3,531,870
Repurchase of ordinary shares	—	—	(2,792,400)	(205,886)	—	—	—	—	—	(205,886)
Accretion of convertible redeemable non-controlling interests	—	—	—	—	—	—	—	(2,492)	—	(2,492)
Exercise of share-based awards	—	—	1,077,036	67,982	(30,792)	—	—	—	—	37,190
Share-based compensation and vesting of share-based awards	—	—	16,241,342	811,783	2,447,238	—	—	—	400,968	3,659,989
Net loss	—	—	—	—	—	—	—	(2,489,141)	(311,409)	(2,800,550)
Foreign currency translation adjustments	—	—	—	—	—	—	2,696,784	—	—	2,696,784
Net change in unrealized gains on available-for-sale debt securities	—	—	—	—	—	—	(23,127)	—	—	(23,127)
Statutory reserves	—	—	—	—	—	764,446	—	(764,446)	—	—
Change of the capital from non-controlling interest shareholders	—	—	—	—	—	—	—	—	658,439	658,439
Share of changes in the equity investee's capital accounts	—	—	—	—	629,975	—	—	—	—	629,975
<b>Balance as of December 31, 2018</b>	2,965,815,847	380	(71,519,492)	(3,783,729)	82,832,895	1,400,412	3,359,096	(24,038,081)	1,095,887	60,866,860

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1. Principal activities and organization**

JD.com, Inc. (the “Company”) is a leading technology driven e-commerce company transforming to become the leading supply chain based technology and service provider, providing products and services to consumers, third-party merchants, suppliers and other business partners through its subsidiaries, consolidated variable interest entities (“VIEs”) (collectively, the “Group”). The Group operates e-commerce business, including online retail and online marketplace mainly through its retail mobile apps and www.jd.com website (collectively, “JD Platform”). The Group serves consumers through online retail, focusing on product selection, price and convenience, serves third-party merchants through online marketplace, offering programs that enable the merchants to sell their products on JD Platform and to fulfill the orders either by themselves or through the Group’s logistic services. Leveraging its AI capabilities and technologies, the Group provides a variety of marketing services to business partners through its proprietary advertisement technology platform. Leveraging its nationwide fulfillment infrastructure, the Group provides comprehensive supply chain solutions, primarily including warehousing, transportation, delivery and after-sales service to third parties, including both third-party merchants and suppliers on JD Platform and other business partners, through the Group’s logistics business (“JD Logistics”).

Prior to June 2017, the Group offered financial services to its suppliers, third-party merchants and qualified individual customers through the Group’s finance business (“JD Digits”, formerly known as “JD Finance”), which was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Digits. Upon the reorganization of JD Digits, the Group disposed all its equity stake in JD Digits and was entitled to a profit sharing right from JD Digits when JD Digits has a positive pre-tax income on a cumulative basis. In addition, the Group would be able to convert its profit sharing right with respect to JD Digits into JD Digits’s equity interest, subject to applicable regulatory approvals (Note 6).

In 2018, the Group established JD Property Management Group (“JD Property”), which owns, develops and manages the Group’s logistics facilities and other real estate properties, to support JD Logistics and other third parties. By leveraging its fund management platform, JD Property can realize development profits and recycle capital from mature properties to fund new developments and scale the business.

The Group’s principal operations and geographic markets are in the People’s Republic of China (“PRC”). The accompanying consolidated financial statements include the financial statements of the Company, its subsidiaries and consolidated VIEs.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 1. Principal activities and organization—continued

As of December 31, 2018, the Company's major subsidiaries, consolidated VIEs and VIEs' subsidiaries are as follows:

	Equity interest held	Place and date of incorporation
<u>Subsidiaries</u>		
Beijing Jingdong Century Trade Co., Ltd. ("Jingdong Century") . . . . .	100%	Beijing, China, April 2007
Jiangsu Jingdong Information Technology Co., Ltd. . . . .	100%	Jiangsu, China, June 2009
Shanghai Shengdayuan Information Technology Co., Ltd. ("Shanghai Shengdayuan") . . . . .	100%	Shanghai, China, April 2011
Jingdong E-Commerce (Express) Hong Kong Co., Ltd. . . . .	100%	Hong Kong, China, August 2011
Jingdong Technology Group Corporation . . . . .	100%	Cayman Islands, November 2011
Jingdong Logistics Group Corporation . . . . .	100%	Cayman Islands, January 2012
Jingdong Express Group Corporation ("Jingdong Express") . . . . .	100%	Cayman Islands, January 2012
JD.com E-Commerce (Technology) Hong Kong Co., Ltd. . . . .	100%	Hong Kong, China, February 2012
Jingdong E-Commerce (Logistics) Hong Kong Co., Ltd. . . . .	100%	Hong Kong, China, February 2012
Jingdong E-Commerce (Trade) Hong Kong Co., Ltd. . . . .	100%	Hong Kong, China, February 2012
JD.com International Limited . . . . .	100%	Hong Kong, China, February 2012
Beijing Jingdong Shangke Information Technology Co., Ltd. ("Beijing Shangke") . . . . .	100%	Beijing, China, March 2012
JD.com E-Commerce (Investment) Hong Kong Co., Ltd. . . . .	100%	Hong Kong, China, July 2013
JD.com American Technologies Corporation . . . . .	100%	Delaware, USA, August 2013
Chongqing Jingdong Haijia E-commerce Co., Ltd. ("Chongqing Haijia") . . . . .	100%	Chongqing, China, June 2014
JD.com Overseas Innovation Limited . . . . .	100%	Hong Kong, China, October 2014
JD.com International (Singapore) Pte. Ltd. . . . .	100%	Singapore, November 2014
JD.com Investment Limited . . . . .	100%	British Virgin Islands, January 2015
JD Asia Development Limited . . . . .	100%	British Virgin Islands, February 2015
JD.com Asia Investment Corporation . . . . .	100%	Cayman Islands, March 2015
Suqian Hanbang Investment Management Co., Ltd. . . . .	100%	Jiangsu, China, January 2016
Xi'an Jingxundi Supply Chain Technology Co., Ltd. ("Xi'an Jingxundi") . . . . .	100%	Shaanxi, China, May 2017
Xi'an Jingdong Xuncheng Logistics Co., Ltd. . . . .	100%	Shaanxi, China, June 2017
Jingdong Express International Limited . . . . .	100%	British Virgin Islands, November 2017
Beijing Jinghong Logistics Co., Ltd. . . . .	100%	Beijing, China, November 2017
JD Assets Holding Limited . . . . .	100%	Cayman Islands, March 2018
JD Logistics Holding Limited . . . . .	100%	Cayman Islands, March 2018
JD Health International Inc. . . . .	86%	Cayman Islands, November 2018
<u>Consolidated VIEs</u>		
Beijing Jingdong 360 Degree E-commerce Co., Ltd. ("Jingdong 360") . . . . .		Beijing, China, April 2007
Jiangsu Yuanzhou E-commerce Co., Ltd. ("Jiangsu Yuanzhou") . . . . .		Jiangsu, China, September 2010
Jiangsu Jingdong Bangneng Investment Management Co., Ltd. ("Jingdong Bangneng") . . . . .		Jiangsu, China, August 2015
Xi'an Jingdong Xincheng Information Technology Co., Ltd. ("Xi'an Jingdong Xincheng") . . . . .		Shaanxi, China, June 2017

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 1. Principal activities and organization—continued

	<u>Equity interest held</u>	<u>Place and date of incorporation</u>
<u>Consolidated VIEs' Subsidiaries</u>		
Beijing Jingbangda Trade Co., Ltd. ("Beijing Jingbangda") . . . . .		Beijing, China, August 2012
Hengqin Junze Management and Consulting Co., Ltd. . . . .		Guangdong, China, April 2017
Suqian Jingdong Mingfeng Enterprise Management Co., Ltd. . . . .		Jiangsu, China, July 2017
Suqian Jingdong Jinyi Enterprise Management Co., Ltd. . . . .		Jiangsu, China, August 2017
Suqian Jingdong Sanhong Enterprise Management Center (limited partnership) . . . . .		Jiangsu, China, August 2017

• **Organization**

The Company was incorporated in the British Virgin Islands ("BVI") in November 2006 and was re-domiciled in the Cayman Islands in January 2014 as an exempted company registered under the laws of the Cayman Islands.

In April 2007 and May 2017, the Company established Jingdong Century and Xi'an Jingxundi as wholly foreign-owned enterprises in the PRC, respectively. In April 2007, September 2010, August 2015 and June 2017, Jingdong 360, Jiangsu Yuanzhou, Jingdong Bangneng and Xi'an Jingdong Xincheng were incorporated in the PRC, respectively. The paid-in capital of each of these entities was funded by the Company, and they were established to facilitate the Group's operation and business expansion plans and comply with the PRC laws and regulations which prohibit or restrict foreign ownership of the companies where the PRC operating licenses are required. By entering into a series of agreements, Jingdong 360, Jiangsu Yuanzhou and Jingdong Bangneng became VIEs of Jingdong Century and Xi'an Jingdong Xincheng became a VIE of Xi'an Jingxundi. Consequently, Jingdong Century became the primary beneficiary of Jingdong 360, Jiangsu Yuanzhou and Jingdong Bangneng, and Xi'an Jingxundi became the primary beneficiary of Xi'an Jingdong Xincheng. Beijing Jingbangda became the subsidiary of Xi'an Jingdong Xincheng and changed from the Company's subsidiary to the Company's consolidated VIE's subsidiary.

• **Consolidated variable interest entities**

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content and other restricted businesses, the Group operates its websites and other restricted businesses in the PRC through certain PRC domestic companies, whose equity interests are held by certain management members of the Group ("Nominee Shareholders"). The Group obtained control over these PRC domestic companies by entering into a series of Contractual Arrangements with these PRC domestic companies and their respective Nominee Shareholders. These contractual agreements include loan agreements, exclusive purchase option agreements, exclusive technology consulting and services agreements, intellectual property rights license agreement, equity pledge agreements, powers of attorney, business cooperation agreement and business operation agreements. These contractual agreements can be extended at the Group's relevant PRC subsidiaries' options prior to the expiration date. Management concluded that these PRC

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****1. Principal activities and organization—continued**

domestic companies are consolidated VIEs of the Group, of which the Group is the ultimate primary beneficiary. As such, the Group consolidated the financial results of these PRC domestic companies and their subsidiaries in the Group's consolidated financial statements. Refer to Note 2(b) to the consolidated financial statements for the principles of consolidation.

The following is a summary of the contractual agreements (collectively, "Contractual Agreements") that the Group, through its subsidiaries, entered into with the consolidated VIEs and their Nominee Shareholders:

**• Loan agreements**

Pursuant to the relevant loan agreements, the Group's relevant PRC subsidiaries have granted interest-free loans to the relevant Nominee Shareholders of the VIEs with the sole purpose of providing funds necessary for the capital injection to the relevant VIEs. The loans for initial and subsequent capital injections are eliminated with the capital of the relevant VIEs during consolidation. The Group's relevant PRC subsidiaries can require the Nominee Shareholders to settle the loan amount with the equity interests of relevant VIEs, subject to any applicable PRC laws, rules and regulations. The loan agreements are renewable upon expiration.

**• Exclusive purchase option agreements**

The Nominee Shareholders of the VIEs have granted the Group's relevant PRC subsidiaries the exclusive and irrevocable rights to purchase from the Nominee Shareholders, to the extent permitted under the PRC laws and regulations, part or all of the equity interests in these entities for a purchase price equal to the lowest price permitted by the PRC laws and regulations. The Group's relevant PRC subsidiaries may exercise such option at any time. In addition, the VIEs and their Nominee Shareholders have agreed that without prior written consent of the Group's relevant PRC subsidiaries, they will not transfer or otherwise dispose the equity interests or declare any dividend.

**• Exclusive technology consulting and services agreements**

The Group's relevant PRC subsidiaries and relevant VIEs entered into exclusive technology consulting and services agreements under which relevant VIEs engage the Group's relevant PRC subsidiaries as their exclusive provider of technical platform and technical support, maintenance and other services. The VIEs shall pay to the Group's relevant PRC subsidiaries service fees determined based on the volume and market price of the service provided. The Group's relevant PRC subsidiaries exclusively own any intellectual property arising from the performance of the agreements. During the term of the agreements, the relevant VIEs may not enter into any agreement with third parties for the provision of identical or similar services without prior consent of the Group's relevant PRC subsidiaries.

**• Intellectual property rights license agreement**

Pursuant to the intellectual property rights license agreement, Jingdong Century has granted Jingdong 360 non-exclusive rights to use certain software products, trademarks, website, copyrights,

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****1. Principal activities and organization—continued**

and domain names developed or owned by Jingdong Century within the scope of internet information service operation of Jingdong 360 and in the territory of the PRC. Jingdong 360 has agreed to pay license fees to Jingdong Century and the amount of the license fees is decided based on the agreed arrangement.

**• Equity pledge agreements**

Pursuant to the relevant equity pledge agreements, the Nominee Shareholders of the VIEs have pledged all of their equity interests in relevant VIEs to the Group's relevant PRC subsidiaries as collateral for all of their payments due to the Group's relevant PRC subsidiaries and to secure their obligations under the above agreements. The Nominee Shareholders may not transfer or assign the equity interests, the rights and obligations in the equity pledge agreements or create or permit to create any pledges which may have an adverse effect on the rights or benefits of the Group's relevant PRC subsidiaries without the Group's relevant PRC subsidiaries' preapproval. The Group's relevant PRC subsidiaries are entitled to transfer or assign in full or in part the equity interests pledged. In the event of default, the Group's relevant PRC subsidiaries as the pledgee, will be entitled to request immediate repayment of the loans or to dispose of the pledged equity interests through transfer or assignment. The equity pledge agreements will expire on the second anniversary of the date when the Nominee Shareholders have completed all their obligations under the above agreements unless otherwise terminated earlier by the Group's relevant PRC subsidiaries.

**• Powers of attorney**

Pursuant to the irrevocable powers of attorney, each of the Nominee Shareholders appointed any person designated by the Group's relevant PRC subsidiaries as their attorney-in-fact to exercise all shareholder rights under the PRC laws and the relevant articles of association, including but not limited to, voting on their behalf on all matters requiring shareholder approval, disposing of all or part of the Nominee Shareholders' equity interests, and electing, appointing or removing directors and the general managers of the VIEs. Each power of attorney will remain in force during the period when the Nominee Shareholders continue to be shareholders of the VIEs. Each of the Nominee Shareholders has waived all the rights which have been authorized to the person designated by the Group's relevant PRC subsidiaries under each power of attorney.

**• Business cooperation agreement**

Pursuant to the business cooperation agreement, Jingdong 360 has agreed to provide services to Jingdong Century and Shanghai Shengdayuan including operating the Group's website, posting Jingdong Century's and Shanghai Shengdayuan's products and services information on the website, transmitting the users' orders and transactions information to Jingdong Century and Shanghai Shengdayuan, processing user data and transactions in collaboration with banks and payment agents and other services reasonably requested by Jingdong Century and Shanghai Shengdayuan. Jingdong Century and Shanghai Shengdayuan agree to pay service fees to Jingdong 360 on a quarterly basis. The service fee is decided based on Jingdong 360's operating costs incurred.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 1. Principal activities and organization—continued

• *Business operation agreements*

Pursuant to the business operation agreements, the relevant Nominee Shareholders of the VIEs must appoint the candidates nominated by the Group's relevant PRC subsidiaries to be the directors on the VIEs' board of directors in accordance with applicable laws and the articles of association of the VIEs, and must cause the persons recommended by the Group's relevant PRC subsidiaries to be appointed as the VIEs' general manager, chief financial officer and other senior executives.

• *Risks in relations to the VIE structure*

The Company believes that the contractual arrangements among its subsidiaries, the VIEs and its shareholders are in compliance with the current PRC laws and legally enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. As a result, the Company may be unable to consolidate the VIEs and its subsidiary in the consolidated financial statements. The Company's ability to control its VIEs also depends on the authorization by the shareholders of the VIEs to exercise voting rights on all matters requiring shareholders' approval in the VIEs. The Company believes that the agreements on authorization to exercise shareholder's voting power are legally enforceable. In addition, if the legal structure and contractual arrangements with its VIEs were found to be in violation of any future PRC laws and regulations, the Company may be subject to fines or other actions. The Company believes the possibility that it will no longer be able to control and consolidate its VIEs as a result of the aforementioned risks is remote.

The following table sets forth the assets, liabilities, results of operations and changes in cash, cash equivalents, and restricted cash of the consolidated VIEs structured by the Contractual Agreements and their subsidiaries taken as a whole, which were included in the Group's consolidated financial statements with intercompany transactions eliminated:

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Total assets . . . . .	19,281,227	23,878,253
Total liabilities . . . . .	19,547,831	26,717,946
	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Total net revenues . . . . .	15,926,297	37,561,128
Net loss . . . . .	(115,318)	(2,646,122)



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 1. Principal activities and organization—continued

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Net cash provided by/(used in) operating activities . . . . .	1,188,220	(1,144,849)
Net cash used in investing activities . . . . .	(10,117,516)	(7,596,181)
Net cash provided by financing activities . . . . .	9,626,497	8,902,074
Net increase in cash, cash equivalents, and restricted cash . . . . .	697,201	161,044
Cash, cash equivalents, and restricted cash at beginning of year . . . . .	21,959	719,160
Cash, cash equivalents, and restricted cash at end of year . . . . .	719,160	880,204

As of December 31, 2017 and 2018, the total assets of the Group's consolidated VIEs (where appropriate, the term "VIEs" also refers to its subsidiaries as a whole) were mainly consisting of cash and cash equivalents, short-term investments, accounts receivable, inventories, prepayments and other current assets, investment securities, investment in equity investees, property, equipment and software, intangible assets and other non-current assets. As of December 31, 2017 and 2018, the total liabilities of the consolidated VIEs were mainly consisting of accounts payable, advance from customers, deferred revenues, accrued expenses and other current liabilities and liabilities to the Group's other subsidiaries. These balances have been reflected in the Group's consolidated financial statements with intercompany transactions eliminated.

In accordance with the Contractual Agreements, the Group's relevant PRC subsidiaries have the power to direct activities of the Group's consolidated VIEs, and can have assets transferred out of the Group's consolidated VIEs. Therefore, the Group's relevant PRC subsidiaries consider that there is no asset in the Group's consolidated VIEs that can be used only to settle their obligations except for registered capitals and the PRC statutory reserves of the Group's consolidated VIEs amounting to RMB1,067,537 as of December 31, 2018. As the Group's consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, the creditors do not have recourse to the general credit of the Group's relevant PRC subsidiaries for all the liabilities of the Group's consolidated VIEs. The total shareholders' deficit of the Group's consolidated VIEs was RMB266,604 and RMB2,839,693 as of December 31, 2017 and 2018, respectively.

Currently there is no contractual arrangement that could require the Group's relevant PRC subsidiaries or the Group to provide additional financial support to the Group's consolidated VIEs. As the Group is conducting certain businesses in the PRC through the consolidated VIEs, the Group may provide additional financial support on a discretionary basis in the future, which could expose the Group to a loss.

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

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****1. Principal activities and organization—continued**

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

**2. Summary of significant accounting policies****a. Basis of presentation**

The consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”). Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

**b. Principles of consolidation**

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the consolidated VIEs for which the Company is the ultimate primary beneficiary. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; or has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of directors.

A consolidated VIE is an entity in which the Company, or its subsidiaries, through the Contractual Arrangements, bear the risks of, and enjoy the rewards normally associated with, ownership of the entity, and therefore the Company or its subsidiaries are the primary beneficiary of the entity.

All transactions and balances among the Company, its subsidiaries and the consolidated VIEs have been eliminated upon consolidation.

**c. Non-controlling interests**

For the Company’s consolidated subsidiaries and VIEs, non-controlling interests are recognized to reflect the portion of their equity that is not attributable, directly or indirectly, to the Company as the controlling shareholder. Non-controlling interests are classified as a separate line item in the equity section of the Group’s consolidated balance sheets and have been separately disclosed in the Group’s consolidated statements of operations and comprehensive income/(loss) to distinguish the interests from that of the Company.

**d. Use of estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the balance sheet date, and the reported revenues and expenses during the reported period in the consolidated financial statements and

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued****d. Use of estimates—continued**

accompanying notes. Significant accounting estimates are used for, but not limited to, returns allowance, vendor and customer incentives, determination of the stand-alone selling price (“SSP”), the valuation and recognition of share-based compensation arrangements, taxation, fair value of assets and liabilities acquired in business combinations, fair value of certain equity investees, assessment for impairment of long-lived assets, investment in equity investees, investment securities, intangible assets and goodwill, allowance for doubtful accounts, inventory reserve for excess and obsolete inventories, lower of cost and net realizable value of inventories, depreciable lives of property, equipment and software, useful lives of intangible assets, redemption value of the redeemable preferred shares and consolidation of VIEs. Actual results may differ materially from those estimates.

**e. Foreign currency translation**

The Group’s reporting currency is Renminbi (“RMB”). The functional currency of the Group’s entities incorporated in Cayman Islands, BVI, Hong Kong, Singapore and the United States of America is U.S. dollars (“US\$”). The Group’s PRC subsidiaries and consolidated VIEs determined their functional currency to be RMB. The Group’s entities incorporated in the Republic of Indonesia, Japan, France, Australia and other jurisdictions generally use their respective local currencies as their functional currencies. The determination of the respective functional currency is based on the criteria of ASC Topic 830, Foreign Currency Matters.

Transactions denominated in currencies other than functional currency are translated into functional currency at the exchange rates quoted by authoritative banks prevailing at the dates of the transactions. Exchange gains and losses resulting from those foreign currency transactions denominated in a currency other than the functional currency are recorded as a component of others, net in the consolidated statements of operations and comprehensive income/(loss). Total exchange gains/(losses) were a gain of RMB213,482 and a loss of RMB192,491 for the years ended December 31, 2017 and 2018, respectively.

The consolidated financial statements of the Group are translated from the functional currency into RMB. Assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates at the balance sheet date. Equity accounts other than earnings generated in current period are translated into RMB at the appropriate historical rates. Revenues, expenses, gains and losses are translated into RMB using the periodic average exchange rates. The resulting foreign currency translation adjustments are recorded in accumulated other comprehensive income/(loss) as a component of shareholders’ equity. Total foreign currency translation adjustments to the Group’s other comprehensive income/(loss) were a loss of RMB822,052 and a gain of RMB2,696,784, for the years ended December 31, 2017 and 2018, respectively.

**f. Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, money market fund investments, time deposits, as well as highly liquid investments, which have original maturities of three months or less.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****g. Restricted cash***

Cash that is restricted as to withdrawal or for use or pledged as security is reported separately on the face of the consolidated balance sheets, and is included in the total cash, cash equivalents, and restricted cash in the consolidated statements of cash flows. The Group's restricted cash mainly represents security deposits held in designated bank accounts for issuance of bank acceptance and letter of guarantee.

***h. Short-term investments***

Short-term investments include wealth management products, which are certain deposits with variable interest rates or principal not-guaranteed with certain financial institutions. For equity classified securities, the investments are recorded at fair market value with fair value change gains or losses recorded in interest income in the consolidated statements of operations and comprehensive income/(loss). The Group also holds debt classified securities, and such investments are recorded as available-for-sale debt securities and held-to-maturity securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income. Realized gains or losses are included in interest income in the consolidated statements of operations and comprehensive income/(loss) during the period in which the gain or loss is realized.

In addition, short-term investments are also comprised of time deposits placed with banks with original maturities longer than three months but less than one year.

***i. Accounts receivable, net***

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

The Group, in collaboration with JD Digits, provides consumer financing to the qualified customers in the online retail business, such consumer financing receivables are recorded as accounts receivable. Due to the legacy contractual arrangements with JD Digits, the Group remains as the legal owner of the consumer financing receivables, where JD Digits performs the related credit assessment.

JD Digits is obligated to purchase the consumer financing receivables past due over certain agreed period of time from the Group at carrying values to absorb the risks, no allowance for doubtful accounts were provided. The Group, in collaboration with JD Digits, periodically securitizes consumer financing receivables through the transfer of those assets to securitization vehicles, please refer to Note 2(t).

Other than the accounts receivable arising from the consumer financing, the Group considers many factors in assessing the collectability of its accounts receivable, such as the age of the amounts due, the payment history, creditworthiness and financial conditions of the customers and industry trend, to determine the allowance percentage for the overdue balances by age. The Group adjusts the allowance percentage periodically when there are significant differences between estimated bad debts and actual bad debts. If there is strong evidence indicating that the accounts receivable are likely to be

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****i. Accounts receivable, net—continued***

unrecoverable, the Group also makes specific allowance in the period in which a loss is determined to be probable. Accounts receivable balances are written off after all collection efforts have been exhausted.

The accounts receivable with the collection period over one year are classified into other non-current assets in the consolidated balance sheets.

***j. Inventories, net***

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Cost of inventories is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventories to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. The Group takes ownership, risks and rewards of the products purchased, but has arrangements to return unsold goods with certain vendors. Write downs are recorded in cost of revenues in the consolidated statements of operations and comprehensive income/(loss).

The Group also provides fulfillment-related services in connection with the Group's online marketplace. Third-party merchants maintain ownership of their inventories and therefore these products are not included in the Group's inventories.

***k. Loan receivables, net***

Loan receivables represent the consumer financing, in collaboration with JD Digits, provided to qualified individual customers on our online marketplace. Due to the legacy contractual arrangements with JD Digits, the Group remains as the legal owner of the consumer financing receivables, including such loan receivables, where JD Digits performs the related credit assessment and absorbs the credit risks. The loan terms extended to the customers generally range from 1 month to 24 months. As JD Digits is obligated to purchase the receivables past due over certain agreed period of time from the Group at carrying values to absorb the credit risks, no provision for doubtful accounts was recorded for the years ended December 31, 2017 and 2018. The loan receivables were measured at amortized cost and reported in the consolidated balance sheets at outstanding principal. As of December 31, 2017 and 2018, the loan receivables with the collection period over one year amounting to RMB243,624 and RMB105,455, respectively, were classified into other non-current assets in the consolidated balance sheets. Cash paid for loan originations and cash received from loan repayments are classified as investing activities in the consolidated statements of cash flows. The Group, in collaboration with JD Digits, periodically securitizes loan receivables through the transfer of those assets to securitization vehicles, please refer to Note 2(t).

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****l. Property, equipment and software, net***

Property, equipment and software are stated at cost less accumulated depreciation and impairment. Property, equipment and software are depreciated at rates sufficient to write off their costs less impairment and residual value, if any, over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

<u>Category</u>	<u>Estimated useful lives</u>
Electronic equipment	3-5 years
Office equipment	5 years
Vehicles	3-5 years
Logistics, warehouse and other heavy equipment	5-10 years
Leasehold improvement	Over the shorter of the expected life of leasehold improvements or the lease term
Software	3-5 years
Building	40 years
Building improvement	5-10 years

Repairs and maintenance costs are charged to expenses as incurred, whereas the costs of renewals and betterment that extend the useful lives of property, equipment and software are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the costs, accumulated depreciation and impairment with any resulting gain or loss recognized in the consolidated statements of operations and comprehensive income/(loss).

***m. Construction in progress***

Direct costs that are related to the construction of property, equipment and software and incurred in connection with bringing the assets to their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property, equipment and software items and the depreciation of these assets commences when the assets are ready for their intended use. As of December 31 and 2017, 2018, construction in progress in the amount of RMB3,196,516 and RMB6,553,712, respectively, were primarily relating to the construction of office buildings and warehouses.

***n. Land use rights, net***

Land use rights are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives which are 34 to 50 years and represent the shorter of the estimated usage periods or the terms of the agreements.

***o. Intangible assets, net***

Intangible assets purchased from third parties are initially recorded at cost and amortized on a straight-line basis over the estimated economic useful lives. The Group performs valuation of the intangible assets arising from business combination to determine the fair value to be assigned to each asset acquired. The acquired intangible assets are recognized and measured at fair value and are

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****o. Intangible assets, net—continued***

expensed or amortized using the straight-line approach over the estimated economic useful lives of the assets.

The estimated useful lives of intangible assets are as follows:

Category	Estimated useful lives
Strategic cooperation	5 years
Non-compete	5-8 years
Domain names and trademarks	5-20 years
Technology and others	2-10 years

***p. Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired in a business combination.

Goodwill is not depreciated or amortized but is tested for impairment on an annual basis as of December 31, and in between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. In accordance with the Financial Accounting Standards Board (“FASB”) guidance on testing of goodwill for impairment, the Group first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount of each reporting unit exceeds its fair value, an impairment loss equal to the difference between the implied fair value of the reporting unit’s goodwill and the carrying amount of goodwill will be recorded. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

***q. Investment in equity investees***

Investment in equity investees represents the Group’s investments in privately held companies, publicly traded companies and private equity funds. The Group applies the equity method of accounting to account for an equity investment, in common stock or in-substance common stock, according to ASC Topic 323, *Investment—Equity Method and Joint Ventures* (“ASC 323”), over which it has significant influence but does not own a majority equity interest or otherwise control.

An investment in in-substance common stock is an investment in an entity that has risk and reward characteristics that are substantially similar to that entity’s common stock. The Group considers

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****q. Investment in equity investees—continued***

subordination, risks and rewards of ownership and obligation to transfer value when determining whether an investment in an entity is substantially similar to an investment in that entity's common stock.

Under the equity method, the Group's share of the post-acquisition profits or losses of the equity investees are recorded in share of results of equity investees in the consolidated statements of operations and comprehensive income/(loss) and its share of post-acquisition movements of accumulated other comprehensive income are recorded in accumulated other comprehensive income/(loss) as a component of shareholders' equity. The Group records its share of the results of equity investments in publicly listed companies and certain privately held companies on one quarter in arrears basis. The excess of the carrying amount of the investment over the underlying equity in net assets of the equity investee represents goodwill and intangible assets acquired. When the Group's share of losses in the equity investee equals or exceeds its interest in the equity investee, the Group does not recognize further losses, unless the Group has incurred obligations or made payments or guarantees on behalf of the equity investee, or the Group holds other investments in the equity investee.

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

Prior to January 1, 2018, for other equity investments (including the private equity funds) that are not considered as debt securities or equity securities that have readily determinable fair values and over which the Group has neither significant influence nor control through investments in common stock or in-substance common stock, the cost method of accounting is used. Under the cost method, the Group carries the investment at cost and recognizes income to the extent of dividends received from the distribution of the equity investee's post-acquisition profits.

Upon the adoption of ASU 2016-01 "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01") on January 1, 2018, the Group measured long-term investments other than equity method investments at fair value through earnings.

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



**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued****q. Investment in equity investees—continued**

Beginning on January 1, 2018, the Group's equity investments without readily determinable fair values, which do not qualify for NAV practical expedient and over which the Group does not have the ability to exercise significant influence through the investments in common stock or in substance common stock, are accounted for under the measurement alternative upon the adoption of ASU 2016-01 (the "Measurement Alternative"). Under the Measurement Alternative, the carrying value is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. All gains and losses on these investments, realized and unrealized, are recognized in others, net in the consolidated statements of operations and comprehensive income/(loss). The Group makes assessment of whether an investment is impaired based on performance and financial position of the investee as well as other evidence of market value at each reporting date. Such assessment includes, but is not limited to, reviewing the investee's cash position, recent financing, as well as the financial and business performance. The Group recognizes an impairment loss equal to the difference between the carrying value and fair value in others, net in the consolidated statements of operations and comprehensive income/(loss) if there is any.

**r. Investment securities**

The Group invests in marketable equity securities to meet business objectives.

Prior to January 1, 2018, these marketable securities are reported at fair value, classified and accounted for as available-for-sale securities in investment securities. The treatment of a decline in the fair value of an individual security is based on whether the decline is other-than-temporary. The Group assesses its available-for-sale securities for other-than-temporary impairment by considering factors including, but not limited to, its ability and intent to hold the individual security, severity of the impairment, expected duration of the impairment and forecasted recovery of fair value. Investments classified as available-for-sale securities are reported at fair value with unrealized gains or losses, if any, recorded in accumulated other comprehensive income/(loss) as a component of shareholders' equity. If the Group determines a decline in fair value is other-than-temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is accounted for as a realized loss charged in others, net in the consolidated statements of operations and comprehensive income/(loss). The fair value of the investment would not be adjusted for subsequent recoveries in fair value.

Upon the adoption of ASU 2016-01 on January 1, 2018, the unrealized gains and losses on equity securities are recorded in others, net in the consolidated statements of operations and comprehensive income/(loss).

The Group recognizes a cumulative effect adjustment for the net unrealized gains related to marketable equity securities of RMB1,156,642 from accumulated other comprehensive income to the opening balance of retained earnings in the period of adoption.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued****s. *Impairment of long-lived assets***

Long-lived assets are evaluated for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment for the long-lived assets by comparing the carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets.

**t. *Nonrecourse securitization debt and transfer of financial assets***

The Group, in collaboration with JD Digits, periodically securitizes accounts receivable and loan receivables arising from consumer financing through the transfer of those assets to securitization vehicles. The securitization vehicles then issue debt securities to third-party investors and JD Digits, collateralized by the transferred assets. The asset-backed debt securities issued by the securitization vehicles are nonrecourse to the Group and are payable only out of collections on their respective underlying collateralized assets.

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

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

Due to the Group’s continuing involvement rights in securitization vehicles prior to October 2017, the Group cannot derecognize the existing receivables through the transfer of the receivables to

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****t. Nonrecourse securitization debt and transfer of financial assets—continued***

securitization vehicles. The proceeds from the financing type transactions were reported as current and non-current nonrecourse securitization debt in the consolidated balance sheets based on their respective expected repayment dates pursuant to ASC 860. While the contractual maturities of the asset-backed debt securities were from 2018 to 2019, the securities were repaid as collections on the underlying collateralized assets occur. As of December 31, 2017 and 2018, the collateralized accounts receivable were RMB11,701,973 and RMB3,116,309, respectively, and the collateralized loan receivables were RMB4,512,764 and RMB1,281,361, respectively. The weighted average interest rate for the outstanding nonrecourse securitization debt as of December 31, 2017 and 2018 was approximately 5.33% and 5.81% per annum, respectively. The interest expenses in relation to the nonrecourse securitization debt were charged back to JD Digits.

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

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

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

Long-term borrowings are recognized at carrying amount. Interest expense is accrued over the estimated term of the facilities and recorded in the consolidated statements of operations and comprehensive income/(loss).

***v. Fair value***

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued****v. Fair value—continued**

The Group measures certain financial assets, including investments under the equity method on other-than-temporary basis, investments under the Measurement Alternative, intangible assets, goodwill and fixed assets at fair value when an impairment charge is recognized.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 — Unobservable inputs which are supported by little or no market activity.

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

**w. Revenues**

The Group operates e-commerce business, including online retail and online marketplace mainly through JD Platform. In the online retail business, the Group acquires products from suppliers and sells them directly to customers, and currently offers a wide range of product categories to customers. The online marketplace business enables merchants to sell their products to consumers. Customers primarily place their orders for products or services online, and payment for the purchased products or services is generally made either before delivery or upon delivery. Leveraging its nationwide fulfillment infrastructure, the Group provides logistics services to third parties through JD Logistics. The Group provides a variety of marketing services to third parties through proprietary advertisement technology platform. Prior to June 2017, the Group also offered financial services to its suppliers, third-party merchants and qualified individual customers, and the finance business was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Digits (Note 6).

Before January 1, 2018, the Group adopted ASC 605, Revenue Recognition, and recognizes revenues when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued****w. Revenues—continued**

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

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

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

The Group also sells prepaid cards which can be redeemed to purchase products sold on the website [www.jd.com](http://www.jd.com). The cash collected from the sales of prepaid cards is initially recorded in advance from customers in the consolidated balance sheets and subsequently recognized as revenues upon the sales of the respective products through redemption of prepaid cards are completed. The Group recognize revenue from the unredeemed prepaid cards until prepaid cards expire or when the likelihood of redemption becomes remote.

The Group adopted ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), from January 1, 2018, using the modified retrospective transition approach that increased retained earnings by approximately RMB256,994 resulted from the changes of account's treatment of unredeemed prepaid cards. Revenues for the years ended December 31, 2018 were presented under ASC 606, and revenues for the year ended December 31, 2017 were not adjusted and continue to be presented under ASC Topic 605, *Revenue Recognition*. The Group's revenue recognition policies effective on the adoption date of ASC 606 are presented as below.

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

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

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued****w. Revenues—continued**

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

Upon the adoption of ASC 606, the Group began to recognize revenue from estimated unredeemed prepaid cards over the expected customer redemption periods, rather than waiting until prepaid cards expire or when the likelihood of redemption becomes remote.

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

Net Product Revenues

The Group offers a wide range of product categories to customers primarily through online retail business. The Group recognizes the product revenues from the online retail on a gross basis as the Group is acting as a principal in these transactions and is responsible for fulfilling the promise to provide the specified goods. Revenues from the sales of electronics and home appliance products were RMB236,268,621 and RMB280,059,089, and revenues from the sales of general merchandise products were RMB95,555,789 and RMB136,049,657, for the years ended December 31, 2017 and 2018, respectively. The Group’s net product revenues were mainly generated by the JD Retail segment.

Net Service Revenues

The Group charges commission fees to third-party merchants for participating in the Group’s online marketplace, where the Group generally is acting as an agent and its performance obligation is to arrange for the provision of the specified goods or services by those third-party merchants. Upon successful sales, the Group charges the third-party merchants a negotiated amount or a fixed rate commission fee based on the sales amount. Commission fee revenues are recognized on a net basis at the point of delivery of products, net of return allowances.

The Group provides marketing services to third-party merchants, suppliers and other business partners on its various website channels and third-party marketing affiliate’s websites, including but not limited to pay for performance marketing services on which the customers are charged based on

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued****w. Revenues—continued**Net Service Revenues—continued

effective clicks on their product information, and display advertising services that allow customers to place advertisements on various websites. The Group recognizes revenues from pay for performance marketing services based on effective clicks, and recognizes revenues from display advertising services ratably over the period during which the advertising services are provided or on the number of times that the advertisement has been displayed based on cost per thousand impressions. The Group did not enter into material advertising-for-advertising barter transactions for the periods presented.

The Group opens its fulfillment infrastructure by offering comprehensive supply chain solutions to third parties through JD Logistics, primarily including warehousing, transportation, delivery and after-sales service. Revenues resulting from these services are recognized over time as the Group performs the services in the contracts because of the continuous transfer of control to the customers.

The Group offers consumer financing to individual customers and supply chain financing to suppliers and merchants on the Group's online marketplace through JD Digits before June 30, 2017. Revenues resulting from these financing services are recognized in accordance with the contractual terms, and were reflected in discontinued operation results as JD Digits was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Digits (Note 6).

JD Plus memberships provide the Group's core customers with a better shopping experience, access to an evolving suite of benefits that represent a single stand-ready obligation. Subscriptions are paid for at the time of or in advance of delivering the services. Revenues from such arrangements are recognized over the subscription period.

The Group offers comprehensive customer services, primarily include 7\*24 hours customer services to respond to customers' post-sales requests, return and exchange services to facilitate customers' return, exchange and repair of defective goods. These services are free of charge. The Group also provides return/exchange logistics services to the customers, of which the revenues recognized were not material for the periods presented.

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

**x. Contract balances**

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenues recognized prior to invoicing when the Group has satisfied the Group's performance obligation and has the unconditional rights to payment. The allowance for doubtful accounts and authorized credits is estimated based on the Group's assessment

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued****x. Contract balances—continued**

of various factors including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect the Group's customers' ability to pay. The balances of accounts receivable, net of allowance for doubtful accounts were RMB16,359,147 and RMB11,109,988 as of December 31, 2017 and 2018, respectively.

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

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

**y. Customer incentives and loyalty programs**

The Group provides two types of discounted coupons, referred to as D Coupons and J Coupons, for free to its customers to incentivize purchase.

- D Coupons are given to a customer upon current purchase or can be given for free to promote future purchases. This coupon requires the customer to make future purchase of a minimum value in order to enjoy the value provided by the coupon. The rights to purchase discounted products in the future are not considered as a separate performance obligation under ASC 606, as the discount does not represent a material right to the customer. The Group assesses the significance of the discount by considering its percentage of the total future minimum purchase value, historical usage pattern by the customers and relative outstanding volume and monetary value of D Coupons compared to the other discounts offered by the Group. D Coupons are accounted for as a reduction of revenues on the future purchase.
- J Coupons are given to a customer upon their qualified purchase or can be given for free to promote future purchases and are to be used on a future purchase, with no limitation as to the minimum value of the future purchase. Accordingly, the Group has determined that J Coupons awarded are considered as a separate performance obligation within the scope of ASC 606, as J Coupons represent a material right to the customer. Therefore, the delivered products and J Coupons awarded are treated as two distinct performance obligations identified in the contract. The total sales consideration is allocated based on management's best estimate of the relative SSP of each performance obligation. The amount allocated to J Coupons is deferred and recognized when J Coupons are redeemed or at the coupon's expiration, whichever occurs first. J Coupons have an expiration of one year after



**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued****y. Customer incentives and loyalty programs—continued**

issuance. For the years ended December 31, 2017 and 2018, the amount of expired J Coupons was not material.

Registered customers may also earn J Beans, which was launched based on certain activities performed on the Group's website by the customers such as purchasing merchandise or reviewing their buying experiences. J Beans can be used as cash to buy any products sold by the Group, which will directly reduce the amount paid by the customer, or redeemed for D Coupons that can be used in certain shops on JD Platform. The Group considers J Beans awarded from sales of products and reviewing buying experiences to be part of its revenue generating activities. Thus J Beans is considered to be a separate performance obligation identified in the contract. Therefore, the sales consideration is allocated to the products and J Beans based on the relative SSP of the products and J Beans awarded. Consideration allocated to J Beans is initially recorded as deferred revenues, and recognized as revenues when J Beans are used or expired. J Beans will expire at the subsequent year end after issuance. For the years ended December 31, 2017 and 2018, the amount of expired J Beans was not material.

**z. Cost of revenues**

Cost of revenues consists primarily of purchase price of products, inbound shipping charges, write-downs of inventories, traffic acquisition costs related to online marketing services, and cost related to logistics services provided to third parties. Shipping charges to receive products from the suppliers are included in inventories, and recognized as cost of revenues upon sale of the products to the customers.

**aa. Rebates and subsidies**

The Group periodically receives considerations from certain vendors, representing rebates for products sold and subsidies for the sales of the vendors' products over a period of time. The rebates are not sufficiently separable from the Group's purchase of the vendors' products and they do not represent a reimbursement of costs incurred by the Group to sell vendors' products. The Group accounts for the rebates received from its vendors as a reduction to the prices it pays for the products purchased and therefore the Group records such amounts as a reduction of cost of revenues when recognized in the consolidated statements of operations and comprehensive income/(loss). Rebates are earned upon reaching minimum purchase thresholds for a specified period. When volume rebates can be reasonably estimated based on the Group's past experiences and current forecasts, a portion of the rebates is recognized as the Group makes progress towards the purchase threshold. Subsidies are calculated based on the volume of products sold through the Group and are recorded as a reduction of cost of revenues when the sales have been completed and the amount is determinable.

**bb. Fulfillment**

Fulfillment expenses consist primarily of (i) expenses incurred in operating the Group's fulfillment centers, customer service centers and physical stores, including personnel cost and expenses

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****bb. Fulfillment—continued***

attributable to buying, receiving, inspecting and warehousing inventories, picking, packaging, and preparing customer orders for shipment, processing payment and related transaction costs, (ii) expenses charged by third-party couriers for dispatching and delivering the Group's products and (iii) lease expenses of warehouses, delivery and pickup stations, and physical stores. The cost related to logistics services provided to third parties is classified in cost of revenues in the consolidated statements of operations and comprehensive income/(loss). Shipping cost included in fulfillment expenses amounted to RMB12,691,013 and RMB15,216,351 for the years ended December 31, 2017 and 2018, respectively.

***cc. Marketing***

Marketing expenses consist primarily of advertising costs, public relations expenditures, and payroll and related expenses for employees involved in marketing and business development activities. The Group pays commissions to participants in the associates program when their customer referrals result in successful product sales and records such costs in marketing in the consolidated statements of operations and comprehensive income/(loss).

Advertising costs, which consist primarily of online advertising, offline television, movie and outdoor advertising, and incentive programs to attract or retain consumers for the Group's online marketplace, are expensed as incurred, and totaled RMB12,375,922 and RMB15,970,433 for the years ended December 31, 2017 and 2018, respectively.

***dd. Research and development***

Research and development expenses consist primarily of payroll and related expenses for research and development employees involved in designing, developing and maintaining technology platform, and improving artificial intelligence, big data and cloud technologies and services, and technology infrastructure costs. Technology infrastructure costs include servers and other equipment depreciation, bandwidth and data center costs, rent, utilities and other expenses necessary to support the Group's internal and external business. Research and development expenses are expensed as incurred. Software development costs are recorded in "Research and development" as incurred as the costs qualifying for capitalization have been insignificant.

***ee. General and administrative***

General and administrative expenses consist primarily of employee related expenses for general corporate functions, including accounting, finance, tax, legal and human relations; costs associated with these functions including facilities and equipment depreciation expenses, rental and other general corporate related expenses.

***ff. Share-based compensation***

The Company grants restricted share units ("RSUs") and share options of the Company and its subsidiaries to eligible employees and non-employee consultants. The Group accounts for share-based

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****ff. Share-based compensation—continued***

awards issued to employees in accordance with ASC Topic 718 *Compensation—Stock Compensation*. The Group early adopted ASU 2018-07, “Compensation-Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting” beginning July 1, 2018, before then, the Group accounted for share-based awards issued to non-employees in accordance with ASC 505-50, *Equity-Based Payments to Non-Employees*. Prior to the adoption of ASU 2018-7, Non-employees’ share-based awards are measured at fair value at the earlier of the commitment date or the date the services are completed. Awards granted to non-employees are re-measured at each reporting date using the fair value as at each period end until the measurement date, generally when the services are completed and awards are vested. Changes in fair value between the reporting dates are recognized by graded vesting method.

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

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

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

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

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

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

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****ff. Share-based compensation—continued***

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

***gg. Income tax***

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. The Group follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statements carrying amounts and tax bases of existing assets and liabilities by applying enacted statutory tax rates that will be in effect in the period in which the temporary differences are expected to reverse. The Group records a valuation allowance to reduce the amount of deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of operations and comprehensive income/(loss) in the period of change. Deferred tax assets and liabilities are classified as non-current in the consolidated balance sheets.

The Group recognizes in its consolidated financial statements the benefit of a tax position if the tax position is “more likely than not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Group estimates its liability for unrecognized tax benefits which are periodically assessed and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The ultimate outcome for a particular tax position may not be determined with certainty prior to the conclusion of a tax audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from the Group’s estimates. As each audit is concluded, adjustments, if any, are recorded in the Group’s consolidated financial statements in the period in which the audit is concluded. Additionally, in future periods, changes in facts, circumstances and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. As of December 31, 2017 and 2018, the Group did not have any significant unrecognized uncertain tax positions.

***hh. Leases***

Up to December 31, 2018, the Group adopted ASC Topic 840 (“ASC 840”), Leases, as described below.

Each lease is classified at the inception date as either a capital lease or an operating lease. For the lessee, a lease is a capital lease if any of the following conditions exist: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued****hh. Leases—continued**

least 75% of the property's estimated remaining economic life or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases. Payments made under operating lease are charged to the consolidated statements of operations and comprehensive income/(loss) on a straight-line basis over the terms of underlying lease. The Group has no capital leases for any of the periods presented.

**ii. Comprehensive income/(loss)**

Comprehensive income/(loss) is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments from shareholders and distributions to shareholders. Comprehensive income/(loss) for the periods presented includes net income/(loss), change in unrealized gains/(losses) on available-for-sale debt securities, foreign currency translation adjustments, and share of change in other comprehensive income/(loss) of equity investees. Comprehensive income/(loss) also included change in unrealized gains/(losses) on available-for-sale equity securities for the year ended December 31, 2017, before the adoption of ASU 2016-01.

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

Basic net income/(loss) per share is computed by dividing net income/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For the calculation of diluted net income/(loss) per share, the weighted average number of ordinary shares is adjusted by the effect of dilutive potential ordinary shares, including unvested RSUs and ordinary shares issuable upon the exercise of outstanding share options using the treasury stock method. Additionally, the Company takes into account the effect of dilutive shares of entities in which the Company holds equity interests. The dilutive impact from equity interests mainly include equity investments accounted for using the equity method and the consolidated subsidiaries. The effect mentioned above is not included in the calculation of the diluted income/(loss) per share when inclusion of such effect would be anti-dilutive.

**kk. Segment reporting**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker ("CODM"), or decision making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is the Chief Executive Officer.

The Group's principal operations are organized into two major business segments, JD Retail and New Businesses, which are defined based on the products and services provided. JD Retail mainly consists of online retail, online marketplace and marketing services in China. New Businesses include logistics services provided to third parties, overseas business, technology initiatives, as well as asset

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****kk. Segment reporting—continued***

management services to logistics property investors and sale of development properties by JD Property. JD Digits was included in New Businesses before June 30, 2017, which was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Digits (Note 6).

***ll. Statutory reserves***

The Company's subsidiaries and consolidated VIEs established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Group's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from their after-tax profits (as determined under generally accepted accounting principles in the PRC ("PRC GAAP")) to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after-tax profits calculated in accordance with the PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the respective company's discretion.

In addition, in accordance with the PRC Company Laws, the Group's consolidated VIEs, registered as Chinese domestic companies, must make appropriations from their after-tax profits as determined under the PRC GAAP to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be 10% of the after-tax profits as determined under the PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the company. Appropriation to the discretionary surplus fund is made at the discretion of the respective company.

The use of the general reserve fund, enterprise expansion fund, statutory surplus fund and discretionary surplus fund are restricted to the offsetting of losses or increasing of the registered capital of the respective company. The staff bonus and welfare fund is a liability in nature and is restricted to fund payments of special bonus to employees and for the collective welfare of employees. None of these reserves are allowed to be transferred to the company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

For the years ended December 31, 2017 and 2018, profit appropriation to statutory surplus fund for the Group's entities incorporated in the PRC was approximately RMB503,028 and RMB764,446, respectively. No appropriation to other reserve funds was made for any of the periods presented.

***mm. Recent accounting pronouncements******Recently adopted accounting pronouncements***

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****mm. Recent accounting pronouncements—continued****Recently adopted accounting pronouncements—continued*

revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB deferred the effective date of the revenue recognition guidance to reporting periods beginning after December 15, 2017. The Group adopted the new revenue standard beginning January 1, 2018 using the modified retrospective transition method that increased retained earnings by approximately RMB256,994 rather than retrospectively adjusting prior periods. The Group began to recognize revenue from estimated unredeemed prepaid cards over the expected customer redemption periods, rather than waiting until prepaid cards expire or when the likelihood of redemption becomes remote.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”, which amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Group applied this update by a cumulative-effect adjustment to the retained earnings as of the beginning of the fiscal year of adoption. After the adoption of this new accounting update in 2018, the Group measured long-term investments other than equity method investments at fair value through earnings, which could vary significantly quarter to quarter. For those investments without readily determinable fair values, the Group elected to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Changes in the basis of these investments were reported in current earnings. The Group adopted this ASU beginning January 1, 2018 and the impacts in its consolidated financial statements please refer to Note 5 and Note 7.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Group adopted this ASU beginning January 1, 2018 with no material impact in its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of cash flows (Topic 230): restricted cash”, which requires entities to include restricted cash and restricted cash equivalents in the cash and cash equivalent balances in the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Group adopted this ASU beginning January 1, 2018 on a retrospective basis, then cash, cash equivalents, and restricted cash presented in the Group’s consolidated statements of cash flows are equal to the sum of “cash and cash equivalents” and “restricted cash” in the Consolidated Balance Sheets.

In February 2017, the FASB issued ASU 2017-05, “Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****mm. Recent accounting pronouncements—continued****Recently adopted accounting pronouncements—continued*

Guidance and Accounting for Partial Sales of Nonfinancial Assets”, which clarifies that ASC 610-20 applies to the derecognition of nonfinancial assets and in substance nonfinancial assets unless other specific guidance applies. As a result, it will not apply to the derecognition of businesses, nonprofit activities, or financial assets (including equity method investments), or to revenue transactions (contracts with customers). The new guidance also clarifies that an in substance nonfinancial asset is an asset or group of assets for which substantially all of the fair value consists of nonfinancial assets and the group or subsidiary is not a business. The new guidance will also impact the accounting for partial sales of nonfinancial assets (including in substance real estate). When an entity transfers its controlling interest in a nonfinancial asset, but retains a non-controlling ownership interest, the entity will measure the retained interest at fair value. This is similar to the guidance on the sale of controlling interests in businesses. This will result in full gain/loss recognition upon the sale of a controlling interest in a nonfinancial asset. Current guidance generally prohibits gain recognition on the retained interest. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Group adopted this ASU beginning January 1, 2018 with no material impact in its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting”, which amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share based payment awards to which the Group would be required to apply modification accounting under ASC 718. The ASU is effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Group adopted this ASU beginning January 1, 2018 with no material impact in its consolidated financial statements.

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

*Recently issued accounting pronouncements not yet adopted*

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”, which introduces a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Most



**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****2. Summary of significant accounting policies—continued*****mm. Recent accounting pronouncements—continued******Recently issued accounting pronouncements not yet adopted—continued***

prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The ASU will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11, and provided another transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Group adopted the new lease standard beginning January 1, 2019 using the optional transition method through a cumulative effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients. During 2018, the Group has performed a detailed assessment of the impact of the new lease standard. The adoption of this standard has a material impact in the Group's consolidated balance sheets, but the impact in the Group's consolidated statements of operations and comprehensive income/(loss) is negligible based on the lease portfolio as of December 31, 2018. Adoption of the standard resulted in recognition of additional ROU assets and lease liabilities by approximately RMB7 billion and RMB7 billion as of January 1, 2019, respectively.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326)", which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Group is currently evaluating the impact that the standard will have in its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other (Topic 350): simplifying the test for goodwill impairment", the guidance removes step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not the difference between the fair value and carrying amount of goodwill which was the step 2 test before. The ASU should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group is currently evaluating the impact of adopting this standard in its consolidated financial statements.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****3. Concentration and risks***Concentration of customers and suppliers*

There are no customers or suppliers from whom revenues or purchases individually represent greater than 10% of the total revenues or the total purchases of the Group for the years ended December 31, 2017 and 2018.

*Concentration of credit risk*

Assets that potentially subject the Group to significant concentrations of credit risk primarily consist of cash and cash equivalents, restricted cash, accounts receivable and short-term investments. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet dates. As of December 31, 2017 and 2018, majority of the Group's cash and cash equivalents, restricted cash and short-term investments were held by major financial institutions located in the PRC and Hong Kong which the management believes are of high credit quality. On May 1, 2015, China's new Deposit Insurance Regulation came into effect, pursuant to which banking financial institutions, such as commercial banks, established in China are required to purchase deposit insurance for deposits in RMB and in foreign currency placed with them. Such Deposit Insurance Regulation would not be effective in providing complete protection for the Group's accounts, as its aggregate deposits are much higher than the compensation limit. However, the Group believes that the risk of failure of any of these Chinese banks is remote. Bank failure is uncommon in China and the Group believes that those Chinese banks that hold the Group's cash and cash equivalents, restricted cash and short-term investments are financially sound based on public available information. Accounts receivable are typically unsecured and are mainly derived from revenues earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring processes of outstanding balances. Besides, JD Digits performs the related credit assessment of the consumer financing receivables recorded in the Group's consolidated balance sheets. JD Digits purchases the consumer financing receivables past due over certain agreed period of time from the Group at carrying values without recourse and also agrees to bear other cost directly related to the consumer financing business to absorb the risks.

*Currency convertibility risk*

The PRC government imposes controls on the convertibility of RMB into foreign currencies. The Group's cash and cash equivalents, restricted cash and short-term investments denominated in RMB that are subject to such government controls amounted to RMB27,566,040 and RMB15,443,123 as of December 31, 2017 and 2018, respectively. The value of RMB is subject to changes in the central government policies and to international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in the PRC must be processed through the PBOC or other Chinese foreign exchange regulatory bodies which require certain supporting documentation in order to process the remittance.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 3. Concentration and risks—continued

*Foreign currency exchange rate risk*

In July 2005, the PRC government changed its decades-old policy of pegging the value of the RMB to the US\$. Since June 2010, the RMB has fluctuated against the US\$, at times significantly and unpredictably. The appreciation of the RMB against the US\$ was approximately 7% in 2017. The depreciation of the RMB against the US\$ was approximately 5% in 2018, respectively. It is difficult to predict how market forces or the PRC or U.S. government policy may impact the exchange rate between the RMB and the US\$ in the future.

## 4. Restricted cash

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

## 5. Fair value measurement

As of December 31, 2017 and 2018, information about inputs into the fair value measurement of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

Description	Fair value as of December 31, 2017	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB'000	RMB'000	RMB'000	RMB'000
Assets:				
Cash equivalents				
Money market funds . . . . .	1,372,182	1,372,182	—	—
Short-term investments				
Wealth management products . . . . .	8,582,754	—	8,582,754	—
Investment securities				
Listed equity securities . . . . .	10,027,813	10,027,813	—	—
Total assets . . . . .	<u>19,982,749</u>	<u>11,399,995</u>	<u>8,582,754</u>	<u>—</u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 5. Fair value measurement—continued

Description	Fair value measurement at reporting date using			
	Fair value as of December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB'000	RMB'000	RMB'000	RMB'000
Assets:				
Cash equivalents				
Money market funds . . . . .	1,373	1,373	—	—
Short-term investments				
Wealth management products . . . . .	1,934,820	—	1,934,820	—
Investment securities				
Listed equity securities . . . . .	15,901,573	15,901,573	—	—
Total assets . . . . .	<u>17,837,766</u>	<u>15,902,946</u>	<u>1,934,820</u>	<u>—</u>

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates. Following is a description of the valuation techniques that the Group uses to measure the fair value of assets that the Group reports in its consolidated balance sheets at fair value on a recurring basis.

**Cash equivalents**

Money market funds. The Group values its money market funds using quoted prices in active markets for these investments, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1.

**Short-term investments**

Wealth management products. The Group values its wealth management products using alternative pricing sources and models utilizing market observable inputs, and accordingly the Group classifies the valuation techniques that use these inputs as Level 2. The wealth management products usually have short original maturities of less than 1 year, the carrying value approximates to fair value.

As of December 31, 2017 and 2018, gross unrealized gains of RMB23,755 and RMB627 were recorded on wealth management products, respectively. No impairment charges were recorded for the years ended December 31, 2017 and 2018, respectively.

**Investment securities**

Listed equity securities. The Group values its listed equity securities using quoted prices for the underlying securities in active markets, and accordingly, the Group classifies the valuation techniques

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 5. Fair value measurement—continued

## Investment securities—continued

that use these inputs as Level 1. Prior to January 1, 2018, the Group accounted for the investment securities at fair value with unrealized gains and losses recognized in accumulated other comprehensive income on the consolidated balance sheets. Realized gains and losses on marketable equity securities sold or impaired were recognized in others, net in the consolidated statements of operations and comprehensive income/(loss). Starting from January 1, 2018, upon adoption of ASU 2016-01, unrealized gains and losses during the year are recognized in others, net in the consolidated statements of operations and comprehensive income/(loss), and the Group recognizes a cumulative-effect adjustment for the net unrealized gains related to marketable equity securities of RMB1,156,642 from accumulated other comprehensive income to the opening balance of retained earnings in the period of adoption.

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

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Provision for decline in value	Fair Value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2017 .....	9,087,935	1,476,834	(513,047)	(23,909)	10,027,813
December 31, 2018 .....	16,071,098	3,952,704	(4,122,229)	—	15,901,573

In 2017, the Group invested in China United Network Communications Limited (“China Unicom”) with a total consideration of RMB5,000,000, and held approximately 2.4% of China Unicom’s equity interest. As of December 31, 2018, the accumulated unrealized loss related to the investment in China Unicom was RMB1,215,227 (as of December 31, 2017: RMB366,032).

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

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

**Other financial instruments**

The followings are other financial instruments not measured at fair value in the consolidated balance sheets, but for which the fair value is estimated for disclosure purposes.

Time deposits. Time deposits with original maturities of three months or less and longer than three months but less than one year have been classified as cash equivalents and short-term

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****5. Fair value measurement—continued****Other financial instruments—continued**

investments, respectively, in the consolidated balance sheets. The fair value of the Group's time deposits is determined based on the prevailing interest rates in the market, which have been categorized as Level 2 in the fair value hierarchy. As of December 31, 2017 and 2018, the fair value of time deposits classified as cash equivalents and short-term investments amounted to RMB5,081,748 and RMB12,050,507, respectively.

Unsecured senior notes. The carrying amounts of unsecured senior notes approximate to their fair values due to the fact that the related interest rates approximate to the rates currently offered by financial institutions for similar debt instruments of comparable maturities. The fair value of unsecured senior notes was categorized as Level 2 in the fair value hierarchy. As of December 31, 2017 and 2018, the fair value of unsecured senior notes amounted to RMB6,527,960 and RMB6,382,604, respectively.

Short-term receivables and payables. Accounts receivable, loan receivables and prepayments and other current assets are financial assets with carrying values that approximate to fair value due to their short-term nature. Accounts payable, accrued expenses and other current liabilities and advance from customers, are financial liabilities with carrying values that approximate to fair value due to their short-term nature. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

Short-term borrowings and long-term borrowings. Interest rates under the borrowing agreements with the lending parties were determined based on the prevailing interest rates in the market. The carrying value of short-term borrowings and long-term borrowings approximates to fair value. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

Nonrecourse securitization debt. The carrying amount of nonrecourse securitization debt approximates to its fair value due to the fact that the related interest rates approximate to the rates currently offered by financial institutions for similar debt instruments of comparable maturities. The Group classifies the valuation techniques that use these inputs as Level 2 in the fair value hierarchy.

**Assets and liabilities measured at fair value on a nonrecurring basis**

Goodwill. The inputs used to measure the estimated fair value of goodwill are classified as Level 3 in the fair value hierarchy due to the significance of unobservable inputs using company-specific information.

Investment in equity investees. Investments in privately held companies and publicly traded companies included in investment in equity investees in the consolidated balance sheets are reviewed periodically for impairment using fair value measurement. The primary factors that the Group considers include the duration and severity that the fair value of the investment is below its carrying value; post-balance sheet date fair value of the investment; the financial condition, operating performance, strategic collaboration with and the prospects of the investee; the economic or technological environment in which the investee operates; and other entity specific information such as

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****5. Fair value measurement—continued****Assets and liabilities measured at fair value on a nonrecurring basis—continued**

recent financing rounds completed by the investee companies. Certain investments in privately held companies without readily determinable fair value were measured using significant unobservable inputs (Level 3) as of December 31, 2017 and 2018, and the impairment charges of RMB59,987 and RMB593,138 were recorded in others, net in the consolidated statements of operations and comprehensive income/(loss) for the years ended December 31, 2017 and 2018, respectively. The valuation methodology used to estimate the fair value of investments in publicly traded companies and associated impairment charges are discussed in Note 7—"Investment in equity investees".

**6. JD Digits reorganization**

In the first half of 2017, the Group entered into a series of definitive agreements relating to the reorganization of JD Digits. Pursuant to the definitive agreements, the Group disposed all its equity stake of 68.6% in JD Digits so that it holds neither legal ownership nor effective control of JD Digits, received RMB14.3 billion in cash and is entitled to a royalty and software technical services fee of 40% of the future pre-tax profit of JD Digits when JD Digits has a positive pre-tax income on a cumulative basis. In addition, the Group would be able to convert its profit sharing right with respect to JD Digits into 40% of JD Digits's equity interest, subject to applicable regulatory approvals. Mr. Richard Qiangdong Liu, the Group's Chairman of the Board and the Chief Executive Officer, also participated in the reorganization of JD Digits, and purchased an equity stake of JD Digits at the same price as third-party investors and pursuant to the same set of definitive agreements. Mr. Richard Qiangdong Liu also obtained majority voting rights in JD Digits through his equity stake and act-in-concert arrangement with other investors and participants of employee stock ownership plan. The transaction was completed by June 30, 2017 and all of the cash consideration was received in 2017. After JD Digits's additional round of financing in 2018, the Group's percentage of JD Digits's pre-tax profit sharing has been diluted to approximately 36%, and if permitted by the regulation, the Group is entitled to convert its profit-sharing right into approximately 36% of JD Digits's equity interest.

Because the Group is entitled to a royalty and software technical services fee of 40% of the future pre-tax profit of JD Digits when JD Digits has a positive pre-tax income on a cumulative basis, and therefore the Group is considered to have a variable interest in JD Digits even though the Group has no equity interest in JD Digits. As the Group shares a large portion of JD Digits's expected residual returns, it limits the rights of holders of the equity investment at risk to receive JD Digits's expected residual returns, hence, JD Digits is a VIE of the Group.

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

Hence upon the completion of the transaction on June 30, 2017, JD Digits was deconsolidated from the Group as a result of the reorganization. The Group and JD Digits are both controlled by

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 6. JD Digits reorganization—continued

Mr. Richard Qiangdong Liu before and after the transaction, so the disposal of JD Digits was achieved through an under the common control transaction, accordingly, the gain of RMB14,193,481 from the disposal of JD Digits was recorded in equity account as additional paid-in capital. The gain represented the excess of cash consideration, net of taxes, over the net carrying value of the disposed equity stake in JD Digits.

The disposal of JD Digits has met the discontinued operation criteria. However, given the facts that the disposal is achieved through an under common control transaction, and therefore the held-for-sale and discontinued operation presentation can only be adopted upon the disposal date, which is June 30, 2017.

The Group has classified the historical financial results of JD Digits as discontinued operations in the Group's consolidated statements of operations and comprehensive income/(loss) for the period presented prior to July 1, 2017.

The following tables set forth the results of operations and cash flows of discontinued operations, which were included in the Group's consolidated financial statements:

	<b>For the year ended December 31, 2017<sup>(*)</sup></b>
	<b>RMB'000</b>
<b>Net revenues</b> .....	2,392,903
<b>Operating expenses</b> .....	<u>(2,067,622)</u>
<b>Income from operations of discontinued operations</b> .....	325,281
<b>Other expenses</b> .....	<u>(316,245)</u>
<b>Income from discontinued operations before tax</b> .....	9,036
Income tax expenses .....	<u>(2,121)</u>
<b>Net income from discontinued operations, net of tax</b> .....	6,915
Net loss from discontinued operations attributable to non-controlling interests shareholders .....	(5,030)
Net income from discontinued operations attributable to mezzanine equity classified as non-controlling interests shareholders .....	<u>281,021</u>
<b>Net loss from discontinued operations attributable to ordinary shareholders</b> ...	<u><u>(269,076)</u></u>
	<b>For the year ended December 31, 2017<sup>(*)</sup></b>
	<b>RMB'000</b>
Net cash used in discontinued operating activities .....	(2,485,741)
Net cash used in discontinued investing activities .....	(17,871,171)
Net cash provided by discontinued financing activities .....	14,054,620

(\*) Included financial results of discontinued operations from January 1, 2017 to June 30, 2017.

There were no profit sharing payments recognized in the Group's consolidated financial statements after the JD Digits reorganization as JD Digits was in a loss position on a cumulative basis.

According to the JD Digits reorganization arrangements, upon certain redemption events of JD Digits, and on the premise that JD Digits is the first obligator, the Group and Suqian Dongtai Jinrong



**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****6. JD Digits reorganization—continued**

Investment Management Center, an entity controlled by Mr. Richard Qiangdong Liu further has the obligation to make up the remaining gap (if any) of the redemption price to the shareholders of JD Digits when all other means are exhausted, and such amount the Group needs to pay will be capped by the proceeds from the sales of the Group's shares of JD Digits if the Group becomes a shareholder of JD Digits or the liquidity payment the Group would receive upon the liquidity events. As the Group and JD Digits are under common control of Mr. Richard Qiangdong Liu, the Group is therefore exempted from recording a guarantee liability in its consolidated financial statements. Based on the Group's assessment, the chance to settle the guarantee obligation by the Group is remote as of December 31, 2017 and 2018.

As disclosed above, the Group's exposure to pay the redemption price is limited to the proceeds from the sales of the Group's shares of JD Digits or the liquidity event payment the Group received upon the certain liquidity events. And the Group's maximum exposure to loss as a result of its involvement with JD Digits relates to net amounts due from JD Digits were RMB12,076,035 and RMB3,902,238 as of December 31, 2017 and 2018, respectively (Note 27).

**7. Investment in equity investees****Measurement Alternative and NAV practical expedient**

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

**Equity method**

As of December 31, 2018, the Group's investments accounted for under the equity method totaled RMB13,307,454 (as of December 31, 2017: RMB8,800,593), which mainly included the investment in Yonghui Superstores Co., Ltd, ("Yonghui") amounting to RMB5,450,209, the investment in Bitauto Holdings Limited ("Bitauto") amounting to RMB2,544,367, the investment in Tuniu Corporation ("Tuniu") amounting to RMB858,566 and investment in Yixin Group Limited ("Yixin") amounting to RMB1,044,537. The Group applies the equity method of accounting to account for its equity investments, in common stock or in-substance common stock, over which it has significant influence but does not own a majority equity interest or otherwise control.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 7. Investment in equity investees—continued

## Equity method—continued

Investment in Yonghui

On August 11, 2016, the Group completed the investment in Yonghui through the subscription of newly issued ordinary shares representing 10% equity interest in Yonghui. On May 23, 2018, the Group acquired additional ordinary shares from the existing shareholders of Yonghui, the Group's interest in Yonghui's issued and outstanding ordinary shares increased from 10% to 12% accordingly. Yonghui is a leading hypermarket and supermarket operator in China and is listed on the Shanghai Stock Exchange. Total consideration for the investment in Yonghui was RMB5,458,074 in cash. Investment in Yonghui is accounted for using the equity method as the Group obtained significant influence by the rights to nominate two board members out of eleven. The Group received dividend of RMB114,845 and RMB143,557 for the years ended December 31, 2017 and 2018, respectively, which have been recorded as a reduction to the carrying amount of investment in Yonghui.

Investment in Yonghui is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Carrying value of investment in Yonghui . . . . .	4,245,001	5,450,209
Proportionate share of Yonghui's net tangible and intangible assets . . . . .	1,946,349	2,122,874
Positive basis difference . . . . .	<u>2,298,652</u>	<u>3,327,335</u>
Positive basis difference has been assigned to:		
Goodwill . . . . .	1,270,190	1,989,726
Amortizable intangible assets(*) . . . . .	1,371,283	1,783,478
Deferred tax liabilities . . . . .	<u>(342,821)</u>	<u>(445,869)</u>
	<u>2,298,652</u>	<u>3,327,335</u>
Cumulative gains in equity interest in Yonghui . . . . .	124,917	250,538

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

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 7. Investment in equity investees—continued

## Equity method—continued

Investment in Yonghui—continued

The proportionate share of Yonghui's net income recorded in "share of results of equity investees" in the consolidated statements of operations and comprehensive income/(loss) was a gain of RMB122,893 and RMB96,558 for the years ended December 31, 2017 and 2018, respectively. The following table includes the results of operations of Yonghui for each of the periods presented.

	For the year ended December 31, 2017	For the year ended December 31, 2018
	RMB'000	RMB'000
Revenues .....	55,524,229	67,975,691
Gross profit .....	11,319,620	14,912,887
Income from operations .....	2,065,795	1,296,271
Net income .....	1,721,628	1,189,513
Net income attributable to shareholders .....	1,818,910	1,548,833
Percentage of ownership in Yonghui .....	10%	12%
Proportionate share of Yonghui's net income, before basis adjustments .....	181,891	160,630
Basis adjustments .....	(58,998)	(64,072)
Proportionate share of Yonghui's net income .....	<u>122,893</u>	<u>96,558</u>

Investment in Bitauto

On February 16, 2015, the Group completed its investment in Bitauto through the subscription of newly issued ordinary shares, representing approximately 25% of the outstanding ordinary shares of Bitauto. Bitauto is a leading provider of internet content and marketing services for China's fast-growing automotive industry that is listed on Nasdaq. Total consideration for the initial investment in Bitauto was RMB5,496,188 with a combination of RMB2,450,920 in cash and RMB3,045,268 in the form of future services, including exclusive access to the new and used car channels on the JD Platform and additional support from the Group's key platforms for a period of 5 years. On June 17, 2016, the Group additionally acquired Bitauto's newly issued ordinary shares by paying the cash consideration of RMB328,975. As of December 31, 2018, the Group held approximately 24% of Bitauto's issued and outstanding shares.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 7. Investment in equity investees—continued

## Equity method—continued

Investment in Bitauto—continued

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

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Carrying value of investment in Bitauto . . . . .	2,128,409	2,544,367
Proportionate share of Bitauto's net tangible and intangible assets . . . . .	2,228,925	2,619,609
Positive/(negative) basis difference . . . . .	<u>(100,516)</u>	<u>(75,242)</u>
Positive/(negative) basis difference has been assigned to:		
Goodwill(*) . . . . .	—	—
Amortizable intangible assets(*) . . . . .	<u>(100,516)</u>	<u>(75,242)</u>
	<u>(100,516)</u>	<u>(75,242)</u>
Cumulative losses in equity interest in Bitauto . . . . .	(3,696,754)	(3,280,796)

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

As of December 31, 2017 and 2018, the market value of the Group's investment in Bitauto was approximately RMB3,773,634 and RMB3,087,400 based on its quoted closing price, respectively.

Investment in Dada

In April 2016, the Group signed series of agreements with Dada, China's largest crowdsourcing delivery platform. The Group obtained a) the newly issued ordinary shares of Dada which represents approximately 81% of the issued and outstanding ordinary shares, or approximately 41% of the equity interests of Dada on a fully diluted basis, b) the newly issued preferred shares of Dada which represents approximately 7% of the equity interest in Dada on a fully diluted basis, and c) a warrant to purchase additional preferred shares of Dada at a pre-determined price for the next 2 years. Total consideration for the above investments and warrant was RMB3,508,200 with a combination of RMB1,298,700 in cash, the Group's future services, including supply chain support for a period of 10 years, traffic and other additional support for a period of 7 years, non-compete obligation in O2O business for a period of 7 years, and the Group's O2O business, JD-Daojia. The Group holds two board seats out of six with the founder of Dada holding the casting vote after the transaction.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 7. Investment in equity investees—continued

## Equity method—continued

## Investment in Dada—continued

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

	As of April 26, 2016
	RMB'000
Assets/investments received by the Group	
Dada's ordinary shares . . . . .	2,164,050
Dada's preferred shares . . . . .	1,298,700
Warrant to purchase Dada's preferred shares . . . . .	45,450
	<u>3,508,200</u>

The investment in Dada's ordinary shares is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Carrying value of investment in Dada's ordinary shares . . . . .	139,147	—
Proportionate share of Dada's net tangible and intangible assets . . . . .	(1,579,323)	(1,709,458)
Positive basis difference . . . . .	<u>1,718,470</u>	<u>1,709,458</u>
Positive basis difference has been assigned to:		
Goodwill . . . . .	1,605,891	1,605,891
Amortizable intangible assets(*) . . . . .	150,105	138,089
Deferred tax liabilities . . . . .	(37,526)	(34,522)
	<u>1,718,470</u>	<u>1,709,458</u>
Cumulative losses in equity interest in Dada's ordinary shares . . . . .	(2,024,903)	(2,164,050)

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

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 7. Investment in equity investees—continued

## Equity method—continued

Investment in Dada—continued

the investment in Dada's preferred shares based on the ownership level and seniority of preferred shares investment the Group held in Dada. As of December 31, 2018, the carrying amount of preferred shares of Dada was RMB2,922,725.

Investment in Tuniu

In December 2014, the Group acquired 7% equity interest in Tuniu with cash consideration of RMB305,930. Tuniu is a leading online leisure travel company in China that is listed on Nasdaq. The Group accounted for the initial investment as an available-for-sale security.

On May 22, 2015, the Group additionally acquired Tuniu's newly issued ordinary shares for total consideration of RMB2,188,490 with a combination of RMB1,528,275 in cash and RMB660,215 in the form of future services, including granting Tuniu an exclusive rights, for a period of 5 years, to operate the leisure travel channels on the JD Platform, and Tuniu becomes the Group's preferred partner for hotel and air ticket booking services. After the subsequent investment in May 2015, the Group held approximately 28% of Tuniu's issued and outstanding shares and had one board seat. Hence, the Group adopted equity method of accounting to account for the investment in Tuniu.

Investment in Tuniu is accounted for using the equity method with the investment cost allocated as follows:

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Carrying value of investment in Tuniu . . . . .	947,500	858,566
Proportionate share of Tuniu's net tangible and intangible assets . . . . .	779,525	714,009
Positive/(negative) basis difference . . . . .	<u>167,975</u>	<u>144,557</u>
Positive/(negative) basis difference has been assigned to:		
Goodwill(*) . . . . .	23,899	23,899
Amortizable intangible assets(*) . . . . .	192,101	160,877
Deferred tax liabilities . . . . .	<u>(48,025)</u>	<u>(40,219)</u>
	<u>167,975</u>	<u>144,557</u>
Cumulative losses in equity interest in Tuniu . . . . .	(1,546,645)	(1,635,579)

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

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

Investment in Yixin

In February 2015 and August 2016, the Group invested US\$100,000 and US\$30,000 in cash, respectively, to acquire Yixin's newly issued preferred shares. Yixin, a controlled subsidiary of

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 7. Investment in equity investees—continued

## Equity method—continued

## Investment in Yixin—continued

Bitauto, is a leading online automobile retail transaction platform in China. The investment in Yixin was accounted for under the cost method as the underlying shares the Group invested in were not considered in-substance common stock and had no readily determinable fair value.

On November 16, 2017, Yixin successfully completed the global offering and traded on the Main Board of the Stock Exchange of Hong Kong Limited. After the offering, the Group held approximately 11% of Yixin's issued and outstanding shares and the investment is accounted for using the equity method, as the preferred shares the Group previously invested in were automatically converted into ordinary shares upon listing and the Group obtained significant influence by the rights to nominate one non-executive board member out of nine and the significant influence on its controlling shareholder, Bitauto.

Investment in Yixin is accounted for using the equity method with the investment cost allocated as follows :

	As of December 31, 2017	As of December 31, 2018
	RMB'000	RMB'000
Carrying value of investment in Yixin . . . . .	860,992	1,044,537
Proportionate share of Yixin's net tangible and intangible assets . . . . .	1,703,448	1,641,276
Negative basis difference . . . . .	(842,456)	(596,739)
Cumulative gains in equity interest in Yixin . . . . .	—	183,545

The negative basis difference is amortized into net income over the remaining useful lives of the underlying assets, which is estimated to be 3 years. As of December 31, 2017 and 2018, the market value of the Group's investment in Yixin was approximately RMB3,586,393 and RMB1,049,246 based on quoted closing price, respectively.

The Group summarizes the condensed financial information of the Group's equity investments under equity method as a group below in accordance with Rule 4-08 of Regulation S-X:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Operating data:		
Revenues . . . . .	72,206,753	94,099,295
Gross profit . . . . .	19,162,739	26,893,544
Loss from operations . . . . .	(2,200,140)	(1,471,960)
Net loss . . . . .	(2,549,137)	(1,722,715)
Net loss attributable to shareholders . . . . .	(2,977,210)	(1,748,305)

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 7. Investment in equity investees—continued

## Equity method—continued

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Balance sheet data:		
Current assets	78,125,211	110,276,278
Non-current assets	62,806,104	78,546,934
Current liabilities	58,734,790	80,643,552
Non-current liabilities	16,703,429	22,755,496
Redeemable stock	5,877,854	9,897,962
Non-controlling interests	717,106	431,498

The Group recorded its interests in Yonghui, Bitauto, Dada, Tuniu and Yixin one quarter in arrears to enable the Group to provide its financial disclosure independent of the reporting schedule of these equity investees.

The Group performs impairment assessment of its investments under the Measurement Alternative and equity method whenever events or changes in circumstances indicate that the carrying value of the investment may not be fully recoverable. Impairment charges in connection with the Measurement Alternative investments of RMB59,987 and RMB593,138 were recorded in others, net in the consolidated statements of operations and comprehensive income/(loss) for the years ended December 31, 2017 and 2018, respectively. As of December 31, 2018, the accumulated impairment of the Group's Measurement Alternative investments was RMB846,243.

## 8. Accounts receivable, net

Accounts receivable, net consists of the following:

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Online retail and online marketplace receivables(*)	14,819,862	7,756,808
Logistics receivables	1,020,771	2,997,163
Advertising receivables and others	572,495	534,410
Accounts receivable	16,413,128	11,288,381
Allowance for doubtful accounts	(53,981)	(178,393)
Accounts receivable, net	16,359,147	11,109,988

(\*) For the accounts receivable in relation to consumer financing business, which is recorded in online retail and online marketplace receivables, as JD Digits performs credit risk assessment services for the individuals and purchases the over-due receivables from the Group at carrying values to absorb the risks and obtain the rewards from such business, no allowance for doubtful accounts in relation to consumer financing receivables were provided.



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 8. Accounts receivable, net—continued

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

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Balance at beginning of the year	(36,993)	(53,981)
Additions	(16,988)	(124,412)
Write-off	—	—
Balance at end of the year	<u>(53,981)</u>	<u>(178,393)</u>

## 9. Inventories, net

Inventories, net consist of the following:

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Products	41,840,945	44,678,983
Packing materials and others	358,207	219,961
Inventories	42,199,152	44,898,944
Inventory valuation allowance	(498,773)	(868,860)
Inventories, net	<u>41,700,379</u>	<u>44,030,084</u>

## 10. Property, equipment and software, net

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

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Electronic equipment	7,172,694	13,780,685
Building and building improvement	5,855,920	9,118,708
Logistics, warehouse and other heavy equipment	2,693,969	3,912,356
Vehicles	1,164,376	1,240,001
Leasehold improvement	827,408	1,318,735
Office equipment	287,282	406,534
Software	203,848	250,920
Total	18,205,497	30,027,939
Less: accumulated depreciation	(5,631,319)	(8,945,101)
Less: impairment	—	—
Net book value	<u>12,574,178</u>	<u>21,082,838</u>

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 11. Land use rights, net

Land use rights, net consist of the following:

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Land use rights	7,254,974	10,860,924
Less: accumulated amortization	(204,165)	(385,266)
Net book value	<u>7,050,809</u>	<u>10,475,658</u>

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

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

	For the year ending December 31,					
	2019	2020	2021	2022	2023	2024 and thereafter
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amortization expenses	218,729	218,729	218,729	218,729	218,729	9,382,013

## 12. Intangible assets, net

Intangible assets, net consist of the following:

	As of December 31, 2017				
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Impairment Amount	Net Carrying Amount
	Year	RMB'000	RMB'000	RMB'000	RMB'000
Strategic Cooperation	5.0	6,075,289	(4,563,957)	—	1,511,332
Non-compete	8.0	2,467,005	(885,390)	—	1,581,615
Domain names and trademark	19.5	3,250,789	(278,372)	(27,124)	2,945,293
Technology and others	6.2	1,040,668	(256,606)	(129,585)	654,477
Total	9.3	<u>12,833,751</u>	<u>(5,984,325)</u>	<u>(156,709)</u>	<u>6,692,717</u>

	As of December 31, 2018				
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Impairment Amount	Net Carrying Amount
	Year	RMB'000	RMB'000	RMB'000	RMB'000
Strategic cooperation	5.0	6,075,289	(5,779,015)	—	296,274
Non-compete	8.0	2,467,005	(1,194,067)	—	1,272,938
Domain names and trademark	19.3	3,305,413	(453,423)	(27,124)	2,824,866
Technology and others	6.2	1,165,899	(403,270)	(145,001)	617,628
Total	9.3	<u>13,013,606</u>	<u>(7,829,775)</u>	<u>(172,125)</u>	<u>5,011,706</u>

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 12. Intangible assets, net—continued

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

	For the year ending December 31,					2024 and thereafter
	2019	2020	2021	2022	2023	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amortization expenses .....	930,990	624,849	614,610	455,693	337,344	2,048,220

## 13. Goodwill

The changes in the carrying amount of goodwill were as follows:

	JD Retail	New Businesses	Total
	RMB'000	RMB'000	RMB'000
Balance as of December 31, 2016			
Goodwill .....	6,527,019	2,593,420	9,120,439
Accumulated impairment loss .....	—	(2,593,420)	(2,593,420)
	<u>6,527,019</u>	<u>—</u>	<u>6,527,019</u>
Transaction in 2017			
Additions .....	123,551	—	123,551
Balance as of December 31, 2017			
Goodwill .....	6,650,570	2,593,420	9,243,990
Accumulated impairment loss .....	—	(2,593,420)	(2,593,420)
	<u>6,650,570</u>	<u>—</u>	<u>6,650,570</u>
Transaction in 2018			
Impairment .....	(6,901)	—	(6,901)
Balance as of December 31, 2018			
Goodwill .....	6,650,570	2,593,420	9,243,990
Accumulated impairment loss .....	(6,901)	(2,593,420)	(2,600,321)
	<u>6,643,669</u>	<u>—</u>	<u>6,643,669</u>

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

## 14. Short-term borrowings

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 15. Accounts payable

Accounts payable consists of the following:

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Vendor payable .....	62,548,717	66,701,380
Shipping charges payable and others .....	11,788,991	13,283,638
Total .....	<u>74,337,708</u>	<u>79,985,018</u>

## 16. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Deposits .....	9,787,387	12,870,155
Salary and welfare .....	3,131,752	3,952,163
Rental fee payables .....	400,632	653,105
Internet data center fee .....	212,143	387,478
Liabilities for return allowances(*) .....	—	363,191
Accrued administrative expenses .....	185,876	318,012
Professional fee .....	59,802	122,930
Vehicle fee .....	69,042	114,576
Interest payable .....	84,807	44,449
Payable related to employees' exercise of share-based awards .....	152,177	42,979
Others .....	<u>1,034,222</u>	<u>1,423,642</u>
Total .....	<u>15,117,840</u>	<u>20,292,680</u>

(\*) Liabilities for return allowances were included in "Accounts receivable, net" as of December 31, 2017.

## 17. Unsecured senior notes

In April 2016, the Company issued unsecured senior notes with two maturity dates for an aggregate principal amount of US\$1,000,000. Listed on the Singapore Stock Exchange, these notes are both fixed rate notes and senior unsecured obligations, with interest payable semi-annually in arrears on and of each year, beginning on October 29, 2016.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 17. Unsecured senior notes—continued

A summary of the Company's unsecured senior notes as of December 31, 2017 and 2018 is as follows:

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

The unsecured senior notes were issued at a discount amounting to RMB79,289. The debt issuance costs of RMB35,727 were presented as a direct deduction from the principal amount of the unsecured senior notes in the consolidated balance sheets. The effective interest rates for the unsecured senior notes include the interest charged on the notes as well as amortization of the debt discounts and debt issuance costs.

The unsecured senior notes contain covenants including, among others, limitation on liens, consolidation, merger and sale all or substantially all of the Company's assets. The notes will rank senior in rights of payment to all of the Company's existing and future obligations expressly subordinated in rights of payment to the notes and rank at least equal in rights of payment with all of the Company's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law).

The proceeds from issuance of the unsecured senior notes were used for general corporate purposes.

As of December 31, 2018, the principal of the unsecured senior notes of RMB3,431,600 and RMB3,431,600 will be due in 2021 and 2026, respectively.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 18. Interest income and interest expense

Interest income and interest expense consist of the following:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Interest income:		
Interest income in relation to nonrecourse securitization debt charged to JD Digits .....	702,147	527,025
Interest income in relation to loans provided to JD Digits .....	569,395	119,047
Interest income in relation to bank deposits, wealth management products and others .....	1,258,948	1,471,849
Total .....	<u>2,530,490</u>	<u>2,117,921</u>
Interest expense:		
Interest expense in relation to nonrecourse securitization debt .....	(702,147)	(527,025)
Interest expense in relation to unsecured senior notes, bank borrowings and others .....	(261,595)	(327,513)
Total .....	<u>(963,742)</u>	<u>(854,538)</u>

## 19. Others, net

Others, net consist of the following:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Gain from business and investment disposals .....	74,965	1,320,266
Government financial incentives .....	843,447	614,658
Impairment of investments .....	(139,823)	(593,138)
Foreign exchange gains/(losses), net .....	213,482	(192,491)
Losses from fair value change of long-term investments .....	—	(1,512,979)
Others .....	324,337	458,859
Total .....	<u>1,316,408</u>	<u>95,175</u>

Government financial incentives represent rewards provided by the relevant PRC municipal government authorities to the Group for business achievements made by the Group. Government financial incentives are recognized in others, net in the consolidated statements of operations and comprehensive income/(loss) when the government financial incentives are received and no further conditions need to be met. The amounts of such government financial incentives are determined solely at the discretion of the relevant government authorities and there is no assurance that the Group will continue to receive these government financial incentives in the future.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****20. Taxation****a) Value added tax (“VAT”)**

The Group is subject to statutory VAT rate of 13% prior to July 1, 2017, 11% from July 1, 2017 to April 30, 2018, and 10% from May 1, 2018 for revenues from sales of audio, video products and books, and 17% prior to May 1, 2018 and 16% from May 1, 2018 for sales of other products, respectively, in the PRC. The Group is exempted from VAT for revenues from sales of books from January 1, 2014 to December 31, 2018.

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

The Group is also subject to cultural undertaking development fees at the rate of 3% on revenues from online advertising services in the PRC.

**b) Income tax***Cayman Islands*

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

*British Virgin Islands*

Under the current laws of the British Virgin Islands, entities incorporated in the British Virgin Islands are not subject to tax on their income or capital gains.

*Indonesia*

Under the current laws of the Republic of Indonesia, the Group's subsidiaries in Indonesia are subject to 25% income tax on its taxable income generated from operations in Indonesia.

*Hong Kong*

Under the current Hong Kong Inland Revenue Ordinance, the Company's subsidiaries in Hong Kong are subject to 16.5% Hong Kong profit tax on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

*China*

Under the PRC Enterprise Income Tax Law (the “EIT Law”), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. Most of the Group's PRC subsidiaries and consolidated VIEs are subject to the statutory income tax rate of 25%.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****20. Taxation—continued****b) Income tax—continued***China—continued*

The EIT Law and its implementation rules permit certain High and New Technologies Enterprises, or HNTes, to enjoy a reduced 15% enterprise income tax rate subject to these HNTes meeting certain qualification criteria. In addition, the relevant EIT laws and regulations also provide that entities recognized as Software Enterprises are able to enjoy a tax holiday consisting of a two-year-exemption commencing from their first profitable calendar year and a 50% reduction in ordinary tax rate for the following three calendar years. Beijing Shangke has been entitled to an exemption from income tax for first two years and 50% reduction for the next three years from its first profitable year as a “software enterprise”. It has also been qualified as HNTe and enjoys a preferential income tax rate of 15%. The privileges cannot be applied simultaneously. Beijing Shangke applied the privilege of “software enterprise” and was exempted from income tax in 2017, and enjoyed a preferential income tax rate of 12.5% in 2018.

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

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

*Withholding tax on undistributed dividends*

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for the PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, property, etc., of a non-PRC company is located.” Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its operations outside of the PRC should be considered as a resident enterprise for the PRC tax purposes.

The EIT law also imposes a withholding income tax of 10% on dividends distributed by a Foreign Investment Enterprise (“FIE”) to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 20. Taxation—continued

## b) Income tax—continued

*Withholding tax on undistributed dividends—continued*

place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). The Company did not record any dividend withholding tax on the retained earnings of its FIEs in the PRC, as the Company intends to reinvest all earnings in China to further expand its business in China, and its FIEs do not intend to declare dividends on the retained earnings to their immediate foreign holding companies.

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

	For the year ended December 31,	
	2017 RMB'000	2018 RMB'000
Income/(loss) before tax		
Income/(loss) from China operations	3,681,735	(578,300)
Loss from non-China operations	(3,560,775)	(1,795,378)
Total income/(loss) before tax	<u>120,960</u>	<u>(2,373,678)</u>
Income tax benefits/(expenses) applicable to China operations		
Current income tax expenses	(360,603)	(437,326)
Deferred tax benefits	221,010	10,454
Subtotal income tax expenses applicable to China operations	<u>(139,593)</u>	<u>(426,872)</u>
Total income tax expenses	<u>(139,593)</u>	<u>(426,872)</u>

Reconciliation of difference between the PRC statutory income tax rate and the Group's effective income tax rate for the years ended December 31, 2017 and 2018 is as follows:

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 20. Taxation—continued

b) *Income tax—continued*

The following table sets forth the effect of tax holiday:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Tax holiday effect . . . . .	1,140,251	198,118
Effect of tax holiday on basic net income/(loss) per share (RMB) . . . . .	0.40	0.07
Effect of tax holiday on diluted net income/(loss) per share (RMB) . . . . .	0.39	0.07

c) *Deferred tax assets and deferred tax liabilities*

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Deferred tax assets		
—Net operating loss carry forwards . . . . .	1,162,287	2,028,350
—Deferred revenues . . . . .	299,723	283,824
—Inventory valuation allowance . . . . .	124,693	217,215
—Allowance for doubtful accounts . . . . .	52,117	88,036
—Unrealized fair value losses for certain investments . . . . .	—	482,027
Less: valuation allowance . . . . .	(1,480,570)	(2,996,294)
Net deferred tax assets . . . . .	158,250	103,158
Deferred tax liabilities		
—Intangible assets arisen from business combination . . . . .	882,248	819,032
—Accelerated tax depreciation and others . . . . .	—	9,441
Total deferred tax liabilities . . . . .	882,248	828,473

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

A valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group evaluates a variety of factors including the Group's entities' operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

The Group has incurred net accumulated operating losses for income tax purposes since its inception. The Group believes that it is more likely than not that these net accumulated operating losses (except for the net operating loss generated by certain entities in 2017 and 2018) and other deferred tax

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****20. Taxation—continued***c) Deferred tax assets and deferred tax liabilities—continued*

assets will not be utilized in the future based on its estimate of the operation performance of these PRC entities. The amount of valuation allowance offset in deferred tax assets as of December 31, 2017, 2018 was RMB1,480,570 and RMB2,996,294, respectively.

The movements of valuation allowance of deferred tax assets are as follows:

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Balance at beginning of the year .....	1,626,680	1,480,570
Additions .....	807,558	2,755,222
Reversals .....	(953,668)	(1,239,498)
Balance at end of the year .....	<u>1,480,570</u>	<u>2,996,294</u>

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

In 2018, the Group entered into definitive agreements with third-party investors to raise financing for Jingdong Express, the parent company of JD Logistics, with the total amount of US\$2,510,000 (RMB15,973,564) by issuance of the series A preferred shares of Jingdong Express (“Jingdong Express Series A Preferred Shares”), representing approximately 19% of the ownership of Jingdong Express on a fully diluted basis.

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

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

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

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

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****21. Convertible redeemable non-controlling interests—continued**

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

*Dividend Rights*

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

*Voting Rights*

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

*Liquidation Preferences*

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

*Redemption Rights*

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

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

- (i) any dividend relating to each Jingdong Express Series A Preferred Shares which has been declared by Jingdong Express but unpaid, to be calculated up to and including the date of the redemption; plus
- (ii) Jingdong Express Series A Preferred Shares purchase price, that is US\$2.50 per Jingdong Express Series A Preferred Shares, subject to appropriate adjustments in the event of any share dividend, share combination or similar recapitalization events.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****21. Convertible redeemable non-controlling interests—continued***Redemption Rights—continued*

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

*Conversion Rights*

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

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

The convertible redeemable non-controlling interests for the years ended December 31, 2018 is summarized as follow:

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

**22. Ordinary shares**

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

In March 2014, the Company issued 351,678,637 ordinary shares to Huang River Investment Limited, a wholly owned subsidiary of Tencent, in connection with Tencent Transaction (Note 27). Additionally, upon the initial public offering in May 2014, the Company issued 166,120,400 Class A ordinary shares. Concurrently, the Company issued 139,493,960 Class A ordinary shares in a private placement to Huang River Investment Limited.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****22. Ordinary shares—continued**

In June 2016, the Company issued 144,952,250 Class A ordinary shares to Newheight Holdings Ltd., a wholly owned subsidiary of Walmart, in connection with Walmart Transaction.

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

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

**23. Share repurchase program**

In September 2015, the Company's Board of Directors authorized a share repurchase program ("2015 share repurchase program") under which the Company may repurchase up to US\$1,000,000 worth of its American depository shares ("ADSs") over the following 24 months. In December 2018, the Company's Board of Directors authorized a share repurchase program ("2018 share repurchase program") under which the Company may repurchase up to US\$1,000,000 worth of its ADSs over the following 12 months. The share repurchases may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by the management.

Under the 2015 share repurchase program, the Company repurchased 31,065,784 ADSs for US\$800,000 (RMB5,338,276) on the open market, at a weighted average price of US\$25.75 per ADS, and entered into structured repurchase agreements involving the use of capped call options for the purchase of shares during the year ended December 31, 2016. The Company paid an aggregate price of US\$300,000 (RMB2,007,100) for the structured repurchase agreements during the year ended December 31, 2016, and received US\$216,220 (RMB1,463,218) and US\$107,239 (RMB737,501) upon the settlement of these agreements during the years ended December 31, 2016 and 2017, respectively, as the outcome of these arrangements was based entirely on the Company's stock price and did not require the Company to deliver either shares or cash, other than the initial investment, the entire transaction was recorded in the shareholders' equity.

No repurchase activity was incurred in 2017.

During the year ended December 31, 2018, the Company had repurchased 1,396,200 ADSs for US\$29,999 (RMB205,886) on the open market, at a weighted average price of US\$21.48 per ADS. The Company accounts for repurchased ordinary shares under the cost method and includes such treasury stock as a component of the shareholders' equity.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****24. Other comprehensive income**

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

	Foreign currency translation adjustments	Net unrealized gains/(losses) on available-for-sale securities	Total
	RMB'000	RMB'000	RMB'000
Balances as of December 31, 2016 .....	1,483,737	59,656	1,543,393
Other comprehensive income/(loss) .....	(822,052)	1,120,740	298,688
Balances as of December 31, 2017 .....	661,685	1,180,396	1,842,081
Cumulative effect of changes in accounting principles related to financial instruments .....	—	(1,156,642)	(1,156,642)
Other comprehensive income/(loss) .....	2,696,784	(23,127)	2,673,657
Balances as of December 31, 2018 .....	<u>3,358,469</u>	<u>627</u>	<u>3,359,096</u>

The income tax effects related to the accumulated other comprehensive income were insignificant for all periods presented.

**25. Share-based compensation**

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

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Cost of revenues .....	27,513	71,983
Fulfillment .....	425,706	418,895
Marketing .....	135,749	190,499
Research and development .....	670,612	1,162,579
General and administrative .....	<u>1,520,482</u>	<u>1,816,033</u>
Total .....	<u>2,780,062</u>	<u>3,659,989</u>

**Share incentive plan**

The Company granted share-based awards to eligible employees and non-employees pursuant to a share incentive plan entitled "Share Incentive Plan", which was adopted on November 13, 2014 and governed the terms of the awards.

As of December 31, 2018, the Group had reserved 112,823,383 ordinary shares available to be granted as share-based awards under the Share Incentive Plan.

**(1) Employee and non-employee awards**

The RSUs and share options are generally scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of the Plans, shall be vested upon the end of the calendar year in which the

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 25. Share-based compensation—continued

## (1) Employee and non-employee awards—continued

awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years. Starting from the year ended December 31, 2016, certain awards had multiple tranches with tiered vesting commencement dates from 2016 to 2025, and each of the tranches is subject to a six-year vesting schedule.

Upon the reorganization of JD Digits, the employees' status of JD Digits changed from the employees of the Company's subsidiary to non-employees of the Company. Share-based awards granted by the Company to employees of JD Digits and share-based awards granted by JD Digits to employees of the Company were insignificant for all periods presented.

**RSUs***a) Service-based RSUs*

A summary of activities of the service-based RSUs for the years ended December 31, 2017 and 2018 is presented as follows:

	<u>Number of RSUs</u>	<u>Weighted-Average Grant-Date Fair Value</u>
		US\$
Unvested as of January 1, 2017 .....	82,847,816	11.97
Granted .....	41,450,212	16.27
Vested .....	(12,005,700)	10.14
Forfeited or canceled .....	(6,246,436)	13.42
Unvested as of December 31, 2017 .....	<u>106,045,892</u>	13.77
Granted .....	40,383,436	18.95
Vested .....	(16,137,554)	12.47
Forfeited or canceled .....	<u>(11,795,682)</u>	15.16
Unvested as of December 31, 2018 .....	<u>118,496,092</u>	15.58

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

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

As of December 31, 2018, there were RMB7,187,657 of unrecognized share-based compensation expenses related to the service-based RSUs granted. The expenses are expected to be recognized over a weighted-average period of 5.2 years.

The total fair value and intrinsic value of service-based RSUs vested was US\$213,155 (RMB1,438,012) and US\$295,632 (RMB1,892,221) during the years ended December 31, 2017 and 2018, respectively.



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 25. Share-based compensation—continued

## (1) Employee and non-employee awards—continued

*RSUs—continued**b) Performance-based RSUs*

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

	<u>Number of RSUs</u>	<u>Weighted-Average Grant-Date Fair Value</u>
		US\$
Unvested as of January 1, 2017 .....	310,002	6.33
Granted .....	—	—
Vested .....	(96,516)	6.33
Forfeited or canceled .....	—	—
Unvested as of December 31, 2017 .....	<u>213,486</u>	6.33
Granted .....	—	—
Vested .....	(103,788)	6.33
Forfeited or canceled .....	<u>(30,152)</u>	6.33
Unvested as of December 31, 2018 .....	<u>79,546</u>	6.33

For the years ended December 31, 2017 and 2018, total share-based compensation expenses recognized by the Group for the performance-based RSUs granted were insignificant for all the periods presented.

As of December 31, 2018, there were RMB61 of unrecognized share-based compensation expenses related to the performance-based RSUs granted. The expenses are expected to be recognized over a weighted-average period of 0.1 years.

The total fair value and intrinsic value of the performance-based RSUs vested was US\$1,371 (RMB9,400) and US\$2,555 (RMB16,181) during the years ended December 31, 2017 and 2018, respectively.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 25. Share-based compensation—continued

## (1) Employee and non-employee awards—continued

*Share options*

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

<u>Share options</u>	<u>Number of share options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
		US\$	Year	US\$'000
Outstanding as of January 1, 2017 .....	21,659,016	6.23	7.3	142,433
Exercised .....	(4,116,816)	5.20		
Forfeited or canceled .....	(432,092)	5.92		
Expired .....	—			
Outstanding as of December 31, 2017 .....	<u>17,110,108</u>	6.49	6.2	243,327
Exercised .....	(1,077,036)	5.23		
Forfeited or canceled .....	(285,336)	7.68		
Expired .....	—			
Outstanding as of December 31, 2018 .....	<u>15,747,736</u>	6.55	5.3	72,658
Vested and expected to vest as of December 31, 2018 .....	15,130,922	6.46	5.3	70,845
Exercisable as of December 31, 2018 .....	11,003,010	5.57	5.1	58,713

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

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

The total intrinsic value of options exercised during the years ended December 31, 2017 and 2018 was US\$55,278 (RMB377,062) and US\$15,326 (RMB99,267), respectively. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the share options. Cash received from the exercises of share options of the Company during the years ended December 31, 2017 and 2018 was US\$19,942 (RMB135,745) and US\$7,382 (RMB48,555), respectively. Cash receivable from the exercises of share options of the Company as of December 31, 2017 and 2018 was US\$2,201 (RMB14,380) and US\$449 (RMB3,084), respectively.

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

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****25. Share-based compensation—continued****(2) Founder awards**

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

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

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

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

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 26. Net income/(loss) per share

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

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

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 27. Related party transactions

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

<u>Name of related parties</u>	<u>Relationship with the Group</u>
Tencent and its subsidiaries (“Tencent Group”)	A shareholder of the Group
Lexin and its subsidiaries (“Lexin Group”)(*)	An investee of the Group
Bitauto and its subsidiaries (“Bitauto Group”)	An investee of the Group
Tuniu and its subsidiaries (“Tuniu Group”)	An investee of the Group
Dada and its subsidiaries (“Dada Group”)	An investee of the Group
JD Digits	An entity and its subsidiaries controlled by the Founder
Yixin and its subsidiaries (“Yixin Group”)	An investee of the Group

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

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

<u>Transactions</u>	<u>For the year ended December 31,</u>	
	<u>2017</u>	<u>2018</u>
	<u>RMB’000</u>	<u>RMB’000</u>
Revenues:		
Services provided and products sold to Lexin Group . . . . .	543,304	—
Commission from cooperation on advertising business with Tencent Group(**) . . . . .	260,572	345,186
Services provided and products sold to Tencent Group(**) . . . . .	31,505	276,728
Services provided and products sold to Dada Group . . . . .	100,360	122,326
Traffic support, marketing and promotion services provided to Bitauto Group . . . . .	609,055	608,844
Traffic support, marketing and promotion services provided to Tuniu Group . . . . .	132,042	132,008
Services provided and products sold to JD Digits . . . . .	271,813	449,093
Operating expenses:		
Services received and purchases from Tencent Group(**) . . . . .	674,727	1,175,849
Services received from Dada Group . . . . .	694,207	938,627
Payment processing and other services received from JD Digits . . . . .	2,936,416	3,930,847
Other income:		
Income from non-compete agreement with Dada Group . . . . .	80,447	78,771
Interest income from loans provided to JD Digits . . . . .	871,014	179,556

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

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 27. Related party transactions—continued

of total operating expenses of the Group for the years ended December 31, 2017 and 2018, respectively.

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

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
Due from Tencent Group .....	595,105	862,781
Due from JD Digits		
Loans provided to JD Digits (***) .....	11,747,066	4,427,907
Other receivables from/(payables to) JD Digits .....	328,969	(525,669)
Total .....	<u>12,671,140</u>	<u>4,756,019</u>
Due to Lexin Group .....	(1,367)	—
Due to Tuniu Group .....	(5,451)	(585)
Due to Dada Group .....	(7,378)	(118,135)
Total .....	<u>(14,196)</u>	<u>(118,720)</u>
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Bitauto Group .....	(1,379,965)	(771,121)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Tuniu Group .....	(346,568)	(214,560)
Deferred revenues in relation to traffic support, marketing and promotion services to be provided to Dada Group .....	(331,354)	(269,225)
Total .....	<u>(2,057,887)</u>	<u>(1,254,906)</u>
Other liabilities in relation to non-compete obligation to Dada Group .....	(415,082)	(354,236)
Total .....	<u>(415,082)</u>	<u>(354,236)</u>

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

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

(c) Other information related to related party transactions:

On October 27, 2017, to provide a temporary bridging finance to Yixin Group, the Group entered into an entrusted loan agreement with Yixin Group and an independent third-party PRC commercial bank whereby the Group lent a total of RMB1,000,000 to Yixin Group. The bridge loan

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****27. Related party transactions—continued**

was on normal commercial terms and Yixin Group repaid the loan and associated interest before December 31, 2017.

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

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

Mr. Richard Qiangdong Liu, the Group's Chairman of the board and the Chief Executive Officer, has purchased his own aircraft for both business and personal use. The use of the aircraft in connection with the performance of his duty as employee is free of charge to the Group, and the Group has agreed to assume the cost of maintenance, crew and operations of the aircraft relating to the use of the aircraft. Such maintenance and incidental costs were insignificant for all periods presented.

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

**28. Segment reporting**

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 28. Segment reporting—continued

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

	For the year ended December 31,	
	2017 RMB'000	2018 RMB'000
Net revenues:		
JD Retail .....	356,020,374	447,502,173
New Businesses .....	6,021,508	14,665,281
Inter-segment(*) .....	(546,667)	(1,103,943)
Total segment net revenues .....	361,495,215	461,063,511
Unallocated items .....	836,539	956,248
Total consolidated net revenues .....	362,331,754	462,019,759
Operating income/(loss):		
JD Retail .....	4,956,264	7,049,222
New Businesses .....	(2,070,668)	(5,136,657)
Total segment operating income .....	2,885,596	1,912,565
Unallocated items(**) .....	(3,721,072)	(4,531,696)
Total consolidated operating loss .....	(835,476)	(2,619,131)
Total other income .....	956,436	245,453
Income/(loss) before tax .....	120,960	(2,373,678)

(\*) The inter-segment eliminations mainly consist of services provided by JD Retail to overseas business, and certain services provided by JD Logistics to the vendors of JD Retail, which the Group records as a deduction of cost of revenues at the consolidated level.

(\*\*) A summary of unallocated items for the years presented is as follows:

	For the year ended December 31,	
	2017 RMB'000	2018 RMB'000
Share-based compensation .....	(2,780,062)	(3,659,989)
Amortization of intangible assets resulting from assets and business acquisitions .....	(1,777,549)	(1,805,638)
Effects of business cooperation arrangements .....	836,539	956,248
Impairment of goodwill and intangible assets .....	—	(22,317)
Total .....	(3,721,072)	(4,531,696)

## 29. Employee benefit

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



**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****30. Lines of credit and loan facilities**

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

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

In December 2017, the Group entered into a 5-year US\$1,000,000 term and revolving credit facilities agreement with a group of 24 arrangers. The facilities were priced at 115 basis points over London Interbank Offered Rate. The use of proceeds of the facilities was intended for general corporate purposes. In June 2018, the Group drew down US\$450,000 under the facility commitment, and the borrowings will be due in 2022, which were recorded in long-term borrowings in the consolidated balance sheets.

**31. Commitments and contingencies***Operating lease commitments for offices and fulfillment infrastructures*

The Group leases office, fulfillment infrastructures under non-cancelable operating lease agreements. The rental expenses were RMB3,086,709 and RMB4,571,036 for the years ended December 31, 2017 and 2018, respectively, and were charged to consolidated statements of operations and comprehensive income/(loss) when incurred.

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

	As of December 31, 2018
	RMB'000
2019 .....	3,596,926
2020 .....	2,553,344
2021 .....	1,452,812
2022 .....	907,116
2023 .....	459,342
2024 and thereafter .....	1,044,818
	<u>10,014,358</u>

*Commitments for internet data center (IDC) service fee*

The Group entered into non-cancelable IDC service agreements. The related expenses were RMB805,656 and RMB1,498,935 for the years ended December 31, 2017 and 2018, respectively, and were charged to the consolidated statements of operations and comprehensive income/(loss) when incurred.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 31. Commitments and contingencies—continued

*Commitments for internet data center (IDC) service fee—continued*

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

	As of December 31, 2018
	<u>RMB'000</u>
2019 .....	656,427
2020 .....	76,015
2021 .....	10,487
2022 .....	7,636
2023 .....	1,783
2024 and thereafter .....	<u>3,267</u>
	<u>755,615</u>

*Capital commitments*

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

*Long-term debt obligations*

The Group's long-term debt obligations include unsecured senior notes and long-term borrowings. The amounts exclude the corresponding interest payable. The expected repayment schedule of the unsecured senior notes and long-term borrowings have been disclosed in Note 17 and Note 30, respectively.

*Legal proceedings*

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

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

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****32. Restricted net assets**

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

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

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

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

Amounts restricted include paid-in capital and statutory reserve funds, as determined pursuant to the PRC GAAP, totaling approximately RMB25,856,343 as of December 31, 2018; therefore in accordance with Rules 4-08 (e) (3) of Regulation S-X, the condensed parent company only financial statements as of December 31, 2017 and 2018 and for the years ended December 31, 2017 and 2018 are disclosed in Note 34.

**33. Subsequent events***Financing of JD Health*

In May 2019, the Group's healthcare subsidiary, JD Health International, Inc. ("JD Health") entered into definitive agreements for the non-redeemable series A preferred share financing ("JD Health Series A Preferred Shares") with a group of third-party investors. The total amount of financing raised was US\$931 million, representing 13.5% of the ownership of JD Health on a fully diluted basis.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****33. Subsequent events—continued***Strategic cooperation with Tencent*

On May 10, 2019, the Company renewed the strategic cooperation agreement with Tencent, for a period of three years starting from May 27, 2019. Tencent continued to offer the Group prominent level 1 and level 2 access points on its Weixin platform to provide traffic support, and the two parties also intend to continue to cooperate in a number of areas including communications, advertising and membership services, among others. As part of the total consideration, the Company agreed to issue to Tencent a certain number of the Company's Class A ordinary shares for a consideration of approximately US\$250 million at prevailing market prices at certain pre-determined dates during the three-year period, of which 8,127,302 and 2,938,584 Class A ordinary shares were issued to Huang River Investment Limited in May 2019 and 2020, respectively.

*Core Fund*

In 2018, the Group established JD Property Management Group ("JD Property"), to manage the expanding logistics facilities and other real estate properties. JD Property develops and manages these properties, and the Group may seek opportunistic dispositions to optimize the Company's capital structure. In February 2019, JD Property established JD Logistics Properties Core Fund, L.P. ("Core Fund") together with Government Of Singapore Investment Corporation ("GIC") for a total committed capital of over RMB4.8 billion. The Group serves as the general partner and has committed 20% of the total capital of Core Fund, and GIC committed the remaining 80% capital investment. The investment committee of Core Fund, which comprise the representatives from the Group and GIC, will oversee the key operations of Core Fund. Furthermore, the Group entered into a definitive agreement with Core Fund, pursuant to which the Group will dispose of certain of its modern logistics facilities to Core Fund, valuing at RMB10.9 billion, and concurrently lease back these completed facilities for operational purposes with an initial lease term of 5 to 6 years. Upon the expiry of the initial lease agreement, the Group may choose to renew the lease subject to certain conditions. In the second half of 2019, the closing conditions for the asset group of completed logistics facilities were met.

*Public offering of unsecured senior notes*

In January 2020, the Company issued fixed rate unsecured senior notes with two maturity dates for an aggregate principal amount of US\$1,000,000. The public offering consists of US\$700,000 of 3.375% notes due 2030 and US\$300,000 of 4.125% notes due 2050. The notes are listed on the Singapore Stock Exchange. The Company received net proceeds from the offering of US\$988,266, after deducting underwriting discounts and commissions and offering expenses. The Company intends to use the net proceeds from the offering for general corporate purposes and refinancing.

*Share repurchase program*

In 2019, the Company repurchased 935,848 ADSs for US\$19,101 (RMB131,010) on the open market, at a weighted average price of US\$20.41 per ADS, pursuant to the 2018 shares repurchase program.

In March 2020, the Company's Board of Directors authorized a share repurchase program ("2020 share repurchase program") under which the Company may repurchase up to US\$2,000,000

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****33. Subsequent events—continued***Share repurchase program—continued*

worth of its ADSs over the following 24 months. The share repurchases may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by the management. Under 2020 share repurchase program, as of April 8, 2020, the Company had repurchased approximately 1,191,370 ADSs for approximately US\$44,132.

*Drew down of Syndicated loan*

As disclosed in Note 30, the Group entered into a 5-year US\$1,000,000 term and revolving credit facilities agreement with a group of 24 arrangers in December 2017. In April 2020, the Group drew down US\$550,000 under the facility commitment. The use of proceeds of the facilities was intended for general corporate purposes.

*Private placement notes*

In February, March and May 2020, Jingdong Century, a subsidiary of the Company, issued fixed rate private placement notes with three maturity dates for an aggregate principal amount of RMB7,000,000. The private placement consists of RMB3,000,000 of 2.65% notes due April 27, 2020, RMB2,000,000 of 2.75% notes due October 30, 2020 and RMB2,000,000 of 1.75% notes due August 18, 2020. The notes are listed on the inter-bank bond market of China. The Group intends to use the proceeds from the private placement for general corporate purposes.

*Potential impact of coronavirus (“COVID-19”)*

From late January 2020, the COVID-19 was rapidly evolving in China and globally. Since then, the business and transportation disruptions in China have caused adverse impact to the Group's operations and led to incremental costs, in particular, relating to the Group's retail and logistics business. Demands for large-ticket items, durable goods and discretionary products have also been negatively affected by the COVID-19 outbreak. The Group's results of operation and consolidated financial position of 2020 will be adversely affected to a certain extent, which will depend on the future developments of the outbreak, including new development concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable.

*Financing for JD Industrial Technology, Inc.*

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

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued****34. Parent company only condensed financial information**

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

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

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

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 34. Parent company only condensed financial information—continued

## Condensed Balance Sheets

	As of December 31,	
	2017	2018
	RMB'000	RMB'000
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	8,964,809	2,196,796
Short term investments	—	755
Prepayments and other current assets	63,853	121,822
Amount due from related parties	715,671	1,555,288
<b>Total current assets</b>	<b>9,744,333</b>	<b>3,874,661</b>
<b>Non-current assets:</b>		
Investment in equity investees	7,514	—
Investments in subsidiaries and consolidated VIEs	45,675,625	64,127,171
Investment securities	35,893	12,978
Intangible assets, net	3,092,549	1,569,483
Other non-current assets	—	121,453
<b>Total non-current assets</b>	<b>48,811,581</b>	<b>65,831,085</b>
<b>Total assets</b>	<b>58,555,914</b>	<b>69,705,746</b>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	—	—
Taxes payable	—	—
Accrued expenses and other liabilities	67,743	60,190
<b>Total current liabilities</b>	<b>67,743</b>	<b>60,190</b>
<b>Non-current liabilities:</b>		
Long-term borrowings	—	3,088,440
Unsecured senior notes	6,447,357	6,786,143
<b>Total non-current liabilities</b>	<b>6,447,357</b>	<b>9,874,583</b>
<b>Total liabilities</b>	<b>6,515,100</b>	<b>9,934,773</b>
<b>SHAREHOLDERS' EQUITY:</b>		
<b>Ordinary shares</b> (US\$0.00002 par value; 100,000,000,000 shares authorized; 2,477,346,590 Class A ordinary shares issued and 2,406,652,132 outstanding, 461,362,309 Class B ordinary shares issued and 446,011,297 outstanding as of December 31, 2017; 2,507,473,330 Class A ordinary shares issued and 2,447,926,638 outstanding, 458,342,517 Class B ordinary shares issued and 446,369,717 outstanding as of December 31, 2018)	377	380
Additional paid-in capital	76,254,607	82,832,895
Statutory reserves	635,966	1,400,412
Treasury stock	(4,457,608)	(3,783,729)
Accumulated deficit	(22,234,609)	(24,038,081)
Accumulated other comprehensive income	1,842,081	3,359,096
<b>Total shareholders' equity</b>	<b>52,040,814</b>	<b>59,770,973</b>
<b>Total liabilities and shareholders' equity</b>	<b>58,555,914</b>	<b>69,705,746</b>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 34. Parent company only condensed financial information—continued

## Condensed Statements of Operations and Comprehensive Income

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
<b>Operating expenses</b>		
Marketing .....	(1,215,222)	(1,218,920)
General and administrative .....	(556,534)	(495,835)
<b>Loss from operations</b> .....	(1,771,756)	(1,714,755)
Share of income/(loss) of subsidiaries and consolidated VIEs .....	1,717,151	(653,408)
Interest income .....	66,848	220,186
Interest expense .....	(260,756)	(315,683)
Others, net .....	96,256	(27,973)
<b>Net loss</b> .....	(152,257)	(2,491,633)
<b>Net loss attributable to ordinary shareholders</b> .....	(152,257)	(2,491,633)
<b>Net loss</b> .....	(152,257)	(2,491,633)
Other comprehensive income:		
Foreign currency translation adjustments .....	(822,052)	2,696,784
Net change in unrealized gains (losses) on available-for-sale securities:		
Unrealized gains, net of tax .....	1,473,014	237,585
Reclassification adjustment for gains recorded in net income, net of tax .....	(352,274)	(260,712)
Net unrealized gains/(losses) on available-for-sale securities .....	1,120,740	(23,127)
Total other comprehensive income .....	298,688	2,673,657
<b>Total comprehensive income</b> .....	146,431	182,024



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

## 34. Parent company only condensed financial information—continued

## Condensed Statements of Cash Flows

	For the year ended December 31,	
	2017	2018
	RMB'000	RMB'000
Net cash used in operating activities	(105,219)	(233,195)
Cash flows from investing activities:		
Purchase of investment securities	—	(755)
Cash received from disposal of investment securities	—	7,893
Cash received from/(prepayments and investments in) subsidiaries and consolidated VIEs	2,359,092	(12,425,233)
Prepayments and investments in equity investees	(7,646)	—
Loans provided to JD Digits	(31,161)	(839,617)
Net cash provided by/(used in) investing activities	2,320,285	(13,257,712)
Cash flows from financing activities:		
Proceeds from issuance of ordinary shares	—	3,531,870
Repurchase of ordinary shares	—	(205,886)
Proceeds from long-term borrowings	—	2,890,575
Proceeds from settlement of capped call options	737,501	—
Proceeds from issuance of ordinary shares pursuant to share-based awards	135,745	48,555
Upfront fee payment for long-term borrowings	—	(81,581)
Net cash provided by financing activities	873,246	6,183,533
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(240,077)	539,361
Net increase/(decrease) in cash, cash equivalents, and restricted cash	2,848,235	(6,768,013)
Cash, cash equivalents, and restricted cash at beginning of the year	6,116,574	8,964,809
Cash, cash equivalents, and restricted cash at end of the year	8,964,809	2,196,796

*Basis of presentation*

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

For the Company only condensed financial information, the Company records its investments in subsidiaries and consolidated VIEs under the equity method of accounting as prescribed in ASC 323, Investments-Equity Method and Joint Ventures. Such investments are presented in the condensed balance sheets as "Investments in subsidiaries and consolidated VIEs" and shares in the subsidiaries and consolidated VIEs' financial results are presented as "Share of income/(loss) of subsidiaries and consolidated VIEs" in the condensed statements of operations and comprehensive income/(loss). The parent company only condensed financial information should be read in conjunction with the Group's consolidated financial statements.

## 35. Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2017 and 2018.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

The audited consolidated financial statements for the year ended December 31, 2019 have been prepared by the Company subsequent to December 31, 2018 and up to the date of this report. No dividends or distributions have been declared or made by the Company in respect of any period subsequent to December 31, 2018.