Introduction to Finance-Term project

A Financial Analysis for JD.com, Inc.

for the year ended December 31, 2016

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Responsibility Statement

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Contents

1 Annual Report

1.1 Overview

JD.com, Inc's Annual Report for FY 2016 comprises the mainly three parts:

I This part includes corporate information, introducing the development of the company, the basic strategy, and brief operating and financial situation during the last year. It also includes the information about its directors, managers and employees. And also the strategy towards them is included.

II This part introduces the details of the company's dividend policy. It also includes the adjustments to statements and its principal of accounting.

III The third part is mainly about JD's financial statements and exhibits of materials.

IV This part is JD's financial statements and its principal to record.

JD.com, Inc. annual report for FY 2016 provides a detailed and comprehensive review of the operating and financial performance of the issuer of the annual report and its principal subsidiaries in the last financial year.

1.2 External Users

External users of the annual report include present and potential investors (equity owners), employees of the company, lenders of funds, customers, suppliers, government agencies and other members of the public[1]:

[1] CCDG – FRS Framework for the Preparation and Presentation of Financial Statements, Para 5

- **Investors.** The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information that enables them to assess the ability of the enterprise to pay dividends.
- **Employees.** Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.
- **Lenders.** Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.
- **Suppliers and other trade creditors.** Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an enterprise over a shorter period than lenders unless they are dependent upon the continuation of the enterprise as a major customer.
- **Customers.** Customers have an interest in information about the continuance of an enterprise, especially when they have a long-term involvement with, or

are dependent on, the enterprise.

- **Governments and their agencies.** Governments and their agencies are interested in the allocation of resources and, therefore, the activities of enterprises. They also require information in order to regulate the activities of enterprises, determine taxation policies and as the basis for national income and similar statistics.
- **Public.** Enterprises affect members of the public in a variety of ways. For example, enterprises may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.

While the objective of annual reports is to provide information about the financial position, performance and changes in financial position of an enterprise, it cannot cater to all the information needs of users. However, as investors are providers of risk capital to the enterprise, financial information from the annual report that meet their needs will also meet the common needs of other users.

2 Corporate Governance

2.1 Board of Directors

Board of Directors	
Richard Qiangdong Liu	Chairman and Chief Executive Officer
Martin Chiping Lau	Director
Ming Huang	Independent Director
Louis T. Hsieh	Independent Director
David Daokui Li	Independent Director

Table 1: Board of directors of JD.com, Inc

2.1.1 Appointment of New Directors

None.

2.1.2 Directors' Remuneration

In 2016, JD paid an aggregate of approximately RMB12.7 million (US$1.8 million) in cash to their executive officers, and approximately US$0.2 million in cash to their non-executive directors. They have not set aside or accrued any amount to provide pension, retirement or other similar benefits to their executive officers and directors[2]. The details of remuneration are not mentioned in the report.

2.1.3 Directors' Appointments in Other Institutions

Martin Chiping Lau is the only director who also holds positions in other institutions. The situation is as follows:

DIRECTOR	COMPANY	APPOINTMENT
Martin Chiping Lau	Tencent Holdings Limited	President and Executive Director
	Leju Holdings Limited	Director
	Kingsoft Corporation Limited	Non-Executive Director

Table 2: Directors' Appointments in Other Institutions

[2]See JD.com, Inc. annual report 2016, Page 115

2.1.4 Directors' Interests in Shares and Debentures

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of February 28, 2017 by[3]:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our total outstanding shares.

	DIRECT INTEREST		DEEM INTEREST	
Director	Beginning of Year	End of Year	Beginning of Year	End of Year
Richard Qiangdong Liu	452,044,989	452,044,989		

Table 3: Board of directors of JD.com, Inc

[3] See JD.com, Inc. annual report 2016, Page 122

2.1.5 Share Options

A director is not required to hold any shares in JD's company by way of qualification. A director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with the company must declare the nature of his interest at a meeting of the directors.

Under JD's current memorandum and articles of association, our board of directors will not be able to form a quorum without Mr. Richard Qiangdong Liu for so long as Mr. Liu remains a director[4].

2.2 Audit Committee

JD's audit committee consists of Louis T. Hsieh, Ming Huang and David Daokui Li. Mr. Hsieh is the chairman of their audit committee[5].

The audit committee oversees JD's accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is

[4] See JD.com, Inc. annual report 2016, Page 118

[5] See JD.com, Inc. annual report 2016, Page 118

responsible for, among other things:

- Appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- Reviewing with the independent auditors any audit problems or difficulties and management's response;
- Discussing the annual audited financial statements with management and the independent auditors;
- Reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- Reviewing and approving all proposed related party transactions;
- Meeting separately and periodically with management and the independent auditors;
- Monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

2.3 Nominating and Corporate Governance Committee

JD's nominating and corporate governance committee consists of David Daokui Li and Louis T. Hsieh. Mr. Li is the chairperson of their nominating and corporate governance committee. The nominating and corporate governance committee is responsible for, among other things[6]:

- Selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- Reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- Making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board;
- Advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

[6] See JD.com, Inc. annual report 2016, Page 119

2.4 Internal Control

Internal control assists in the company's effective and efficient operations by helping it to react suitably to significant business, operational, financial, compliance and other risks to achieve the company's aims. JD did not employ any internal auditors.

2.5 Independent Auditors

Mr. Hsieh, Mr. Huang and Mr. Li in the company's audit committee satisfy the "independence" requirements of NASDAQ and Rule 10A-3 under the Securities Exchange Act of 1934. It provides service as stated in 3.1.

3 Operating Activities

The principal activities of the Company are online direct sales, online marketplace and other services. Its subsidiaries are principally set to assistant their operating activities, all of which were built in China. The Company comprises the following branches and subsidiaries:

- Jingdong Century-Established in April 2007, and certain of its subsidiaries in China, which primarily engage in retail business;
- Shanghai Shengdayuan Information Technology Co., Ltd., or Shanghai Shengdayuan-Established in April 2011 and primarily operates their online marketplace business;
- Tianjin Star East Corporation Limited, or Star East-Established in April 2012 and provides primarily warehousing and related services;
- Beijing Jingbangda Trade Co., Ltd., or Jingbangda-Established in August 2012 and provides primarily courier services.

The success of this company hinges on their ability to provide superior customer experience. Their slogan is “selection, speed, quality, value”, and they are committed to optimizing customer experience and achieving customer satisfaction. They rely on online direct sale of computer, communication and consumer electronics for a significant portion of their net revenues.

The director of the Group admitted that they have incurred significant net losses and they may continue to experience significant losses in the future. It is also reported that if they are unable to provide superior customer experience, their business and reputation may be materially and adversely affected.

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

Cost of revenue account for the Group's most cost and expense, and it decrease by 1.8% during 2016. Fulfillment increases by 0.4%, technology and content increases by 0.3% and general and administrative increases by 0.2%. While marketing decreases 0.2% and impairment of goodwill and intangible assets decreases 1.5%. This decrease in expense more than offset the increase in expense which resulted in loss decrease of 3.7% as a percentage of revenue.

4 Income Statement

The Group's income statement covers the period from 1 January 2014 to 31 December 2016.

Turnover represents online direct sales, services and others. The Group's turnover is as follows[7]:

[7] See JD.com, Inc. annual report 2016, Page F5

	2015	2016	Absolute change	Ralative change
Turnover	181,275	260,122	78,847	43.5%

Table 4: Turnover (in thousands of RMB ¥)

The increase of 43.5% in turnover from FY 2015 was achieved from an increase in online direct sales, which dominants about 38.6%.

4.1 Group Revenue According to Activities

	2015	2016
Online direct sales	167,721	237,702
Services and others	13,554	22,420
Total	181,275	260,122

Table 5: Revenue (in thousands of RMB ¥)

The Group's online direct sales increases 41% and services an others increase 65%, resulting in 38.6% increase in turnover. This illustrates a good state of operation during year 2016. We can also calculate that online direct sales generates the most profit for the company.

4.2 Revenue Recognition

The Group recognizes revenues from advertising placements ratably over the period during which the advertising services are provided or on the number of times that the advertisement has been displayed based on cost per thousand impressions, and recognizes revenues from pay for performance marketing services based on effective clicks[8].

The Group offers consumer financing to individual customers and supply chain financing to suppliers and merchants on the Group's online marketplace. Revenues resulting from these financing services are recognized in accordance with the contractual terms.

[8] See JD.com, Inc. annual report 2016, Page F25, F26

The Group recognizes the revenues from the online direct sales on a gross basis as the Group is primarily obligated in these transactions, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has met several but not all of these indicators.

The Group earns transaction fees from processing transactions for online payment customers. Services resulting from these transactions are recognized as service revenues when processing services are completed.

Advertising arrangements involving multiple deliverables are allocated into single-element arrangements based on their relative selling price in the absence of both vendor specific objective evidence and third party evidence, and the related revenue is recognized over the period during which the element is provided.

4.3 Common Size Income Statement

The Common Size Income Statement is as follows:

	2015	2016	Change
Net revenues	100	100	-
Cost and Expenses			
Cost of revenues	86.6	84.8	(1.8)
Fulfillment	7.7	8.1	0.4
Marketing	4.3	4.1	(0.2)
Technology and content	1.8	2.1	0.3
General and administrative	1.6	1.8	0.2
Impairment of goodwill and intangible assets	1.5	0	(1.5)
Other expense	1.5	0.4	(1.1)
Total costs and expenses	105.0	101.3	(3.7)
Loss before taxation	5.0	1.3	(3.7)
Taxation	(0.007)	0.008	0.015
Loss for Year	5.0	1.3	(3.7)

Table 6: Common Size Income Statement (in percents)

Cost of revenue account for the Group's most cost and expense, and it decrease by

1.8% during 2016. Fulfillment increases by 0.4%, technology and content increases by 0.3% and general and administrative increases by 0.2%. While marketing decreases 0.2% and impairment of goodwill and intangible assets decreases 1.5%. This decrease in expense more than offset the increase in expense which resulted in loss decrease of 3.7% as a percentage of revenue.

4.4 Net Loss Before Tax

The Net Income before tax is as follows:

	2015	2016	Absolute change	Ralative change
Net loss before tax	9,132	3,234	(5898)	(64.6%)

Table 7: Net loss before tax (in thousands of RMB ¥)

The loss of the Group decreased by an approximate RMB 5,898,000. The percentage decrease was 64.6, mainly resulting from decreases in operating expenses especially cost of revenue.

4.5 Retained Earnings

The retained earnings are as follows[9]:

	2015	2016
Balance at 1 January	15,009	55,560
Statutory reserves	40,551	77,378
Balance at 31 December	55,560	132,938

Table 8: Retained earnings (in thousands of RMB ¥)

The Group's retained earnings largely increased during year 2015 and 2016. Statutory reserves every year also had a large increase, which indicated full cash flow of the company.

4.6 Earnings Per Share

The Earnings per share is as follows:

[9] See JD.com, Inc. annual report 2016, Page F10

	2015	2016	Change
Basic and diluted earnings per share	(3.33) cents	(1.36) cents	148.12%

Table 9: Earnings per share

Earnings per share of the Group was negative due to a negative profit of the company. However, a positive change of it shows that the Group has an improvement in profit.

5 Taxes

5.1 Taxation Summary

The Group is imposed on the following three sorts of taxes[10]:

[10] See JD.com, Inc. annual report 2016, Page F-53

- **Value added tax.** During the periods presented, the Group is subject to statutory VAT[11] rate of 13% and 17% for revenues from sales of audio, video products and books and sales of other products, respectively, in the PRC.
- **Business tax.** Before May 1, 2016, the Group was subject to 5% business tax and related surcharges for revenues from online payment services. Starting from May 1, 2016, the Group is subject to 6% VAT for revenues from online payment services. Business tax and the related surcharges are recognized when the revenue is earned.
- **Income tax.** Three subsidiaries of the Group, Beijing Shangke, Chongqing Haijia and Chengdu Century, enjoyed a preferential income tax rate of 15%. The Group's other PRC subsidiaries, VIEs[12] and VIEs' subsidiaries are subject to the statutory income tax rate of 25%.

As a matter of fact, JD.com attempts to obtain tax allowance and exemption by being classified as "high and new technology enterprises".

[11] A pilot program for transition from business tax to value added tax ("VAT") for certain services revenues was launched in Shanghai on January 1, 2012.

[12] A variable interest entity (VIE) is an entity that an investor has a controlling interest in, but this controlling interest is not based on a majority of voting rights.

5.2 Income Tax

The Group follows the liability method of accounting for income taxes[13]. 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 amounts of income tax benefits or expenses for the year ended December 31, 2015 and the year ended December 31,2016 are tabulated as follows[14]:

	2015	**2016**
Current income tax expenses	(28,322)	(214,282)
Deferred tax benefits	42,584	34,782
Income tax benefits/(expenses)	14,262	(179,500)

Table 10: Income tax benefits or expenses (in thousands of RMB ¥)

[13] See JD.com, Inc. annual report 2016, Page F-30

[14] See JD.com, Inc. annual report 2016, Page F-55

It is noteworthy that the Group reports income tax benefits rather than income tax expenses for the fiscal year 2015. The result is caused by its considerable deferred tax benefits which amounts to the increase in deferred tax assets less the decrease in deferred tax liabilities. In accordance with the regulations of the relevant tax jurisdictions, the Group's net operating loss generates deferred tax assets which may be used to deduct the income tax incurred in the next five fiscal years, if the Group can make a profit in the foreseeable future.

With the Group's net loss decreasing year by year, we can expect income tax expenses rather than tax benefits to be reported.

6 Dividends

6.1 Factors on Dividend Policy

There are several factors that influence whether a company pays a dividend and how much it chooses to pay. Some of the most influential factors are listed as follows.

- **Income stability.** Income stability is one of the top factors in determining dividend policies. Specifically, established companies with stable, predictable income streams are more likely to pay dividends than companies with growing or volatile income.

  Newer and rapidly growing companies rarely pay dividends, as they prefer to invest their profits back into the company to fuel even more future growth. And, companies with unstable revenue streams often choose not to pay dividends, or pay small dividends in order to make sure the payout will be sustainable.

  It looks terrible to investors when companies are forced to suspend or reduce dividend payments, so most like to err on the side of caution when deciding to implement a new dividend, waiting for several years of stable profits before doing so.

- **Profitability.** Another factor that can influence management's dividend policies is the potential for better returns through capital reinvestment. In other words, if a company feels that it would be in the best interest of its shareholders to use its profits for other business activities besides paying dividends, it could choose not to pay – even if its revenues are stable and predictable.

  One great example of this is Warren Buffett's Berkshire Hathaway, which has never paid a dividend. Instead, Buffett feels that reinvesting the company's profits is a far better idea – and he's been right. Berkshire has produced phenomenal returns for decades, and a big reason was the compounding effect of reinvesting its profits instead of paying them out.

- **Taxes.** Dividends are effectively taxed twice – once at the corporate level, and again when they are paid out to shareholders.

  Because of this, many companies (and their investors) feel that other methods of returning capital, such as share repurchases, are a better way to go. Repurchasing shares has the same net effect as a dividend payment – the intrinsic value of the company's shares increases as the share count drops. However, this can allow investors who like to reinvest their dividends to do so without having to worry about dividend taxes.

- **Legal requirements.** It's also worth noting that some companies have no choice but to pay dividends. For example, real estate investment trusts receive some pretty nice tax benefits, but they are legally required to pay at least 90% of their income to shareholders.

  On the other hand, some companies need to obtain approval before paying or increasing their dividends. Since the financial crisis, many banks need to submit capital plans for regulatory approval for any plans to boost their payouts.

- **Economic conditions.** Finally, another major factor that influences dividend policies is the market environment. If a certain sector is having trouble and anticipates profits falling, it's common for companies to get quite defensive when it comes to their dividends.

  This can be seen currently in the energy sector, where low oil prices have wreaked havoc on many companies' profitability, which has led to several major companies slashing their dividends recently.

As for JD.com, Inc., it stated that the form, frequency and amount of dividend payment will depend upon its future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem[15].

6.2 Dividend Policy Performed by the Group

JD.com, Inc. does not reflect an active attitudes towards dividend payment. So far the Group have not declared or paid any dividends on ordinary shares, nor it have any present plan to pay any cash dividends on ordinary shares in the foreseeable future[16].

[15] See JD.com, Inc. annual report 2016, Page 130

[16] See JD.com, Inc. annual report 2016, Page 131

In the light of its heavy financial losses, it is not surprising that the Group Chose not to grant any dividends. The reason why stockholders are willing to purchase and hold the Group's stocks is unlikely for possible dividends. Instead, they may value its dominant position in electronic commerce and look ahead its future development with an optimistic expectation.

7 Share Capital and Reserves

7.1 Share capital

JD.com, Inc. holds outstanding shares consisting of ordinary shares, series A and A-1 convertible preferred shares and series B convertible preferred sharesas of December 31, 2013[17]. Since 2014, the Group only has one class of shares, which is the Ordinary shares.

The change in the capital for the year as well as the number of shares issued is shown as follows:

[17] See JD.com, Inc. annual report 2016, Page F-10

	Ordinary shares		Treasury stock	
	Shares	Amount	Shares	Amount
Balance as of December 31, 2015	2,793,756,650	358	(51,766,164)	(3)
Issuance of ordinary shares	144,952,250	19	-	-
Surrender of ordinary shares by certain shareholder	(1)	-	-	-
Exercise of sharebased awards	-	-	2,820,648	77,496
Share-based compensation and vesting of sharebased awards	-	-	8,812,582	78,903
Balance as of December 31, 2016	2,938,708,899	377	(102,264,502)	(5,181,880)

Table 11: Share capital (amounts in thousands of RMB ¥, shares in one)

Only one shareholder, Liu Qiangdong, holds more than 50% of the Group's shares, with every other shareholder's share less than 5%.

7.2 Bonus Issue

A bonus issue, also known as a scrip issue or a capitalization issue, is an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increasing the dividend payout. For example, a company may give one bonus share for every five shares held.

Companies give away bonus shares to shareholders when companies are short of cash and shareholders expect a regular income. Shareholders may sell the bonus shares and meet their liquidity needs. Bonus shares may also be issued to restructure company reserves. Issuing bonus shares does not involve cash flow. It increases the company's share capital but not its net assets.

7.3 Stock Split

A stock split is a corporate action in which a company divides its existing shares into multiple shares to boost the liquidity of the shares. Although the number of shares outstanding increases by a specific multiple, the total dollar value of the shares remains the same compared to pre-split amounts, because the split does not add any real value. The most common split ratios are 2-for-1 or 3-for-1, which means that the stockholder will have two or three shares, respectively, for every share held earlier.

A stock split is also known as a forward stock split. In the UK, a stock split is referred to as a scrip issue, bonus issue, capitalization issue, or free issue.

7.4 Rights Issue

A rights issue is a dividend of subscription rights to buy additional securities in a company made to the company's existing security holders. When the rights are for equity securities, such as shares, in a public company, it is a non-dilutive pro rata way to raise capital. Rights issues are typically sold via a prospectus or prospectus supplement. With the issued rights, existing security-holders have the privilege to buy a specified number of new securities from the issuer at a specified price within a subscription period. In a public company, a rights issue is a form of public offering (different from most other types of public offering, where shares are issued to the general public).

Rights issues may be particularly useful for all publicly traded companies as opposed to other more dilutive financing options. As equity issues are generally preferable to debt issues from the company's viewpoint, companies usually opt for a rights issue in order to minimize dilution and maximize the useful life of tax loss carry forwards. Since in a rights offering there is no change of control and a "no-sale theory" applies, companies are able to preserve tax loss carry-forwards better than via either follow-on offerings or other more dilutive financings. It's one of the types in modes of issue of securities both in public and private companies.

8 Current Assets and Current Liabilities

8.1 Current Assets

A current asset is any asset which can reasonably be expected to be sold, consumed, or exhausted through the normal operations of a business within the current fiscal year. JD.com records 11 current assets accounts in its consolidated balance Sheet[18].

We extract the following breakdown from JD.com, Inc. consolidated balance Sheet as of December 31, 2015 and as of December 31, 2016.

[18] See JD.com, Inc. annual report 2016, Page F-3

	2015	2016
Cash and cash equivalents	17,863,868	19,771,695
Restricted cash	2,114,913	4,391,955
Short-term investments	2,780,482	4,391,955
Investment securities	-	723,449
Accounts receivable, net	8,193,665	17,464,408
Advance to suppliers	927,177	1,423,736
Inventories, net	20,539,543	28,909,438
Loan receivables, net	3,698,488	12,697,915
Other investments	-	10,766,920
Prepayments and other current assets	1,486,441	2,198,906
Amount due from related parties	863,516	1,410,050
Total current assets	58,468,093	106,932,098

Table 12: Current assets (in thousands of RMB ¥)

As we can see, the current assets jumped from ¥58,468,093,000 to ¥106,932,098,000. The total current assets increased substantially by 82.89% in fiscal year 2016 as compared to fiscal year 2015. The item other investments accounts for a great portion of the increase. The Group invests in marketable equity securities to meet business objectives. These marketable securities are reported at fair value, classified and accounted for as available-for-sale securities in investment securities.

Other investments represent the higher yield investments purchased by JD Finance and resold to third-party investors. JD Finance will earn yield differentials. As JD Finance takes the majority risks and rewards of the products sold to the third-party investors, the Group reported the investments purchased and the funds raised by sale of the financial products on a gross basis on the Consolidated Balance Sheets.

In December 2014, the Group acquired 6.5% equity interest in Tuniu with cash consideration of RMB305,930 ("Initial Investment"). Tuniu is a leading online leisure travel company in China that is listed on the Nasdaq. The Group accounted for the Initial Investment as an available-for-sale security[19].

8.2 Current Liabilities

We extract the following breakdown from JD.com, Inc. consolidated balance Sheet.

[19] See JD.com, Inc. annual report 2016, Page F 41

	2015	2016
Short-term borrowings	3,040,209	8,333,317
Nonrecourse securitization debt	579,843	9,389,213
Accounts payable	29,819,341	4,391,955
Advance from customers	7,173,885	43,988,087
Deferred revenues	983,721	11,632,766
Taxes payable	103,211	1,221,865
Amount due to related parties	104,726	575,848
Accrued expenses and other current liabilities	7,178,065	167,655
Total current liabilities	48,983,001	104,740,235

Table 13: Current liabilities (In thousands of RMB ¥)

It indicates that the current liabilities jumped from ¥48,983,001,000 to ¥104,740,235,000. Current liabilities increased by 113.83%. It is mainly because of a a sharp rise in Advance from customers.

8.3 Working Capital

The working capital of the Group is tabulated as follows:

	2015	2016	Change
Working capital	9,485,092	2,191,863	(76.89%)

Table 14: Working capital (In thousands of RMB ¥)

Working capital is a measure of a company's efficiency and short-term financial health. The 76.89% decrease in working capital in fiscal year 2016 signifies underling problem on healthier liquidity.

8.4 Current Ratio

The Current ratio of the Group is tabulated as follows:

	2015	2016	Change
Current ratio	1.194	1.021	14.49%

Table 15: Current ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities.

The decreasing current ratio also implies that the Group are under pressure to pay the creditor back. Some potential creditors may doubt whether the Group in question would be able to pay off its obligations if they came due at that point.

8.5 Quick Ratio

	2015	**2016**
Quick ratio	(37.46%)	(25.51%)

Table 16: Quick ratio

The quick ratio reflects the ability of a company to repay its short-term obligations with its more liquid assets. It suggests the Group's worse solvency, which is risky for creditors.

9 Inventories

9.1 Inventory Values

Inventories, net, consist of the following[20]:

	2015	2016
Products	20,436,275	28,778,528
Packing materials and others	103,268	130,910
Inventories, net	20,539,543	28,909,438

Table 17: Inventories, net (in thousands of RMB ¥)

9.2 Inventory Valuation Policy

Inventories, consisting of products available for sale, are stated at the lower of cost or market value[21]. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to

[20] See JD.com, Inc. annual report 2016, Page F-48

[21] See JD.com, Inc. annual report 2016, Page F-20

the estimated market value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. 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 Loss.

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

9.3 Gross Profit Percentage on Sale

The gross profit ratio is important because it shows management and investors how profitable the core business activities are without taking into consideration the indirect costs. This gives investors a key insight into how healthy the company actually is. For instance, a company with a seemingly healthy net income on the bottom line could actually be dying. The gross profit percentage could be negative, and the net income could be coming from other one-time operations. The company could be losing money on every product they produce, but staying a float because of a one-time insurance payout.

Based on the data of JD.com, Inc. consolidated statements of operations and comprehensive loss[22], gross profit percentage on sale can be calculated as follows:

	2015	**2016**
Revenue	181,275,425	260,121,645
Cost of goods sold	157,008,329	220,698,727
Gross profit	24,267,096	39,422,918
Gross profit percentage	13.39%	15.16%

Table 18: Gross profit percentage on sale (in thousands of RMB ¥ except for gross profit percentage)

Gross profit increased 1.77 percents in fiscal year 2016. It shows the Group can produce and sell its products more efficiently.

[22]See JD.com, Inc. annual report 2016, Page F-48

9.4 Inventory Turnover

The Inventory turnover is a measure of the number of times inventory is sold or used in a time period such as a year. The equation for inventory turnover equals the cost of goods sold divided by the average inventory.

Based on the data of JD.com, Inc. consolidated balance sheet[23] and consolidated statements of operations and comprehensive loss[24], gross profit percentage on sale can be calculated as follows:

	2015	**2016**
Beginning inventory	12,190,843	20,539,543
Ending inventory	20,539,543	28,909,438
Average inventory	16,365,193	24,724,490.5
Cost of goods sold	157,008,329	220,698,727
Inventory turnover	9.594	8.826

Table 19: Inventory turnover (in thousands of RMB ¥ except for inventory turnover)

[23] See JD.com, Inc. annual report 2016, Page F-3 and JD.com, Inc. annual report 2015, Page F-3
[24] See JD.com, Inc. annual report 2016, Page F-48

Inventory turnover decreased 0.768 in fiscal year 2016. It suggests weaker sales and therefore excess inventory. The Group sold inventories rather slower compared to the fiscal year 2015.

10 Accounts Receivable

10.1 Accounts Receivable

	2015	**2016**
Accounts receivable	8,465,644	17,880,720
Allowance for doubtful accounts	(271,979)	(416,312)
Accounts receivable, net	8,193,665	17,464,408)

Table 20: Accounts receivable (in thousands of RMB ¥

10.2 Avoidance and Reduction of Credit Losses

Accounts receivable are typically unsecured and are derived from revenues earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balances.

In addition, JD Finance has changed from supporting the overall JD platform to an independently operated and self-funded business, and accounts receivables from consumer financing provided by JD Finance to consumers in marketplace are mainly for investment purpose and are reclassified to loan receivables since 2016.

In General, Companies are able to avoid and reduce credit losses through the following: Monitor and assess a customer's creditworthiness through trade and bank references, and credit agencies (e.g. Credit Bureau Singapore), and only extend credit to those customers with good credit histories.

Companies may set a credit limit on each customer's account which must not be exceeded.

If customers are not paying, second and third statements should be sent out to remind customers.

Companies could also opt to purchase business credit insurance to substantially reduce the risk of exposure to non-payment, and the accompanying bad debt loss.

Commercial credit risk coverage can be written to include all customers, or it may be targeted to cover only certain buyers.

11 Long-Term Assets, Impairment and Depreciation

11.1 Property, Equipment and Software

	2015	2016	Change
Electronic equipment	3,089,415	4,422,833	1,333,418
Office equipment	202,422	266,411	63,989
Vehicles	843,922	1,091,556	247,634
Logistic and warehouse equipment	1,105,245	1,578,653	473,408
Leasehold improvement	306,352	496,887	190,535
Software	149,590	196,713	47,123
Building and building improvement	2,526,948	3,069,651	542,703
Total	8,223,894	11,122,704	2,898,810
Less: Accumulated depreciation	(1,990,788)	(3,725,675)	
Net book value	6,233,106	7,397,029	

Table 21: Property, equipment and software receivable (in thousands of RMB ¥)

The amount of Property, equipment and software has increased from FY 2015 to FY 2016 by RMB 2,898,810. It's because all of the items are increasing, especially Electronic equipment.

11.2 Depreciation

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. 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. The estimated useful lives are as follows:

Category	Estimated Useful Lives
Category Estimated useful lives Electronic equipment	3 years
Office equipment	5 years
Vehicles	5 years
Logistic and warehouse equipment	5 years
Leasehold improvement	Over the shorter of the expected life of leasehold improvements or the lease term
Software	3-5 years
Building	40 years
Building improvement	5-10 years

Table 22: The estimated useful lives

11.3 Depreciation Expense

In total, Depreciation expenses were RMB1,123,076 and RMB1,944,606 for the years ended December 31, 2015 and 2016, respectively.

11.4 Impairment

Short-term investments: No impairment charges were recorded for the years ended December 31, 2014, 2015 and 2016, respectively.

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.

Goodwill: The Group recorded an impairment charge of nil, RMB2,593,420 and nil for the years ended December 31, 2014, 2015 and 2016, respectively.

Intangible assets: The Group recorded an impairment charge of nil, RMB156,709 and nil for the years ended December 31, 2014, 2015 and 2016.

Investment: JD performs impairment assessment of its investments under the cost method and equity method whenever events or changes in circumstances indicate that the carrying value of the investment may not be fully recoverable. Impairment charges in connection with the cost method investments of nil, RMB285,051 and RMB436,621 were recorded in others, net for the years ended December 31, 2014, 2015 and 2016, respectively. Impairment charges in connection with the equity method investments of nil, RMB2,585,641 and RMB1,416,801 were recorded in share of results of equity investees for the years ended December 31, 2014, 2015 and 2016, respectively.

11.5 Revaluation

The company did not revalue any of its long-term assets.

12 Long-Term Liabilities and Contingent Liabilities

12.1 Long-Term Liabilities

	2015	**2016**
Deferred revenues	2,556,345	2,156,835
Nonrecourse securitization debt	2,753,699	4,077,627
Unsecured senior notes	-	6,831,012
Deferred tax liabilities	1,228	907,356
Other non-current liabilities	-	440,670
Total non-current liabilities	5,311,272	14,413,500

Table 23: Non-current liabilities (in thousands of RMB ¥)

Deferred revenues include amounts in relation to traffic support, marketing and promotion services to be provided to related parties of 2,515,603 and RMB2,127,900 as of December 31, 2015 and 2016. Other non-current liabilities are related to non-compete obligation to related party of nil and RMB 440,670 as of December 31, 2015 and 2016.

The Group's non-current liabilities increase by 9,102,228,000 in FY 2016, as compared with the previous financial year. And all the items increase expect for deferred revenues.

12.2 Security of Long-Term Liabilities

The Group's long-term debt obligations include unsecured senior notes and nonrecourse securitization debt which consists of asset-backed debt securities issued in connection with securitization of certain financial assets. The expected repayment amount of the nonrecourse securitization debt is approximately RMB9,389,213 and RMB4,077,627 for the years ended December 31, 2017 and 2018, respectively. 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 proceeds from issuance of the unsecured senior notes were used for general corporate purposes. As of December 31, 2016, the principal of the unsecured senior notes of RMB3,468,500 and RMB3,468,500 will be due in 2021 and 2026, respectively.

12.3 Total Assets Financed by Long-Term Borrowings

	2015	2016
Total current assets	58,468,093	106,932,098
Total non-current assets	26,547,046	53,441,420
Total assets	85,015,139	160,373,518
Total non-current liabilities excluding deferred tax	5,310,044	13,506,144
Proportion of the total assets of the company financed by long-term borrowings	6.2%	8.4%

Table 24: total assets financed by long-term borrowings (in thousands of RMB ¥)

From the above table, we can see that the percentage increase by about 2%. This means that JD is just slightly more reliant on external parties to finance its total assets.

12.4 Long-term Assets Finance Options

The use of internally generated funds as a finance option does not incur any future interest costs. Moreover, investment projects can be undertaken without involving either the shareholders or any outsiders. However, it is evident that JD has negative retained earnings, or accumulated losses of ¥21,860,345,000. Hence, utilizing internally generated funding for the purchase of long-term assets is a less feasible option, as it will hamper the recovery of the company's accumulated losses.

Long-term bank loans are a viable option. The loans are secured by mortgage of long-term assets. Considering the fact that JD's Proportion of the total assets of the company financed by long-term borrowings is low and JD will probably not require substantially large sums for expansion of property, plant and equipment, it would be a helpful source of financing.

As for funds from shareholders' contributions, issuing shares creates no liabilities and in addition, there is no demand for repayment. Issuing new ordinary shares to the public is will generate the required funds for the company. This would, however, dilute the holdings of the shareholders and may cause disapproval among shareholders. Issuance of new shares also implies that a larger amount of dividend needs to be paid in future, owing to the increase in outstanding shares. On the other hand, issuance of preference shares is advantageous for JD because dividends do not have to be paid in a year in which the company's performance is poor.

12.5 Contingent Items

The company did not have any contingent items.

13 Statement of Cash Flows

13.1 Cash Position

	2015	**2016**
Effect of exchange rate changes on cash and cash equivalents	343,147	709,916
Net increase in cash and cash equivalents	949,217	1,907,827
Cash and cash equivalents at beginning of year	16,914,651	17,863,868
Cash and cash equivalents at end of year	17,863,868	19,771,695

Table 25: Cash position (in thousands of RMB ¥)

JD experienced a stable increase in cash and cash equivalents in FY 2015 and FY 2016, and cash and cash equivalents at financial year-end of 2016 showed an increase of ¥1,907,827,000, twice times more than that of 2015.

13.2 Operating, Investing and Financing

	2015	2016
Net cash provided by operating activities	1,696,322	8,767,017
Net cash used in investing activities	(5,790,525)	(48,268,577)
Net cash provided by financing activities	4,700,273	40,699,471

Table 26: Net cash flows (in thousands of RMB ¥)

Net cash provided by operating activities increased by ¥7,070,695,000, a 417% increase.

The net cash used in investing activities increases by ¥42,478,052,000 from FY 2015 to FY 2016. Therefore, the net cash used in investing activities increases by nearly 734% from FY 2006 to FY 2007 The net cash provided in financing activities increased by ¥35,999,198,000 from FY 2015 to FY 2016. Thus, this shows a 766% increase in net cash used in financing activities.

These changes are dramatic. From Consolidated Statements of Cash Flows, we can find the main reasons for each change:

- The increase of net cash provided by operating activities is mainly due to the decrease of net loss. It indicates better performance of JD in operating activities.
- The increase of the net cash used in investing activities is mainly caused by purchasing of other investments and paying for loan originations. It indicates that JD is increasing investment. And it also indicates the effect of JD Finance has changed from supporting the overall JD platform to an independently operated and self-funded business.
- The increase of net cash provided by financing activities is mainly because of Proceeds from sales of financial products and Capital injection from non-controlling interest shareholders compared with the previous year. It also indicates part of the effect of JD Finance has changed from supporting the overall JD platform to an independently operated and self-funded business.

13.3 Preparation of Operating Cash Flows

JD used the indirect method in the preparation of operation cash flow.

13.4 Statement of Cash Flow

The Statement of Cash Flows helps JD to predict future cash flows, evaluate management decisions, and to predict ability to pay its debts and dividends. The balance sheet and the income sheet is unable to show why cash increased or decreased.

First, the Statement of Cash Flows adds information to show why cash increased or decreased. Cash receipts show exactly where cash came from, and the cash payments show exactly where cash was spent.

Then, the statement of cash flow also helps to predict future cash flows, as past cash receipts and payments help predict future cash flows through trends and patterns Furthermore, the Statement of Cash Flows helps to make predictions on JD's ability to pay its debts and dividends.

13.5 Positive Cash Flow from Operations Despite Recording Losses

JD is such an example that records a loss and yet has a positive cash flow from operations. The Statement of Cash Flows is prepared under cash basis accounting, while the Balance Sheet and the Income Statement are prepared under the accrual basis of accounting. The differences between these two kinds of accountings makes it possible for a company to record a loss and yet have a positive cash flow from operations. Other items' sum is positive enough.

Taking JD itself as an example, accounts payable, advance from customers, depreciation expenses and impairment losses are the main cause.

As we can see, in the Statement of Cash Flows, though the net loss is pretty high, but accrued expenses, accounts payable, advance from customers, depreciation expenses and impairment losses are higher, especially accounts payable. As a result, cash Flows from Operations are still positive.

14 Market Prices of Shares

According to NASDAQ Exchange Stock Chart, at balance sheet date 30 Dec 2016, the market price of JD was $25.44.

	Dec.31, 2016
Total shareholders' equity (in thousands of US dollars)	4,920,475
No. of Ordinary Shares Issued (in thousands of US dollars)	2,938,709
Book Value per Share (in US dollars)	1.67

Table 27: Market prices

The market price is much higher than the book value per share. The book value per share is a reflection of firm's current situation with no consideration of its future. It indicates that the investors believe JD will be more and more valuable in the future.

15 Industry Comparison with Ratio Analysis

15.1 Short-Term Solvency and Liquidity

	JD.com		Amazon	Alibaba
	2015	2016	2016	2016
Current Ratio	1.19	1.02	1.04	2.58

Table 28: Liquidity ratios

From 2015 to 2016, JD's current ratio is decreasing. Compared with the industries, JD is the same with Amazon, but much lower than Alibaba. In short, JD need to increase its Short-term Liquidity.

15.2 Long-Term Solvency

	JD.com		Amazon	Alibaba
	2015	2016	2016	2016
Financial Leverage Ratios	2.22	3.78	4.53	1.52

Table 29: Financial leverage ratios

From 2015 to 2016, JD's Financial leverage ratios is much higher, which indicates that JD invests a lot by leverage. Compared with the industries, JD is lower than Amazon, but higher than Alibaba. It seems that JD's Long-term Liquidity is suitable.

15.3 Asset Utilization

	JD.com		Amazon	Alibaba
	2015	2016	2016	2016
Total Assets Turnover	2.39	2.12	1.84	0.33

Table 30: Financial leverage ratios

From 2015 to 2016, JD's Total Assets Turnover decrease slightly, but compared with the industries, JD is still higher than Amazon and Alibaba. It seems that JD's ability of asset utilization is excellent.

15.4 Profitability

	JD.com		Amazon	Alibaba
	2015	2016	2016	2016
Net margin	-0.05	-0.01	0.02	0.70
ROE	-0.27	-0.11	0.15	0.35
EPS(US$)	-0.53	-0.20	4.90	4.33

Table 31: Profitability ratios

From 2015 to 2016, JD's profitability is becoming better, though its net income is still negative. Compared with the industries, Amazon and Alibaba both have achieved profitability. It seems that JD still have a big potentiality.

15.5 Market Value

	JD.com		Amazon	Alibaba
	2015	2016	2016	2016
Price-Earnings Ratio	-	-	49.18	292.06

Table 32: Market value ratios

The high Market-Value Ratio indicates the investors believe the this industry will be more valuable in the future.

16 Conclusion

JD is the largest e-commerce company in China and the largest Chinese retailer, both in terms of revenue, in 2016. Its turnover grew approximately 43.5 percent. Despite the high increase in revenue, JD still suffered net loss in 2016. The main reason of JD's negative profit is the high expenses. Cost of revenue was more than 80% in both 2015 and 2016, which accounted for its negative profit. Another expense is fulfillment which accounted for nearly 10% of its expenses. In spite of the fact that JD suffered annual losses since it listed, it enlarged its market share as online retailer. Its managements also show strong confidence to their ability to further increase and leverage their scale of business.

Honestly speaking, JD's strategy of optimizing customer experience and achieving customer satisfaction achieved great success in building its goodwill and establish its market. Continually increasing in revenue reflects recognition of customers to its low price and high quantity of service. After searching JD's annual report in 2017, we find the Group made a large amount of profit as a result of it previous accumulation.

It is worth mention that though JD suffered net loss in successive years, it did not break down. Due to its strong financing capacity and a positive cash provided by operating activities, JD could still operate in good conditions. Its cooperation with Tencent also enlarged its ability of raising money. However, from the investors' point of view, buying JD's shares is risky. On the one hand, JD has never declared a dividend since it listed. On the other hand, JD has been subject to negative profit for nearly 12 years, which resulted in a negative EPS every year. Although JD's asset scale increased every year, it is worrying that whether successive loss would influence the price of shares.

There are also some good reasons for investors to buy JD's shares. Considering the high-speed development of e-commerce, companies like JD which manipulate large amount of market share and has a good reputation has a bright future of development. JD's operating activities and financing activities also showed its capacity to raise adequate money to maintain its daily operation and further investments.

From JD's point of view, the company's strategy in recent years was rather correct. It was shown in the report that JD put most of its money in expanding its scale and grab market share with other online retailers. After a long and vigorous investment, it is believed that the company has the ability to make great profit in the near future.

Nevertheless, the company should also attach great importance to its expenses. In order to attract customers, JD sales at a very low price, resulting in small profit in its main business. Thus, to obtain a positive profit, the company must reduce its expenses.

On the whole, JD is lost in new business expansion and investment, but its layout will remain competitive for a long time in the future. So far, JD has successfully established its retail and financial systems. Meanwhile, sufficient cash flow also provides the foundation for its future development. In the latest quarterly report, we can find that JD has turn loss into profits. Due to these conditions, JD's share is worth buying as a long-term investment.

Appendix

Reference resources: Form 20-F - Annual and transition report of foreign private issuers, SEC Accession No. 0001104659-17-028187

https://www.sec.gov/Archives/edgar/data/1549802/000110465917028187/0001104659-17-028187-index.htm

In October 2015, JD Finance adopted a 2015 Share Incentive Plan, which permits the granting of stock options, share appreciation rights, restricted share units and restricted shares of JD Finance to its employees, directors and consultants. We granted restricted shares units of JD Finance equivalent to approximately 7.25% and 2.94% of its ordinary shares on a fully diluted basis in 2015 and 2016, respectively.

C. Board Practices

Board of Directors

Our board of directors consists of five directors. A director is not required to hold any shares in our company by way of qualification. A director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our company must declare the nature of his interest at a meeting of the directors. Subject to the NASDAQ Rules and disqualification by the chairman of the relevant board meeting, a director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein, and if he does so his vote will be counted and he may be counted in the quorum at the relevant board meeting at which such contract or transaction or proposed contract or transaction is considered. The directors may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Under our current memorandum and articles of association, our board of directors will not be able to form a quorum without Mr. Richard Qiangdong Liu for so long as Mr. Liu remains a director.

Committees of the Board of Directors

We have established three committees under the board of directors: an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the three committees.

Audit Committee

Our audit committee consists of Louis T. Hsieh, Ming Huang and David Daokui Li. Mr. Hsieh is the chairman of our audit committee. We have determined that Mr. Hsieh, Mr. Huang and Mr. Li satisfy the “independence” requirements of NASDAQ and Rule 10A-3 under the Securities Exchange Act of 1934. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- discussing the annual audited financial statements with management and the independent auditors;

	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares	%	% of Aggregate Voting Power
Directors and Executive Officers:					
Richard Qiangdong Liu	30,537,566(1)	421,507,423(1)	452,044,989(1)	15.8(1)	80.0(2)
Martin Chiping Lau(3)	—	—	—	—	—
Ming Huang(4)	*	—	*	*	*
Louis T. Hsieh(5)	*	—	*	*	*
David Daokui Li(6)	*	—	*	*	*
Shengqiang Chen	*	—	*	*	*
Ye Lan	*	—	*	*	*
Rain Yu Long	*	—	*	*	*
Sidney Xuande Huang	*	—	*	*	*
Chen Zhang	*	—	*	*	*
All Directors and Executive Officers as a Group	39,189,387	421,507,423	460,696,810	16.1	80.1(2)
Principal Shareholders:					
Max Smart Limited(7)	27,937,566	421,507,423	449,444,989	15.7	71.7
Huang River Investment Limited(8)	516,974,505	—	516,974,505	18.1	4.4
Walmart(9)	289,053,746	—	289,053,746	10.1	2.5
Hillhouse Capital Management, Ltd.(10)	193,936,122	—	193,936,122	6.8	1.6
Fortune Rising Holdings Limited(11)	—	48,874,410	48,874,410	1.7	8.3

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

** Except for Mr. Martin Chiping Lau, Mr. Ming Huang, Mr. Louis T. Hsieh, and Mr. Daokui Li, the business address of our directors and executive officers is JD national headquarters at No. 18 Kechuang 11 Street, Yizhuang Economic and Technological Development Zone, Daxing District, Beijing 101111, P.R. China.

(1) Represents (i) 421,507,423 Class B ordinary shares directly held by Max Smart Limited, (ii) 13,968,783 restricted ADSs, representing 27,937,566 Class A ordinary shares, owned by Max Smart Limited, and (iii) 2,600,000 class A ordinary shares Mr. Liu had the right to acquire upon exercise of options that shall have become vested within 60 days after February 28, 2017. Max Smart Limited is a British Virgin Islands company beneficially owned by Mr. Richard Qiangdong Liu through a trust and of which Mr. Richard Qiangdong Liu is the sole director, as described in footnote (7) below. The ordinary shares beneficially owned by Mr. Liu do not include 48,874,410 Class B ordinary shares held by Fortune Rising Holdings Limited, a British Virgin Islands company, as described in footnote (11) below.

(2) The aggregate voting power includes the voting power with respect to the 48,874,410 Class B ordinary shares held by Fortune Rising Holdings Limited. Mr. Richard Qiangdong Liu is the sole shareholder and the sole director of Fortune Rising Holdings Limited and he may be deemed to beneficially own the voting power with respect to all of the ordinary shares held by Fortune Rising Holdings Limited in accordance with the rules and regulations of the SEC, notwithstanding the facts described in footnote (11) below.

(3) Mr. Lau was appointed by Huang River Investment Limited. The business address of Mr. Lau is 39/F, Tencent Building, Kejizhongyi Avenue, Hi-Tech Park, Nanshan District, Shenzhen 518057, P.R. China.

(4) The business address of Mr. Huang is China Europe International Business School, 699 Hongfeng Road, Pudong District, Shanghai 201206, China.

(5) The business address of Mr. Hsieh is No. 6 Hai Dian Zhong Street, Haidian District, Beijing 100080, P.R. China.

(6) The business address of Professor Li is School of Economics and Management, Tsinghua University, Beijing 100084, China.

Traffic Support, Marketing and Promotion Services Provided to and Non-compete Obligation with Dada and its subsidiaries, or Dada Group. Dada Group is an equity investee of us. In April 2016, we contributed certain resources and US$200 million in cash in exchange for newly issued equity interest in Dada. On the completion date of the transaction, the traffic support, marketing and promotion services to be provided to Dada which had a fair value of approximately US$67.0 million were recorded as deferred revenues and would be recognized as other revenues, and the non-compete obligation with Dada Group which had a fair value of approximately US$83.4 million were recorded as other liabilities and would be recognized as other income over a period of seven years on a straight line basis starting from May 2016. In 2016, other revenues in the amount of RMB41.4 million (US$6.0 million) and other income in the amount of RMB53.2 million (US$7.7 million) had been recognized. As of December 31, 2016, we had a total amount of RMB393.5 million (US$56.7 million) deferred revenues in relation to traffic support, marketing and promotion services to be provided to Dada Group and a total amount of RMB523.3 million (US$75.4 million) other liabilities in relation to non-compete obligation with Dada Group.

Business Transactions with Dada and its subsidiaries, or Dada Group. In 2016, we provided services and sold goods to Dada Group in a total amount of RMB124.1 million (US$17.9 million), and in the same period, we also received services from Dada Group in a total amount of RMB136.5 million (US$19.7 million). As of December 31, 2016, we had a total amount of RMB89.0 million (US$12.8 million) due from Dada Group.

Our transactions with equity investees other than those discussed above were insignificant, individually or in the aggregate, in each of the past three fiscal years.

Employment Agreements and Indemnification Agreements

See “Item 6.B. Directors, Senior Management and Employees—Compensation.”

Share Incentives

See “Item 6.B. Directors, Senior Management and Employees—Compensation.”

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

From time to time, we may be involved in legal proceedings in the ordinary course of our business. We are currently not a party to any material legal or administrative proceedings.

Dividend Policy

Our board of directors has complete discretion on whether to distribute dividends subject to our memorandum and articles of association and certain restrictions under Cayman Islands law. Our shareholders may by ordinary resolution declare dividends, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

Traffic Support, Marketing and Promotion Services Provided to and Non-compete Obligation with Dada and its subsidiaries, or Dada Group. Dada Group is an equity investee of us. In April 2016, we contributed certain resources and US$200 million in cash in exchange for newly issued equity interest in Dada. On the completion date of the transaction, the traffic support, marketing and promotion services to be provided to Dada which had a fair value of approximately US$67.0 million were recorded as deferred revenues and would be recognized as other revenues, and the non-compete obligation with Dada Group which had a fair value of approximately US$83.4 million were recorded as other liabilities and would be recognized as other income over a period of seven years on a straight line basis starting from May 2016. In 2016, other revenues in the amount of RMB41.4 million (US$6.0 million) and other income in the amount of RMB53.2 million (US$7.7 million) had been recognized. As of December 31, 2016, we had a total amount of RMB393.5 million (US$56.7 million) deferred revenues in relation to traffic support, marketing and promotion services to be provided to Dada Group and a total amount of RMB523.3 million (US$75.4 million) other liabilities in relation to non-compete obligation with Dada Group.

Business Transactions with Dada and its subsidiaries, or Dada Group. In 2016, we provided services and sold goods to Dada Group in a total amount of RMB124.1 million (US$17.9 million), and in the same period, we also received services from Dada Group in a total amount of RMB136.5 million (US$19.7 million). As of December 31, 2016, we had a total amount of RMB89.0 million (US$12.8 million) due from Dada Group.

Our transactions with equity investees other than those discussed above were insignificant, individually or in the aggregate, in each of the past three fiscal years.

Employment Agreements and Indemnification Agreements

See "Item 6.B. Directors, Senior Management and Employees—Compensation."

Share Incentives

See "Item 6.B. Directors, Senior Management and Employees—Compensation."

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

From time to time, we may be involved in legal proceedings in the ordinary course of our business. We are currently not a party to any material legal or administrative proceedings.

Dividend Policy

Our board of directors has complete discretion on whether to distribute dividends subject to our memorandum and articles of association and certain restrictions under Cayman Islands law. Our shareholders may by ordinary resolution declare dividends, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

We have not declared or paid any dividends on our ordinary shares, nor do we have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company registered by way of continuation under the laws of the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See "Item 3.D. Key Information—Risk Factors—Risks Related to Our Corporate Structure—We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business."

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying our ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary will then pay such amounts to our ADS holders in proportion to the ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

A. Offering and Listing Details

Our ADSs, each representing two of our Class A ordinary shares, have been listed on NASDAQ since May 22, 2014. Our ADSs trade under the symbol "JD." The following table provides the high and low trading prices for our ADSs on NASDAQ since the date of our initial public offering.

	Trading Price	
	High	**Low**
Annual Highs and Lows		
2014 (Since May 22, 2014)	33.10	19.94
2015	38.00	21.55
2016	30.66	19.51
Quarterly Highs and Lows		
First Quarter 2015	30.60	22.96
Second Quarter 2015	38.00	29.01
Third Quarter 2015	35.56	21.55
Fourth Quarter 2015	33.48	25.10
First Quarter 2016	30.66	22.14
Second Quarter 2016	30.01	19.51
Third Quarter 2016	27.29	20.04
Fourth Quarter 2016	29.24	23.38
Monthly Highs and Lows		
November 2016	31.18	26.53
December 2016	33.48	30.03
January 2017	28.91	25.58
February 2017	31.16	27.88
March 2017	32.47	29.88
April 2017	35.50	31.23

JD.com, Inc.
Consolidated Balance Sheets
(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2015	2016	
	RMB	RMB	US$ Note 2(h)
ASSETS			
Current assets			
Cash and cash equivalents	17,863,868	19,771,695	2,847,716
Restricted cash	2,114,913	4,391,955	632,573
Short-term investments	2,780,482	7,173,626	1,033,217
Investment securities	—	723,449	104,198
Accounts receivable, net	8,193,665	17,464,408	2,515,398
Advance to suppliers	927,177	1,423,736	205,061
Inventories, net	20,539,543	28,909,438	4,163,825
Loan receivables, net	3,698,488	12,697,915	1,828,880
Other investments	—	10,766,920	1,550,759
Prepayments and other current assets	1,486,441	2,198,906	316,707
Amount due from related parties	863,516	1,410,050	203,089
Total current assets	58,468,093	106,932,098	15,401,423
Non-current assets			
Property, equipment and software, net	6,233,106	7,397,029	1,065,394
Construction in progress	1,266,992	1,992,123	286,925
Intangible assets, net	5,263,983	8,454,297	1,217,672
Land use rights, net	1,928,192	2,447,511	352,515
Goodwill	29,050	6,541,668	942,196
Investment in equity investees	8,713,219	15,235,020	2,194,300
Investment securities	1,005,831	1,060,632	152,763
Other investments	—	6,997,425	1,007,839
Other non-current assets	2,106,673	3,315,715	477,562
Total non-current assets	26,547,046	53,441,420	7,697,166
Total assets	85,015,139	160,373,518	23,098,589
LIABILITIES			
Current liabilities (including amounts of the consolidated VIEs and VIEs' subsidiaries without recourse to the primary beneficiaries of RMB6,313,410 and RMB33,441,909 as of December 31, 2015 and 2016 respectively. Note 1)			
Short-term borrowings	3,040,209	8,333,317	1,200,247
Nonrecourse securitization debt	579,843	9,389,213	1,352,328
Accounts payable	29,819,341	43,988,087	6,335,602
Advance from customers	7,173,885	11,632,766	1,675,467
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB754,626 and RMB818,805 as of December 31, 2015 and 2016, respectively)	983,721	1,221,865	175,986
Taxes payable	103,211	575,848	82,939
Amount due to related parties	104,726	167,655	24,147
Accrued expenses and other current liabilities(including amounts in relation to non-compete obligation to related party of nil and RMB82,626 as of December 31, 2015 and 2016, respectively)	7,178,065	29,431,484	4,239,015
Total current liabilities	48,983,001	104,740,235	15,085,731
Non-current liabilities			
Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of 2,515,603 and RMB2,127,900 as of December 31, 2015 and 2016, respectively)	2,556,345	2,156,835	310,649
Nonrecourse securitization debt	2,753,699	4,077,627	587,300
Unsecured senior notes	—	6,831,012	983,870
Deferred tax liabilities	1,228	907,356	130,686
Other non-current liabilities (related to non-compete obligation to related party of nil and RMB440,670 as of December 31, 2015 and 2016, respectively)	—	440,670	63,470
Total non-current liabilities	5,311,272	14,413,500	2,075,975
Total liabilities	54,294,273	119,153,735	17,161,706

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

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JD.com, Inc.
Consolidated Balance Sheets
(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2015	2016	
	RMB	RMB	US$ Note 2(h)
Commitments and contingencies (Note 30)			
MEZZANINE EQUITY			
Redeemable non-controlling interests (Note 19)	—	7,056,921	1,016,408
SHAREHOLDERS' EQUITY:			
JD.com, Inc. shareholders' equity			
Ordinary shares (US$0.00002 par value; 100,000,000,000 shares authorized; 2,313,578,195 Class A ordinary shares issued and 2,287,701,055 outstanding, 480,178,455 Class B ordinary shares issued and 454,289,431 outstanding as of December 31, 2015; 2,467,134,904 Class A ordinary shares issued and 2,384,954,010 outstanding, 471,573,995 Class B ordinary shares issued and 451,490,387 outstanding as of December 31, 2016.)	358	377	54
Additional paid-in capital	48,393,126	59,258,417	8,534,987
Statutory reserves	55,560	132,938	19,147
Treasury stock	(3)	(5,181,880)	(746,346)
Accumulated deficit	(18,420,834)	(21,860,345)	(3,148,545)
Accumulated other comprehensive income	554,826	1,543,393	222,295
Total JD.com, Inc. shareholders' equity	30,583,033	33,892,900	4,881,592
Non-controlling interests	137,833	269,962	38,883
Total shareholders' equity	30,720,866	34,162,862	4,920,475
Total liabilities, mezzanine equity and shareholders' equity	85,015,139	160,373,518	23,098,589

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

JD.com, Inc.
Consolidated Statements of Operations and Comprehensive Loss
(All amounts in thousands, except for share and per share data)

	For the year ended December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$ Note 2(h)
Net revenues				
Online direct sales	108,549,258	167,720,984	237,701,986	34,236,207
Services and others	6,453,059	13,554,441	22,419,659	3,229,103
Total net revenues	115,002,317	181,275,425	260,121,645	37,465,310
Operating expenses				
Cost of revenues	(101,631,443)	(157,008,329)	(220,698,727)	(31,787,228)
Fulfillment	(8,067,048)	(13,920,988)	(20,950,501)	(3,017,500)
Marketing	(4,010,280)	(7,736,172)	(10,573,024)	(1,522,832)
Technology and content	(1,835,919)	(3,453,804)	(5,380,907)	(775,012)
General and administrative	(5,260,064)	(2,876,989)	(4,663,383)	(671,667)
Impairment of goodwill and intangible assets	—	(2,750,129)	—	—
Total operating expenses	(120,804,754)	(187,746,411)	(262,266,542)	(37,774,239)
Loss from operations	(5,802,437)	(6,470,986)	(2,144,897)	(308,929)
Other income/(expense)				
Share of results of equity investees	—	(2,852,677)	(2,785,343)	(401,173)
Interest income	637,641	414,999	481,618	69,367
Interest expense	(28,825)	(82,507)	(259,657)	(37,398)
Others, net	216,587	(140,597)	1,474,055	212,308
Loss before tax	(4,977,034)	(9,131,768)	(3,234,224)	(465,825)
Income tax benefits/(expenses)	(19,324)	14,262	(179,500)	(25,853)
Net loss	(4,996,358)	(9,117,506)	(3,413,724)	(491,678)
Net loss attributable to non-controlling interests shareholders	—	(9,566)	(51,591)	(7,431)
Net income attributable to mezzanine classified non-controlling interests shareholders	—	—	444,657	64,044
Net loss attributable to JD.com, Inc.	(4,996,358)	(9,107,940)	(3,806,790)	(548,291)
Preferred shares redemption value accretion	(7,957,640)	—	—	—
Net loss attributable to ordinary shareholders	(12,953,998)	(9,107,940)	(3,806,790)	(548,291)

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

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JD.com, Inc.
Consolidated Statements of Operations and Comprehensive Loss
(All amounts in thousands, except for share and per share data)

	For the year ended December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$ Note 2(h)
Net loss	(4,996,358)	(9,117,506)	(3,413,724)	(491,678)
Other comprehensive loss:				
Foreign currency translation adjustments	(121,612)	954,787	943,616	135,909
Net change in unrealized gains/(losses) on available-for-sale securities:				
Unrealized gains/(losses), nil of tax	71,286	(238,852)	(78,792)	(11,349)
Reclassification adjustment for (gains)/losses recorded in net income, nil of tax	(57,181)	216,230	123,743	17,823
Net unrealized gains/(losses) on available-for-sale securities	14,105	(22,622)	44,951	6,474
Total other comprehensive income/(loss)	(107,507)	932,165	988,567	142,383
Total comprehensive loss	(5,103,865)	(8,185,341)	(2,425,157)	(349,295)
Total comprehensive loss attributable to non-controlling interests shareholders	—	(8,352)	(51,591)	(7,431)
Total comprehensive income attributable to mezzanine classified non-controlling interests shareholders	—	—	444,657	64,044
Total comprehensive loss attributable to JD.com, Inc.	(5,103,865)	(8,176,989)	(2,818,223)	(405,908)
Net loss per share				
Basic	(5.35)	(3.33)	(1.36)	(0.20)
Diluted	(5.35)	(3.33)	(1.36)	(0.20)
Weighted average number of shares				
Basic	2,419,668,247	2,735,034,034	2,804,767,889	2,804,767,889
Diluted	2,419,668,247	2,735,034,034	2,804,767,889	2,804,767,889
Share-based compensation expenses included in:				
Fulfillment	(128,623)	(184,733)	(387,073)	(55,750)
Marketing	(23,570)	(50,091)	(97,604)	(14,058)
Technology and content	(79,469)	(234,165)	(554,859)	(79,916)
General and administrative	(4,017,886)	(724,956)	(1,304,249)	(187,851)

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

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JD.com, Inc.
Consolidated Statements of Cash Flows
(All amounts in thousands, except for share and per share data)

	For the year ended December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$ Note 2(h)
Cash flows from operating activities:				
Net loss	(4,996,358)	(9,117,506)	(3,413,724)	(491,678)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	1,650,533	2,619,061	3,633,346	523,311
Share-based compensation	4,249,548	1,193,945	2,343,785	337,575
Allowance for doubtful accounts	74,332	420,750	867,233	124,908
Loss from disposal of property, equipment and software	26,043	7,714	18,478	2,661
Deferred income tax	(4,169)	(42,584)	(34,782)	(5,010)
Amortization of discounts and issuance costs of the unsecured senior notes	—	—	8,622	1,242
Impairment of goodwill and intangible assets	—	2,750,129	—	—
Impairment of investments accounted for under cost method and available-for-sale securities	—	611,108	637,583	91,831
Gain from business and investment disposals	—	(1,507)	(1,232,853)	(177,568)
Share of results of equity investees	(638)	2,852,677	2,785,343	401,173
Foreign exchange losses	28,980	57,395	146,354	21,079
Changes in operating assets and liabilities:				
Accounts receivable	(1,861,364)	(6,167,483)	(9,697,221)	(1,396,690)
Restricted cash	(689,499)	(1,076,628)	526,646	75,853
Inventories	(5,804,688)	(8,348,700)	(8,369,883)	(1,205,514)
Loan receivables	5,430	(26,699)	(74,458)	(10,724)
Investment securities	—	—	(3,703)	(533)
Advance to suppliers	(160,203)	(18,010)	(487,320)	(70,189)
Prepayments and other current assets	(1,210,697)	252,397	(533,596)	(76,854)
Other investments	—	—	(252,223)	(36,328)
Amount due from related parties	(412,314)	(402,795)	(481,774)	(69,390)
Other non-current assets	(66,485)	(1,170,454)	169,144	24,362
Accounts payable	4,902,844	13,113,084	13,693,690	1,972,302
Advance from customers	2,611,035	2,507,225	4,454,299	641,552
Deferred revenues	(65,725)	(461,270)	(707,966)	(101,969)
Taxes payable	(42,615)	(132,949)	494,438	71,214
Accrued expenses and other current liabilities	2,988,499	2,207,476	4,247,921	611,828
Amount due to related parties	67,412	69,946	29,638	4,269
Net cash provided by operating activities	1,289,901	1,696,322	8,767,017	1,262,713

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

JD.com, Inc.
Consolidated Statements of Cash Flows
(All amounts in thousands, except for share and per share data)

	For the year ended December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$ Note 2(h)
Cash flows from investing activities:				
Purchase of short-term investments	(19,104,408)	(5,022,000)	(16,969,213)	(2,444,075)
Maturity of short-term investments	7,853,607	16,625,621	12,738,475	1,834,722
Changes of deposits for capital verification	545,000	—	—	—
Purchases of investment securities	(421,133)	(1,139,386)	(1,116,200)	(160,766)
Cash received from disposal of investment securities	—	—	361,893	52,123
Purchase of other investments	—	—	(24,165,716)	(3,480,587)
Maturity of other investments	—	—	6,703,594	965,518
Prepayments and investments in equity investees	(434,585)	(7,156,789)	(7,660,513)	(1,103,343)
Cash received from disposal of equity investment	—	—	34,558	4,977
Changes in restricted cash	—	—	(2,803,688)	(403,815)
Cash paid for loan originations	(662,511)	(10,784,220)	(45,152,496)	(6,503,312)
Cash received from loan repayments	387,626	7,276,347	34,836,743	5,017,536
Purchase of property, equipment and software	(1,424,534)	(2,826,830)	(2,372,035)	(341,644)
Cash paid for construction in progress	(1,036,513)	(1,540,615)	(1,359,364)	(195,789)
Purchase of intangible assets	(17,935)	(6,556)	(50,438)	(7,265)
Purchase of land use rights	(423,084)	(925,758)	(678,328)	(97,700)
Cash received from/(paid for) business combination, net of cash acquired (Note 7)	1,260,337	(290,339)	(615,849)	(88,701)
Net cash used in investing activities	(13,478,133)	(5,790,525)	(48,268,577)	(6,952,121)

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

JD.com, Inc.
Consolidated Statements of Cash Flows
(All amounts in thousands, except for share and per share data)

	For the year ended December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US$ Note 2(h)
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares, net	17,447,653	—	—	—
Repurchase of ordinary shares	—	—	(5,338,274)	(768,871)
Purchase of capped call options	—	—	(2,007,100)	(289,083)
Proceeds from settlement of capped call options	—	—	1,463,218	210,747
Proceeds from issuance of ordinary shares pursuant to stock plans	—	75,713	82,396	11,867
Proceeds from issuance of redeemable preferred shares of JD Finance	—	—	6,612,264	952,364
Capital injection from non-controlling interest shareholders	—	146,185	177,800	25,609
Proceeds from short-term borrowings	1,890,771	4,871,004	18,443,370	2,656,398
Repayment of short-term borrowings	(946,396)	(3,726,171)	(13,150,262)	(1,894,032)
Proceeds from unsecured senior notes, net of discount and debt issuance costs	—	—	6,355,969	915,450
Proceeds from nonrecourse securitization debt	—	3,333,542	11,053,808	1,592,080
Repayment of nonrecourse securitization debt	—	—	(920,510)	(132,581)
Proceeds from sales of financial products	—	—	25,451,427	3,665,768
Redemption of financial products	—	—	(7,524,635)	(1,083,773)
Net cash provided by financing activities	18,392,028	4,700,273	40,699,471	5,861,943
Effect of exchange rate changes on cash and cash equivalents	(101,484)	343,147	709,916	102,249
Net increase in cash and cash equivalents	6,102,312	949,217	1,907,827	274,784
Cash and cash equivalents at beginning of year	10,812,339	16,914,651	17,863,868	2,572,932
Cash and cash equivalents at end of year	16,914,651	17,863,868	19,771,695	2,847,716
Supplemental cash flow disclosures:				
Cash paid for income taxes	(9,807)	(23,219)	(113,087)	(16,288)
Cash paid for interest	(27,268)	(62,396)	(729,735)	(105,104)
Supplemental disclosures of non-cash investing and financing activities:				
Conversion of preferred shares to ordinary shares	15,474,994	—	—	—
Issuance of ordinary shares in connection with Tencent Transactions, net	11,644,310	—	—	—
Issuance of ordinary shares in connection with Walmart Transactions, net	—	—	9,592,258	1,381,573
Certain time deposits pledged for short-term bank loan	2,000,000	—	—	—
Equity investments obtained through commitment of future services and contribution of certain business	—	3,838,933	2,268,342	326,709

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

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JD.com, Inc.
Consolidated Statements of Changes in Shareholders' Equity
(All amounts in thousands, except for share and per share data)

	Ordinary shares		Treasury stock		Series A and A-1 convertible preferred shares		Series B convertible preferred shares		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income/(loss)	Accumulated deficit	Non-controlling interests	Total Shareholders' equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
		RMB		RMB		RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2013	1,502,933,134	199	(39,279,042)	—	191,894,000	255,850	59,539,244	88,241	6,251,869	2,648	(268,618)	(4,263,624)	—	2,066,565
Issuance of ordinary shares	657,292,997	80	—	—	—	—	—	—	29,091,883	—	—	—	—	29,091,963
Issuance of Class A ordinary shares reserved for future exercise of share-based awards	30,000,000	4	(30,000,000)	(4)	—	—	—	—	—	—	—	—	—	—
Preferred shares redemption value accretion	—	—	—	—	—	—	—	—	(7,957,640)	—	—	—	—	(7,957,640)
Conversion of series A and A-1 preferred shares to Class A ordinary shares	191,894,000	24	—	—	(191,894,000)	(255,850)	—	—	255,826	—	—	—	—	—
Conversion of series B preferred shares to Class A ordinary shares	59,539,244	7	—	—	—	—	(59,539,244)	(88,241)	88,234	—	—	—	—	—
Conversion of series C preferred shares to Class A ordinary shares	258,316,305	32	—	—	—	—	—	—	15,130,871	—	—	—	—	15,130,903
Exercise of share-based awards	—	—	849,844	—	—	—	—	—	20,593	—	—	—	—	20,593
Share-based compensation and vesting of share-based awards	93,780,970	12	6,390,905	—	—	—	—	—	4,249,536	—	—	—	—	4,249,548
Net loss	—	—	—	—	—	—	—	—	—	—	—	(4,996,358)	—	(4,996,358)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	(121,612)	—	—	(121,612)
Net change in unrealized gains on available for sale securities	—	—	—	—	—	—	—	—	—	—	14,105	—	—	14,105
Statutory reserves	—	—	—	—	—	—	—	—	—	12,361	—	(12,361)	—	—
Balance as of December 31, 2014	2,793,756,650	358	(62,038,293)	(4)	—	—	—	—	47,131,172	15,009	(376,125)	(9,272,343)	—	37,498,067
Exercise of share-based awards	—	—	2,694,404	1	—	—	—	—	68,009	—	—	—	—	68,010
Share-based compensation and vesting of share-based awards	—	—	7,577,725	—	—	—	—	—	1,193,945	—	—	—	—	1,193,945
Net loss	—	—	—	—	—	—	—	—	—	—	—	(9,107,940)	(9,566)	(9,117,506)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	953,573	—	1,214	954,787
Net change in unrealized losses on available for sale securities	—	—	—	—	—	—	—	—	—	—	(22,622)	—	—	(22,622)
Statutory reserves	—	—	—	—	—	—	—	—	—	40,551	—	(40,551)	—	—
Capital injection from non-controlling interests shareholders	—	—	—	—	—	—	—	—	—	—	—	—	146,185	146,185
Balance as of December 31, 2015	2,793,756,650	358	(51,766,164)	(3)	—	—	—	—	48,393,126	55,560	554,826	(18,420,834)	137,833	30,720,866
Issuance of ordinary shares	144,952,250	19	—	—	—	—	—	—	9,592,239	—	—	—	—	9,592,258
Repurchase of ordinary shares	—	—	(62,131,568)	(5,338,276)	—	—	—	—	(543,880)	—	—	—	—	(5,882,156)
Surrender of ordinary shares by certain shareholder	(1)	—	—	—	—	—	—	—	—	—	—	—	—	—
Accretion of redeemable non-controlling interests	—	—	—	—	—	—	—	—	(444,657)	—	—	—	—	(444,657)
Exercise of share-based awards	—	—	2,820,648	77,496	—	—	—	—	(3,293)	—	—	—	—	74,203
Share-based compensation and vesting of share-based awards	—	—	8,812,582	78,903	—	—	—	—	2,264,882	—	—	—	—	2,343,785
Net loss	—	—	—	—	—	—	—	—	—	—	—	(3,362,133)	(51,591)	(3,413,724)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	943,616	—	—	943,616
Net change in unrealized gains on available for sale securities	—	—	—	—	—	—	—	—	—	—	44,951	—	—	44,951
Statutory reserves	—	—	—	—	—	—	—	—	—	77,378	—	(77,378)	—	—

Capital injection from non-controlling interests shareholders	—	—	—	—	—	—	—	—	—	—	—	—	183,720	183,720
Balance as of December 31, 2016	2,938,708,899	377	(102,264,502)	(5,181,880)	—	—	—	—	59,258,417	132,938	1,543,393	(21,860,345)	269,962	34,162,862

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

2. Summary of significant accounting policies (Continued)

m. Inventories, net

Inventories, consisting of products available for sale, are stated at the lower of cost or market value. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated market value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. 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 Loss.

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

n. Loan receivables, net

Loan receivables consist primarily of micro loans made to small and medium size enterprises that are merchants on the Group's online marketplace and qualified individual customers as well. The loan periods extended by the Group to the merchants and the individual customers range from 1 day to 36 months. Such amounts are recorded at the outstanding principal amount less allowance for doubtful accounts, and include accrued interest receivable as of the balance sheet date. The loan receivables with the collection period over one year are classified into other non-current assets in the Consolidated Balance Sheets. As of December 31, 2015 and 2016, the balances of loan receivables, net were RMB3,698,488 and RMB12,697,915, respectively.

The Group has entered into syndication loan arrangements with certain third party financial institutions to jointly provide loans to individual customers. The Group and the third party financial institutions make loans to the borrowers and have a direct legal relationship with the borrowers for its own portion of the loans, respectively. The Group and the third party financial institutions have the rights to receive the repayment from the borrowers, take credit risk, and earn interest income on its loan portion, respectively. Hence, the Group records loan receivables and interest income of its portion in the Consolidated Financial Statements.

Allowance for doubtful accounts represents the Group's best estimate of the losses inherent in the outstanding portfolio of loans. Judgment is required to determine the allowance amounts and whether such amounts are adequate to cover potential bad debts, and periodical reviews are performed to ensure such amounts continue to reflect the best estimate of the losses inherent in the outstanding portfolio of loans. As of December 31, 2015 and 2016, allowance for doubtful accounts was RMB87,996 and RMB251,813, respectively.

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2. Summary of significant accounting policies (Continued)

jj. 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 Loss in the period of change.

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, 2014, 2015 and 2016, the Group did not have any significant unrecognized uncertain tax positions.

kk. Leases

Each lease is classified at the inception date as either a capital lease or an operating lease. For the lessee, a lease is a capital lease if any of the following conditions exist: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the leaser at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases. Payments made under operating lease are charged to the Consolidated Statements of Operations and Comprehensive Loss on a straight-line basis over the terms of underlying lease. The Group has no capital leases for any of the periods presented.

ll. Comprehensive income/(loss)

Comprehensive income/(loss) is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments from shareholders and distributions to shareholders. Comprehensive income/(loss) for the periods presented includes net loss, changes in unrealized gains/(losses) on available for sales securities, foreign currency translation adjustments, and share of change in other comprehensive income/(loss) of equity investments.

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6. Investment in equity investees (Continued)

Investment in Tuniu

In December 2014, the Group acquired 6.5% equity interest in Tuniu with cash consideration of RMB305,930 ("Initial Investment"). Tuniu is a leading online leisure travel company in China that is listed on the Nasdaq. The Group accounted for the Initial Investment as an available-for-sale security.

On May 22, 2015, the Group additionally acquired Tuniu's newly issued ordinary shares for total consideration of RMB2,188,490 with a combination of RMB1,528,275 in cash and RMB660,215 in the form of future services, including granting Tuniu an exclusive right, for a period of 5 years, to operate the leisure travel channels on the Group's website and mobile apps, and Tuniu becomes the Group's preferred partner for hotel and air ticket booking services. After the subsequent investment in May 2015, the Group held approximately 28% of Tuniu's issued and outstanding shares and had one board seat. Hence, the Group adopted equity method of accounting to account for the investment in Tuniu. In accordance with ASC 323, accumulated unrealized gains of RMB14,395 that were previously recorded for fair value change of the Initial Investment were reversed in the second quarter of 2015, and the cost of Initial Investment balance was adjusted as if the equity method of accounting had been applied since the Initial Investment was made and reclassified from investment securities to investment in equity investees in the Consolidated Balance Sheets. In January 2016, Tuniu issued new shares to HNA Tourism Group, a third party investor, for an aggregate price of approximately US$500,000 and the Group's interest in Tuniu was diluted to approximately 21% as of January 21, 2016. As the issuance price per share was higher than the Group's average carrying value per share, the Group recorded a gain of RMB108,495 to reflect the deemed disposal.

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

	As of May 22, 2015	As of December 31, 2015	As of December 31, 2016
	RMB	RMB	RMB
Carrying value of investment in Tuniu (*)	2,494,145	2,343,301	1,198,405
Proportionate share of Tuniu's net tangible and intangible assets	1,014,296	878,668	1,006,763
Excess of carrying value of the investment over proportionate share of Tuniu's net tangible and intangible assets	1,479,849	1,464,633	191,642
The excess of carrying value has been primarily assigned to:			
Goodwill (*)	1,212,149	1,212,149	23,899
Amortizable intangible assets (**)	356,933	336,645	223,657
Deferred tax liabilities	(89,233)	(84,161)	(55,914)
	1,479,849	1,464,633	191,642
Cumulative gains/(losses) in equity interest in Tuniu	—	(150,844)	(1,295,740)

(*) In the second quarter of 2016, the Group conducted an impairment assessment on its investment in Tuniu considering the duration and severity of the decline of Tuniu's stock price after the investment, and concluded the decline in fair value of the investment was other-than-temporary. Accordingly, the Group recorded a charge of RMB721,501 to write down the carrying value of its investment in Tuniu to its then fair value of RMB1,454,578, based on the quoted closing price of Tuniu as of June 30, 2016.

(**) Weighted average life of the intangible assets not included in Tuniu's financial statements was 8 years.

As of December 31, 2015 and 2016, the market value of the Group's investment in Tuniu was approximately RMB2,700,098 and RMB1,579,417 based on the quoted closing price, respectively.

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8. Accounts receivable, net

Accounts receivable, net, consists of the following:

	As of December 31,	
	2015	2016
	RMB	RMB
Online direct sales and online marketplace receivables	7,579,868	16,336,141
Online payment processing transactions receivables	385,547	770,134
Advertising receivables	121,170	179,498
Others	379,059	594,947
Accounts receivable	8,465,644	17,880,720
Allowance for doubtful accounts	(271,979)	(416,312)
Accounts receivable, net	8,193,665	17,464,408

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

	For the year ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Balance at beginning of the year	(1,770)	(63,715)	(271,979)
Additions	(64,424)	(273,772)	(408,316)
Reverse	868	—	—
Write-offs	1,611	65,508	263,983
Balance at end of the year	(63,715)	(271,979)	(416,312)

The value-added tax receivables due from customers are recorded in online direct sales and online marketplace receivables. The allowance for doubtful accounts related to the Group’s financing receivables from individual customers related to the online direct sales business was RMB253,347 and RMB398,815 as of December 31, 2015 and 2016, respectively.

9. Inventories, net

Inventories, net, consist of the following:

	As of December 31,	
	2015	2016
	RMB	RMB
Products	20,436,275	28,778,528
Packing materials and others	103,268	130,910
Inventories, net	20,539,543	28,909,438

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17. Others, net

Others, net, consist of the following:

	For the year ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Foreign exchange losses, net	(28,980)	(57,395)	(146,354)
Government financial incentives	214,623	392,022	740,567
Impairment of investments	—	(611,108)	(637,583)
Gain from business and investment disposals	—	1,507	1,232,853
Others	30,944	134,377	284,572
Total	216,587	(140,597)	1,474,055

Government financial incentives represent rewards provided by the relevant PRC municipal government authorities to the Group for business achievements made by the Group. As there is no further obligation for the Group to perform, government financial incentives are recognized as other income when received. The amounts of such government financial incentives are determined solely at the discretion of the relevant government authorities and there is no assurance that the Group will continue to receive these government financial incentives in the future.

18. Taxation

a) *Transition from PRC Business Tax to PRC Value Added Tax*

A pilot program for transition from business tax to value added tax ("VAT") for certain services revenues was launched in Shanghai on January 1, 2012. Starting from September 1, 2012, the pilot program has been expanded from Shanghai to other cities and provinces in China, including Beijing, Wuhan, Guangzhou, Tianjin and Suqian, in which the Group has operations. Commencing August 1, 2013, the pilot program was expanded to cover all regions in the PRC. From May 1, 2016, VAT replaced business tax in all industries, on a nationwide basis.

b) *Value added tax*

During the periods presented, the Group is subject to statutory VAT rate of 13% and 17% for revenues from sales of audio, video products and books and sales of other products, respectively, in the PRC. The Group is exempted from VAT for revenues from sales of books since January 1, 2014.

Prior to the pilot program, the Group was subject to 5% or 3% business tax for revenues from online advertising and other services or for revenues from logistic services, respectively. After the launch of the pilot program, the Group is subject to 6% and 11% VAT for the revenues from logistics services and 6% VAT for the revenues from online advertising and other services.

The Group is also subject to 3% cultural undertaking development fees on revenues from online advertising services in China.

The Group is also subject to surcharges on VAT payments according to PRC tax law.

c) *Business tax*

Before May 1, 2016, the Group was subject to 5% business tax and related surcharges for revenues from online payment services. Business tax and the related surcharges are recognized when the revenue is earned. Starting from May 1, 2016, the Group is subject to 6% VAT for revenues from online payment services.

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18. Taxation (Continued)

d) *Income tax*

Cayman Islands

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

British Virgin Islands

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

Hong Kong

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

China

On March 16, 2007, the National People’s Congress of PRC enacted a new Corporate Income Tax Law (“new CIT law”), under which Foreign Investment Enterprises (“FIEs”) and domestic companies would be subject to corporate income tax at a uniform rate of 25%. The new CIT law became effective on January 1, 2008. Under the new CIT law, preferential tax treatments will continue to be granted to entities which conduct businesses in certain encouraged sectors and to entities otherwise classified as “high and new technology enterprises”.

Chinabank Payment Technology has been qualified as “high and new technology enterprise” in 2010, whose qualification was renewed in 2013 and 2016, and enjoyed a preferential corporate income tax rate of 15% from 2010 to 2018.

Beijing Shangke has been entitled to an exemption from income tax for first two years and 50% reduction for the next three years from its first profitable year as a “software enterprise”. It has also been qualified as “high and new technology enterprise” and enjoys a preferential income tax rate of 15% from 2013 to 2018. The privileges cannot be applied simultaneously.

Chongqing Haijia and Chengdu Century have been recognized as encouraged industries in the Western Regions of China and enjoyed a preferential income tax rate of 15% from 2014 to 2016.

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

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18. Taxation (Continued)

d) *Income tax (Continued)*

Withholding tax on undistributed dividends

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

The new CIT law also imposes a withholding income tax of 10% on dividends distributed by an FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). The Company did not record any dividend withholding tax, as it has no retained earnings for any of the periods presented.

The components of loss before tax are as follows:

	For the year ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Income/(loss) before tax			
Income/(loss) from China operations	(529,173)	(4,705,034)	448,494
Loss from non-China operations	(4,447,861)	(4,426,734)	(3,682,718)
Total loss before tax	(4,977,034)	(9,131,768)	(3,234,224)
Income tax benefits/(expenses) applicable to China operations			
Current income tax expenses	(23,493)	(28,322)	(214,282)
Deferred tax benefits	4,169	42,584	34,782
Subtotal income tax benefits/(expenses) applicable to China operations	(19,324)	14,262	(179,500)
Total income tax benefits/(expenses)	(19,324)	14,262	(179,500)