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BeiGene

BeiGene, Ltd.
百濟神州有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 06160)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2019

BeiGene, Ltd. (the “Company” or “we” or “us”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended June 30, 2019 (the “**Reporting Period**”), together with the comparative figures for the corresponding periods in 2018, which have been prepared under generally accepted accounting principles in the United States (the “U.S. GAAP”) and reviewed by the Audit Committee of the Board of Directors (the “Board” or “Directors”) of the Company.

FINANCIAL HIGHLIGHTS

- Total revenues for the six months ended June 30, 2019 increased by approximately US\$235.8 million or approximately 276.3% to approximately US\$321.2 million, as compared to the six months ended June 30, 2018. Product revenue increased by approximately US\$60.9 million or approximately 111.4% to approximately US\$115.6 million, as compared to the six months ended June 30, 2018. Collaboration revenue increased by approximately US\$174.9 million or approximately 570.4% to approximately US\$205.6 million, as compared to the six months ended June 30, 2018.
- Total expenses increased by approximately US\$221.6 million or approximately 61.7% to approximately US\$580.8 million, as compared to the six months ended June 30, 2018.
- Net loss decreased by approximately US\$8.8 million or approximately 3.4% to approximately US\$254.0 million, as compared to the six months ended June 30, 2018.
- Basic and diluted loss per share for the six months ended June 30, 2019 amounted to US\$0.33, representing a decrease of 13.2% when compared with that of US\$0.38 for the six months ended June 30, 2018.

The financial highlights are prepared under U.S. GAAP, the reconciliation between U.S. GAAP and International Financial Reporting Standards is included in Note 27 to our condensed consolidated financial statements in this announcement.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

		Six Months Ended June 30,	
	Note	2019	2018
		US\$' 000	US\$' 000
Revenues			
Product revenue, net	17	115,563	54,676
Collaboration revenue	3	205,616	30,672
		<u>321,179</u>	<u>85,348</u>
Total revenues			
Expenses			
Cost of sales - product		(33,100)	(10,806)
Research and development		(407,111)	(273,951)
Selling, general and administrative		(139,893)	(74,075)
Amortization of intangible assets		(663)	(375)
		<u>(580,767)</u>	<u>(359,207)</u>
Total expenses			
Loss from operations		(259,588)	(273,859)
Interest income, net		7,363	3,444
Other income, net		850	804
		<u>(251,375)</u>	<u>(269,611)</u>
Loss before income tax expense	18		
Income tax benefit (expense)	12	(2,648)	6,780
		<u>(254,023)</u>	<u>(262,831)</u>
Net loss			
Less: net loss attributable to noncontrolling interests		(813)	(1,348)
Net loss attributable to BeiGene, Ltd.		<u>(253,210)</u>	<u>(261,483)</u>
Net loss per share attributable to BeiGene, Ltd.,			
basic and diluted (in US\$)	19	(0.33)	(0.38)
Weighted-average shares outstanding,			
basic and diluted (in shares)	19	776,137,299	684,586,086
Net loss per American Depositary Share ("ADS")			
basic and diluted (in US\$)		(4.24)	(4.97)
Weighted-average ADSs outstanding,			
basic and diluted (in ADSs)		59,702,869	52,660,468

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Six Months Ended June 30,	
	2019	2018
	US\$' 000	US\$' 000
Net loss	(254,023)	(262,831)
Other comprehensive income, net of tax of nil:		
Foreign currency translation adjustments	(3,582)	2,305
Unrealized holding gain, net	<u>1,586</u>	<u>1,048</u>
Comprehensive loss	<u>(256,019)</u>	<u>(259,478)</u>
Less: comprehensive loss attributable to noncontrolling interests	<u>(1,058)</u>	<u>(1,326)</u>
Comprehensive loss attributable to BeiGene, Ltd.	<u><u>(254,961)</u></u>	<u><u>(258,152)</u></u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

		As of	
	Note	June 30, 2019 US\$' 000 (unaudited)	December 31, 2018 US\$' 000 (audited)
Assets			
Current assets:			
Cash and cash equivalents		918,948	712,937
Short-term restricted cash	5	14,567	14,544
Short-term investments	5	618,803	1,068,509
Accounts receivable	6	58,108	41,056
Unbilled receivable	6	–	8,612
Inventories	7	49,048	16,242
Prepaid expenses and other current assets	13	96,206	81,942
Total current assets		<u>1,755,680</u>	<u>1,943,842</u>
Non-current assets:			
Long-term restricted cash	5	9,161	13,232
Property, plant and equipment, net	8	212,672	157,061
Land use right, net		–	45,058
Operating lease right-of-use assets	10	74,640	–
Intangible assets, net	11	6,509	7,172
Goodwill		109	109
Deferred tax assets	12	31,389	29,542
Other non-current assets	13	60,158	53,668
Total non-current assets		<u>394,638</u>	<u>305,842</u>
Total assets		<u><u>2,150,318</u></u>	<u><u>2,249,684</u></u>
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	14	148,536	113,283
Accrued expenses and other payables	13	103,061	100,414
Deferred revenue, current portion		–	18,140
Tax payable	12	2,175	5,888
Current portion of operating lease liabilities	10	9,167	–
Current portion of long-term bank loan	15	8,740	8,727
Total current liabilities		<u>271,679</u>	<u>246,452</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(CONTINUED)

		As of	
	Note	June 30, 2019 US\$' 000 (unaudited)	December 31, 2018 US\$' 000 (audited)
Non-current liabilities:			
Long-term bank loan	15	84,489	40,785
Shareholder loan	16	154,321	148,888
Deferred revenue, non-current portion		—	9,842
Operating lease liabilities	10	18,662	—
Deferred tax liabilities	12	11,802	11,139
Other long-term liabilities	13	38,101	38,931
Total non-current liabilities		307,375	249,585
Total liabilities		579,054	496,037
Commitments and contingencies	24		
Equity:			
Ordinary shares, US\$0.0001 par value per share; 9,500,000,000 shares authorized; 784,439,632 shares and 776,263,184 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively		78	77
Additional paid-in capital		2,814,449	2,744,814
Accumulated other comprehensive income/(loss)		(225)	1,526
Accumulated deficit		(1,260,425)	(1,007,215)
Total BeiGene, Ltd. shareholders' equity		1,553,877	1,739,202
Noncontrolling interest		17,387	14,445
Total equity		1,571,264	1,753,647
Total liabilities and equity		2,150,318	2,249,684

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

		Six Months Ended June 30,	
	Note	2019	2018
		US\$' 000	US\$' 000
Operating activities:			
Net loss		(254,023)	(262,831)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense		7,111	4,580
Share-based compensation expenses	20	58,994	36,037
Acquired in-process research and development		49,000	10,000
Non-cash interest expense		3,759	4,115
Deferred income tax benefits		(1,456)	(8,413)
Disposal gain on available-for-sale securities		(1,806)	(2,336)
Non-cash amortization of bond discount		(3,652)	—
Changes in operating assets and liabilities:			
Accounts receivable		(17,052)	(3,743)
Unbilled receivable		8,612	3,605
Inventories		(32,806)	4,608
Prepaid expenses and other current assets		(14,535)	(27,669)
Operating lease right-of-use assets		(3,604)	—
Other non-current assets		(10,293)	(3,694)
Accounts payable		21,431	10,308
Accrued expenses and other payables		3,535	25,439
Tax payable		(3,713)	(8,005)
Deferred revenue		(27,982)	(3,442)
Other long-term liabilities		21	(197)
Operating lease liabilities		383	—
Net cash used in operating activities		(218,076)	(221,638)
Investing activities:			
Purchases of property and equipment		(43,275)	(20,309)
Purchases of investments		(710,791)	(1,198,922)
Proceeds from sale or maturity of available-for-sale securities		1,167,491	869,011
Purchase of in-process research and development		(49,000)	(10,000)
Net cash provided by/(used in) investing activities		364,425	(360,220)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Note	Six Months Ended June 30, 2019 US\$' 000	2018 US\$' 000
Financing activities:			
Proceeds from follow-on public offering, net of underwriter discount		—	758,001
Payment of follow-on public offering cost		—	(414)
Capital contribution from noncontrolling interest		4,000	—
Proceeds from long-term loan	15	43,704	42,315
Proceeds from option exercises and employee share purchase plan		10,642	10,582
Net cash provided by financing activities		58,346	810,484
Effect of foreign exchange rate changes, net		(2,732)	1,783
Net increase in cash, cash equivalents, and restricted cash		201,963	230,409
Cash, cash equivalents, and restricted cash at beginning of period		740,713	239,602
Cash, cash equivalents, and restricted cash at end of period		942,676	470,011
Supplemental cash flow disclosures:			
Cash and cash equivalents		918,948	438,420
Restricted cash, current		14,567	31,591
Restricted cash, non-current		9,161	—
Income taxes paid		7,874	11,842
Interest expense paid		2,090	667
Supplemental non-cash information:			
Acquisitions of equipment included in accounts payable		35,927	8,006
Changes in operating assets and liabilities adjusted through accumulated deficit		—	2,291

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Ordinary Shares		Additional	Accumulated other	Accumulated	Total	Non	Total
	Shares	Amount	paid-in	comprehensive	deficit		controlling	Equity
		US\$'000	capital	income/(loss)	US\$'000	US\$'000	Interest	US\$'000
			US\$'000	US\$'000			US\$'000	
Balance at December 31, 2018	776,263,184	77	2,744,814	1,526	(1,007,215)	1,739,202	14,445	1,753,647
Contributions from shareholders	–	–	–	–	–	–	4,000	4,000
Issuance of shares reserved for share options exercise	2,307,318	–	–	–	–	–	–	–
Share-based compensation	–	–	58,994	–	–	58,994	–	58,994
Exercise of options, ESPP and release of RSUs	5,869,130	1	10,641	–	–	10,642	–	10,642
Net loss	–	–	–	–	(253,210)	(253,210)	(813)	(254,023)
Other comprehensive income	–	–	–	(1,751)	–	(1,751)	(245)	(1,996)
Balance at June 30, 2019	<u>784,439,632</u>	<u>78</u>	<u>2,814,449</u>	<u>(225)</u>	<u>(1,260,425)</u>	<u>1,553,877</u>	<u>17,387</u>	<u>1,571,264</u>
Balance at December 31, 2017	592,072,330	59	1,000,747	(480)	(330,517)	669,809	14,422	684,231
Adjustment to opening balance of equity	–	–	–	263	(2,929)	(2,666)	375	(2,291)
Balance at January 1, 2018	592,072,330	59	1,000,747	(217)	(333,446)	667,143	14,797	681,940
Follow-on offering, net of transaction costs	102,970,400	10	757,577	–	–	757,587	–	757,587
Issuance of shares reserved for share options exercise	727,927	–	–	–	–	–	–	–
Share-based compensation	–	–	36,037	–	–	36,037	–	36,037
Exercise of options	5,792,527	1	10,581	–	–	10,582	–	10,582
Net loss	–	–	–	–	(261,483)	(261,483)	(1,348)	(262,831)
Other comprehensive income	–	–	–	3,331	–	3,331	22	3,353
Balance at June 30, 2018	<u>701,563,184</u>	<u>70</u>	<u>1,804,942</u>	<u>3,114</u>	<u>(594,929)</u>	<u>1,213,197</u>	<u>13,471</u>	<u>1,226,668</u>

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business, Basis of Presentation and Consolidation and Significant Accounting Policies

Description of business

BeiGene, Ltd. (the “Company”) is a commercial-stage biotechnology company focused on developing and commercializing innovative molecularly targeted and immuno-oncology drugs for the treatment of cancer. The Company’s internally developed lead drug candidates are currently in late-stage clinical trials, and it is marketing three in-licensed drugs in China from which it has been generating product revenue since September 2017.

The Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability in October 2010. The Company completed its initial public offering (“IPO”) on the NASDAQ Global Select Market in February 2016 and has completed subsequent follow-on public offerings and a sale of ordinary shares to Celgene Switzerland LLC (“Celgene Switzerland”) in a business development transaction. On August 8, 2018, the Company completed its IPO on The Stock Exchange of Hong Kong Limited (the “HKEx” or “**Stock Exchange**”) and a global follow-on public offering in which it raised approximately US\$869,709,000 in net proceeds, after deducting underwriting discounts and commissions and offering expenses. Effective August 8, 2018, the Company is dual listed in both the United States and Hong Kong.

As of June 30, 2019, the Company’s subsidiaries are as follows:

Name of Company	Place of Incorporation and type of legal entity	Date of Incorporation	Particulars of issued/paid-in capital	Percentage of Ownership by the Company	Principal Activities
BeiGene 101	Cayman Islands	August 30, 2012	nil	100%	Medical and pharmaceutical research
BeiGene AUS Pty Ltd. (“BeiGene Australia”)	Australia	July 15, 2013	US\$ 1	100%	Clinical trial activities
BeiGene (Beijing) Co., Ltd. (“BeiGene Beijing”)	PRC, limited liability company	January 24, 2011	US\$ 46,711,000	100%	Medical and pharmaceutical research
BeiGene Biologics Co., Ltd. (“BeiGene Biologics”)	PRC, limited liability company	January 25, 2017	RMB 2.0 billion	95%	Biologics manufacturing
BeiGene Guangzhou Biologics Manufacturing Co., Ltd. (“BeiGene Guangzhou Factory”)*	PRC, limited liability company	March 3, 2017	RMB 650,000,000	95%	Biologics manufacturing
BeiGene (Guangzhou) Co., Ltd. (“BeiGene Guangzhou”)	PRC, limited liability company	July 11, 2017	US\$ 90 million	100%	Medical and pharmaceutical research
BeiGene (Hong Kong) Co., Limited. (“BeiGene HK”)	Hong Kong, China	November 26, 2010	HKD 1	100%	Investment holding
Beijing Innerway Bio-tech Co., Ltd. (“Innerway”)	PRC, limited liability company	August 9, 2004	US\$ 4,000,000	100%	Medical and pharmaceutical research and manufacturing
BeiGene Ireland Limited (“BeiGene Ireland”)	Republic of Ireland	August 11, 2017	nil	100%	Clinical trial activities
BeiGene Pharmaceuticals (Guangzhou) Co., Ltd. (“BeiGene Pharmaceutical (Guangzhou)”)	PRC, limited liability company	April 14, 1999	RMB 3,800,000	100%	Medical and pharmaceutical research and manufacturing
BeiGene pharmaceutical (Shanghai) Co., Ltd. (“BeiGene pharmaceutical (Shanghai)”)	PRC, limited liability company	December 15, 2009	US\$ 1,000,000	100%	Medical and pharmaceutical consulting, marketing and promotional services
BeiGene (Shanghai) Co., Ltd. (“BeiGene Shanghai”)*	PRC, limited liability company	September 11, 2015	RMB 34,344,310	95%	Medical and pharmaceutical research

Name of Company	Place of Incorporation and type of legal entity	Date of Incorporation	Particulars of issued/paid-in capital	Percentage of Ownership by the Company	Principal Activities
BeiGene (Suzhou) Co., Ltd. ("BeiGene Suzhou")	PRC, limited liability company	April 9, 2015	US\$ 64.0 million	100%	Medical and pharmaceutical research and manufacturing
BeiGene Switzerland GmbH ("BeiGene Switzerland")	Switzerland	September 1, 2017	CHF 20,000	100%	Clinical trial activities and commercial
BeiGene UK, Ltd. ("BeiGene UK")	United Kingdom	December 14, 2018	nil	100%	Research, development, manufacture and distribution or licensing of pharmaceutical and related products
BeiGene USA, Inc. ("BeiGene USA")	United States	July 8, 2015	US\$ 1	100%	Clinical trial activities
BeiGene Singapore Pte. Ltd.	Singapore	January 16, 2019	SGD 1	100%	Clinical trial activities and commercial
MapKure, LLC ("MapKure")	United States	May 7, 2019	US\$ 14.0 million	71.4%	Clinical trial activities and commercial
BeiGene France Sarl	France	May 9, 2019	EUR 7,500	100%	Clinical trial activities and commercial
BeiGene (Taiwan) Limited	Taiwan, China	June 27, 2019	TWD 0.5 million	100%	Clinical trial activities and commercial

* Wholly-owned by BeiGene Biologics

Basis of presentation and consolidation

The accompanying condensed consolidated balance sheet as of June 30, 2019 and December 31, 2018, the condensed consolidated statements of operations and comprehensive loss for the six months ended June 30, 2019 and 2018, the condensed consolidated statements of cash flows for the six months ended June 30, 2019 and 2018, and the condensed consolidated statements of shareholders' equity for the six months ended June 30, 2019 and 2018, and the related footnote disclosures are unaudited. The accompanying unaudited interim financial statements were prepared in accordance with U.S. GAAP, including guidance with respect to interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X, and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time (the "**Listing Rules**"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Annual Report (the "**Annual Report**") filed with the Securities and Exchange Commission of the United States (the "**SEC**") on February 28, 2019.

The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all normal recurring adjustments, necessary to present a fair statement of the results for the interim periods presented. Results of the operations for the six months ended June 30, 2019 are not necessarily indicative of the results expected for the full fiscal year or for any future annual or interim period.

The condensed consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany transactions and balances between the Company and its subsidiaries are eliminated upon consolidation.

Noncontrolling interests are recognized to reflect the portion of the equity of subsidiaries which are not attributable, directly or indirectly, to the controlling shareholders. The Company consolidates its interests in its joint venture, BeiGene Biologics Co., Ltd. ("BeiGene Biologics") and MapKure, under the voting model and recognizes the minority shareholders' equity interest as a noncontrolling interest in its condensed consolidated financial statements.

Use of estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Areas where management uses subjective judgment include, but are not limited to, estimating the useful lives of long-lived assets, estimating variable consideration in product sales and collaboration revenue arrangements, estimating the incremental borrowing rate for operating lease liabilities, identifying separate accounting units and the standalone selling price of each performance obligation in the Company's revenue arrangements, estimating the fair value of net assets acquired in business combinations, assessing the impairment of long-lived assets, share-based compensation expenses, realizability of deferred tax assets, estimating uncertain tax positions and the fair value of financial instruments. Management bases the estimates on historical experience, known trends and various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

Recent accounting pronouncements

New accounting standards which have been adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-2, Leases. Subsequently, the FASB issued ASU 2018-1, Land Easement Practical Expedient, which provides an optional transition practical expedient for land easements, ASU 2018-10, Codification Improvements to Topic 842, Leases, which clarifies certain aspects of the guidance issued in ASU 2016-2; ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides an additional transition method and a practical expedient for separating components of a contract for lessors, ASU 2018-20, Leases (Topic 842)- Narrow-Scope Improvements for Lessors, which allows certain accounting policy elections for lessors; and ASU 2019-1, Leases (Topic 842): Codification Improvements, which clarifies certain aspects of the guidance (collectively, the "Lease ASUs"). The Lease ASUs require lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the balance sheet. This standard also requires additional disclosures by lessees and contains targeted changes to accounting by lessors. The updated guidance was effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. Leases will be classified as finance or operating, with the classification affecting the pattern and classification of expense recognition. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous U.S. GAAP. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial adoption. The guidance permits entities to choose to use either its effective date or the beginning of the earliest period presented in the financial statements as its date of initial application.

The Company adopted the new standard effective January 1, 2019 using the effective date method and did not restate comparative periods. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. Upon adoption, the Company recognized a lease liability of US\$27,446,000, with corresponding right-of-use ("ROU") assets of US\$25,978,000 based on the present value of the remaining minimum rental payments under existing operating leases. The difference between the lease liability and right-of-use asset relates to the reversal of existing deferred rent and prepaid rent balances of US\$1,739,000 and US\$271,000, respectively. Additionally, the Company reclassified its land use rights of US\$45,058,000 to ROU assets upon adoption. The adoption of the standard did not impact the Company's condensed consolidated statements of operations or cash flows.

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update provides companies the option to reclassify to retained earnings the income tax accounting effects related to items originating in accumulated other comprehensive income ("AOCI") as a result of the U.S. Tax Cuts and Jobs Act ("TCJA") enacted on December 22, 2017. This update was effective in fiscal years, including interim periods, beginning after December 15, 2018, with early adoption permitted. None of the income tax accounting effects of the TCJA related to items that originated in AOCI and thus adopting of this standard did not have any impact on the Company's condensed consolidated financial statements. Other tax effects of items that originate in AOCI will be removed when the underlying circumstance which gives rise to the tax impact no longer exists, based on an aggregate portfolio approach.

Impact of adopted accounting standards

The cumulative effect of changes made to the Company's condensed consolidated January 1, 2019 balance sheet for the adoption of the Lease ASUs were as follows:

	Balance at December 31, 2018 US\$' 000	Adjustments Due to Lease ASUs US\$' 000	Balance at January 1, 2019 US\$' 000
Assets:			
Prepaid expenses and other current assets	81,942	(271)	81,671
Land use right, net	45,058	(45,058)	—
Operating lease right-of-use assets	—	71,036	71,036
Liabilities:			
Accrued expenses and other payables	100,414	(888)	99,526
Current portion of operating lease liabilities	—	8,684	8,684
Operating lease liabilities	—	18,762	18,762
Other long-term liabilities	38,931	(851)	38,080

New accounting standards which have not yet been adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (“ASU 2016-13”). Subsequently, the FASB issued ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*. The amendments in ASU 2016-13 update guidance on reporting credit losses for financial assets. These amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. For public business entities that are U.S. SEC filers, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating the impact on its financial statements of adopting this guidance.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The update eliminates, modifies, and adds certain disclosure requirements for fair value measurements. This update is effective in fiscal years, including interim periods, beginning after December 15, 2019, and early adoption is permitted. The added disclosure requirements and the modified disclosure on the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented. All other changes to disclosure requirements in this update should be applied retrospectively to all periods presented upon their effective date. The Company is currently evaluating the impact on its financial statements of adopting this guidance.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This update requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to defer and recognize as an asset. This update is effective in fiscal years, including interim periods, beginning after December 15, 2019, and early adoption is permitted. This guidance should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the impact on its financial statements of adopting this guidance.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*. This update clarifies that certain transactions between participants in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer and precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. The update is effective in fiscal years beginning after December 15, 2019, and interim periods therein, and early adoption is permitted for entities that have adopted ASC 606. This guidance should be applied retrospectively to the date of initial application of Topic 606. The Company is currently evaluating the impact on its financial statements of adopting this guidance.

Significant accounting policies

For a more complete discussion of the Company's significant accounting policies and other information, the condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements included in the Company's Annual Report for the year ended December 31, 2018.

Leases

The Company determines if an arrangement is a lease at inception. The Company has lease agreements with lease and non-lease components, which are accounted for as a single lease component based on the Company's policy election to combine lease and non-lease components for its leases. Leases are classified as operating or finance leases in accordance with the recognition criteria in ASC 842-20-25. The Company's lease portfolio consists entirely of operating leases as of June 30, 2019. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

At the commencement date of a lease, the Company determines the classification of the lease based on the relevant factors present and records a ROU asset and lease liability. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are calculated as the present value of the lease payments not yet paid. Variable lease payments not dependent on an index or rate are excluded from the ROU asset and lease liability calculations and are recognized in expense in the period which the obligation for those payments is incurred. As the rate implicit in the Company's leases is not typically readily available, the Company uses an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. This incremental borrowing rate reflects the fixed rate at which the Company could borrow on a collateralized basis the amount of the lease payments in the same currency, for a similar term, in a similar economic environment. ROU assets include any lease prepayments and are reduced by lease incentives. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. Lease terms are based on the non-cancelable term of the lease and may contain options to extend the lease when it is reasonably certain that the Company will exercise that option.

Operating leases are included in operating lease right-of-use assets and lease liabilities on the condensed consolidated balance sheet. Lease liabilities that become due within one year of the balance sheet date are classified as current liabilities.

Leases with an initial lease term of 12 months or less are not recorded on the condensed consolidated balance sheet. Lease expense for these leases is recognized on a straight-line basis over the lease term.

Land Use Rights

All land in the People's Republic of China ("PRC") is owned by the PRC government. The PRC government may sell land use rights for a specified period of time. Land use rights represent operating leases in accordance with ASC 842. The purchase price of land use rights represents lease prepayments to the PRC government and is recorded as an operating lease ROU asset on the balance sheet. The ROU asset is amortized over the remaining lease term.

In 2017, the Company acquired a land use right from the local Bureau of Land and Resources in Guangzhou for the purpose of constructing and operating the biologics manufacturing facility in Guangzhou. In 2019, the Company acquired a second Guangzhou land use right from the local Bureau of Land and Resources in Guangzhou. Both Guangzhou land use rights are being amortized over the respective terms of the land use rights, which are each 50 years.

In 2018, the Company acquired a second land use right in conjunction with the Innerway asset acquisition (see Note 4). The land use right is being amortized over the term of the land use right, which is 36 years.

Except for the changes to the Company's significant accounting policies related to the adoption of the Lease ASUs, there have been no other material changes to the Company's significant accounting policies as of and for the six months ended June 30, 2019, as compared to the significant accounting policies described in the Annual Report.

2. Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value. Fair value is determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market. Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy, as follows:

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

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in market with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

The Company considers an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and considers an inactive market to be one in which there are infrequent or few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers.

The following tables present the Company's financial assets and liabilities measured and recorded at fair value on a recurring basis using the above input categories as of June 30, 2019 and December 31, 2018:

	Quoted Price in Active Market for Identical Assets (Level 1) US\$' 000	Significant Other Observable Inputs (Level 2) US\$' 000	Significant Unobservable Inputs (Level 3) US\$' 000
As of June 30, 2019			
Short-term investments (Note 5):			
U.S. treasury securities	605,015	—	—
U.S. agency securities	13,788	—	—
Cash equivalents			
U.S. treasury securities	272,945	—	—
Money market funds	100,797	—	—
Total	<u>992,545</u>	<u>—</u>	<u>—</u>

	Quoted Price in Active Market for Identical Assets (Level 1) US\$' 000	Significant Other Observable Inputs (Level 2) US\$' 000	Significant Unobservable Inputs (Level 3) US\$' 000
As of December 31, 2018			
Short-term investments (Note 5):			
U.S. treasury securities	1,068,509	—	—
Cash equivalents			
Money market funds	159,810	—	—
Total	<u>1,228,319</u>	<u>—</u>	<u>—</u>

The Company had no liabilities measured and recorded at fair value on a recurring basis as of June 30, 2019 or December 31, 2018.

3. Research and Development Collaborative Arrangements

To date, the Company's collaboration revenue has consisted of (1) upfront license fees, research and development reimbursement revenue, and research and development services revenue from its collaboration agreement with Celgene Corporation ("Celgene") on the Company's investigational anti-programmed cell death protein 1 ("PD-1") inhibitor, tislelizumab (BGB-A317), and (2) upfront license fees and milestone payments from its collaboration agreement with Merck KGaA, Darmstadt Germany on pamiparib (BGB-290) and lifirafenib (BGB-283).

The Company entered into a mutual agreement with Celgene to terminate the tislelizumab (BGB-A317) collaboration effective June 14, 2019. In connection with the termination, the Company regained full global rights to tislelizumab and received a US\$150,000,000 payment from Celgene. The payment was recognized as other collaboration revenue during the six months ended June 30, 2019, as the Company has no further performance obligations under the collaboration. Upon termination, the Company also recognized the remainder of the deferred revenue balance related to the upfront consideration allocated to research and development services at the time of the original collaboration. The Company's license from Celgene to distribute the approved cancer therapies ABRAXANE® (nanoparticle albumin-bound paclitaxel), REVLIMID® (lenalidomide), and VIDAZA® (azacitidine) in China is not affected by the termination of the tislelizumab collaboration. The collaboration agreement with Merck KGaA was terminated in December 2018.

The following table summarizes total collaboration revenue recognized for the six months ended June 30, 2019 and 2018:

	Six Months Ended June 30,	
	2019	2018
	US\$'000	US\$'000
Reimbursement of research and development costs	27,634	25,730
Research and development service revenue	27,982	4,942
Other	150,000	—
Total	205,616	30,672

For the six months ended June 30, 2019, the Company recognized collaboration revenue of US\$205,616,000. The Company recognized US\$27,634,000 of research and development reimbursement revenue for the six months ended June 30, 2019 for the trials that Celgene opted into through the termination of the collaboration agreement. The US\$27,982,000 of research and development services revenue for the six months ended June 30, 2019, primarily reflect the recognition of the remaining upfront consideration that was allocated to research and development services at the time of the collaboration and recognized over the term of the respective clinical studies for the specified indications. The Company recognized US\$150,000,000 of other collaboration revenue for the six months ended June 30, 2019 related to the payment received from Celgene in connection with the termination of the collaboration agreement.

For the six months ended June 30, 2018, the Company recognized collaboration revenue of US\$30,672,000. The Company recognized US\$25,730,000 of research and development reimbursement revenue for the six months ended June 30, 2018 for the trials that Celgene had opted into. The US\$3,442,000 of research and development services revenue for the six months ended June 30, 2018, reflect the recognition of upfront consideration that was allocated to research and development services at the time of the collaboration and was recognized over the term of the respective clinical studies for the specified indications.

In May 2018, the Company achieved the milestone related to its collaboration agreement with Merck KGaA for dosing patients in the first Phase 3 clinical trial of pamiparib in the PRC Territory, and the related US\$1,500,000 milestone payment was recognized as research and development services revenue for the six months ended June 30, 2018.

BioAtla, LLC

On April 9, 2019, the Company entered into a global co-development and collaboration agreement with BioAtla LLC (“BioAtla”) for the development, manufacturing and commercialization of BioAtla’s investigational CAB-CTLA-4 antibody (BA3071), whereby BioAtla has agreed to co-develop the CAB-CTLA-4 antibody to defined early clinical objectives and the Company has agreed to then lead the parties’ joint efforts to develop the product candidate and be responsible for global regulatory filings and commercialization. Subject to the terms of the agreement, the Company will hold a co-exclusive license with BioAtla to develop and manufacture the product candidate globally and an exclusive license to commercialize the product candidate globally. The Company has agreed to be responsible for all costs of development, manufacturing and commercialization in Asia (excluding Japan), Australia and New Zealand (the “Company Territory”), and the parties have agreed to share development and manufacturing costs and commercial profits and losses upon specified terms in the rest of the world. BioAtla received an upfront payment of US\$20,000,000 and is eligible to receive a milestone payment upon reaching the defined early clinical objectives. BioAtla is also eligible to receive additional payments in subsequent development and regulatory milestones globally and commercial milestones in the Company Territory, together with tiered royalties on sales in the Company Territory.

4. Business Combinations and Asset Acquisitions

BeiGene Pharmaceuticals (Guangzhou) Co., Ltd.

On September 21, 2018, BeiGene (Guangzhou) Co., Ltd. (“BeiGene Guangzhou”) acquired 100% of the equity interests of Baiji Shenzhou (Guangzhou) Pharmaceuticals Co., Ltd. (formerly known as Huajian Pharmaceuticals Co., Ltd.), which subsequently changed its name to BeiGene Pharmaceuticals (Guangzhou) Co., Ltd., a pharmaceutical distribution company, for total cash consideration of US\$612,000, including transaction costs of US\$59,000. The acquisition was concentrated in a single identifiable asset, a drug distribution license, and thus the Company has concluded that the transaction is an asset acquisition as it does not meet the accounting definition of a business combination. The total cost was allocated to the drug distribution license and corresponding deferred tax liability, resulting in an US\$816,000 intangible asset for the license and a deferred tax liability of US\$204,000.

Beijing Innerway Bio-tech Co., Ltd.

On October 4, 2018, BeiGene (Hong Kong) Co., Ltd. (“BeiGene HK”) completed the acquisition of 100% of the equity interest of Beijing Innerway Bio-tech Co., Ltd., the owner of the Company’s research, development and office facility in Changping, Beijing, China, for total cash consideration of US\$38,654,000. The acquisition was concentrated in a single identifiable asset or group of assets, the building and associated land use right, and thus the Company has concluded that the transaction is an asset acquisition as it does not meet the accounting definition of a business combination. The total cost of the transaction of US\$38,865,000, which includes transaction costs of US\$211,000, was allocated based on the relative fair values of the net assets acquired, as follows:

	Amount US\$’000
Land use right	33,783
Building	15,874
Deferred tax liability	(11,221)
Other	429
Total cost	38,865

5. Restricted Cash and Short-term Investments

The Company's restricted cash balance of US\$23,728,000 as of June 30, 2019 primarily consisted of BeiGene Guangzhou Biologics Manufacturing Co., Ltd.'s ("BeiGene Guangzhou Factory's") secured deposits held in designated bank accounts for issuance of letter of credit, and restricted cash deposits as security for the long-term bank loan (Note 15).

Short-term investments as of June 30, 2019 consisted of the following available-for-sale debt securities:

	Amortized Cost US\$' 000	Gross Unrealized Gains US\$' 000	Gross Unrealized Losses US\$' 000	Fair Value (Net Carrying Amount) US\$' 000
U.S. treasury securities	601,824	3,191	—	605,015
U.S. agency securities	13,704	84	—	13,788
Total	615,528	3,275	—	618,803

Short-term investments as of December 31, 2018 consisted of the following available-for-sale debt securities:

	Amortized Cost US\$' 000	Gross Unrealized Gains US\$' 000	Gross Unrealized Losses US\$' 000	Fair Value (Net Carrying Amount) US\$' 000
U.S. treasury securities	1,066,770	1,802	63	1,068,509
Total	1,066,770	1,802	63	1,068,509

The Company does not consider the investment in U.S. treasury securities or U.S. agency securities to be other-than-temporarily impaired at June 30, 2019.

6. Accounts and Unbilled Receivables

	As of June 30, 2019 US\$' 000	December 31, 2018 US\$' 000
Accounts receivable	58,108	41,056
Impairment	—	—
Total	58,108	41,056

The Group's trading terms with its customers are mainly on credit and the credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed. In view of the fact that the Group's accounts receivable substantially relate to a limited number of customers, there is a concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables, based on the invoice date, is as follows:

	As of	
	June 30, 2019 US\$' 000	December 31, 2018 US\$' 000
Within 3 months	58,108	41,056

No allowance for doubtful accounts was recorded as of June 30, 2019 and December 31, 2018, respectively.

Unbilled receivable represented opt-in research and development revenue from Celgene not yet invoiced at June 30, 2019 and December 31, 2018, respectively.

An aging analysis of the unbilled receivable is as follows:

	As of	
	June 30, 2019 US\$' 000	December 31, 2018 US\$' 000
Within 3 months	–	8,612

7. Inventories

The Company's inventory balance of US\$49,048,000 and US\$16,242,000 as of June 30, 2019 and December 31, 2018, respectively, consisted primarily of finished goods product purchased from Celgene for distribution in the PRC. The increase in the inventory balance was mainly due to more purchases of REVLIMID® and VIDAZA® in order to meet the required timing of import into the PRC prior to sale.

8. Property, Plant and Equipment

Property, plant and equipment are recorded at cost and consisted of the following:

	As of	
	June 30, 2019 US\$' 000	December 31, 2018 US\$' 000
Laboratory equipment	26,765	22,636
Leasehold improvements	19,813	18,048
Building	15,860	15,857
Manufacturing equipment	17,481	16,048
Office equipment	3,355	2,216
Electronic equipment	1,503	1,229
Computer software	3,333	1,262
Property, plant and equipment, at cost	88,110	77,296
Less accumulated depreciation	(26,159)	(19,722)
Construction in progress	150,721	99,487
Property, plant and equipment, net	212,672	157,061

As of June 30, 2019 and December 31, 2018, construction in progress of US\$150,721,000 and US\$99,487,000, respectively, primarily related to the buildout of the Guangzhou manufacturing facility. Depreciation expense for the six months ended June 30, 2019 was US\$6,448,000. Depreciation expense for the six months ended June 30, 2018 was US\$4,083,000.

9. Manufacturing Facility in Guangzhou

On March 7, 2017, BeiGene HK, a wholly owned subsidiary of the Company, and Guangzhou GET Technology Development Co., Ltd. (“GET”), entered into a definitive agreement to establish a commercial scale biologics manufacturing facility in Guangzhou, Guangdong Province, PRC.

On March 7, 2017, BeiGene HK and GET entered into an Equity Joint Venture Contract (the “JV Agreement”). Under the terms of the JV Agreement, BeiGene HK made an initial cash capital contribution of RMB200,000,000 and a subsequent contribution of one or more biologics assets in exchange for a 95% equity interest in BeiGene Biologics. GET made a cash capital contribution of RMB100,000,000 to BeiGene Biologics, representing a 5% equity interest in BeiGene Biologics. In addition, on March 7, 2017, BeiGene Biologics entered into a contract with GET, under which GET agreed to provide a RMB900,000,000 loan (the “Shareholder Loan”) to BeiGene Biologics (see Note 16). BeiGene Biologics is working to establish a biologics manufacturing facility in Guangzhou, through a wholly owned subsidiary, the BeiGene Guangzhou Factory, to manufacture biologics for the Company and its subsidiaries.

On April 11, 2017, BeiGene HK, GET and BeiGene Biologics amended the JV Agreement and the capital contribution agreement, among other things, to adjust the capital contribution schedules and adjust the initial term of the governing bodies and a certain management position. On April 13, 2017 and May 4, 2017, BeiGene HK made cash capital contributions of RMB137,830,000 and RMB2,415,000, respectively, into BeiGene Biologics. The remainder of the cash capital contribution from BeiGene HK to BeiGene Biologics will be paid by April 10, 2020. On April 14, 2017, GET made cash capital contributions of RMB100,000,000 into BeiGene Biologics. On April 14, 2017, BeiGene Biologics drew down the Shareholder Loan of RMB900,000,000 from GET (as further described in Note 16).

In the fourth quarter of 2017, BeiGene HK and BeiGene Biologics entered into an Equity Transfer Agreement to transfer 100% of the equity interest of BeiGene Shanghai into BeiGene Biologics. The transfer consideration for the purchased interests under this Equity Transfer Agreement is the fair value of the 100% equity of BeiGene Shanghai appraised by a qualified Chinese valuation firm under the laws of the PRC. Upon the transfer of equity in BeiGene Shanghai, BeiGene HK’s equity interest in BeiGene Shanghai became 95%. As of June 30, 2019, the Company and GET held 95% and 5% equity interests in BeiGene Biologics, respectively.

As of June 30, 2019, the Company’s cash and cash equivalents and restricted cash held by BeiGene Biologics totaled US\$137,053,000 and US\$23,240,000, respectively, to be used to build the commercial scale biologics facility and to fund research and development of the Company’s biologics drug candidates in China.

10. Leases

The Company has operating leases for office and manufacturing facilities in the United States, Switzerland, and China. The leases have remaining lease terms of up to five years, some of which include options to extend the leases that have not been included in the calculation of the Company's lease liabilities and ROU assets. The Company has land use rights which represent land acquired for constructing and operating the biologics manufacturing facility in Guangzhou, and the land acquired for the Company's research, development and office facility in Changping, Beijing. A second Guangzhou land use right was acquired in May 2019 for the Company's research and development activities. The land use rights represent lease prepayments and are expensed over the remaining term of the rights, which is 48 years for the initial Guangzhou land use right, 50 years for the second Guangzhou land use right and 35 years for the Changping land use right. The Company also has certain leases with terms of 12 months or less for certain equipment, office and lab space, which are not recorded to the balance sheet.

The components of lease expense were as follows:

	Six Months Ended June 30, 2019 US\$'000
Operating lease cost	6,522
Variable lease cost	884
Short-term lease cost	386
Total lease cost	7,792

Total expenses under operating leases was US\$3,870,000 for the six months ended June 30, 2018.

Supplemental balance sheet information related to leases was as follows:

	As of June 30, 2019 US\$'000
Operating lease right-of-use assets	26,802
Land use rights, net	47,838
Total operating lease right-of-use assets	74,640
Current portion of operating lease liabilities	9,167
Operating lease liabilities	18,662
Total lease liabilities	27,829

Maturities of operating lease liabilities are as follows (1):

	US\$'000
Six months ending December 31, 2019	5,518
Year ending December 31, 2020	11,251
Year ending December 31, 2021	8,784
Year ending December 31, 2022	4,439
Year ending December 31, 2023	1,445
Thereafter	105
Total lease payments	31,542
Less imputed interest	(3,713)
Present value of lease liabilities	27,829

- (1) As of June 30, 2019, the Company has additional operating leases for office facilities that have not yet commenced of US\$3,605,000. These operating leases will commence during the fiscal year 2019 with lease terms of up to three years.

Other supplemental information related to leases is summarized below:

	Six months Ended June 30, 2019 US\$'000
Operating cash flows used in operating leases	5,730
ROU assets obtained in exchange for new operating lease liabilities	1,917
	As of June 30, 2019
Weighted-average remaining lease term (years)	3
Weighted-average discount rate	7.86%

The undiscounted future minimum payments under non-cancelable operating leases as of December 31, 2018, prior to the adoption of the Lease ASUs was as follows:

	US\$'000
Year ending December 31:	
2019	10,752
2020	9,972
2021	7,805
2022	3,923
2023 and thereafter	1,357
Total	33,809

11. Intangible Assets

Intangible assets as of June 30, 2019 and December 31, 2018 are summarized as follows:

	As of			As of		
	June 30, 2019			December 31, 2018		
	Gross carrying amount US\$' 000	Accumulated amortization US\$' 000	Intangible assets, net US\$' 000	Gross carrying amount US\$' 000	Accumulated amortization US\$' 000	Intangible assets, net US\$' 000
Finite-lived intangible assets:						
Product distribution rights	7,500	(1,375)	6,125	7,500	(1,000)	6,500
Trading license	816	(432)	384	816	(144)	672
Total finite-lived intangible assets	<u>8,316</u>	<u>(1,807)</u>	<u>6,509</u>	<u>8,316</u>	<u>(1,144)</u>	<u>7,172</u>

Product distribution rights consist of distribution rights on the approved cancer therapies licensed from Celgene, ABRAAXANE®, REVLIMID®, and VIDAZA®, and its investigational agent CC-122 acquired as part of the Celgene transaction. The Company is amortizing the product distribution rights over a period of 10 years. The trading license represents the Guangzhou drug distribution license acquired on September 21, 2018. The Company is amortizing the drug distribution trading license over the remainder of the license term through February 2020.

Amortization expense of intangible assets for the six months ended June 30, 2019 was US\$663,000. Amortization expense of intangible assets for the six months ended June 30, 2018 was US\$375,000.

As of June 30, 2019, expected amortization expense for the unamortized finite-lived intangible assets is approximately US\$663,000 for the remainder of 2019, US\$846,000 in 2020, US\$750,000 in 2021, US\$750,000 in 2022, US\$750,000 in 2023, and US\$2,750,000 in 2024 and thereafter.

12. Income Taxes

Income tax expense was US\$2,648,000 for the six months ended June 30, 2019, and income tax benefit was US\$6,780,000 for the six months ended June 30, 2018. The income tax expense for the six months ended June 30, 2019 was primarily attributable to increased income reported in the U.S. and certain China subsidiaries and certain non-deductible expenses, offset by U.S. research and development tax credits, reversal of valuation allowance against deferred tax assets of a China subsidiary, other special tax deductions and the reduced discrete tax benefit of employee stock option exercises. The income tax benefit for the six months ended June 30, 2018 was primarily attributable to U.S. research and development tax credits and the discrete tax benefit of employee stock option exercises.

On a quarterly basis, the Company evaluates the realizability of deferred tax assets by jurisdiction and assesses the need for a valuation allowance. In assessing the realizability of deferred tax assets, the Company considers historical profitability, evaluation of scheduled reversals of deferred tax liabilities, projected future taxable income and tax-planning strategies. Valuation allowances have been provided on deferred tax assets where, based on all available evidence, it was considered more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. After consideration of all positive and negative evidence, the Company believes that as of June 30, 2019, it is more likely than not the deferred tax assets will not be realized for the Company's subsidiaries in Australia and Switzerland, as well as certain subsidiaries in China.

As of June 30, 2019, the Company had gross unrecognized tax benefits of US\$2,870,000. The Company does not anticipate that the amount of existing unrecognized tax benefits will significantly change within the next 12 months. The Company's reserve for uncertain tax positions increased by US\$575,000 in the six months ended June 30, 2019 due to additions related to U.S. federal and state tax credits and incentives.

The Company has elected to record interest and penalties related to income taxes as a component of income tax expense. As of June 30, 2019 and December 31, 2018, the Company's accrued interest and penalties, where applicable, related to uncertain tax positions were not material.

The Company conducts business in a number of tax jurisdictions and, as such, is required to file income tax returns in multiple jurisdictions globally. As of June 30, 2019, Australia tax matters are open to examination for the years 2013 through 2019, China tax matters are open to examination for the years 2013 through 2019 and U.S. federal tax matters are open to examination for years 2015 through 2019. Various U.S. states and other non-US tax jurisdictions in which the Company files tax returns remain open to examination for 2010 through 2019.

13. Supplemental Balance Sheet Information

Prepaid expenses and other current assets consist of the following:

	As of	
	June 30, 2019 US\$' 000	December 31, 2018 US\$' 000
Prepaid research and development costs	68,386	58,673
Prepaid taxes	13,279	10,479
Interest receivable	3,370	3,096
Other	11,171	9,694
Total	<u>96,206</u>	<u>81,942</u>

Other non-current assets consist of the following:

	As of	
	June 30, 2019 US\$' 000	December 31, 2018 US\$' 000
Prepayment of long-term assets	8,179	11,981
Prepayment of facility capacity expansion activities (1)	25,232	25,193
Prepaid VAT	22,936	14,671
Rental deposits and other	3,811	1,823
Total	<u>60,158</u>	<u>53,668</u>

- (1) Represents a payment for a facility expansion under a commercial supply agreement. The payment will be credited back to the Company through credits on supply purchases over the life of the supply agreement.

Accrued expenses and other payables consist of the following:

	As of	
	June 30, 2019 US\$' 000	December 31, 2018 US\$' 000
Compensation related	28,290	35,887
External research and development activities related	46,726	34,588
Commercial activities	11,531	10,433
Individual income tax and other taxes	7,632	8,030
Sales rebates and returns related	2,671	4,749
Professional fees and other	6,211	6,727
Total	<u>103,061</u>	<u>100,414</u>

Other long-term liabilities consist of the following:

	As of	
	June 30, 2019 US\$' 000	December 31, 2018 US\$' 000
Deferred government grant income	37,910	37,851
Other	191	1,080
Total	<u>38,101</u>	<u>38,931</u>

14. Accounts Payable

An aging analysis of the accounts payable as of June 30, 2019 and December 31, 2018, based on the invoice date, is as follows:

	As of	
	June 30, 2019 US\$' 000	December 31, 2018 US\$' 000
Within 1 month	134,971	83,191
1 to 3 months	7,139	18,376
3 to 6 months	2,024	6,186
6 months to 1 year	3,777	4,931
Over 1 year	625	599
Total	<u>148,536</u>	<u>113,283</u>

The accounts payable are non-interest-bearing and repayable within the normal operating cycle or on demand.

15. Long-term Bank Loans

On September 2, 2015, BeiGene (Suzhou) Co., Ltd. (“BeiGene (Suzhou)”) entered into a loan agreement with Suzhou Industrial Park Biotech Development Co., Ltd. and China Construction Bank to borrow RMB120,000,000 at a 7% fixed annual interest rate. The loan is secured by BeiGene (Suzhou)’s equipment with a net carrying amount of US\$15,647,000 and the Company’s rights to a PRC patent on a drug candidate. In September 2018, the Company repaid the first tranche of US\$8,736,000 (RMB60,000,000). The remaining loan principal amount outstanding as of June 30, 2019 of US\$8,740,000 (RMB60,000,000) is repayable on September 30, 2019.

On April 4, 2018, BeiGene Guangzhou Factory entered into a nine-year loan agreement with China Construction Bank to borrow an RMB denominated loan of RMB580,000,000 at a floating interest rate benchmarking RMB loans interest rate of financial institutions in PRC. The loan is secured by BeiGene Guangzhou Factory’s land use right. Interest expense will be paid quarterly until the loan is fully settled. As of June 30, 2019, the Company has fully drawn down US\$84,489,000 (RMB580,000,000) of this loan, of which US\$43,704,000 (RMB300,000,000) was drawn down during the six months ended June 30, 2019. The loan interest rate was 4.9% for the six months ended June 30, 2019, and the maturity dates range from 2021 to 2027.

As of June 30, 2019, the Company has no unused long-term credit availability remaining. Interest expense recognized for the six months ended June 30, 2019 was US\$2,108,000, among which, US\$1,379,000 was capitalized. Interest expense for the six months ended June 30, 2018 was US\$752,000.

The maturity profile of the interest-bearing bank loan is as follows:

	As of	
	June 30, 2019 US\$’000	December 31, 2018 US\$’000
Within one year	8,740	8,727
In the second to third years, inclusive	291	—
In the fourth to fifth years, inclusive	8,450	4,213
Above five years	75,748	36,572
Total	93,229	49,512

16. Shareholder Loan

On March 7, 2017, BeiGene Biologics entered into the Shareholder Loan Contract with GET, pursuant to which GET agreed to provide a Shareholder Loan of RMB900,000,000 to BeiGene Biologics. The Shareholder Loan has a conversion feature, settled in a variable number of shares of common stock upon conversion (the “debt-to-equity conversion”). On April 14, 2017, BeiGene Biologics drew down the entire Shareholder Loan of RMB900,000,000 from GET.

Key features of the Shareholder Loan

The Shareholder Loan bears simple interest at a fixed rate of 8% per annum. No interest payment is due or payable prior to the repayment of the principal or the debt-to-equity conversion. The term of the Shareholder Loan is 72 months, commencing from the actual drawdown date of April 14, 2017 and ending on April 13, 2023, unless converted earlier.

The Shareholder Loan may be repaid or converted, either partially or in full, into an additional mid-single digit percentage equity interest in BeiGene Biologics prior to its maturity date, pursuant to the terms of the JV Agreement. BeiGene Biologics has the right to make early repayment at any time; provided, however, that if repayment is to occur before the debt-to-equity conversion it would require written approval of both BeiGene Biologics and GET. Upon conversion of the shareholder loan, GET will receive an additional equity interest in BeiGene Biologics, which will be based on the formula outlined in the JV Agreement.

The Shareholder Loan can only be used for BeiGene Biologics, including the construction and operation of the biologics manufacturing facility and research and development and clinical trials to be carried out by BeiGene Biologics. If BeiGene Biologics does not use the Shareholder Loan proceeds for the specified purposes, GET may be entitled to certain liquidated damages. In the event of an early termination of the JV Agreement, the Shareholder Loan will become due and payable at the time of termination of the JV Agreement.

Accounting for the Shareholder Loan

The Shareholder Loan is classified as a long-term liability and initially measured at the principal of RMB900,000,000. Interest will be accrued based on the interest rate of 8% per annum. As the Shareholder Loan may be share-settled by a number of shares with a fair value equal to a fixed settlement amount, the settlement is not viewed as a conversion feature, but as a redemption feature because the settlement amount does not vary with the share price. This in-substance redemption feature does not require bifurcation because it is clearly and closely related to the debt host that does not involve a substantial premium or discount. Since there is no conversion feature embedded in the Shareholder Loan, no beneficial conversion feature was recorded. There are no other embedded derivatives that are required to be bifurcated. The portion of interest accrued on the Shareholder Loan related to borrowings used to construct the BeiGene factory in Guangzhou is being capitalized in accordance with ASC 835-20, *Interest – Capitalization of Interest*.

For the six months ended June 30, 2019, total interest expense generated from the Shareholder Loan was US\$5,176,000, among which, US\$1,504,000 was capitalized.

For the six months ended June 30, 2018, total interest expense generated from the Shareholder Loan was US\$5,609,000, among which, US\$1,568,000 was capitalized.

The maturity profile of the Shareholder Loan was as follows:

	As of	
	June 30, 2019 US\$'000	December 31, 2018 US\$'000
In the third to fifth years, inclusive	154,321	148,888

17. Product Revenue

The Company's product sales are derived from the sale of ABRAXANE®, REVLIMID®, and VIDAZA® in China under a distribution license from Celgene. The table below presents the Company's net product sales for the six months ended June 30, 2019 and 2018.

	Six Months Ended June 30,	
	2019	2018
	US\$' 000	US\$' 000
Product revenue – gross	117,269	55,155
Less: Rebates and sales returns	<u>(1,706)</u>	<u>(479)</u>
Product revenue – net	<u><u>115,563</u></u>	<u><u>54,676</u></u>

The following table presents the roll-forward of accrued sales rebates and returns for the six months ended June 30, 2019 and June 30, 2018:

	Sales Rebates and Returns US\$' 000
Balance as of December 31, 2017	3,997
Accrual	479
Payments	<u>(3,789)</u>
Balance as of June 30, 2018	<u><u>687</u></u>
Balance as of December 31, 2018	4,749
Accrual	1,706
Payments	<u>(3,784)</u>
Balance as of June 30, 2019	<u><u>2,671</u></u>

18. Loss before Income Tax Expense

The Group's loss before income tax expense is arrived at after charging/(crediting):

	Six Months Ended June 30,	
	2019	2018
	US\$'000	US\$'000
Cost of inventories sold	33,100	10,806
Depreciation and amortization expense	6,448	4,580
Research and development costs (note)	407,111	273,951
Minimum lease payments under operating leases	–	3,870
Amortization of operating lease right-of-use assets	6,522	–
Amortization of land lease payments	–	122
Amortization of license rights	663	375
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	125,450	66,406
Share-based compensation expenses	58,994	36,037
Pension scheme contributions (defined contribution scheme)	6,762	4,947
	<u>191,206</u>	<u>107,390</u>
Gain on sale of available-for-sale securities	(1,806)	(327)
Foreign exchange differences, net	1,691	3,228
Bank interest income	(11,864)	(8,226)
Loss on disposal of property and equipment	–	2

Note:

During the six months ended June 30, 2019 and 2018, research and development costs of approximately US\$115,072,000 and US\$67,545,000 were also included in employee benefit expense.

19. Loss Per Share

Loss per share was calculated as follows:

	Six Months Ended June 30,	
	2019	2018
	US\$'000	US\$'000
Numerator:		
Net loss attributable to BeiGene, Ltd.	(253,210)	(261,483)
Denominator:		
Weighted average shares outstanding, basic and diluted	<u>776,137,299</u>	<u>684,586,086</u>
Net loss per share attributable to BeiGene, Ltd., basic and diluted	<u>(0.33)</u>	<u>(0.38)</u>

The effects of all share options, restricted shares and restricted share units were excluded from the calculation of diluted loss per share, as their effect would have been anti-dilutive during the six months ended June 30, 2019 and 2018.

20. Share-Based Compensation Expense

2016 Share Option and Incentive Plan

On January 14, 2016, in connection with its U.S. IPO, the board of directors and shareholders of the Company approved the 2016 Share Option and Incentive Plan (the “2016 Plan”), which became effective on February 2, 2016. The Company initially reserved 65,029,595 ordinary shares for the issuance of awards under the 2016 Plan, plus any shares available under the 2011 Option Plan (the “2011 Plan”), and not subject to any outstanding options as of the effective date of the 2016 Plan, along with underlying share awards under the 2011 Plan that are cancelled or forfeited without issuance of ordinary shares. As of June 30, 2019, ordinary shares cancelled or forfeited under the 2011 Plan that were carried over to the 2016 Plan totaled 5,144,371. The 2016 Plan provided for an annual increase in the shares available for issuance, to be added on the first day of each fiscal year, beginning on January 1, 2017, equal to the lesser of (i) five percent (5%) of the outstanding shares of the Company’s ordinary shares on the last day of the immediately preceding fiscal year or (ii) such number of shares determined by the Company’s board of directors or the compensation committee. In August 2018, in connection with the Hong Kong IPO, the board of directors of the Company approved an amended and restated 2016 Plan to remove this “evergreen” provision and implement other changes required by the HKEx rules. In December 2018, the board of directors approved a second amended and restated 2016 Plan to increase the number of shares authorized for issuance by 38,553,159 ordinary shares, as well as amend the cap on annual compensation to independent directors and make other changes. The number of shares available for issuance under the 2016 Plan is subject to adjustment in the event of a share split, share dividend or other change in the Company’s capitalization.

During the six months ended June 30, 2019, the Company granted options for 12,347,790 ordinary shares and restricted share units for 13,169,676 ordinary shares under the 2016 Plan. As of June 30, 2019, options and restricted share units for ordinary shares outstanding under the 2016 Plan totaled 89,824,182 and 20,846,085, respectively.

2018 Inducement Equity Plan

On June 6, 2018, the board of directors of the Company approved the 2018 Inducement Equity Plan (the “2018 Plan”) and reserved 12,000,000 ordinary shares to be used exclusively for grants of awards to individuals that were not previously employees of the Company or its subsidiaries, as a material inducement to the individual’s entry into employment with the Company or its subsidiaries within the meaning of Rule 5635(c)(4) of the NASDAQ Listing Rules. The 2018 Plan was approved by the Board upon recommendation of the compensation committee, without shareholder of the Company approval pursuant to Rule 5635(c)(4) of the NASDAQ Listing Rules. The terms and conditions of the 2018 Plan, and the forms of award agreements to be used thereunder, are substantially similar to the 2016 Plan and the forms of award agreements thereunder. In August 2018, in connection with the listing of the Company’s ordinary shares on the HKEx, the board of directors of the Company approved an amended and restated 2018 Plan to implement changes required by the HKEx rules.

During the six months ended June 30, 2019, the Company did not grant any options or restricted share units under the 2018 Plan. As of June 30, 2019, options and restricted share units for ordinary shares outstanding under the 2018 Plan totaled 79,404 and 3,241,043, respectively.

2018 Employee Share Purchase Plan

On June 6, 2018, the shareholders of the Company approved the 2018 Employee Share Purchase Plan (the “ESPP”). Initially, 3,500,000 ordinary shares of the Company were reserved for issuance under the ESPP. In August 2018, in connection with the Hong Kong IPO, the Board approved an amended and restated ESPP to remove an “evergreen” share replenishment provision originally included in the plan and implement other changes required by the HKEx rules. In December 2018, the shareholders of the Company approved a second amended and restated ESPP to increase the number of shares authorized for issuance by 3,855,315 ordinary shares to 7,355,315 ordinary shares. In June 2019, the Board adopted an amendment to revise the eligibility criteria for enrollment in the plan. The ESPP allows eligible employees to purchase the Company’s ordinary shares (including in the form of ADSs) at the end of each offering period, which will generally be six months, at a 15% discount to the market price of the Company’s ADSs at the beginning or the end of each offering period, whichever is lower, using funds deducted from their payroll during the offering period. Eligible employees are able to authorize payroll deductions of up to 10% of their eligible earnings, subject to applicable limitations.

On February 28, 2019, the Company issued 154,505 ordinary shares to employees for aggregate proceeds of US\$1,385,000. The purchase price of the shares was US\$116.49 per ADS, or US\$8.96 per ordinary share, which was discounted in accordance with the terms of the ESPP from the closing price on NASDAQ on February 28, 2019 of US\$137.05 per ADS, or US\$10.54 per ordinary shares.

The following table summarizes total share-based compensation expense recognized for the six months ended June 30, 2019 and 2018:

	Six Months Ended June 30,	
	2019	2018
	US\$' 000	US\$' 000
Research and development	33,925	22,774
Selling, general and administrative	25,069	13,263
Total	<u>58,994</u>	<u>36,037</u>

21. Accumulated Other Comprehensive Income

The movement of accumulated other comprehensive income was as follows:

	Foreign Currency Translation Adjustments US\$' 000	Unrealized Gains on Available- for-Sale Securities US\$' 000	Total US\$' 000
Balance as of December 31, 2018	(212)	1,738	1,526
Other comprehensive (loss)/income before reclassifications	(3,337)	3,392	55
Amounts reclassified from accumulated other comprehensive income	—	(1,806)	(1,806)
Net-current period other comprehensive (loss)/income	<u>(3,337)</u>	<u>1,586</u>	<u>(1,751)</u>
Balance as of June 30, 2019	<u>(3,549)</u>	<u>3,324</u>	<u>(225)</u>

22. Shareholders' Equity

Follow-on public offerings

On August 8, 2018, the Company completed an initial public offering of its ordinary shares on the Stock Exchange and a follow-on public offering on the NASDAQ Global Select Market under the Company's effective Registration Statement on Form S-3 at a price of US\$13.76 per ordinary share, or US\$178.90 per ADS. In this offering, the Company sold 65,600,000 ordinary shares. Net proceeds after deducting underwriting discounts and commissions and offering expenses were US\$869,709,000.

On January 22, 2018, the Company completed a follow-on public offering under the Company's effective Registration Statement on Form S-3 at a price of US\$101.00 per ADS, or US\$7.77 per ordinary share. In this offering, the Company sold 7,425,750 ADSs representing 96,534,750 ordinary shares. Additionally, the underwriters exercised their option to purchase an additional 495,050 ADSs representing 6,435,650 ordinary shares from the Company. Net proceeds from this offering, including the underwriter option, after deducting the underwriting discounts and offering expenses were US\$757,587,000.

23. Restricted Net Assets

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

In accordance with the company law of the PRC, a domestic enterprise is required to provide statutory reserves of at least 10% of its annual after-tax profit until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. A domestic enterprise is also required to provide discretionary surplus reserve, at the discretion of the Board, from the profits determined in accordance with the enterprise's PRC statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. The Company's PRC subsidiaries were established as domestic invested enterprises and therefore were subject to the above-mentioned restrictions on distributable profits.

During the six months ended June 30, 2019 and 2018, no appropriation to statutory reserves was made because the PRC subsidiaries had substantial losses during such periods.

As a result of these PRC laws and regulations, including the requirement to make annual appropriations of at least 10% of after-tax income and set aside as general reserve fund prior to payment of dividends, the Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company.

Foreign exchange and other regulation in the PRC may further restrict the Company's PRC subsidiaries from transferring funds to the Company in the form of dividends, loans and advances. As of June 30, 2019 and December 31, 2018, amounts restricted were the net assets of the Company's PRC subsidiaries, which amounted to US\$113,248,000 and US\$93,281,000, respectively.

24. Commitments and Contingencies

Purchase Commitments

As of June 30, 2019, the Company had purchase commitments amounting to US\$134,897,000 related to minimum purchase requirements for inventory purchased from Celgene and contract manufacturing organizations.

Capital Commitments

The Company had capital commitments amounting to US\$16,222,000 for the acquisition of property, plant and equipment as of June 30, 2019, which were mainly for BeiGene Guangzhou Factory's manufacturing facility in Guangzhou, China.

25. Related Party Transactions

(a) The Group had the following related party transactions for the six months ended June 30, 2019 and 2018:

Xiaodong Wang, Chairman of Scientific Advisory Board, director and shareholder, provided consulting service to the Group, and the compensation received by Dr. Wang for consulting service for the six months ended June 30, 2019 and 2018 consisted of (i) US\$50,000 (six months ended June 30, 2018: US\$50,000) in consulting fees, (ii) US\$75,000 (six months ended June 30, 2018: US\$75,000) as a performance-based cash bonus, (iii) share-based compensation for options and RSUs of US\$2,169,000 (six months ended June 30, 2018: US\$2,503,000).

(b) Compensation of key management personnel of the Group:

	Six Months Ended June 30,	
	2019	2018
	US\$' 000	US\$' 000
Short term employee benefits	2,065	2,090
Post-employment benefits	44	40
Share-based compensation expenses	11,905	11,206
Total compensation paid to key management personnel	14,014	13,336

26. Segment and Geographic Information

The Company operates in one segment. The Company's long-lived assets are substantially located in the PRC. Net product revenues by geographic area are based upon the location of the customer, and net collaboration revenue is recorded in the jurisdiction in which the related income is expected to be sourced from. Total net revenues by geographic area are presented as follows:

	Six Months Ended June 30,	
	2019	2018
	US\$' 000	US\$' 000
PRC	115,563	56,176
United States	133,650	18,962
Other	71,966	10,210
Total	321,179	85,348

27. Reconciliation between U.S. GAAP and International Financial Reporting Standards

The consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from International Financial Reporting Standards (“IFRSs”). The effects of material differences between the financial information of the Group prepared under U.S. GAAP and IFRSs are as follows:

Consolidated statement of operations data	Six months ended June 30, 2019			Amounts under IFRSs US\$' 000
	Amounts as reported under U.S. GAAP US\$' 000	IFRSs adjustments		
		US\$' 000	US\$' 000	
		Share-based compensation (note (i))	Tax benefit/ deficiency on share-based compensation (note (iii))	
Research and development	(407,111)	(21,202)	–	(428,313)
Selling, general and administrative	(139,893)	(2,510)	–	(142,403)
Loss before income tax expense	(251,375)	(23,712)	–	(275,087)
Income tax expense	(2,648)	–	(2,665)	(5,313)
Net loss	(254,023)	(23,712)	(2,665)	(280,400)
Net loss attributable to BeiGene, Ltd.	(253,210)	(23,712)	(2,665)	(279,587)
Consolidated statement of operations data	Six months ended June 30, 2018			Amounts under IFRSs US\$' 000
	Amounts as reported under U.S. GAAP US\$' 000	IFRSs adjustments		
		US\$' 000	US\$' 000	
		Share-based compensation (note (i))	Tax benefit/ deficiency on share-based compensation (note (iii))	
Research and development	(273,951)	(14,228)	–	(288,179)
Selling, general and administrative	(74,075)	(8,644)	–	(82,719)
Loss before income tax expense	(269,611)	(22,872)	–	(292,483)
Income tax benefit (expense)	6,780	–	(6,810)	(30)
Net loss	(262,831)	(22,872)	(6,810)	(292,513)
Net loss attributable to BeiGene, Ltd.	(261,483)	(22,872)	(6,810)	(291,165)

As of June 30, 2019				
Consolidated balance sheet data	Amounts as reported under U.S. GAAP US\$'000	US\$'000	IFRSs adjustments US\$'000	Amounts under IFRSs US\$'000
		Share-based compensation (note (i))	Preferred Shares (note (ii))	US\$'000 Tax benefit/deficiency on share-based compensation (note (iii))
Deferred tax assets	31,389	6,876*	—	8,617*
Total assets	<u>2,150,318</u>	<u>6,876</u>	<u>—</u>	<u>8,617</u>
Additional paid-in capital	2,814,449	23,712	—	2,665
		75,501*	307,894*	27,054*
Accumulated deficit	(1,260,425)	(23,712)	—	(2,665)
		(68,625)*	(307,894)*	(18,437)*
Total equity	<u>1,571,264</u>	<u>6,876</u>	<u>—</u>	<u>8,617</u>

* IFRSs adjustments brought forward from December 31, 2018

As of December 31, 2018				
Consolidated balance sheet data	Amounts as reported under U.S. GAAP US\$'000	US\$'000	IFRSs adjustments US\$'000	Amounts under IFRSs US\$'000
		Share-based compensation (note (i))	Preferred Shares (note (ii))	US\$'000 Tax benefit/deficiency on share-based compensation (note (iii))
Deferred tax assets	29,542	1,692	—	—
		5,184*	—	8,617*
Total assets	<u>2,249,684</u>	<u>6,876</u>	<u>—</u>	<u>8,617</u>
Additional paid-in capital	2,744,814	29,454	307,894*	16,371
		46,047*	—	10,683*
Accumulated deficit	(1,007,215)	(29,454)	(307,894)*	(16,371)
		1,692	—	(2,066)*
		(38)	—	—
		(40,825)*	—	—
Noncontrolling interest	14,445	38	—	—
		(38)*	—	—
Total equity	<u>1,753,647</u>	<u>6,876</u>	<u>—</u>	<u>8,617</u>

* IFRSs adjustments brought forward from December 31, 2017

Notes:

(i) *Share-based compensation*

Under U.S. GAAP, the Group has elected to recognize compensation expense using the straight-line method for all employee equity awards granted with graded vesting based on service conditions provided that the amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the options that are vested at that date.

Under IFRSs, the accelerated method is required to recognize compensation expense for all employee equity awards granted with graded vesting.

A difference of US\$23,712,000 arose between the amount of share-based compensation (included in research and development expenses, and selling, general and administrative expenses) recognized in the statement of operations and additional paid-in capital under U.S. GAAP and IFRSs for the six months ended June 30, 2019 (six months ended June 30, 2018: US\$22,872,000). Related income tax impact under IFRSs was nil for the six months ended June 30, 2019 and 2018 because no additional deferred tax asset can be recognized during the period under IFRSs, after taking into account the extent of future available taxable profit against which the related tax deduction can be utilized.

The accumulated difference on share-based compensation recognized in expenses and additional paid-in capital under U.S. GAAP and IFRSs was US\$75,501,000, the related income tax impact on above differences was US\$6,876,000, and net impact on the accumulated deficit was US\$68,625,000 as of December 31, 2018. The differences as of December 31, 2018 were all carried forward as opening IFRSs adjustments to the balance sheet as of January 1, 2019.

(ii) *Preferred Shares*

Prior to the Company's US IPO, the Company had Preferred Shares, which were converted into ordinary shares at the time of the US IPO. Under U.S. GAAP, the Preferred Shares issued by the Company were classified as mezzanine equity as these convertible preferred shares were redeemable upon the occurrence of a conditional event (i.e., Liquidation Transaction). The holders of the Preferred Shares had liquidation preference upon the occurrence of the conditional event. The conversion options and contingent redemption options of the convertible preferred shares did not qualify for bifurcation accounting because the conversion options were clearly and closely related to the host instrument and the underlying ordinary shares of the conversion options and redemption options were not publicly traded nor readily convertible into cash. No beneficial conversion features were recognized for the convertible preferred shares as the fair values per ordinary share at the respective commitment dates were less than the most favorable conversion prices. The Company concluded that the Preferred Shares were not currently redeemable, and it was not probable that the Preferred Shares would become redeemable, at the time. Therefore, it was determined that no adjustment was to be made to the initial carrying amount of the Preferred Shares until it was probable that they would become redeemable.

Under IFRSs, the Preferred Shares were regarded as a hybrid instrument consisting of a host debt instrument and a conversion option as a derivative. This was the result of certain redemption triggering events of the Preferred Shares being outside the control of the ordinary shareholders of the Company. In addition, the holders of the Preferred Shares were entitled to convert the Preferred Shares into a variable number of the Company's ordinary shares upon occurrence of certain anti-dilution events. Under IFRSs, the Company initially recorded all of the Preferred Shares as financial liabilities at fair value, with subsequent changes in the amount of the fair value of the Preferred Shares recognized in the statement of operations in the year in which they arose. Hence, all the fair value changes in the Preferred Shares of US\$307,894,000 prior to the conversion into the Company's ordinary shares in February 2016 was recognized in the statement of operations under IFRSs, and the cumulative effect of such fair value changes was recognized in the additional paid in capital account upon the conversion of the Preferred Shares into the ordinary shares. The effect of such IFRSs adjustments on accumulated deficit and additional paid-in capital was US\$307,894,000, which was all carried forward to opening balance sheets of subsequent financial years/periods.

(iii) Tax benefit/deficiency on share-based compensation

Under U.S. GAAP, deferred taxes are calculated based on the cumulative share-based compensation expense recognized in the financial statements, and ASC 2016-09 required all excess tax benefits and tax deficiencies to be recorded as income tax expense or benefit in the statement of operations, rather than in shareholders' equity.

Under IFRSs, deferred taxes are calculated based on the estimated tax deduction determined at each reporting date. If the tax deduction exceeds cumulative compensation cost for an individual award, deferred tax based on the excess is credited to shareholders' equity. If the tax deduction is less than or equal to cumulative compensation cost for an individual award, deferred taxes are recorded in the statement of operations.

A difference on deferred tax asset for tax benefit on share-based compensation recognized under U.S. GAAP and IFRSs was US\$8,617,000 as of June 30, 2019. The difference was recognized in equity under IFRSs, and was determined to the extent of future available taxable profit against which the estimated additional tax deduction as of June 30, 2019 can be utilized. In addition, the income tax benefit on excess tax deductions of US\$2,665,000 for the six months ended June 30, 2019 (six months ended June 30, 2018: US\$6,810,000) was recognized in equity under IFRSs, rather than in the statement of operations under U.S. GAAP.

The accumulated difference of US\$8,617,000 recognized in deferred tax assets and the excess tax deduction of US\$18,437,000 recognized in equity amounted to US\$27,054,000 as of December 31, 2018, and are carried forward as opening adjustments to the balance sheet as of January 1, 2019 under IFRSs.

(iv) Lease

The Group adopted the new lease standard effective on January 1, 2019 using the modified retrospective method and did not restate historical comparative periods under U.S. GAAP. As a lessee, the Group recognized a lease liability based on the present value of the total remaining lease payments, and a corresponding right of use asset under U.S. GAAP. The Group subsequently recognize an operating lease expense on straight line basis over the lease term.

IFRS 16: Lease requires entities to present interest expense on the lease liability and depreciation on the right of use assets separately in the statement of operations. This will change the allocation of expenses and the total amount of expenses recognized for each period of the lease term. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease terms, and a decreasing expense during the latter years of the lease terms.

Based on the Group's assessment, the differences on lease recognized under U.S. GAAP and IFRSs did not have material impact on unaudited interim condensed financial statements as of June 30, 2019 and for the six months ended June 30, 2019.

The reconciliation between U.S. GAAP and IFRSs as disclosed in this note to the financial statements were reviewed by the Company's auditor, Ernst & Young, under Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. Further details of such review by Ernst & Young are disclosed in the Company's interim report for the six months ended June 30, 2019 which will be despatched to the Company's shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

28. Interim Dividend

The Board of the Company did not recommend the distribution of any interim dividend for the six months ended June 30, 2019 (six months ended June 30, 2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are a commercial-stage biotechnology company focused on developing and commercializing innovative molecularly targeted and immuno-oncology drugs for the treatment of cancer. Our internally developed lead drug candidates are currently in late-stage clinical trials. These candidates are (1) zanubrutinib (BGB-3111), a potentially best-in-class investigational small molecule inhibitor of Bruton's tyrosine kinase, or BTK, (2) tislelizumab (BGB-A317), an investigational humanized monoclonal antibody against the immune checkpoint receptor programmed cell death protein 1 (PD-1), and (3) pamiparib (BGB-290), an investigational small molecule inhibitor of the poly ADP-ribose polymerase 1 (PARP1) and PARP2 enzymes (our **"Core Product Candidates"**). All three of these drug candidates are currently in Phase 2 or 3 pivotal trials globally and/or in China, and we filed for regulatory approvals in China in 2018 for zanubrutinib in relapsed/refractory (R/R) mantle cell lymphoma (MCL) and in R/R chronic lymphocytic leukemia (CLL) or R/R small lymphocytic lymphoma (SLL); and for tislelizumab in R/R classical Hodgkin's Lymphoma (cHL) and patients with previously treated locally advanced or metastatic urothelial carcinoma (UC). We also have additional drug candidates in earlier stage clinical development.

We started as a research and development company in Beijing in 2010, focusing on developing best-in-class oncology drugs. Over the last nine years, we have developed into a fully integrated global biotechnology company with operations in China, the United States, Europe and Australia, including a more than 1,000-person global clinical development team running over 50 ongoing or planned clinical trials as of June 30, 2019. We also have a growing commercial team that is selling our existing in-licensed drugs in China and preparing for launches of our internally developed drug candidates in China and the United States, as well as internal manufacturing capabilities in China that are operational or under construction for the clinical and commercial supply of our small molecule and biologic drug candidates.

Recent Developments

Recent Business Developments

On August 21, 2019, we announced that the U.S. Food and Drug Administration ("FDA") had accepted the Company's new drug application ("NDA") for zanubrutinib for the treatment of patients with mantle cell lymphoma (MCL) who have received at least one prior therapy. The FDA granted priority review for the NDA and has set a Prescription Drug User Fee Act (PDUFA) target action date of February 27, 2020. This follows the FDA's Breakthrough Therapy designation for zanubrutinib in this setting earlier this year.

On July 7, 2019, we announced that the China National Medical Products Administration (NMPA, formerly known as the CFDA) had granted priority review status to the supplemental new drug application (sNDA) for tislelizumab for patients with previously treated locally advanced or metastatic urothelial carcinoma (UC).

On June 18, 2019, we and SpringWorks Therapeutics, Inc. ("SpringWorks") jointly announced the formation of MapKure, LLC ("MapKure"), a newly created entity that is jointly owned by our Company and SpringWorks. MapKure intends to develop BGB-3245, an investigational, oral, selective small molecule inhibitor of monomer and dimer forms of activating B-RAF mutations including V600 BRAF mutations, non-V600 B-RAF mutations, and RAF fusions. Under the terms of the arrangement, SpringWorks made an equity investment into MapKure and we contributed an exclusive royalty and milestone-bearing license to develop and commercialize BGB-3245 outside of Asia, but including rights to Japan, in exchange for a majority ownership position in MapKure. We consolidate MapKure under the voting model and recognize SpringWorks' interest as a noncontrolling interest in our condensed consolidated financial statements.

On June 17, 2019, we announced that we had entered into an agreement with Celgene to mutually terminate the parties' Amended and Restated Exclusive License and Collaboration Agreement, dated August 31, 2017, pursuant to which we had granted an exclusive license to Celgene to develop and commercialize tislelizumab for solid tumors in the United States, Europe, Japan and the rest of the world other than Asia. In connection with the termination, Celgene paid US\$150.0 million to us and we regained the full global development and commercialization rights to tislelizumab. Our exclusive license from Celgene to distribute and promote ABRAXANE®, REVLIMID®, and VIDAZA® in China is not affected by the termination of the tislelizumab agreement.

On May 30, 2019, we announced that the NMPA had accepted a supplemental import drug application for ABRAXANE® in combination with gemcitabine, as a potential first-line treatment of patients with metastatic adenocarcinoma of the pancreas (mPC).

Recent Regulatory Developments

PRC Drug Regulation

On August 26, 2019, the National People's Congress published the Drug Administration Law of the PRC (the "DAL"), which will come into force on December 1, 2019. The DAL embodies an expected regulatory trend to strengthen the life-cycle management of drugs, to balance the development of innovative drugs and generic drugs, and to enhance drug review and enforcement force. It also reflects the legislative efforts to addressing prominent problems of the pharmaceutical industry, such as counterfeit and substandard drugs and high drug prices.

The DAL contains a dedicated chapter on the Marketing Authorization Holder ("MAH") system. The MAH system has been trialed in a pilot program across 10 provinces since 2016. Upon the enactment of the DAL, the MAH system will no longer be a pilot system but will be implemented nationwide. Subject to approval by NMPA, MAHs will be allowed to transfer their marketing authorizations. In addition, the implementation of the MAH system will be accompanied by a range of new requirements for MAH. For example, the MAH must establish a quality assurance system and be responsible for the whole process and all aspects of preclinical research, clinical trials, manufacturing and distribution, post-marketing research, adverse drug reaction monitoring and reporting. For foreign MAH, a domestic entity must be designated to fulfill the MAH's obligations and the foreign MAH shall be subject to joint and several liabilities in the event of any wrongdoing.

The DAL also requires MAHs, manufacturers, distributors, and medical institutions to establish and implement drug track and trace systems. The NMPA will issue related standards and regulations regarding drug track and trace system. A drug pharmacovigilance system will also be established to monitor, identify, evaluate and control the adverse drug reaction and other possible drug-related problems.

The DAL also significantly increases and expands penalties for violations. Depending on various types of violations, the DAL imposes different applicable penalties including warnings, confiscation of illegal gains, fines up to RMB5 million (about US\$725,000) or up to 30 times of illegal gains, revocation of required business and operating licenses, certificates or approval documents for drugs, suspension of business, temporary (10 years) or permanent debarment of companies, institutions and responsible persons and criminal liabilities in case of serious violations.

There are still uncertainties with respect to the interpretation and implementation of the DAL. We will closely monitor the implementation of the DAL and carefully review our operations in China.

Human Genetic Resources Regulation

On June 10, 2019, China's State Council promulgated the Regulation on the Administration of Human Genetic Resources (the "HGR Regulation"), which became effective on July 1, 2019. The HGR Regulation applies to all human genetic resources ("HGR")-related activities, including sampling, biobanking, use of HGR materials and associated data, in China, and provision of such to foreign parties.

According to the HGR Regulation, foreign parties (including foreign entities and entities established or actually controlled by foreign entities and individuals) seeking access to China's HGRs for scientific research, including clinical trials intended to support marketing approval of drugs and medical devices in China, must do so only through collaborations with Chinese parties. The HGR Regulation now prohibits foreign parties from independently sampling or biobanking any China HGR in China and it adds an approval requirement for the sampling of certain HGR and biobanking of all HGR by Chinese parties. Any cross-border transfer of the HGRs under an international collaboration requires approval.

Another significant change is the HGR Regulation replaced the advance approval requirement with a record-filing procedure for international collaborations on clinical trials intended to support marketing approval of drugs in China that do not transfer HGR materials abroad, though the advance approval requirement still applies to studies involving the export of HGR materials. However, it is unclear how this record-filing procedure will be implemented in practice and to what extent companies will benefit from it.

The HGR Regulation retains the provision in the Interim Measures for the Administration of Human Genetic Resources issued in 1998 (the "Interim Measures") that parties should jointly apply for and own the patent rights arising from the results generated from international collaborations that utilize China HGR. The parties may contractually agree on how to dispose of their patent rights. However, the joint ownership requirement is still broad and it is unclear how this requirement will be implemented in practice.

It also significantly increases and expands penalties for various violations of the HGR Regulation, including warnings, disgorgement of illegal gains, confiscation of illegal HGR, fines up to RMB10 million (about US\$1,450,000) or 5-10 times of illegal gains in the event such illegal gains exceed RMB1 million (about US\$145,000), and temporary (1-5 years) or permanent debarment of companies, institutions and responsible persons from further HGR projects.

As uncertainties exist as to how the HGR Regulation may be interpreted and implemented, we are still evaluating its potential impact on our HGR related activities and practices. We expect that HGR-related activities will receive greater attention and focus from regulators going forward.

FUTURE AND OUTLOOK

Our mission is to become a global leader in the discovery, development and commercialization of innovative therapies. In the near term, we plan to focus on pursuing what we believe are the following significant opportunities:

- **Globally Develop and Commercialize Zanubrutinib, a Potentially Best-in-Class BTK Inhibitor.** Zanubrutinib is an investigational small molecule inhibitor of BTK that is currently being evaluated both as a monotherapy and in combination with other therapies to treat various lymphomas. Our clinical experience to date suggests a potentially best-in-class profile. To pursue this opportunity, we are conducting a broad pivotal clinical program globally and in China. We have submitted for approval in China for two indications based on single-arm Phase 2 clinical trials in patients with R/R CLL/SLL and R/R MCL. Both applications have been accepted and are being reviewed under priority review status. We expect to receive approvals in China for the treatment of patients with R/R MCL and R/R CLL/SLL in the first half of 2020. The Company expects manufacturing inspections to occur after the completion of the technical reviews. Non-clinical and chemistry, manufacturing and controls (CMC) supplemental information was requested and has been provided. In addition, we are conducting three global Phase 3 trials: head-to-head against ibrutinib, an approved BTK inhibitor, for patients with Waldenström's Macroglobulinemia (WM) called ASPEN; against bendamustine plus rituximab for patients with treatment naïve (TN), CLL/SLL called SEQUOIA; and head-to-head against ibrutinib for patients with R/R CLL/SLL called ALPINE. Further, we are conducting a global pivotal Phase 2 trial in combination with obinutuzumab in follicular lymphoma (FL), a pivotal Phase 2 trial in China in WM, and we have recently begun a global study in R/R marginal zone lymphoma (MZL). The U.S. FDA has accepted the Company's NDA for zanubrutinib for the treatment of patients with mantle cell lymphoma (MCL) who have received at least one prior therapy and has granted priority review for the NDA. This follows the FDA's Breakthrough Therapy designation for zanubrutinib in this setting earlier this year. This is the Company's first NDA in the United States. Zanubrutinib has also been granted Fast Track status for patients with WM in the United States. We also plan to file an NDA in China for patients with WM.
- **Develop and Commercialize Our Investigational Checkpoint Inhibitor, Tislelizumab, in a Rapidly and Favorably Evolving China Market and Other Markets.** We believe that there is a large and growing opportunity for novel cancer therapeutics in China and that the market opportunity for PD-1/PD-L1 antibody therapies may be especially attractive, as this class of agents has demonstrated anti-tumor activity in all four of the most common tumors in China: lung cancer, gastric cancer (GC), liver cancer, esophageal cancer (EC), as well as in Hodgkin's lymphoma, urothelial carcinoma (UC) and nasopharyngeal cancer. We believe that we are uniquely positioned to capture this opportunity with our strong presence and experience in China and our integrated global clinical development capabilities in China and other Asia-Pacific countries, the United States, Europe and Australia. We have submitted an NDA in China to market tislelizumab for the treatment of patients with R/R cHL, and the application has been accepted and is being reviewed under priority review status. We expect to receive NDA approval in China for treatment of patients with R/R cHL in 2019. We also filed an sNDA in China for patients with previously treated locally-advanced or metastatic UC and the sNDA has been granted priority review status from NMPA. We are currently running 15 registration or potentially registration-enabling trials in eight tumor types and expect to commence additional global pivotal trials in 2019 and 2020. We have additional earlier stage exploratory studies ongoing, and we plan to initiate other studies.

- **Establish a Leadership Position by Further Expanding Our Capabilities.** Although we believe that we have significant integrated capabilities in research and clinical development, manufacturing and commercialization, we plan to continue to strengthen and expand our operations. In particular, we plan to significantly expand our commercial capabilities in China in preparation for the potential launch of our drug candidates and to support our existing marketed drugs. We have an established commercial team in China, which provides coverage of large hospitals and physician clients. As a result of the improving reimbursement environment in China, which is expected to provide access to innovative medicines for a significantly larger number of patients, we believe that the scale of our commercial organization and the breadth of our market coverage will become even more important. We plan to invest in expanding our teams of sales and marketing, market access, medical affairs, compliance, manufacturing, and other supporting functions. We aim to become a leading organization in the commercialization of oncology drugs in China. Outside of China, we are currently building commercial capabilities in the hematology-oncology area in the United States. In addition, we plan to continue to invest in building our global clinical development capabilities, which we believe will provide a competitive advantage in allowing us to conduct pivotal trials to support approvals globally and in China.
- **Take Advantage of Significant Regulatory Reforms in China to Accelerate Global Drug Development.** Historically, the regulatory environment in China has been considered highly challenging, with clinical development significantly delayed and regulatory approvals taking much longer than in the United States and Europe. To address these challenges, the National Medical Products Administration (NMPA) has issued a series of reform policies and opinions, which, among many things, are expected to expand access to clinical patients and expedite development and approval by removing delays and creating an environment with international quality standards for drug development, manufacturing and commercialization in China. We expect that these regulatory reforms will allow clinical trials in China to play a major role in global drug development programs. We also believe that the ability to effectively operate in China and integrate trials conducted in China with those in the rest of the world will be of increasing strategic importance. We are already taking advantage of these opportunities by conducting and leading dual-purpose global/China registration trials.
- **Expand Our Product Portfolio and Pipeline Through Collaborations with Other Biopharmaceutical Companies to Complement Our Internal Research.** We expect to further expand our portfolio of drugs and drug candidates, in oncology as well as potentially in other therapeutic areas, through internal research and external collaborations, such as our collaborations with Celgene Corporation (Celgene), Mirati Therapeutics, Inc. (Mirati), Zymeworks Inc. (Zymeworks), BioAtla LLC (BioAtla), Ambrx, Inc (Ambrx), SpringWorks Therapeutics (SpringWorks) and MEI Pharma (MEI). We intend to pursue collaborations with other biopharmaceutical companies both in China and globally by leveraging our strong clinical development capabilities globally and our commercial capabilities in China. We have pursued and plan to continue to pursue business development opportunities in which development in China is expected to contribute to, and potentially accelerate, the global development program. We believe that there will be increasing interest by international biopharmaceutical companies in seeking collaborations in Asia, particularly in oncology, because clinical recruitment is a major bottleneck in new drug development.

Components of Operating Results

Revenue

To date, our revenue has consisted of product sales revenue since September 2017 and upfront license fees, reimbursed research and development expenses and other collaboration revenue from our strategic collaborations with Celgene for tislelizumab entered in 2017 and terminated in June 2019 and upfront license fees and milestone payments from a prior collaboration agreement with Merck KGaA, Darmstadt Germany. We do not expect to generate significant revenue from internally developed drug candidates unless and until we successfully complete development and obtain regulatory approval for one or more of our drug candidates, which is subject to significant uncertainty.

Revenues from product sales are recognized when there is a transfer of control from the Company to the distributor. The Company determines transfer of control based on when the product is delivered, and title passes to the distributor. Revenues from product sales are recognized net of variable consideration resulting from rebate accruals and sales returns allowances. Provisions for estimated reductions to revenue are provided for in the same period the related sales are recorded and are based on the sales terms, historical experience and trend analysis. We expect revenue from product sales to increase in 2019 as we expand our efforts to promote and obtain reimbursement for ABRAXANE® and REVLIMID® and launch VIDAZA® in China.

We also recorded revenue from our collaboration and license agreement with Celgene for tislelizumab, which was terminated in June 2019. Under this agreement, we received an upfront payment related to the license fee, which was recognized upon the delivery of the license right. Additionally, the reimbursement of remaining undelivered research and development services was recognized over the performance period of the collaboration arrangement. We recognized the remainder of the deferred research and development services revenue balance upon termination of the collaboration agreement. We also received research and development reimbursement revenue for the basket study trials that Celgene opted into through the termination of the collaboration agreement. Pursuant to the terms of the termination agreement, we received a one-time payment of US\$150 million. The entire payment was recognized in the period the termination occurred, as we had no further performance obligations under the collaboration. See Note 3 to our condensed consolidated financial statements included in this announcement for a description of this agreement.

Expenses

Cost of Sales

Cost of sales includes the acquisition costs of our commercial products.

Research and Development Expenses

Research and development expenses consist of the costs associated with our research and development activities, conducting preclinical studies and clinical trials and activities related to regulatory filings. Our research and development expenses consist of:

- expenses incurred under agreements with contract research organizations (“CROs”), contract manufacturing organizations, and consultants that conduct and support clinical trials and preclinical studies;

- costs of comparator drugs in certain of our clinical trials;
- manufacturing costs related to pre-commercial activities;
- costs associated with preclinical activities and development activities;
- costs associated with regulatory operations;
- employee-related expenses, including salaries, benefits, travel and share-based compensation expense for research and development personnel;
- in-process research and development costs expensed as part of collaboration agreements entered into; and
- other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance and other supplies used in research and development activities.

Our current research and development activities mainly relate to the clinical advancement of our internally developed and in-licensed drug candidates:

- zanubrutinib, an investigational small molecule inhibitor of BTK;
- tislelizumab, an investigational humanized monoclonal antibody against PD-1;
- pamiparib, an investigational small molecule inhibitor of PARP1 and PARP2;
- lifirafenib, a novel small molecule inhibitor of both the monomer and dimer forms of BRAF;
- BGB-A333, an investigational humanized monoclonal antibody against PD-L1; and
- BGB-A425, an investigational humanized monoclonal antibody against TIM-3.

Research and development activities also include costs associated with in-licensed drug candidates, including:

- sitravatinib, an investigational, spectrum-selective kinase inhibitor in clinical development by Mirati Therapeutics, Inc.; and
- ZW25 and ZW49, two bispecific antibody-based product candidates targeting HER2, under development by Zymeworks, Inc.

We expense research and development costs when we incur them. We record costs for certain development activities, such as clinical trials, based on an evaluation of the progress to completion of specific tasks using data such as subject enrollment, clinical site activations or information our vendors provide to us. We expense the manufacturing costs of our internally developed products that are used in clinical trials as they are incurred, as research and development expense. We do not allocate employee-related costs, depreciation, rental and other indirect costs to specific research and development programs because these costs are deployed across multiple product programs under research and development and, as such, are separately classified as unallocated research and development expenses.

At this time, it is difficult to estimate or know for certain, the nature, timing and estimated costs of the efforts that will be necessary to complete the development of our internally developed drug candidates. We are also unable to predict when, if ever, material net cash inflows will commence from sales of our internally developed drug candidates. This is due to the numerous risks and uncertainties associated with developing such drug candidates, including the uncertainty of:

- successful enrollment in and completion of clinical trials;
- establishing an appropriate safety profile;
- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- receipt of marketing approvals from applicable regulatory authorities;
- successfully launching and commercializing our drug candidates, if and when approved, whether as monotherapies or in combination with our internally discovered drug candidates or third-party products;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our drug candidates;
- continued acceptable safety profiles of the products following approval;
- competition from competing products; and
- retention of key personnel.

A change in the outcome of any of these variables with respect to the development of any of our drug candidates would significantly change the costs, timing and viability associated with the development of that drug candidate.

Research and development activities are central to our business model. We expect research and development costs to increase in the near future as our development programs progress, as we continue to support the clinical trials of our drug candidates as treatments for various cancers and as we move our drug candidates into additional clinical trials, including potential pivotal trials. There are numerous factors associated with the successful commercialization of any of our drug candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development. Additionally, future commercial and regulatory factors beyond our control may impact our clinical development and commercial programs and plans.

Cautionary Statement required by Rule 18A.08(3) of the Listing Rules: We may not be able to ultimately develop and market any of our Core Product Candidates successfully.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of product promotion costs, distribution costs, salaries and related benefit costs, including share-based compensation for selling, general and administrative personnel. Other selling, general and administrative expenses include professional fees for legal, consulting, auditing and tax services as well as other direct and allocated expenses for rent and maintenance of facilities, travel costs, insurance and other supplies used in selling, general and administrative activities. We anticipate that our selling, general and administrative expenses will increase in future periods to support the preparation for the global launch and potential commercialization of our internally developed drug candidates, if approved, and expansion of our commercialization activities with respect to ABRAXANE® (nanoparticle albumin-bound paclitaxel), REVLIMID® (lenalidomide), and VIDAZA® (azacitidine) in China. We also expect selling, general and administrative expenses to increase in future periods to support our research and development efforts, including the continuation of the clinical trials of our drug candidates as treatments for various cancers and the initiation of clinical trials for potential new drug candidates. These cost increases will likely be due to increased promotional costs, increased headcount, increased share-based compensation expenses, expanded infrastructure and increased costs for insurance.

Interest Income (Expense), Net

Interest Income

Interest income consists primarily of interest generated from our cash and short-term investments in money market funds, time deposits, U.S. Treasury securities and U.S. agency securities.

Interest Expense

Interest expense consists primarily of interest on our long-term bank loan and shareholder loan.

Other Income (Expense), Net

Other income (expense) consists primarily of government grants and subsidies received that involve no conditions or continuing performance obligations by us, realized and unrealized gains and losses related to changes in foreign currency exchange rates and gain on the sale of investments.

Results of Operations

The following table summarizes our results of operations for the six months ended June 30, 2019 and 2018:

	Six Months Ended June 30,		Change	
	2019	2018	US\$	%
	(US dollars in thousands)			
Revenues				
Product revenue, net	115,563	54,676	60,887	111%
Collaboration revenue	205,616	30,672	174,944	570%
Total revenues	321,179	85,348	235,831	276%
Expenses				
Cost of sales - product	(33,100)	(10,806)	(22,294)	206%
Research and development	(407,111)	(273,951)	(133,160)	49%
Selling, general and administrative	(139,893)	(74,075)	(65,818)	89%
Amortization of intangible assets	(663)	(375)	(288)	77%
Total expenses	(580,767)	(359,207)	(221,560)	62%
Loss from operations	(259,588)	(273,859)	14,271	(5)%
Interest income, net	7,363	3,444	3,919	114%
Other income, net	850	804	46	6%
Loss before income taxes	(251,375)	(269,611)	18,236	(7)%
Income tax (expense) benefit	(2,648)	6,780	(9,428)	(139)%
Net loss	(254,023)	(262,831)	8,808	(3)%
Less: Net loss attributable to noncontrolling interest	(813)	(1,348)	535	(40)%
Net loss attributable to BeiGene, Ltd.	<u>(253,210)</u>	<u>(261,483)</u>	<u>8,273</u>	(3)%

Revenue

Total revenue increased to US\$321.2 million for the six months ended June 30, 2019, from US\$85.3 million for the six months ended June 30, 2018. The following table summarizes the components of revenue for the six months ended June 30, 2019 and 2018, respectively:

	Six Months Ended June 30,		Change	
	2019	2018	US\$	%
	(US dollars in thousands)			
Product revenue	115,563	54,676	60,887	111%
Collaboration revenue:				
Reimbursement of research and development costs	27,634	25,730	1,904	7%
Research and development service revenue	27,982	4,942	23,040	466%
Other	150,000	—	150,000	NM
Total	<u>321,179</u>	<u>85,348</u>	<u>235,831</u>	276%

Net product revenue was US\$115.6 million for the six months ended June 30, 2019, which related to sales of ABRAXANE®, REVLIMID® and VIDAZA® in China. We began recognizing product revenue with sales to our distributors in China in September 2017 following the closing of our strategic collaboration with Celgene. VIDAZA® was launched in China in February 2018. We had US\$54.7 million product revenue for the six months ended June 30, 2018.

Collaboration revenue totaled US\$205.6 million for the six months ended June 30, 2019 and was comprised primarily of a US\$150.0 million payment received upon termination of the collaboration agreement with Celgene for tislelizumab, as well as the revenue recognition of previously deferred amounts. Additionally, we recognized US\$27.6 million for the reimbursement of research and development costs for the clinical trials that Celgene had opted into prior to the arrangement being terminated.

Cost of Sales

Cost of sales increased to US\$33.1 million for the six months ended June 30, 2019 from US\$10.8 million for the six months ended June 30, 2018. Cost of sales for the six months ended June 30, 2019 consisted entirely of the cost of products purchased from Celgene and distributed in the PRC.

Research and Development Expense

Research and development expense increased by US\$133.2 million, or 48.6%, to US\$407.1 million for the six months ended June 30, 2019 from US\$274.0 million for the six months ended June 30, 2018. The following table summarizes external clinical, external non-clinical and internal research and development expense for the six months ended June 30, 2019 and 2018, respectively:

	Six Months Ended June 30,		Changes	
	2019	2018	US\$	%
	(US dollars in thousands)			
External cost of clinical-stage programs	181,661	133,299	48,362	36%
In-process research and development expense	30,000	10,000	20,000	200%
External cost of non-clinical-stage programs	21,623	28,331	(6,708)	(24)%
Internal research and development expenses	173,827	102,321	71,506	70%
Total research and development expenses	407,111	273,951	133,160	49%

The increase in external research and development expense was primarily attributable to the advancement of our clinical drug candidates, and included the following:

- Increases of approximately US\$11.8 million, US\$34.7 million, and US\$2.1 million, respectively, for zanubrutinib, tislelizumab, and lifirafenib, partially offset by a decrease of approximately US\$0.2 million for pamiparib. The increases of expenses were primarily due to the expansion of clinical trials for these candidates, including the initiation or continuation of pivotal trials.
- US\$30.0 million of in-process research and development expense primarily related to the US\$10.0 million up-front payment made under the Ambrx collaboration and license agreement and the US\$20.0 million up-front payment made under the BioAtla CAB-CTLA-4 global co-development and collaboration agreement.
- External spending for our non-clinical-stage programs was primarily related to manufacturing costs for pre-commercial activities and costs associated with our preclinical candidates.

The increase in internal research and development expense was primarily attributable to the expansion of our global development organization and our clinical and preclinical drug candidates, and included the following:

- US\$34.8 million increase of employee salary and benefits, which was primarily attributable to hiring more research and development personnel to support our expanding research and development activities;
- US\$11.2 million increase of share-based compensation expense, primarily attributable to our increased headcount, resulting in more awards being expensed;
- US\$5.3 million increase of consulting fees, which was mainly attributable to increased scientific, regulatory and development consulting activities, in connection with the advancement of our drug candidates; and

- US\$20.2 million increase of facilities, office expense, rental fee and other expenses to support the growth of our organization.

Selling, General and Administrative Expense

Selling, general and administrative expense increased by US\$65.8 million, or 88.9%, to US\$139.9 million for the six months ended June 30, 2019, from US\$74.1 million for the six months ended June 30, 2018. The increase was primarily attributable to the following:

- US\$25.7 million increase of employee salary and benefits, which was primarily attributable to the hiring of more personnel to support our growing organization, including the expansion of our commercial organization in China;
- US\$11.8 million increase of share-based compensation expense, primarily attributable to our increased headcount, resulting in more awards being expensed;
- US\$5.3 million increase of professional fees for legal, consulting, recruiting, information technology, accounting and audit services to support our growing business; and
- US\$23.0 million increase of selling, facility, conference fees, travel expenses, rental fees and other administrative expenses, primarily attributable to the global expansion of our business, including the expansion of our commercial operations in China.

Interest Income, Net

Interest income, net increased by US\$3.9 million, or 113.8%, to US\$7.4 million for the six months ended June 30, 2019, from US\$3.4 million for six months ended June 30, 2018. The increase in interest income was primarily attributable to interest income on our larger cash and short-term investment balances exceeding interest expense on our long-term debt.

Other Income, Net

Other income, net increased to US\$0.9 million for the six months ended June 30, 2019, from US\$0.8 million for the six months ended June 30, 2018. The increase was mainly attributable to the gain on sales of available-for-sale securities and decrease in foreign currency exchange losses, and partially offset by the decrease in government grants.

Income Tax (Expense) Benefit

Income tax expense was US\$2.6 million for the six months ended June 30, 2019, as compared to an income tax benefit of US\$6.8 million for the six months ended June 30, 2018. The income tax expense for the six months ended June 30, 2019 was primarily attributable to income reported in the U.S. and certain China subsidiaries, and certain non-deductible expenses, offset by U.S. research and development tax credits, reversal of a valuation allowance against deferred tax assets of a China subsidiary, other special tax deductions and the discrete tax benefit of employee stock option exercises. The income tax benefit for the six months ended June 30, 2018 was primarily attributable to U.S. research and development tax credits and the discrete tax benefit of employee stock option exercises.

Discussion of Certain Key Balance Sheet Items

Accounts receivable

Accounts receivable increased by 41.4% from US\$41.1 million as of December 31, 2018 to US\$58.1 million as of June 30, 2019, primarily due to the increase in sales of ABRAXANE®, REVLIMID® and VIDAZA® in China.

Inventories

The inventories increased by 202.5% from US\$16.2 million as of December 31, 2018 to US\$49.0 million as of June 30, 2019, primarily as a result of the increased volume of the product purchased from Celgene for distribution in PRC.

Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following as of June 30, 2019 and December 31, 2018:

	As of	
	June 30, 2019	December 31, 2018
	(US dollars in thousands)	
Prepaid research and development costs	68,386	58,673
Prepaid taxes	13,279	10,479
Interest receivable	3,370	3,096
Other	11,171	9,694
Total	<u>96,206</u>	<u>81,942</u>

Prepaid expenses and other current assets increased by 17.5% from US\$81.9 million as of December 31, 2018 to US\$96.2 million as of June 30, 2019. The increase was primarily due to an increase in costs related to our ongoing clinical trials.

Property, plant and equipment, net

The property, plant and equipment increased by 35.4% from US\$157.1 million as of December 31, 2018 to US\$212.7 million as of June 30, 2019, primarily attributable to our on-going buildout of the Guangzhou manufacturing facility.

Accounts payable

Accounts payable includes amounts due to third parties and totaled US\$148.5 million and US\$113.3 million as of June 30, 2019 and December 31, 2018, respectively. The increase was primarily due to increased research and development activities, higher external costs and activities and accounts payable related to the purchase of inventory.

The following table sets forth an aging analysis of accounts payables as at the dates indicated, which is based on invoice date:

	As of	
	June 30, 2019	December 31, 2018
	(US dollars in thousands)	
Within 1 month	134,971	83,191
1 to 3 months	7,139	18,376
3 to 6 months	2,024	6,186
6 months to 1 year	3,777	4,931
Over 1 year	625	599
Total	<u>148,536</u>	<u>113,283</u>

Accrued expenses and other payables

Accrued expenses and other payables consist of the following as of June 30, 2019 and December 31, 2018:

	As of	
	June 30, 2019	December 31, 2018
	(US dollars in thousands)	
Compensation related	28,290	35,887
External research and development activities related	46,726	34,588
Commercial activities	11,531	10,433
Individual income tax and other taxes	7,632	8,030
Sales rebates and returns related	2,671	4,749
Professional fees and other	6,211	6,727
Total	<u>103,061</u>	<u>100,414</u>

Accrued expenses and other payables increased by 2.7% from US\$100.4 million as of December 31, 2018 to US\$103.1 million as of June 30, 2019. The increase was primarily due to expansion of clinical trials for drug candidates, including the initiation or continuation of pivotal trials.

Liquidity and Capital Resources

Since inception, we have incurred annual net losses and negative cash flows from our operations. Substantially all of our operating losses have resulted from the funding of our research and development programs and selling, general and administrative expenses associated with our operations. We incurred net losses of US\$254.0 million, for the six months ended June 30, 2019 and net losses of US\$262.8 million for the six months ended June 30, 2018. As of June 30, 2019, we had an accumulated deficit of US\$1.3 billion. Our primary use of cash is to fund our research and development activities and to support the commercialization of our products in China and planned product launches in China and the United States. Our operating activities used US\$218.1 million and US\$221.6 million during the six months ended June 30, 2019 and 2018, respectively. We have financed our operations principally through proceeds from public and private offerings of our securities, proceeds from our collaboration agreements, and sales of ABRAXANE®, REVLIMID® and VIDAZA® in China since September 2017.

As of June 30, 2019, we had cash, cash equivalents, restricted cash, and short-term investments of US\$1.6 billion, including approximately US\$160.3 million of cash, cash equivalents and restricted cash held by our joint venture, BeiGene Biologics, to build a commercial biologics facility in Guangzhou, China and to fund research and development of biologics drug candidates in China. Restricted cash of US\$23.7 million represents secured deposits of BeiGene Guangzhou Factory held in designated bank accounts for the issuance of a letter of credit and restricted cash deposits as security for a long-term bank loan.

The following table provides information regarding our cash flows for the six months ended June 30, 2019 and 2018:

	Six Months Ended June 30,	
	2019	2018
	(US dollars in thousands)	
Cash, cash equivalents and restricted cash at beginning of period	740,713	239,602
Net cash used in operating activities	(218,076)	(221,638)
Net cash provided by (used in) investing activities	364,425	(360,220)
Net cash provided by financing activities	58,346	810,484
Net effect of foreign exchange rate changes	(2,732)	1,783
	<u>201,963</u>	<u>230,409</u>
Net increase in cash, cash equivalents, and restricted cash		
Cash, cash equivalents and restricted cash at end of period	<u>942,676</u>	<u>470,011</u>

Use of Funds

The use of cash in all periods presented resulted primarily from our net losses, adjusted for non-cash charges and changes in components of working capital. The primary use of our cash, cash equivalents and short-term investments in all periods presented was to fund research and development, regulatory and other clinical trial costs, selling costs and related supporting administrative expenses. Our prepaid expenses and other current assets, accounts payable and accrued expense balances in all periods presented were affected by the timing of vendor invoicing and payments.

Operating Activities

Operating activities used US\$218.1 million of cash in the six months ended June 30, 2019, which resulted principally from our net loss of US\$254.0 million, which was inclusive of the US\$150.0 million payment recognized in revenue in connection with the termination of the Celgene collaboration agreement for tislelizumab, and an increase in our net operating assets and liabilities of US\$76.0 million, offset by non-cash charges of US\$112.0 million related primarily to stock-based compensation expense, depreciation and amortization and other non-cash charges. The increase in our net operating assets and liabilities was primarily due to an increase of US\$17.1 million related to collections on product sales from our collaboration with Celgene, an increase of US\$32.8 million in inventories, an increase of US\$3.6 million in operating lease right-of-use assets, an increase of US\$10.3 million in other non-current assets primarily related to VAT prepayments, an increase of US\$14.5 million in prepaid expenses and other current assets primarily related to prepayments to CROs for clinical trials, a decrease of US\$3.7 million in taxes payable, and a decrease of US\$28.0 million in deferred revenue, all of which had a negative impact on operating cash flow. These cash uses were partially offset by an increase of US\$25.0 million in accounts payable and accrued expenses related to payments for external research and development costs, a decrease of US\$8.6 million in unbilled receivables related to the Celgene collaboration, and an increase of US\$0.4 million in operating lease liabilities and other long-term liabilities, all of which had a positive impact on operating cash flows. Our non-cash charges and other adjustments to our net loss during the six months ended June 30, 2019 primarily consisted of US\$59.0 million of share-based compensation expense, US\$49.0 million of acquired in-process research and development related to our license agreements with Ambrx and BioAtla, and termination of the collaboration agreement with Merck KGaA, Darmstadt Germany, US\$7.1 million of depreciation and amortization expense, and US\$3.8 million of non-cash interest expense, offset by US\$3.7 million of bond discount amortization, US\$1.5 million related to deferred tax benefits, and US\$1.8 million of disposal gain on available-for-sale securities.

Operating activities used US\$221.6 million of cash in the six months ended June 30, 2018, which resulted principally from our net loss of US\$262.8 million and an increase in our net operating assets and liabilities of US\$2.8 million, offset by non-cash charges of US\$44.0 million. The increase in our net operating assets was primarily due to an increase of US\$27.7 million in prepaid expenses and other current assets primarily related to prepayments to CROs for clinical trials, a decrease in taxes payable of US\$8.0 million, an increase in accounts receivables of US\$3.7 million related to collections on product sales from our collaboration with Celgene in China, an increase of US\$3.7 million in other non-current assets primarily related to rental deposits, and a decrease in deferred revenue and other long-term liabilities of US\$3.6 million, which each had a negative impact on operating cash flow. These factors were partially offset by an increase of US\$35.7 million in accounts payable and accrued expenses related to payments for external research and development costs, payroll-related costs and selling, general and administrative expenses to support our growing business, a decrease of US\$4.6 million in inventories and a decrease in unbilled receivables of US\$3.6 million related to the Celgene collaboration for tislelizumab, which each had a positive impact on operating cash flow. Our non-cash charges and other adjustments to our net loss during the six months ended June 30, 2018 primarily consisted of US\$36.0 million of share-based compensation expense, US\$10.0 million of acquired in-process research and development related to the license agreement with Mirati, US\$1.8 million of non-cash interest expense and US\$4.6 million of depreciation expense, offset by US\$8.4 million related to deferred tax benefits.

Investing Activities

Investing activities provided US\$364.4 million of cash in the six months ended June 30, 2019, consisting of sales and maturities of investment securities of US\$1,167.5 million, which was offset by US\$710.8 million in purchases of investment securities, US\$49.0 million of acquired in-process research and development related to the license agreements with Ambrx and BioAtla and termination of the collaboration agreement with Merck KGaA, Darmstadt Germany, and capital expenditures of US\$43.3 million primarily related to our Guangzhou and Suzhou manufacturing facilities.

Investing activities used US\$360.2 million of cash in the six months ended June 30, 2018, which consisted of purchases of investment securities of US\$1,198.9 million, a purchase of US\$10.0 million of in-process research and development related to the license agreement with Mirati and capital expenditures of US\$20.3 million primarily related to our Guangzhou and Suzhou manufacturing facilities, offset by sales and maturities of investment securities of US\$869.0 million.

Financing Activities

Financing activities provided US\$58.3 million of cash in the six months ended June 30, 2019, consisting of US\$43.7 million from a long-term bank loan to fund our Guangzhou manufacturing facility, a US\$4.0 million capital contribution from investors for the noncontrolling interest of Mapkure, LLC, and US\$10.6 million from the exercise of employee share options.

Financing activities provided US\$810.5 million of cash in the six months ended June 30, 2018, which consisted of US\$757.6 million of proceeds, net of underwriting discounts and commissions and offering expenses, from our follow-on public offering of ADSs, US\$42.3 million from a new long-term bank loan and US\$10.6 million from the exercise of employee stock options.

Operating Capital Requirements

We do not expect to generate significant revenue from product sales of our internally developed drug candidates unless and until we obtain regulatory approval for and commercialize one or more of our current or future drug candidates. We have exclusive rights to distribute and promote Celgene's approved cancer therapies in China, for which we began recognizing revenue in the third quarter of 2017. We anticipate that we will continue to generate losses for the foreseeable future, and we expect our losses to increase as we continue the development of, and seek regulatory approvals for, our drug candidates, and prepare for commercialization and begin to commercialize any approved products. As a growing public company, we will continue to incur additional costs associated with our operations. In addition, we expect to incur significant commercialization expenses for product sales, marketing and manufacturing of our in-licensed drug products in China and, subject to obtaining regulatory approval, our drug candidates. Accordingly, we anticipate that we will need substantial additional funding prior to generating sufficient cash from operations to fund our continuing operations.

Based on our current operating plan, we expect that our existing cash, cash equivalents and short-term investments as of June 30, 2019, will enable us to fund our operating expenses and capital expenditures requirements for at least the next 12 months after the date that the financial statements included in this report are issued. We expect that our expenses will continue to increase substantially as we fund our ongoing research and clinical development efforts, including our ongoing and planned pivotal trials for zanubrutinib, tislelizumab and pamiparib, both in China and globally; our other ongoing and planned clinical trials; regulatory filing and registration of our late-stage drug candidates; expansion of commercial operations in China and preparation for launch of our drug candidates globally; business development and manufacturing activities; and working capital and other general corporate purposes. We have based our estimates on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development and commercialization of our drugs and drug candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures necessary to complete the development and commercialization of our drug candidates.

Our future capital requirements will depend on many factors, including:

- the costs, timing and outcome of regulatory reviews and approvals;
- the ability of our drug candidates to progress through clinical development successfully;
- the initiation, progress, timing, costs and results of nonclinical studies and clinical trials for our other programs and potential drug candidates;
- the number and characteristics of the drug candidates we pursue;
- the costs of establishing commercial manufacturing capabilities or securing necessary supplies from third-party manufacturers;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims;
- the costs of establishing and expanding our commercial operations and the success of those operations;
- the extent to which we acquire or in-license other products and technologies; and
- our ability to maintain and establish collaboration arrangements on favorable terms, if at all.

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaboration agreements, strategic alliances, licensing arrangements, government grants and other available sources. Under SEC rules, we currently qualify as a “well-known seasoned issuer,” which allows us to file shelf registration statements to register an unspecified amount of securities that are effective upon filing. On May 26, 2017, we filed such a shelf registration statement with the SEC for the issuance of an unspecified amount of ordinary shares (including in the form of ADSs), preferred shares, various series of debt securities and/or warrants to purchase any of such securities, either individually or in units, from time to time at prices and on terms to be determined at the time of any such offering. This registration statement was effective upon filing and will remain in effect for up to three years from filing. To the extent that we raise additional capital through the sale of equity or convertible

debt securities, the ownership interest of our shareholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a holder of ADSs or ordinary shares. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends and may require the issuance of warrants, which could potentially dilute the ownership interest of the Company's shareholders. If we raise additional funds through collaboration agreements, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams or research programs or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings, collaborations or other sources when needed, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts or grant rights to develop and market products or drug candidates that we would otherwise prefer to develop and market ourselves.

Contractual Obligations and Commitments

The following table summarizes our significant contractual obligations as of the payment due date by period at June 30, 2019:

	Payments Due by Period			
	Total	Less Than 1 Year	1–3 Years	More Than 3–5 Years
		(US dollars in thousands)		
Contractual obligations				
Operating lease commitments	31,542	11,339	16,856	3,347
Purchase commitments	134,897	26,634	52,929	26,464
Debt obligations	247,549	8,740	291	162,770
Capital commitments	16,222	16,222	—	—
Total	430,210	62,935	70,076	192,581

Operating Lease Commitments

We lease office or manufacturing facilities in Beijing, Shanghai, Suzhou and Guangzhou, PRC and office facilities in the United States in California, Massachusetts and New Jersey and Basel, Switzerland under non-cancelable operating leases expiring on different dates. Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases. The aggregate future minimum payments under these non-cancelable operating leases are summarized in the table above.

Debt Obligations

Long-term Bank Loans

On September 2, 2015, BeiGene (Suzhou) entered into a loan agreement with Suzhou Industrial Park Biotech Development Co., Ltd. and China Construction Bank, to borrow RMB120.0 million at a 7% fixed annual interest rate. The loan is secured by BeiGene (Suzhou)'s equipment and our rights to a PRC patent on a drug candidate. In September 2018, we repaid the first tranche of US\$8.7 million (RMB60.0 million). The remaining US\$8.7 million (RMB60.0 million) is due on September 30, 2019.

On April 4, 2018, BeiGene Guangzhou Factory entered into a nine-year loan agreement with China Construction Bank to borrow RMB580.0 million at a floating interest rate benchmarking RMB loans interest rate of financial institutions in PRC. The loan is secured by BeiGene Guangzhou Factory's land use right. Interest expense will be paid quarterly until the loan is fully settled. As of June 30, 2019, we have drawn down the entire US\$84.5 million (RMB580.0 million) in aggregate principal amount of this loan. Maturity dates range from 2021 to 2027.

Shareholder Loan

On March 7, 2017, BeiGene Biologics entered into a Shareholder Loan Contract with GET, pursuant to which, GET provided a shareholder loan to BeiGene Biologics in the principal amount of RMB900.0 million at a fixed 8% annual interest rate. The term of the shareholder loan is 72 months, commencing from the actual drawdown date of April 14, 2017 and ending on April 13, 2023, unless converted earlier. On April 14, 2017, we drew down the entire RMB900.0 million from GET.

Capital Commitments

We had capital commitments amounting to US\$16.2 million for the acquisition of property, plant and equipment as of June 30, 2019, which was primarily for BeiGene Guangzhou Factory's manufacturing facility in Guangzhou, China.

Purchase Commitments

As of June 30, 2019, purchase commitments amounted to US\$134.9 million related to minimum purchase requirements for inventory purchased from Celgene and contract manufacturing organizations.

Other Business Agreements

We enter into agreements in the normal course of business with CROs and institutions to license intellectual property. We have not included these future payments in the table of contractual obligations above since the contracts are cancelable at any time by us with prior written notice or the licensing fees are currently not determinable.

Critical Accounting Policies and Significant Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses. We evaluate our estimates and judgments on an ongoing basis, and our actual results may differ from these estimates. These include, but are not limited to, estimating the useful lives of long-lived assets, estimating variable consideration in product sales and collaboration revenue arrangements, estimating the incremental borrowing rate for operating lease liabilities, identifying separate accounting units and the standalone selling price of each performance obligation in the Company's revenue arrangements, assessing the impairment of long-lived assets, share-based compensation expenses, realizability of deferred tax assets and the fair value of financial instruments. We base our estimates on historical experience, known trends and events, contractual milestones and other various factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies as of and for the six months ended June 30, 2019, as compared to those described in the section titled "Part II—Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report.

Interest and Credit Risk

Financial instruments that are potentially subject to credit risk consist of cash, cash equivalents, restricted cash and short-term investments. The carrying amounts of cash, cash equivalents, restricted cash and short-term investments represent the maximum amount of loss due to credit risk. We had cash and cash equivalents of US\$918.9 million and US\$712.9 million, restricted cash of US\$23.7 million and US\$27.8 million, and short-term investments of US\$618.8 million and US\$1.1 billion at June 30, 2019 and December 31, 2018, respectively. At June 30, 2019, our cash and cash equivalents were deposited with various major reputable financial institutions located within and without the PRC. The deposits placed with these financial institutions are not protected by statutory or commercial insurance. In the event of bankruptcy of one of these financial institutions, we may be unlikely to claim our deposits back in full. We believe that these financial institutions are of high credit quality, and we continually monitor the credit worthiness of these financial institutions. Restricted cash represents secured deposits held in designated bank accounts for issuance of letters of credit and restricted cash deposits as security for a long-term bank loan. At June 30, 2019, our short-term investments consisted primarily of U.S. treasury securities and U.S. agency securities. We believe that the U.S. treasury securities are of high credit quality and continually monitor the credit worthiness of these institutions.

The primary objectives of our investment activities are to preserve principal, provide liquidity and maximize income without significantly increasing risk. Our primary exposure to market risk relates to fluctuations in the interest rates which are affected by changes in the general level of PRC and U.S. interest rates. Given the short-term nature of our cash equivalents and short-term investments, we believe that a sudden change in market interest rates would not be expected to have a material impact on our financial condition and/or results of operation. We estimate that a hypothetical 100-basis point change in market interest rates would impact the fair value of our investment portfolio as of June 30, 2019 by US\$2.5 million.

We do not believe that our cash, cash equivalents, restricted cash and short-term investments have significant risk of default or illiquidity. While we believe that our cash, cash equivalents, restricted cash and short-term investments do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value.

Foreign Currency Exchange Rate Risk

We are exposed to foreign exchange risk arising from various currency exposures. Our functional currency is the U.S. dollar, but a portion of our operating transactions and assets and liabilities are in other currencies, such as RMB, Australian dollar, Swiss franc, Euro and Hong Kong dollars. To date, we have not extensively used derivative financial instruments to hedge exposure to such risk, although we may adopt hedging strategies in the future.

RMB is not freely convertible into foreign currencies for capital account transactions. The value of RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange prices. Since July 21, 2005, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. For the RMB against U.S. dollars, there was appreciation of approximately 0.2% in the six months ended June 30, 2019 and depreciation of approximately 5.7% in the year ended December 31, 2018, respectively. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into RMB for capital expenditures and working capital and other business purposes, appreciation of RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against RMB would have a negative effect on the U.S. dollar amount available to us.

In addition, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our receivables, earnings or losses.

Currency Convertibility Risk

A majority of our expenses and a significant portion of our assets and liabilities are denominated in RMB. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China ("PBOC"). However, the unification of exchange rates does not imply that the RMB may be readily convertible into U.S. dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approvals of foreign currency payments by the PBOC or other institutions require submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Additionally, the value of the RMB is subject to changes in central government policies and international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market.

Effects of Inflation

Inflation generally affects us by increasing our cost of labor and clinical trial costs. We do not believe that inflation has had a material effect on our results of operations during the six months ended June 30, 2019.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under SEC rules, such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing transactions that are not required to be reflected on our balance sheets.

Gearing Ratio

The gearing ratio of the Group, which was calculated by dividing total interest-bearing loans by total equity as at the end of the period, was 15.8% as of June 30, 2019, increased from 11.3% as at December 31, 2018. The increase was primarily due to the increase in bank loan and decrease in equity resulting from net loss.

Significant Investments Held

As of June 30, 2019, we did not hold any significant investments in the equity interests of any other companies.

Future Plans for Material Investments and Capital Assets

As of June 30, 2019, we did not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended June 30, 2019, we did not have any materials acquisitions and disposals of subsidiaries and affiliated companies.

Employee and Remuneration Policy

As of June 30, 2019, we had a global team of over 2,500 employees, which increased from 2,070 full-time employees as of December 31, 2018.

The remuneration policy and package of the Group's employees are periodically reviewed. In addition to cash compensation and benefits, we may issue share options, share appreciation rights, restricted shares, restricted share units, unrestricted shares, performance share awards, cash-based awards and dividend equivalent rights to our employees in accordance with our equity plans. We also provide external and internal training programs to our employees. The total remuneration cost incurred by the Group for the six months ended June 30, 2019 was US\$191.2 million (June 30, 2018: US\$107.4 million).

Pledge of Assets

As at June 30, 2019, we pledged a restricted deposit of US\$23.7 million (June 30, 2018: US\$31.6 million) in BeiGene Guangzhou Factory held in designated bank accounts for issuance of letter of credit, and restricted cash deposits as security for the long-term bank loan. As of June 30, 2019, BeiGene (Suzhou)'s equipment of US\$15.6 million (June 30, 2018: US\$19.6 million) and BeiGene Guangzhou Factory's land use right of US\$11.5 million (June 30, 2018: US\$12.1 million) were secured for long-term bank loans.

Contingent Liabilities

As at June 30, 2019, we did not have any material contingent liabilities (as of June 30, 2018: nil).

Interim Dividend

The Board does not recommend any interim dividend for the six months ended June 30, 2019.

OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its affairs are conducted in accordance with applicable laws and regulations, and to enhance the transparency and accountability of the Board to the Company's shareholders.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value and formulate its business strategies and policies.

During the Reporting Period, the Company has applied the principles in the Corporate Governance Code which are applicable to the Company.

Pursuant to code provision A.2.1 of the Corporate Governance Code, companies listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") are expected to comply with, but may choose to deviate from the requirement that the responsibilities of the Chairman and the Chief Executive Officer should be segregated and should not be performed by the same individual. We do not have a separate Chairman and Chief Executive Officer and Mr. John V. Oyler currently performs these two roles. Our Board believes that Mr. John V. Oyler is the Director best suited to identify strategic opportunities and focus of the Board due to his extensive understanding of our business as a Co-Founder and our Chief Executive Officer. Our Board also believes that the combined role of Chairman and Chief Executive Officer can promote the effective execution of strategic initiatives and facilitate the flow of information between management and the Board. Our Board will continue to review and consider splitting the roles of Chairman and the Chief Executive Officer at a time when it is appropriate by taking into account the circumstances of our Group as a whole.

Our audit committee is in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules, except for the terms of reference required by paragraphs C.3.3 and C.3.7 of the Corporate Governance Code. However, the charter of our audit committee complies with the rules of the NASDAQ and the rules of the SEC. The primary duties of the audit committee are, among other things, to monitor the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to our financial statements and accounting matters, review the adequacy of our internal control over financial reporting, and review all related party transactions for potential conflict of interest situations and approving all such transactions. The audit committee comprises three independent non-executive Directors, namely Mr. Thomas Malley, Mr. Timothy Chen and Mr. Jing-Shyh (Sam) Su. Mr. Thomas Malley, being the chairman of the audit committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

Our compensation committee is in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules, except for the terms of reference required by paragraph B.1.2 of the Corporate Governance Code. However, the charter of our compensation committee complies with the rules of the NASDAQ. The primary duties of the compensation committee are to review and make recommendations to the Board with respect to director compensation, evaluate the performance of our Chief Executive Officer and Chief Financial Officer and review and make recommendations to the Board regarding the terms of their compensation, and review and approve the compensation of our other executive officers and senior management. The compensation committee comprises Mr. Qingqing Yi, Mr. Ranjeev Krishana and Mr. Timothy Chen. Mr. Qingqing Yi is the chairman of the compensation committee.

Our nominating and corporate governance committee complies with the Corporate Governance Code set out in Appendix 14 to the Listing Rules, except for the terms of reference required by paragraph A.5.2 of the Corporate Governance Code. However, the charter of our nominating and corporate governance committee complies with the rules of the NASDAQ. The primary duties of the nominating and corporate governance committee are among other things, to develop and recommend to the Board criteria for board and committee membership, recommend to the Board the persons to be nominated for election as Directors and to each of the Board's committees, and develop and recommend to the Board a set of corporate governance guidelines. The nominating and corporate governance committee comprises Mr. Donald W. Glazer and Mr. Michael Goller. Mr. Donald W. Glazer is the chairman of the nominating and governance committee.

Except as disclosed above, the Company has complied with all of the provisions set out in the Corporate Governance Code during the Reporting Period.

The Board will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code and maintain a high standard of corporate governance practices of the Company.

Compliance with policies equivalent to the Model Code for Securities Transactions by Directors of Listed Issuers

Except as disclosed below, the Company has adopted its own insider dealing policies on terms no less exacting than those in the Model Code for Securities Transactions (the "Model Code") as set out in Appendix 10 to the Listing Rules regarding the Directors' dealings in the securities of the Company.

Pursuant to Rule B.8 of the Model Code, a director must not deal in any securities of the issuer without first notifying in writing the chairman or a director (otherwise than himself) designated by the board for the specific purpose and receiving a dated written acknowledgement. Under the Company's insider dealing policies, Mr. Scott A. Samuels, Senior Vice President and General Counsel of the Company, has been designated as the insider trading compliance officer whom a Director who intends to deal in the Company's securities must notify. Our Board believes that our insider trading compliance officer, despite not being a member of the Board, is able to carry out his duties properly and competently in accordance with the Company's insider dealing policies, the terms of which are otherwise no less exacting than those in the Model Code.

Having made specific enquiry of all the Directors, all the Directors confirmed that they have strictly complied with the required standards set out in the Company's own insider dealing policies throughout the Reporting Period.

Purchase, Sale or Redemption of the Company's Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange.

Disclosure of Changes in Directors' Information Pursuant to Listing Rule 13.51(B)(1)

Upon specific enquiry by the Company and following confirmations from Directors, save as disclosed hereunder, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the Reporting Period. The change of Director's information is set out below:

Directors	Changes in Positions held with the Company
Mr. Qingqing Yi	Ceased to be a member of the audit committee, effective May 1, 2019. Mr. Qingqing Yi remains to serve as a member of the Board and as the chairman of the compensation committee.
Mr. Jing-Shyh (Sam) Su	Appointed as a member of the audit committee of the Company, effective May 1, 2019.

Use of Net Proceeds from Listing

The net proceeds from the listing of our ordinary shares on the Main Board of the Stock Exchange on August 8, 2018 (the "**Listing**"), amounted to approximately US\$869.7 million, and the balance of unutilized net proceeds was approximately US\$512.9 million as of June 30, 2019.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in accordance with the purposes set out in our prospectus dated July 30, 2018 (the “**Prospectus**”). The table below sets out the planned applications of the net proceeds and actual usage up to June 30, 2019:

Use of proceeds	Planned applications (US dollars in thousands)	Percentage of total net proceeds (%)	Actual usage up to June 30, 2019 (US dollars in thousands)	Unutilized net proceeds as of June 30, 2019 (US dollars in thousands)
Zanubrutinib	282,656	32.5%	89,534	193,122
Tislelizumab	282,656	32.5%	117,753	164,903
Pamiparib	86,970	10.0%	24,384	62,586
For core products^(a)	652,282	75.0%	231,671	420,611
To fund continued expansion of our product portfolio^(b)	130,456	15.0%	74,225	56,231
For working capital^(c)	86,971	10.0%	50,931	36,040
Total	869,709	100.0%	356,827	512,882

Note (a): Usage for core products include ongoing and planned clinical trials of core products, in preparation for registration filings of core products, and preparation for launch and, subject to regulatory approval, commercialization of core products in China and the United States;

Note (b): To fund continued expansion of our product portfolio in cancer and potentially other therapeutic areas through internal research and external licenses and business development collaborations, including the development cost of internal early clinical and preclinical-stage pipeline agents and in-licensed pipeline agents;

Note (c): For working capital, expanding internal capabilities and general corporate purposes.

The remaining balance of the net proceeds was placed in short-term deposits with banks. The Group plans to apply the remaining net proceeds in the manner set out in the Prospectus.

Audit Committee Review of Financial Statements

Our audit committee reviews the adequacy of our internal controls to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee currently consists of three members, namely Mr. Thomas Malley, Mr. Jing-Shyh (Sam) Su and Mr. Timothy Chen. Each of our audit committee members is an independent non-executive Director. Mr. Thomas Malley is the chairman of the audit committee.

The audit committee has reviewed the consolidated financial statements of the Group for the six months ended June 30, 2019. The audit committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with members of senior management and the external auditor of the Company, Ernst & Young.

Other Board Committees

In addition to the audit committee, the Company has a nominating and corporate governance committee and a compensation committee.

Important Events after the Reporting Date

Save as disclosed above, no important events affecting the Company occurred since June 30, 2019.

This interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.beigene.com). The interim report of the Group for the six months ended June 30, 2019 will be published on the aforesaid websites and dispatched to the Company's shareholders in due course.

By order of the Board
BeiGene, Ltd.
Mr. John V. Oyler
Chairman

Hong Kong, August 29, 2019

As at the date of this announcement, the Board of Directors of the Company comprises Mr. John V. Oyler as Chairman and Executive Director, Dr. Xiaodong Wang as Non-executive Director, and Mr. Timothy Chen, Mr. Donald W. Glazer, Mr. Michael Goller, Mr. Ranjeev Krishana, Mr. Thomas Malley, Mr. Jing-Shyh (Sam) Su and Mr. Qingqing Yi as Independent Non-executive Directors.