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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, 2020

BeiGene, Ltd. (the “Company” or “we” or “us”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended June 30, 2020 (the “Reporting Period”), together with the comparative figures for the corresponding periods in 2019, which have been prepared under generally accepted accounting principles in the United States (the “U.S. GAAP”) and reviewed by the Audit Committee (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, 2020 decreased by approximately US\$203.5 million or approximately 63.4% to approximately US\$117.7 million, as compared to the six months ended June 30, 2019. Product revenue increased by approximately US\$2.1 million or approximately 1.8% to approximately US\$117.7 million, as compared to the six months ended June 30, 2019. Collaboration revenue decreased by approximately US\$205.6 million or 100% to nil, as compared to the six months ended June 30, 2019.
- Total expenses for the six months ended June 30, 2020 increased by approximately US\$269.6 million or approximately 46.4% to approximately US\$850.3 million, as compared to the six months ended June 30, 2019.
- Net loss for the six months ended June 30, 2020 increased by approximately US\$447.2 million or approximately 176.1% to approximately US\$701.3 million, as compared to the six months ended June 30, 2019.
- Basic and diluted loss per share for the six months ended June 30, 2020 amounted to US\$0.69, representing an increase of 109.1% when compared with that of US\$0.33 for the six months ended June 30, 2019.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

		Six Months Ended June 30,	
	Note	2020	2019
		US\$' 000	US\$' 000
Revenues			
Product revenue, net	15	117,694	115,563
Collaboration revenue	3	—	205,616
Total revenues		117,694	321,179
Expenses			
Cost of sales – product		28,456	33,100
Research and development		590,270	407,111
Selling, general and administrative		231,130	139,893
Amortization of intangible assets		471	663
Total expenses		850,327	580,767
Loss from operations		(732,633)	(259,588)
Interest income, net		7,798	7,363
Other income, net		23,657	850
Loss before income taxes		(701,178)	(251,375)
Income tax expense	10	79	2,648
Net loss		(701,257)	(254,023)
Less: net loss attributable to noncontrolling interests		(2,320)	(813)
Net loss attributable to BeiGene, Ltd.		<u>(698,937)</u>	<u>(253,210)</u>
Net loss per share attributable to BeiGene, Ltd., basic and diluted (in US\$)	17	(0.69)	(0.33)
Weighted-average shares outstanding, basic and diluted (in shares)	17	1,007,967,904	776,137,299
Net loss per American Depositary Share (“ADS”), basic and diluted (in US\$)		(9.01)	(4.24)
Weighted-average ADSs outstanding, basic and diluted (in ADSs)		77,535,993	59,702,869

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Six Months Ended June 30,	
	2020	2019
	US\$'000	US\$'000
Net loss	(701,257)	(254,023)
Other comprehensive (loss)/income, net of tax of nil:		
Foreign currency translation adjustments	(2,617)	(3,582)
Unrealized holding gain, net	<u>1,228</u>	<u>1,586</u>
Comprehensive loss	<u>(702,646)</u>	<u>(256,019)</u>
Less: comprehensive loss attributable to noncontrolling interests	<u>(2,411)</u>	<u>(1,058)</u>
Comprehensive loss attributable to BeiGene, Ltd.	<u><u>(700,235)</u></u>	<u><u>(254,961)</u></u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

		As of	
	Note	June 30, 2020 US\$' 000 (unaudited)	December 31, 2019 US\$' 000 (audited)
Assets			
Current assets:			
Cash and cash equivalents		1,345,014	618,011
Short-term restricted cash	4	283	288
Short-term investments	4	1,807,744	364,728
Accounts receivable, net	5	61,663	70,878
Inventories	6	33,234	28,553
Prepaid expenses and other current assets	11	144,466	90,238
Total current assets		3,392,404	1,172,696
Non-current assets:			
Long-term restricted cash	4	4,602	2,476
Property, plant and equipment, net	7	258,106	242,402
Operating lease right-of-use assets		90,620	82,520
Intangible assets, net	9	5,375	5,846
Deferred tax assets	10	39,801	37,894
Other non-current assets	11	112,382	68,455
Total non-current assets		510,886	439,593
Total assets		3,903,290	1,612,289
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	12	157,173	122,488
Accrued expenses and other payables	11	207,921	163,556
Tax payable	10	10,448	13,454
Operating lease liabilities, current portion		12,888	10,814
Research and development cost share liability, current portion	3	136,704	—
Short-term bank loans	13	26,061	—
Total current liabilities		551,195	310,312

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(CONTINUED)

		As of	
	Note	June 30, 2020 US\$' 000 (unaudited)	December 31, 2019 US\$' 000 (audited)
Non-current liabilities:			
Long-term bank loan	13	131,491	83,311
Shareholder loan	14	160,164	157,384
Operating lease liabilities, non-current portion		31,165	25,833
Deferred tax liabilities		11,379	10,532
Research and development cost share liability, non-current portion	3	424,890	—
Other long-term liabilities	11	46,514	46,562
		<u>805,603</u>	<u>323,622</u>
Total non-current liabilities			
		<u>805,603</u>	<u>323,622</u>
Total liabilities		<u>1,356,798</u>	<u>633,934</u>
Commitments and contingencies	22		
Equity:			
Ordinary shares, US\$0.0001 par value per share; 9,500,000,000 shares authorized; 1,014,976,692 and 801,340,698 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively		102	79
Additional paid-in capital		5,200,275	2,925,970
Accumulated other comprehensive loss	19	(9,299)	(8,001)
Accumulated deficit		<u>(2,654,780)</u>	<u>(1,955,843)</u>
Total BeiGene, Ltd. shareholders' equity		<u>2,536,298</u>	<u>962,205</u>
Noncontrolling interest		<u>10,194</u>	<u>16,150</u>
Total equity		<u>2,546,492</u>	<u>978,355</u>
Total liabilities and equity		<u><u>3,903,290</u></u>	<u><u>1,612,289</u></u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

		Six months Ended June 30,	
	Note	2020	2019
		US\$' 000	US\$' 000
Operating activities:			
Net loss		(701,257)	(254,023)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense		15,617	7,111
Share-based compensation expenses	18	83,723	58,994
Unrealized gains on equity method investments	4	(11,264)	–
Gain on deconsolidation of entity	4	(11,307)	–
Acquired in-process research and development		43,000	49,000
Amortization of research and development cost share liability		(55,240)	–
Non-cash interest expense		5,106	3,759
Deferred income tax benefits		(1,060)	(1,456)
Other items, net		(863)	(5,458)
Changes in operating assets and liabilities:			
Accounts receivable		9,094	(17,052)
Inventories		(4,681)	(32,806)
Prepaid expenses and other current assets		(54,590)	(5,923)
Operating lease right-of-use assets		(7,465)	(3,604)
Other non-current assets		2,628	(10,293)
Accounts payable		34,851	21,431
Accrued expenses and other payables		44,471	3,535
Tax payable		(3,006)	(3,713)
Deferred revenue		–	(27,982)
Operating lease liabilities		7,406	383
Other long-term liabilities		(49)	21
Net cash used in operating activities		<u>(604,886)</u>	<u>(218,076)</u>
Investing activities:			
Purchases of property, plant and equipment		(54,138)	(43,275)
Deconsolidation of entity		(2,025)	–
Purchases of investments		(2,442,943)	(710,791)
Proceeds from sale or maturity of investments		997,242	1,167,491
Purchase of in-process research and development		<u>(43,000)</u>	<u>(49,000)</u>
Net cash (used in) provided by investing activities		<u><u>(1,544,864)</u></u>	<u><u>364,425</u></u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

		Six months Ended June 30,	
	Note	2020	2019
		US\$' 000	US\$' 000
Financing activities:			
Proceeds from sale of ordinary shares, net of cost		2,162,407	—
Proceeds from research and development cost share liability		616,834	—
Capital contribution from noncontrolling interest		—	4,000
Proceeds from long-term bank loan	13	49,525	43,704
Proceeds from short-term bank loan	13	26,197	—
Proceeds from option exercises and employee share purchase plan		28,198	10,642
		<u>2,883,161</u>	<u>58,346</u>
Net cash provided by financing activities			
		<u>(4,287)</u>	<u>(2,732)</u>
Effect of foreign exchange rate changes, net			
Net increase in cash, cash equivalents, and restricted cash		729,124	201,963
Cash, cash equivalents, and restricted cash at beginning of period		<u>620,775</u>	<u>740,713</u>
Cash, cash equivalents, and restricted cash at end of period		<u><u>1,349,899</u></u>	<u><u>942,676</u></u>
Supplemental cash flow information:			
Cash and cash equivalents		1,345,014	918,948
Short-term restricted cash		283	14,567
Long-term restricted cash		4,602	9,161
Income taxes paid		9,250	7,874
Interest paid		3,354	2,090
Supplemental non-cash information:			
Acquisitions of equipment included in accounts payable		28,962	35,927

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Ordinary Shares		Additional paid-in capital	Attributable to BeiGene, Ltd.		Total	Non controlling Interest	Total Equity
				comprehensive income/(loss)	Accumulated other deficit			
	Shares	Amount US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at December 31, 2019	801,340,698	79	2,925,970	(8,001)	(1,955,843)	962,205	16,150	978,355
Issuance of ordinary shares in connection with collaboration	206,635,013	21	2,162,386	–	–	2,162,407	–	2,162,407
Use of shares reserved for share option exercises	(7,198,984)	–	–	–	–	–	–	–
Exercise of options, Employee Share Purchase Plan (“ESPP”) and release of Restricted Share Units (“RSUs”)	14,199,965	2	28,196	–	–	28,198	–	28,198
Share-based compensation	–	–	83,723	–	–	83,723	–	83,723
Deconsolidation of entity	–	–	–	–	–	–	(3,545)	(3,545)
Other comprehensive loss	–	–	–	(1,298)	–	(1,298)	(91)	(1,389)
Net loss	–	–	–	–	(698,937)	(698,937)	(2,320)	(701,257)
Balance at June 30, 2020	<u>1,014,976,692</u>	<u>102</u>	<u>5,200,275</u>	<u>(9,299)</u>	<u>(2,654,780)</u>	<u>2,536,298</u>	<u>10,194</u>	<u>2,546,492</u>
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 loss	–	–	–	(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>

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 global, commercial-stage biotechnology company focused on discovering, developing, manufacturing, and commercializing innovative medicines to improve treatment outcomes and access for patients worldwide. The Company started as a research and development company in Beijing in 2010. Over the last ten years, it has developed into a fully integrated global biotechnology company, with significant commercial, manufacturing, and research and development capabilities.

The Company has built substantial commercial capabilities in China and the United States and is currently marketing both internally developed drugs and in-licensed drugs. In the United States, the Company markets BRUKINSA® (zanubrutinib) for adult patients with mantle cell lymphoma (“MCL”) who have received at least one prior therapy. In China, the Company markets BRUKINSA® in two indications: for adult patients with chronic lymphocytic leukemia (“CLL”)/small lymphocytic lymphoma (“SLL”) who have received at least one prior therapy, and for adult patients with MCL who have received at least one prior therapy. In China, the Company also markets tislelizumab in two indications: for patients with classical Hodgkin’s Lymphoma (“cHL”) who have received at least two prior therapies, and for patients with locally advanced or metastatic urothelial carcinoma (“UC”), a form of bladder cancer, with PD-L1 high expression whose disease progressed during or following platinum-containing chemotherapy or within 12 months of neoadjuvant or adjuvant treatment with platinum-containing chemotherapy.

The Company has filed additional new or supplementary new drug applications for regulatory approvals in China or elsewhere for its internally developed products and is planning to launch these additional products or indications in 2020 and beyond. The Company’s commercial portfolio also includes the following drugs in-licensed from third parties: REVLIMID®, VIDAZA® and ABRAXANE®, which the Company has been marketing in China since 2017 under a license from Celgene Logistics Sàrl, a Bristol Myers Squibb company (“BMS”); and XGEVA® (denosumab), from Amgen Inc. (“Amgen”), which the Company began commercializing in July 2020. On March 25, 2020, the Company announced that the China National Medical Products Administration (“NMPA”) suspended the importation, sales and use of ABRAXANE® in China supplied to BeiGene by Celgene Corporation, a BMS company, and the drug was subsequently recalled by BMS and is not currently available for sale in China. The Company plans on launching additional in-licensed products once approved in China, including KYPROLIS® (carfilzomib) and BLINCYTO® (blinatumomab) from Amgen, and SYLVANT® (siltuximab) and QARZIBA® ▼ (dinutuximab beta) from EUSA Pharma (“EUSA”).

As of June 30, 2020, the Company’s subsidiaries are as follows:

Name of Company	Place of Incorporation	Particulars of issued/paid-in capital	Percentage of Ownership by the Company	Principal Activities
BeiGene 101	Cayman Islands	nil	100%	Inactive
BeiGene AUS Pty Ltd. (“BeiGene Australia”)	Australia	US\$1	100%	Clinical trial activities
BeiGene (Beijing) Co., Ltd. (“BeiGene Beijing”)	The People’s Republic of China (“PRC” or “China”)	US\$46,711,000	100%	Medical and pharmaceutical research and development
BeiGene Biologics Co., Ltd. (“BeiGene Biologics”)	PRC	RMB2,000,000,000	95%	Biologics manufacturing
BeiGene (Canada) ULC	Canada	nil	100%	Medical, pharmaceutical research and development and commercial
BeiGene ESP SL	Spain	EUR 3,000	100%	Medical, pharmaceutical research and development and commercial

Name of Company	Place of Incorporation	Particulars of issued/paid-in capital	Percentage of Ownership by the Company	Principal Activities
BeiGene France Sarl	France	EUR 7,500	100%	Medical, pharmaceutical research and development and commercial
BeiGene Guangzhou Biologics Manufacturing Co., Ltd. (“BeiGene Guangzhou Factory”)*	PRC	RMB1,000,000,000	95%	Biologics manufacturing
BeiGene (Guangzhou) Co., Ltd. (“BeiGene Guangzhou”)	PRC	US\$126,000,000	100%	Medical and pharmaceutical research
BeiGene Germany GmbH	Germany	EUR 25,000	100%	Medical, pharmaceutical research and development and commercial
BeiGene (Hong Kong) Co., Limited. (“BeiGene HK”)	Hong Kong, China	HK\$1	100%	Investment holding
Beijing Innerway Bio-tech Co., Ltd. (“Innerway”)	PRC	US\$4,000,000	100%	Medical and pharmaceutical research and manufacturing
BeiGene (Italy) Sarl	Italy	EUR 10,000	100%	Medical, pharmaceutical research and development and commercial
BeiGene Ireland Limited (“BeiGene Ireland”)	Republic of Ireland	nil	100%	Medical, pharmaceutical research and development and commercial
BeiGene Korea Y.H.	Korea	KRW 100,000,000	100%	Medical, pharmaceutical research and development and commercial
BeiGene Pharmaceuticals (Guangzhou) Co., Ltd. (“BeiGene Pharmaceutical (Guangzhou)”)	PRC	RMB3,800,000	100%	Medical and pharmaceutical research and manufacturing
BeiGene Pharmaceutical (Shanghai) Co., Ltd. (“BeiGene Pharmaceutical (Shanghai)”)	PRC	US\$1,000,000	100%	Medical and pharmaceutical consulting, marketing and promotional services
BeiGene (Shanghai) Co., Ltd. (“BeiGene Shanghai”)*	PRC	RMB34,344,310	95%	Medical and pharmaceutical research and development
BeiGene Singapore Pte., Ltd.	Singapore	SGD 1	100%	Medical, pharmaceutical research and development and commercial
BeiGene (Suzhou) Co., Ltd. (“BeiGene Suzhou”)	PRC	US\$64,000,000	100%	Medical and pharmaceutical research and manufacturing
BeiGene Switzerland GmbH (“BeiGene Switzerland”)	Switzerland	CHF 20,000	100%	Medical, pharmaceutical research and development and commercial
BeiGene (Taiwan) Limited	Taiwan, China	TWD 500,000	100%	Medical, pharmaceutical research and development and commercial
BeiGene UK, Ltd. (“BeiGene UK”)	United Kingdom	GBP 110	100%	Research, development, manufacture and distribution or licensing of pharmaceutical and related products
BeiGene United Kingdom, Ltd.	United Kingdom	nil	100%	Investment holding

Name of Company	Place of Incorporation	Particulars of issued/paid-in capital	Percentage of Ownership by the Company	Principal Activities
BeiGene USA, Inc. ("BeiGene USA")	United States	US\$1	100%	Medical, pharmaceutical research and development and commercial
BeiGene International GmbH	Switzerland	CHF 20,000	100%	Medical, pharmaceutical research and development and commercial
BeiGene (Shanghai) Research & Development Co., Ltd.	PRC	RMB70,000,000	100%	Medical and pharmaceutical research and development

* Wholly-owned by BeiGene Biologics

Basis of presentation and consolidation

The accompanying condensed consolidated balance sheet as of June 30, 2020, the condensed consolidated statements of operations and comprehensive loss for the six months ended June 30, 2020 and 2019, the condensed consolidated statements of cash flows for the six months ended June 30, 2020 and 2019, and the condensed consolidated statements of shareholders' equity for the six months ended June 30, 2020 and 2019, and the related footnote disclosures are unaudited. The accompanying unaudited interim financial statements were prepared in accordance with U.S. generally accepted accounting principles ("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 "HK 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 on Form 10-K for the year ended December 31, 2019 (the "Annual Report").

The unaudited condensed consolidated interim 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, 2020 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"), under the voting model and recognizes the minority shareholder's 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, 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, measurement of right-of-use assets and lease liabilities 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 June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*. Subsequently, the FASB issued ASU 2019-05, *Financial Instruments- Credit Losses (Topic 326): Targeted Transition Relief* and ASU 2019-11 *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* (collectively, the "Credit Loss ASUs"). The Credit Loss ASUs change the methodology to be used to measure credit losses for certain financial instruments and financial assets, including trade receivables. The new methodology requires the recognition of an allowance that reflects the current estimate of credit losses expected to be incurred over the life of the financial asset. This new standard also requires that credit losses related to available-for-sale debt securities be recorded as an allowance through net income rather than reducing the carrying amount under the current, other-than-temporary-impairment model. The Company adopted the standard on January 1, 2020. Based on the composition of the Company's trade receivables and investment portfolio, the adoption of this standard did not have a material impact on the Company's financial position or results of operations upon adoption. The Company has updated its accounting policy for trade accounts receivable and is providing additional disclosure about its allowance for credit losses, as required by the standard, upon adoption.

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. 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 adopted this standard on January 1, 2020. There was no material impact to the Company's financial position or results of operations upon adoption.

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 guidance should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company adopted this standard on January 1, 2020. There was no material impact to the Company's financial position or results of operations upon adoption.

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. This guidance should be applied retrospectively to the date of initial application of Topic 606. The Company adopted this standard on January 1, 2020. There was no material impact to the Company's financial position or results of operations upon adoption.

New accounting standards which have not yet been adopted

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This update simplifies the accounting for income taxes as part of the FASB's overall initiative to reduce complexity in accounting standards. The amendments include removal of certain exceptions to the general principles of ASC 740, *Income taxes*, and simplification in several other areas such as accounting for a franchise tax (or similar tax) that is partially based on income. The update is effective in fiscal years beginning after December 15, 2020, and interim periods therein, and early adoption is permitted. Certain amendments in this update should be applied retrospectively or modified retrospectively, and all other amendments should be applied prospectively. 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, 2019.

Accounts Receivable and Allowance for Credit Losses

Trade accounts receivable are recorded at their invoiced amounts, net of trade discounts and allowances as well as an allowance for credit losses. The allowance for credit losses reflects the Company's current estimate of credit losses expected to be incurred over the life of the receivables. The Company considers various factors in establishing, monitoring, and adjusting its allowance for credit losses including the aging of receivables and aging trends, customer creditworthiness and specific exposures related to particular customers. The Company also monitors other risk factors and forward-looking information, such as country specific risks and economic factors that may affect a customer's ability to pay in establishing and adjusting its allowance for credit losses. Accounts receivable are written off after all collection efforts have ceased.

Except for the changes to the Company's significant accounting policies related to the adoption of the Credit Loss 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, 2020, 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, 2020 and December 31, 2019:

As of June 30, 2020	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
Short-term investments (Note 4):			
U.S. treasury securities	1,807,744	—	—
Cash equivalents:			
U.S. treasury securities	263,300	—	—
Money market funds	462,522	—	—
Other non-current assets:			
Equity securities (Note 4)	10,042	6,222	—
Total	2,543,608	6,222	—
As of December 31, 2019	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
Short-term investments (Note 4):			
U.S. treasury securities	364,728	—	—
Cash equivalents			
U.S. treasury securities	16,442	—	—
Money market funds	50,461	—	—
Total	431,631	—	—

The Company's equity securities consist of holdings in common stock and warrants to purchase additional shares of common stock of Leap Therapeutics, Inc. ("Leap"), which were acquired in connection with a collaboration and license agreement entered into in January 2020. The common stock investment in Leap, a publicly-traded biotechnology company, is measured and carried at fair value and classified as Level 1. The warrants to purchase additional shares of common stock in Leap are classified as a Level 2 investment and are measured using the Black-Scholes option-pricing valuation model, which utilizes a constant maturity risk-free rate and reflects the term of the warrants, dividend yield and stock price volatility, that is based on the historical volatility of similar companies.

The Company had no liabilities measured and recorded at fair value on a recurring basis as of June 30, 2020 or December 31, 2019.

3. Collaborative Arrangements

The Company enters into collaborative arrangements for the research and development, manufacture and/or commercialization of drug products and drug candidates. To date, these collaborative arrangements have included out-licenses of internally developed drug candidates to other parties, in-licenses of drug products and drug candidates from other parties, and profit and cost sharing arrangements.

Amgen

On October 31, 2019, the Company entered into a global strategic oncology collaboration with Amgen (the "Amgen Collaboration Agreement") for the commercialization and development in China, excluding Hong Kong, Taiwan and Macao, of Amgen's XGEVA®, KYPROLIS®, and BLINCYTO®, and the joint global development of a portfolio of oncology assets in Amgen's pipeline, with BeiGene responsible for development and commercialization in China. On January 2, 2020, following approval by the Company's shareholders and satisfaction of other closing conditions, the agreement became effective.

Under the agreement, the Company is responsible for the commercialization of XGEVA®, KYPROLIS® and BLINCYTO® in China for five or seven years. Amgen is responsible for manufacturing of the products globally and will supply the products to the Company at an agreed upon price. The Company and Amgen will share equally in the China commercial profits and losses during the commercialization period. Following the commercialization period, the Company has the right to retain one product and is entitled to receive royalties on sales in China for an additional five years on the products not retained. XGEVA® was approved in China in 2019 for patients with giant cell tumor of the bone and a supplemental new drug application has been filed for prevention of skeletal-related events in cancer patients with bone metastases. In July 2020, the Company began commercializing XGEVA® in China. Additionally, new drug applications have been filed in China for KYPROLIS® as a treatment for patients with multiple myeloma and BLINCYTO® as a treatment for adult patients with relapsed or refractory acute lymphoblastic leukemia ("ALL").

Amgen and the Company are also jointly developing a portfolio of Amgen oncology pipeline assets under the collaboration. The Company is responsible for conducting clinical development activities in China and co-funding global development costs by contributing cash and development services up to a total cap of US\$1,250,000,000. Amgen is responsible for all development, regulatory and commercial activities outside of China. For each pipeline asset that is approved in China, the Company will receive commercial rights for seven years from approval. The Company has the right to retain approximately one out of every three approved pipeline assets, other than sotorasib (AMG 510), Amgen's investigational KRAS G12C inhibitor, for commercialization in China. The Company and Amgen will share equally in the China commercial profits and losses during the commercialization period. The Company is entitled to receive royalties from sales in China for pipeline assets returned to Amgen for five years after the seven-year commercialization period. The Company is also entitled to receive royalties from global sales of each product outside of China (with the exception of sotorasib).

The Amgen Collaboration Agreement is within the scope of ASC 808, as both parties are active participants and are exposed to the risks and rewards dependent on the commercial success of the activities performed under the agreement. The Company is the principal for product sales to customers in China during the commercialization period and will recognize 100% of net product revenue on these sales. Amounts due to Amgen for its portion of net product sales will be recorded as cost of sales. Cost reimbursements due to or from Amgen under the profit share will be recognized as incurred and recorded to cost of sales; selling, general and administrative expense; or research and development expense, based on the underlying nature of the related activity subject to reimbursement. Costs incurred for the Company's portion of the global co-development funding are recorded to research and development expense as incurred.

In connection with the collaboration, a Share Purchase Agreement ("SPA") was entered into by the parties on October 31, 2019. On January 2, 2020, the closing date of the transaction, Amgen purchased 15,895,001 of the Company's ADSs for US\$174.85 per ADS, representing a 20.5% ownership stake in the Company. Per the SPA, the cash proceeds shall be used as necessary to fund the Company's development obligations under the Amgen Collaboration Agreement. Pursuant to the SPA, Amgen also received the right to designate one member of the Company's board of directors, and Mr. Anthony C. Hooper joined the Company's board of directors as the Amgen designee in January 2020.

In determining the fair value of the common stock at closing, the Company considered the closing price of the common stock on the closing date of the transaction and included a lack of marketability discount because the shares are subject to certain restrictions. The fair value of the shares on the closing date was determined to be US\$132.74 per ADS, or US\$2,109,902,000 in the aggregate. The Company determined that the premium paid by Amgen on the share purchase represents a cost share liability due to the Company's co-development obligations. The fair value of the cost share liability on the closing date was determined to be US\$601,857,000 based on the Company's discounted estimated future cash flows related to the pipeline assets. The total cash proceeds of US\$2,779,241,000 were allocated based on the relative fair value method, with US\$2,162,407,000 recorded to equity and US\$616,834,000 recorded as a research and development cost share liability. The cost share liability is being amortized proportionately as the Company contributes cash and development services to its total co-development funding cap.

Amounts recorded related to the cash proceeds received from the Amgen collaboration for the six months ended June 30, 2020 were as follows:

	Six Months Ended June 30, 2020 US\$'000
Fair value of equity issued to Amgen	2,162,407
Fair value of research and development cost share liability	616,834
Total cash proceeds	<u>2,779,241</u>

Amounts recorded related to the Company's portion of the co-development funding on the pipeline assets for the six months ended June 30, 2020 were as follows:

	Six Months Ended June 30, 2020 US\$'000
Research and development expense	56,703
Amortization of research and development cost share liability	55,240
Total amount due to Amgen for BeiGene's portion of the development funding	<u>111,943</u>
Total amount of development funding paid or payable in cash	111,943
Total amount of development funding paid with development services	<u>—</u>

**As of
June 30,
2020
US\$'000**

Remaining portion of development funding cap	1,138,057
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At June 30, 2020, the research and development cost share liability recorded in the Company's balance sheet was as follows:

**As of
June 30,
2020
US\$'000**

Research and development cost share liability, current portion	136,704
Research and development cost share liability, non-current portion	424,890
Total research and development cost share liability	561,594

There were no product sales or commercial profit share payments related to the Amgen collaboration during the six months ended June 30, 2020.

Celgene Corporation, a Bristol Myers Squibb company ("BMS")

On July 5, 2017, the Company entered into a license agreement with Celgene Corporation, now a BMS company, pursuant to which the Company granted to the BMS parties an exclusive right to develop and commercialize the Company's investigational PD-1 inhibitor, tislelizumab, in all fields of treatment, other than hematology, in the United States, Europe, Japan and the rest of world other than Asia (the "PD-1 License Agreement"). The Company entered into a mutual agreement with BMS to terminate the Amended and Restated PD-1 License Agreement effective June 14, 2019 in advance of the acquisition of Celgene by BMS.

The following table summarizes total collaboration revenue recognized related to the BMS collaboration for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30, 2020 US\$'000	2019 US\$'000
Reimbursement of research and development costs	–	27,634
Research and development service revenue	–	27,982
Other	–	150,000
Total	–	205,616

For the six months ended June 30, 2019, the Company recognized collaboration revenue of US\$205,616,000 related to its former collaboration with BMS. The Company recognized US\$27,634,000 of research and development reimbursement revenue for the six months ended June 30, 2019 for the clinical trials that Celgene had opted into until 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 reflected 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. 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.

In-Licensing Arrangements

The Company has in-licensed the rights to develop, manufacture and, if approved, commercialize multiple development stage drug candidates and drug products globally or in specific territories. These arrangements typically include non-refundable, upfront payments, contingent obligations for potential development, regulatory and commercial performance milestone payments, cost sharing arrangements, royalty payments, and profit sharing.

Upfront and development milestones paid under these arrangements for the six months ended June 30, 2020 and 2019 are set forth below. All upfront and development milestones were expensed to research and development expense. There have been no regulatory or commercial milestones paid under these arrangements to date.

	Six Months Ended June 30,	
	2020	2019
Research and development payments to Collaboration Partners	US\$' 000	US\$' 000
Upfront payments	43,000	30,000
Milestone payments	5,000	—
Total	48,000	30,000

EUSA Pharma

On January 13, 2020, the Company entered into an exclusive development and commercialization agreement with EUSA for the orphan biologic products SYLVANT® (siltuximab) and QARZIBA® (dinutuximab beta) in China. Under the terms of the agreement, EUSA granted the Company exclusive rights to SYLVANT® in greater China and to QARZIBA® in mainland China. Under the agreement, the Company will fund and undertake all clinical development and regulatory submissions in the territories, and will commercialize both products once approved. EUSA received a US\$40,000,000 upfront payment and will be eligible to receive payments upon the achievement of regulatory and commercial milestones up to a total of US\$160,000,000. EUSA will also be eligible to receive tiered royalties on future product sales. The upfront payment was expensed to research and development expense during the six months ended June 30, 2020 in accordance with the Company's acquired in-process research and development expense policy.

Other

In addition to the collaborations discussed above, the Company has entered into additional collaborative arrangements during the six months ended June 30, 2020 and 2019. The Company may be required to pay additional amounts upon the achievement of various development, regulatory and commercial milestones under these agreements. The Company may also incur significant research and development costs if the related product candidates advance to late-stage clinical trials. In addition, if any products related to these collaborations are approved for sale, the Company may be required to pay milestones and royalties on future sales. The payment of these amounts, however, is contingent upon the occurrence of various future events, which have a high degree of uncertainty of occurrence.

4. Restricted Cash and Investments

Restricted Cash

The Company's restricted cash balance of US\$4,885,000 as of June 30, 2020 primarily consists of RMB-denominated cash deposits held in designated bank accounts for collateral for letters of credit. The Company classifies restricted cash as current or non-current based on the term of the restriction.

Short-Term Investments

Short-term investments as of June 30, 2020 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	1,805,274	2,470	–	1,807,744
Total	<u>1,805,274</u>	<u>2,470</u>	<u>–</u>	<u>1,807,744</u>

Short-term investments as of December 31, 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	363,440	1,288	–	364,728
Total	<u>363,440</u>	<u>1,288</u>	<u>–</u>	<u>364,728</u>

As of June 30, 2020, the Company's available-for-sale debt securities consisted entirely of short-term U.S. treasury securities, which were determined to have zero risk of expected credit loss. Accordingly, no allowance for credit loss was recorded as of June 30, 2020.

Equity Method Investments

Leap

In January 2020, the Company purchased US\$5,000,000 of Series B mandatorily convertible, non-voting preferred stock of Leap in connection with a strategic collaboration and license agreement the Company entered into with Leap. The Series B shares were subsequently converted into shares of Leap common stock and warrants to purchase additional shares of common stock upon approval of Leap's shareholders in March 2020. As of June 30, 2020, the Company's ownership interest in the outstanding common stock of Leap was 8.1% based on information from Leap. Inclusive of the shares of common stock issuable upon the exercise of the currently exercisable warrants, the Company's interest is approximately 15.0% based on information from Leap. The Company determined that it has the ability to exercise significant influence over Leap due to the Company's collaboration agreement, and the investment represents an equity method investment upon conversion. The Company elected to apply the fair value option to the equity method investment and measure the investment in the common stock and warrants at fair value, with changes in fair value recorded to other income. The fair value of the common stock and warrants was US\$10,042,000 and US\$6,222,000, respectively, as of June 30, 2020. During the six months ended June 30, 2020, the Company recorded an unrealized gain of US\$11,264,000 in the statement of operations, respectively.

MapKure, LLC

In June 2019, the Company announced the formation of MapKure, LLC (“MapKure”), an entity jointly owned by the Company and SpringWorks Therapeutics, Inc. (“SpringWorks”). The Company out-licensed to MapKure the Company’s product candidate BGB-3245, an 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. The Company received 10,000,000 Series A preferred units of MapKure, or a 71.4% ownership interest in exchange for its contribution of the intellectual property. SpringWorks purchased 3,500,000 Series A preferred units, or a 25% ownership interest, and other investors purchased 250,000 Series A preferred units or 1.8% ownership each. Following the initial closing, the Company consolidated its interests in MapKure under the voting model due to its controlling financial interest.

On June 8, 2020, MapKure held a second closing under the existing terms of the SPA in which it issued additional Series A preferred units to SpringWorks and the other investors that purchased units in the first closing (the “Second Closing”), and the Company’s ownership interest decreased to 55.6%. As the requisite Series A voting requirements in MapKure’s governing documents require 70% combined voting power for certain actions, the Company determined that it lost its controlling financial interest after the Second Closing. Therefore, the Company deconsolidated MapKure and recognized a gain of US\$11,307,000 for the excess of the fair value of its 55.6% ownership interest in MapKure and carrying amount of the prior non-controlling interest over the carrying amount of MapKure’s net assets within other income during the six months ended June 30, 2020.

Upon deconsolidation, the Company recorded an equity investment of US\$10,000,000, which represents the estimated fair value of its 55.6% ownership interest in MapKure. Effective June 8, 2020, the Company is accounting for the investment as an equity-method investment and records its portion of MapKure’s earnings or losses within other income (expense). During the six months ended June 30, 2020, the Company recognized a loss of US\$23,000 for its portion of MapKure’s net loss. As of June 30, 2020, the carrying amount of the Company’s investment in MapKure was US\$9,977,000.

5. Accounts receivables

	As of June 30, 2020 US\$’000	December 31, 2019 US\$’000
Accounts receivable	61,784	70,878
Impairment	(121)	—
Total	<u>61,663</u>	<u>70,878</u>

The Group’s trading terms with its customers are mainly on credit and the credit periods generally range from 45 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivables are non-interest-bearing.

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

	As of June 30, 2020 US\$’000	December 31, 2019 US\$’000
Within 3 months	61,521	58,752
3 months to 6 months	<u>142</u>	<u>12,126</u>
Total	<u>61,663</u>	<u>70,878</u>

The roll-forward of the allowance for credit losses related to trade accounts receivable for the six months ended June 30, 2020 consists of the following activity:

	Allowance for Credit Losses US\$' 000
Balance as of December 31, 2019	—
Current period provision for expected credit losses	121
Amounts written-off	—
Recoveries of amounts previously written-off	—
Balance as of June 30, 2020	<u>121</u>

6. Inventories

The Company's inventory balance consisted of the following:

	As of June 30, 2020 US\$' 000	December 31, 2019 US\$' 000
Raw materials	3,762	—
Work in process	118	—
Finished goods	29,354	28,553
Total inventories	<u>33,234</u>	<u>28,553</u>

7. Property, plant and equipment

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

	As of June 30, 2020 US\$' 000	December 31, 2019 US\$' 000
Laboratory equipment	50,901	47,154
Leasehold improvements	24,780	24,008
Building	108,188	109,514
Manufacturing equipment	65,431	62,775
Software, electronics and office equipment	15,435	14,705
Property, plant and equipment, at cost	264,735	258,156
Less accumulated depreciation	(51,157)	(36,709)
Construction in progress	44,528	20,955
Property, plant and equipment, net	<u>258,106</u>	<u>242,402</u>

As of June 30, 2020 and December 31, 2019, construction in progress (“CIP”) of US\$44,528,000 and US\$20,955,000, respectively, was primarily related to the buildout of additional capacity at the Guangzhou manufacturing facility. Subsequent phases of the Guangzhou factory buildout will continue to be recorded as CIP until they are placed into service.

Depreciation expense for the six months ended June 30, 2020 was US\$15,146,000. Depreciation expense for the six months ended June 30, 2019 was US\$6,448,000.

8. Guangzhou Biologics Business

Manufacturing legal entity structure

BeiGene (Shanghai) Co., Ltd. (“BeiGene Shanghai”), originally established as a wholly-owned subsidiary of BeiGene (Hong Kong) Co., Limited (“BeiGene HK”), and currently a wholly-owned subsidiary of BeiGene Biologics, as described below, provides clinical development services for BeiGene affiliates and is the clinical trial authorization (“CTA”) holder and marketing authorization application (“MAA”) holder for tislelizumab in China.

In March 2017, BeiGene HK, a wholly-owned subsidiary of the Company, and Guangzhou GET Technology Development Co., Ltd. (now Guangzhou High-tech Zone Technology Holding Group Co., Ltd.) (“GET”) entered into a definitive agreement to establish a commercial-scale biologics manufacturing facility in Guangzhou, Guangdong Province, PRC.

In March 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 14). In September 2019, BeiGene Biologics completed the first phase of construction of a biologics manufacturing facility in Guangzhou, through a wholly-owned subsidiary, BeiGene Guangzhou Biologics Manufacturing Co., Ltd. (“BeiGene Guangzhou Factory”), to manufacture biologics for the Company and its subsidiaries.

In April 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. In the second quarter of 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 was paid in June 2019. In April 2017, GET made cash capital contributions of RMB100,000,000 into BeiGene Biologics, and BeiGene Biologics drew down the Shareholder Loan of RMB900,000,000 from GET (see Note 14).

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 to BeiGene Biologics, as required by the JV Agreement, such that the CTA holder and MAA holder for tislelizumab in China was controlled by 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, 2020, the Company and GET held 95% and 5% equity interests in BeiGene Biologics, respectively.

As of June 30, 2020, the Company had US\$114,105,000 of cash and cash equivalents and US\$4,128,000 of restricted cash held by BeiGene Biologics 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.

Commercial distribution legal entity structure

BeiGene (Guangzhou) Co., Ltd. (“BGC”), a wholly-owned subsidiary of BeiGene HK, was organized on July 11, 2017. In September 2018, BGC 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. (“BPG”). BPG owns drug distribution licenses necessary to distribute pharmaceutical products in China. The Company acquired these drug distribution licenses through the acquisition of BPG, which was accounted for as an asset acquisition, as it is difficult to obtain a newly issued domestic drug distribution license in China.

Commercial supply agreement and facility expansion

In January 2018, the Company entered into a commercial supply agreement with Boehringer Ingelheim Biopharmaceuticals (China) Ltd. (“Boehringer Ingelheim”) for tislelizumab, which is being manufactured at Boehringer Ingelheim’s facility in Shanghai, China as part of a Marketing Authorization Holder (“MAH”) project pioneered by the Company and Boehringer Ingelheim. Under the terms of the commercial supply agreement, Boehringer Ingelheim has agreed to manufacture tislelizumab in China under an exclusive multi-year arrangement, with contract extension possible. In addition, the Company obtained certain preferred rights for future capacity expansion by Boehringer Ingelheim in China.

In October 2018, the Company entered into a binding letter of intent (“LOI”) with Boehringer Ingelheim to increase the amount of tislelizumab supplied under the agreement through the expansion of Boehringer Ingelheim’s facility to add a second bioreactor production line. Under the terms of the binding LOI, the Company provided initial funding for the facility expansion and may make additional payments for contingency costs. This initial funding payment and any subsequent contingency payments will be credited against future purchases of tislelizumab over the term of the supply agreement.

The payment was recorded as a noncurrent asset since it is considered a long-term prepayment for future product costs that will provide future benefit to the Company through credits on purchases of tislelizumab from Boehringer Ingelheim over the life of the supply agreement.

9. Intangible Assets

Intangible assets as of June 30, 2020 and December 31, 2019 are summarized as follows:

	As of					
	June 30, 2020			December 31, 2019		
	Gross carrying amount	Accumulated amortization	Intangible assets, net	Gross carrying amount	Accumulated amortization	Intangible assets, net
	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000
Finite-lived intangible assets:						
Product distribution rights	7,500	(2,125)	5,375	7,500	(1,750)	5,750
Trading license	816	(816)	–	816	(720)	96
Total finite-lived intangible assets	<u>8,316</u>	<u>(2,941)</u>	<u>5,375</u>	<u>8,316</u>	<u>(2,470)</u>	<u>5,846</u>

Product distribution rights consist of distribution rights on the approved cancer therapies licensed from BMS, REVLIMID®, VIDAZA®, and ABRAXANE®, acquired as part of the BMS transaction in 2017. The Company is amortizing the product distribution rights over a period of 10 years which is the term of the agreement. The trading license represents the Guangzhou drug distribution license acquired on September 21, 2018. The Company amortized the drug distribution trading license over the remainder of the initial license term through February 2020. The trading license has been renewed through February 2024.

Amortization expense of intangible assets for the six months ended June 30, 2020 was US\$471,000. Amortization expense of intangible assets for the six months ended June 30, 2019 was US\$663,000.

As of June 30, 2020, expected amortization expense for the unamortized finite-lived intangible assets is approximately US\$375,000 for the remainder of 2020, US\$750,000 in 2021, US\$750,000 in 2022, US\$750,000 in 2023, US\$750,000 in 2024, and US\$2,000,000 in 2025 and thereafter.

10. Income Taxes

Income tax expense was US\$79,000 for the six months ended June 30, 2020. Income tax expense was US\$2,648,000 for the six months ended June 30, 2019. Income tax expense for the six months ended June 30, 2020 was primarily attributable to income reported in certain China subsidiaries as adjusted for certain non-deductible expenses, offset by the tax benefit of deferred U.S. stock-based compensation deductions. The Company's current U.S. tax was reduced by windfall stock compensation deductions and research and development tax credits. 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.

In response to the Coronavirus Disease 2019 ("COVID-19") pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act removes certain net operating loss deduction and carry-back limitations originally imposed by the Tax Cuts and Jobs Act of 2017. Specifically, the Company may now carry back net operating losses ("NOLs") originating in 2018 and 2019 to 2017 and 2016, resulting in an increase to the Company's income tax receivable of US\$5,586,000 as of June 30, 2020. The enactment of the CARES Act did not have a material effect on our income tax expense.

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, 2020, it is more likely than not that deferred tax assets will not be realized for the Company's subsidiaries in Australia and Switzerland, for certain subsidiaries in China, and for all U.S. tax credit carry-forwards.

As of June 30, 2020, the Company had gross unrecognized tax benefits of US\$5,783,000. 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\$1,150,000 in the six months ended June 30, 2020 primarily due 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, 2020 and December 31, 2019, 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, 2020, Australia tax matters are open to examination for the years 2013 through 2020, China tax matters are open to examination for the years 2014 through 2020, Switzerland tax matters are open to examination for the years 2017 through 2020, and U.S. federal tax matters are open to examination for years 2015 through 2020. Various U.S. states and other non-US tax jurisdictions in which the Company files tax returns remain open to examination for 2010 through 2020.

11. Supplemental Balance Sheet Information

Prepaid expenses and other current assets consist of the following:

	As of June 30, 2020 US\$' 000	December 31, 2019 US\$' 000
Prepaid research and development costs	79,458	65,886
Prepaid taxes	18,792	9,498
Payroll tax receivables	17,391	5,365
Interest receivable	3,636	1,932
Prepaid insurance	6,231	711
Prepaid manufacturing costs	10,025	3,829
Other	8,933	3,017
Total	144,466	90,238

Other non-current assets consist of the following:

	As of June 30, 2020 US\$' 000	December 31, 2019 US\$' 000
Goodwill	109	109
Prepayment of property and equipment	30,449	10,289
Prepayment of facility capacity expansion activities (1)	26,267	24,881
Prepaid VAT	25,705	29,967
Rental deposits and other	3,611	3,209
Equity method investments (Note 4)	26,241	—
Total	112,382	68,455

(1) Represents payments for facility expansions under commercial supply agreements. The payments will provide future benefit to the Company through credits on future supply purchases.

Accrued expenses and other payables consist of the following:

	As of June 30, 2020 US\$' 000	December 31, 2019 US\$' 000
Compensation related	48,980	54,156
External research and development related	99,390	62,794
Commercial activities	31,549	25,645
Income tax and other taxes	22,564	9,648
Sales rebates and returns related	3,896	3,198
Professional fees and other	1,542	8,115
Total	207,921	163,556

Other long-term liabilities consist of the following:

	As of June 30, 2020 US\$' 000	December 31, 2019 US\$' 000
Deferred government grant income	46,340	46,391
Other	174	171
Total	<u>46,514</u>	<u>46,562</u>

12. Accounts payables

An aging analysis of the accounts payables as of June 30, 2020 and December 31, 2019, based on the invoice date, is as follows:

	As of June 30, 2020 US\$' 000	December 31, 2019 US\$' 000
Within 3 months	154,993	118,787
3 to 6 months	752	1,889
6 months to 1 year	419	1,272
Over 1 year	1,009	540
Total	<u>157,173</u>	<u>122,488</u>

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

13. Bank Loans

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 benchmarked against prevailing interest rates of certain PRC financial institutions. The loan is secured by BeiGene Guangzhou Factory's land use right and certain BeiGene Guangzhou Factory fixed assets of the first phase of the Guangzhou manufacturing facility build out with a total carrying amount of US\$142,121,000. Interest expense is paid quarterly until the loan is fully settled. As of June 30, 2020, the Company has fully drawn down US\$82,093,000 (RMB580,000,000) of the loan. The loan interest rate was 4.9% for the six months ended June 30, 2020, and the maturity dates range from 2021 to 2027.

On January 13, 2020, BeiGene (Shanghai) Co., Ltd. entered into a one-year loan agreement with China Industrial Bank to borrow up to RMB200,000,000 at a fixed interest rate of 5.6%. During the six months ended June 30, 2020, the Company drew down US\$20,141,000 (RMB140,000,000) of the loan. Interest will be paid quarterly until the loan is fully settled. As of June 30, 2020, the amount outstanding under the loan agreement was US\$19,816,000 (RMB140,000,000).

On January 22, 2020, BeiGene Guangzhou Factory entered into a nine-year bank loan with China Merchants Bank to borrow up to RMB1,100,000,000 at a floating interest rate benchmarked against prevailing interest rates of certain PRC financial institutions. The loan will be secured by BeiGene Guangzhou Factory's second land use right and fixed assets that will be placed into service upon completion of the second phase of the Guangzhou manufacturing facility build out. Interest is paid quarterly until the loan is fully settled. On April 30, 2020, the Company drew down US\$49,525,000 (RMB350,000,000). As of June 30, 2020, the amount outstanding under the loan agreements was US\$49,539,000 (RMB350,000,000). The loan interest rate was 4.4% for the six months ended June 30, 2020, and the maturity dates range from 2022 to 2029.

On May 21, 2020, BeiGene (Beijing) Co., Ltd. entered into a one-year loan agreement with China Merchants Bank to borrow up to RMB100,000,000. On May 27, 2020, the Company drew down US\$2,996,000 (RMB21,460,000) at a fixed interest rate of 4.35% of the loan. On June 28, 2020, the Company drew down an additional US\$3,060,000 (RMB21,666,000) of the loan at a fixed interest rate of 4.5%. Interest will be paid quarterly until the loan is fully settled. As of June 30, 2020, the amount outstanding under the loan agreement was US\$6,104,000 (RMB43,126,000).

Interest expense recognized for the six months ended June 30, 2020 was US\$3,607,000, among which, US\$124,000 was capitalized. Interest expense recognized for the six months ended June 30, 2019 was US\$2,108,000, among which, US\$1,379,000 was capitalized.

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

	As of	
	June 30, 2020	December 31, 2019
	US\$'000	US\$'000
Analyzed into:		
Bank loan repayable:		
Within one year	26,061	—
In the second year	1,415	1,436
In the third to fifth years, inclusive	45,758	21,546
Above five years	84,318	60,329
Total	157,552	83,311

14. 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 is 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, 2020, total interest generated from the Shareholder Loan was US\$5,106,000, of which, nil was capitalized.

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.

15. Product Revenue

The Company's product sales are derived from the sale of its internally developed products BRUKINSA® in the United States and China and tislelizumab in China, as well as the sale of REVLIMID®, VIDAZA® and ABRAXANE® in China under a distribution license from BMS. On March 25, 2020, the Company announced that the NMPA suspended the importation, sales and use of ABRAXANE® in China supplied to BeiGene by Celgene Corporation, a BMS company, and the drug was subsequently recalled by BMS and is not currently available for sale in China. The table below presents the Company's net product sales for the six months ended June 30, 2020 and 2019.

	Six Months Ended June 30,	
	2020	2019
	US\$'000	US\$'000
Product revenue – gross	120,877	117,269
Less: Rebates and sales returns	(3,183)	(1,706)
Product revenue – net	<u>117,694</u>	<u>115,563</u>

The following table disaggregates net product sales by product for the six months ended June 30, 2020 and June 30, 2019:

	Six Months Ended June 30,	
	2020	2019
	US\$'000	US\$'000
Tislelizumab	49,943	–
BRUKINSA®	7,691	–
REVLIMID®	24,847	39,957
VIDAZA®	17,832	13,741
ABRAXANE®	<u>17,381</u>	<u>61,865</u>
Total net product revenue	<u>117,694</u>	<u>115,563</u>

The following table presents the roll-forward of accrued sales rebates and returns for the six months ended June 30, 2020 and June 30, 2019:

	Sales Rebates and Returns US\$'000
Balance as of December 31, 2018	4,749
Accrual	1,706
Payments	<u>(3,784)</u>
Balance as of June 30, 2019	<u>2,671</u>
Balance as of December 31, 2019	3,198
Accrual	3,183
Payments	<u>(2,485)</u>
Balance as of June 30, 2020	<u>3,896</u>

16. Loss before Income Tax Expense

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

	Six Months Ended June 30,	
	2020	2019
	US\$'000	US\$'000
Cost of inventories sold	28,456	33,100
Depreciation and amortization expense	15,146	6,448
Research and development costs (note)	590,270	407,111
Amortization of operating lease right-of-use assets	9,097	6,522
Amortization of license rights	471	663
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and other benefits	200,146	125,450
Share-based compensation expenses	83,723	58,994
Pension scheme contributions (defined contribution scheme)	6,412	6,762
	<u>290,281</u>	<u>191,206</u>
Gain on sale of available-for-sale securities	(1,429)	(1,806)
Gain on deconsolidation of entity	(11,307)	—
Foreign exchange differences, net	3,944	1,691
Bank interest income	(16,515)	(11,864)

Note:

During the six months ended June 30, 2020 and 2019, research and development costs of approximately US\$156,411,000 and US\$115,072,000 were also included in employee benefit expense.

17. Loss Per Share

Loss per share was calculated as follows:

	Six Months Ended June 30,	
	2020	2019
	US\$'000	US\$'000
Numerator:		
Net loss attributable to BeiGene, Ltd.	(698,937)	(253,210)
Denominator:		
Weighted average shares outstanding, basic and diluted	<u>1,007,967,904</u>	<u>776,137,299</u>
Net loss per share attributable to BeiGene, Ltd., basic and diluted (in US\$)	<u>(0.69)</u>	<u>(0.33)</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, 2020 and 2019.

18. Share-Based Compensation Expense

2016 Share Option and Incentive Plan

On January 14, 2016, in connection with the Company's initial public offering ("IPO") on the NASDAQ Stock Market, 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, 2020, ordinary shares cancelled or forfeited under the 2011 Plan that were carried over to the 2016 Plan totaled 5,152,249. The 2016 Plan formerly 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 Company's IPO on The Stock Exchange of Hong Kong Limited ("HKEx"), 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 HK Listing Rules. In December 2018, the shareholders 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. In June 2020, the shareholders approved an Amendment No. 1 to the 2016 Plan to increase the number of shares authorized for issuance by 57,200,000 ordinary shares and to extend the term of the plan through April 13, 2030. 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, 2020, the Company granted options for 8,657,649 ordinary shares and restricted share units for 15,567,058 ordinary shares under the 2016 Plan. As of June 30, 2020, options and restricted share units for ordinary shares outstanding under the 2016 Plan totaled 92,244,880 and 34,112,988, 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 of directors upon recommendation of the compensation committee, without shareholder 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 Hong Kong IPO, the board of directors of the Company approved an amended and restated 2018 Plan to implement changes required by the HK Listing Rules.

During the six months ended June 30, 2020, the Company did not grant any options or restricted share units under the 2018 Plan. As of June 30, 2020, options and restricted share units for ordinary shares outstanding under the 2018 Plan totaled 79,404 and 2,028,520, 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 of directors of the Company 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 HK Listing 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 of directors 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, 2020, the Company issued 425,425 ordinary shares to employees for aggregate proceeds of US\$4,048,000 under the ESPP. The purchase price of the shares was US\$123.71 per ADS, or US\$9.52 per ordinary share, which was discounted in accordance with the terms of the ESPP from the closing price on NASDAQ on February 28, 2020 of US\$158.35 per ADS, or US\$12.18 per ordinary share.

On August 30, 2019, the Company issued 233,194 ordinary shares to employees for aggregate proceeds of US\$2,192,000 under the ESPP. The purchase price of the shares was US\$122.19 per ADS, or US\$9.40 per ordinary share, which was discounted in accordance with the terms of the ESPP from the closing price on NASDAQ on August 30, 2019 of US\$143.75 per ADS, or US\$11.06 per ordinary share.

On February 28, 2019, the Company issued 154,505 ordinary shares to employees for aggregate proceeds of US\$1,385,000 under the ESPP. 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 share.

The following table summarizes total share-based compensation expense recognized for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30,	
	2020	2019
	US\$'000	US\$'000
Research and development	44,111	33,925
Selling, general and administrative	39,612	25,069
Total	<u>83,723</u>	<u>58,994</u>

19. Accumulated Other Comprehensive Loss

The movement of accumulated other comprehensive loss 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, 2019	(9,291)	1,290	(8,001)
Other comprehensive (loss)/income before reclassifications	(2,526)	2,657	131
Amounts reclassified from accumulated other comprehensive income	—	(1,429)	(1,429)
Net-current period other comprehensive (loss)/income	(2,526)	1,228	(1,298)
Balance as of June 30, 2020	(11,817)	2,518	(9,299)

20. Shareholders' Equity

Share Purchase Agreement

On January 2, 2020, the Company sold 15,895,001 ADSs, representing a 20.5% ownership stake in the Company, to Amgen for aggregate cash proceeds of US\$2,779,241,000, or US\$174.85 per ADS, pursuant to the SPA executed in connection with the Amgen Collaboration Agreement.

21. 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 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 of directors, 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 enterprises and therefore are subject to the above-mentioned restrictions on distributable profits.

During the six months ended June 30, 2020 and 2019, no appropriation to statutory reserves was made because the PRC subsidiaries had substantial losses during these 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 regulations 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, 2020 and December 31, 2019, amounts restricted were the net assets of the Company's PRC subsidiaries, which amounted to US\$158,840,000 and US\$109,633,000, respectively.

22. Commitments and Contingencies

Purchase Commitments

As of June 30, 2020, the Company had purchase commitments amounting to US\$126,864,000, of which US\$105,127,000 related to minimum purchase requirements for supply purchased from contract manufacturing organizations and US\$21,737,000 related to binding purchase obligations of inventory from BMS. The Company does not have any minimum purchase requirements for inventory from BMS.

Capital Commitments

The Company had capital commitments amounting to US\$61,017,000 for the acquisition of property, plant and equipment as of June 30, 2020, which were mainly for BeiGene Guangzhou Factory's manufacturing facility in Guangzhou, China.

Co-development Funding Commitment

Under the Amgen Collaboration Agreement, the Company is responsible for co-funding global development costs for the Amgen oncology pipeline assets up to a total cap of US\$1,250,000,000. The Company is funding its portion of the co-development costs by contributing cash and development services. As of June 30, 2020, the Company's remaining co-development funding commitment was US\$1,138,057,000.

Other Business Agreements

The Company enters into agreements in the ordinary course of business with contract research organizations ("CROs") to provide research and development services. These contracts are generally cancelable at any time by us with prior written notice.

The Company also enters into collaboration agreements with institutions and companies to license intellectual property. The Company may be obligated to make future development, regulatory and commercial milestone payments and royalty payments on future sales of specified products associated with its collaboration agreements. Payments under these agreements generally become due and payable upon achievement of such milestones or sales. These commitments are not recorded on the Company's balance sheet because the achievement and timing of these milestones are not fixed and determinable. When the achievement of these milestones or sales have occurred, the corresponding amounts are recognized in the Company's financial statements.

23. Related Party Transactions

- (a) In addition to the transactions detailed elsewhere in this financial information, the Group had the following related party transactions for the six months ended June 30, 2020 and 2019:

Dr. Xiaodong Wang, Chairman of Scientific Advisory Board, Director and shareholder of the Company, provided consulting service to the Group, and the compensation received by Dr. Xiaodong Wang for consulting service for the six months ended June 30, 2020 and 2019 consisted of (i) US\$50,000 (2019: US\$50,000) in consulting fees, (ii) US\$75,000 (2019: US\$75,000) as a performance-based cash bonus, (iii) share-based compensation expenses for options and RSUs of US\$3,511,000 (2019: US\$2,169,000).

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

	Six Months Ended June 30,	
	2020 US\$' 000	2019 US\$' 000
Short term employee benefits	2,009	2,065
Post-employment benefits	49	44
Share-based compensation expenses	15,002	11,905
Total compensation paid to key management personnel	17,060	14,014

24. Segment and Geographic Information

The Company operates in one segment: pharmaceutical products. Its chief operating decision maker is the Chief Executive Officer, who makes operating decisions, assesses performance and allocates resources on a consolidated basis.

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,	
	2020 US\$' 000	2019 US\$' 000
PRC	113,918	115,563
United States	3,776	133,650
Other	—	71,966
Total	117,694	321,179

25. Subsequent Event After Reporting Period

On July 15, 2020, the Company issued 145,838,979 ordinary shares, par value US\$0.0001 per ordinary share, to certain existing investors in a registered direct offering. Each ordinary share was sold for a purchase price of US\$14.2308 per share (US\$185.00 per ADS), resulting in gross proceeds of approximately US\$2,075,000,000 and net proceeds, after estimated offering expenses, of approximately US\$2,069,000,000. The offering was made without an underwriter or a placement agent and as a result the Company did not pay any underwriting discounts or commissions in connection with this offering.

26. 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:

Six months ended June 30, 2020				
Consolidated statement of operations data	Amounts as reported under U.S. GAAP	IFRSs adjustments		Amounts under IFRSs
	US\$' 000	US\$' 000	US\$' 000	US\$' 000
			Tax benefit/deficiency on share-based compensation	
		Share-based compensation (note (i))	(note (iii))	
Research and development	(590,270)	(1,204)	–	(591,474)
Selling, general and administrative	(231,130)	(6,283)	–	(237,413)
Loss before income tax expense	(701,178)	(7,487)	–	(708,665)
Income tax (expense) benefit	(79)	616	(10,467)	(9,930)
Net loss	(701,257)	(6,871)	(10,467)	(718,595)
Net loss attributable to BeiGene, Ltd.	(698,937)	(6,871)	(10,467)	(716,275)
Six months ended June 30, 2019				
Consolidated statement of operations data	Amounts as reported under U.S. GAAP	IFRSs adjustments		Amounts under IFRSs
	US\$' 000	US\$' 000	US\$' 000	US\$' 000
			Tax benefit/deficiency on share-based compensation	
		Share-based compensation (note (i))	(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)

As at June 30, 2020					
	Amounts as reported under US GAAP US\$' 000	IFRSs adjustments			Amounts under IFRSs US\$' 000
		US\$' 000	US\$' 000	US\$' 000	
				Tax benefit/ deficiency on share based compensation (note (iii))	
Consolidated balance sheet data		Share based compensation (note (i))	Preferred Shares (note (ii))		
Deferred tax assets	39,801	616	—	—	49,341
		8,924*	—	—	
Total assets	3,903,290	9,540	—	—	3,912,830
Additional paid-in capital	5,200,275	7,487	307,894*	10,467	5,672,238
		107,701*	—	38,414*	
Accumulated deficit	(2,654,780)	(7,487)	(307,894)*	(10,467)	(3,117,203)
		616		—	
		(98,777)*		(38,414)*	
Total equity	2,546,492	9,540	—	—	2,556,032

As at December 31, 2019					
	Amounts as reported under US GAAP US\$' 000	IFRSs adjustments			Amounts under IFRSs US\$' 000
		US\$' 000	US\$' 000	US\$' 000	
				Tax benefit/ deficiency on share based compensation (note (iii))	
Consolidated balance sheet data		Share based compensation (note (i))	Preferred Shares (note (ii))		
Deferred tax assets	37,894	2,048	—	(8,617)	46,818
		6,876*	—	8,617*	
Total assets	1,612,289	8,924	—	—	1,621,213
Additional paid-in capital	2,925,970	32,200	307,894*	11,360	3,379,979
		75,501*	—	27,054*	
Accumulated deficit	(1,955,843)	(32,200)	(307,894)*	(19,977)	(2,400,928)
		2,048			
		(68,625)*		(18,437)*	
Total equity	978,355	8,924	—	—	987,279

* IFRSs adjustments brought forward from prior years.

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 grantdate 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\$7,487,000 arose between the amount of share-based compensation (included in research and development expenses, and selling, general and administrative expenses) recognized under U.S. GAAP and IFRSs for the six months ended June 30, 2020 (six months ended June 30, 2019: US\$23,712,000). The related income tax impact of this item was US\$616,000 for the six months ended June 30, 2020 (six months ended June 30, 2019: nil).

The accumulated difference on share-based compensation recognized in expenses and additional paid in capital under U.S. GAAP and IFRSs was US\$107,701,000, the related income tax impact on above differences was US\$8,924,000, and net impact on the accumulated deficit was US\$98,777,000 as of December 31, 2019. The differences as of December 31, 2019 were all carried forward as opening IFRSs adjustments to the balance sheet as of January 1, 2020.

(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 are classified as mezzanine equity as these convertible preferred shares are redeemable upon the occurrence of a conditional event (i.e., Liquidation Transaction). The holders of the Preferred Shares have a liquidation preference upon the occurrence of the conditional event. The conversion options and contingent redemption options of the convertible preferred shares do not qualify for bifurcation accounting because the conversion options are clearly and closely related to the host instrument and the underlying ordinary shares of the conversion options and redemption options are not publicly traded nor readily convertible into cash. No beneficial conversion features are 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 are not redeemable currently and is not probable that the Preferred Shares will become redeemable because the likelihood of the Liquidation Transaction is remote. Therefore, no adjustment will be made to the initial carrying amount of the Preferred Shares until it is probable that they will 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 statement of operations.

As the deferred tax assets impact was determined to the extent of future available taxable profit against which the estimated additional tax deduction can be utilized, there is no difference on deferred tax assets for tax benefit on share-based compensation expenses recognized under U.S. GAAP and IFRSs as of June 30, 2020 and December 31, 2019. The cumulative income tax benefit on excess tax deductions of US\$10,467,000 for the six months ended June 30, 2020 (six months ended June 30, 2019: US\$2,665,000) was recognized in equity under IFRSs, rather than in the statement of operations under U.S. GAAP.

The accumulated difference of excess tax deduction of US\$38,414,000 recognized in equity amounted to US\$38,414,000 as of December 31, 2019, and are carried forward as opening adjustments to the balance sheet as of January 1, 2020 under IFRSs.

(iv) Lease

The Group adopted the new lease standard effective 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, 2020 and for the six months ended June 30, 2020.

27. Dividends

The board of directors of the Company did not recommend the distribution of any interim dividend for the six months ended June 30, 2020 (six months ended June 30, 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are a global, commercial-stage biotechnology company focused on discovering, developing, manufacturing, and commercializing innovative medicines to improve treatment outcomes and access for patients worldwide. We started as a research and development company in Beijing in 2010. Over the last ten years, we have developed into a fully-integrated global biotechnology company, with significant commercial, manufacturing, and research and development capabilities.

We have built substantial commercial capabilities in China and the United States and are currently marketing both internally developed drugs and in-licensed drugs. In the United States, we market BRUKINSA® (zanubrutinib) for adult patients with mantle cell lymphoma (“MCL”) who have received at least one prior therapy. In China, we market BRUKINSA® in two indications: for adult patients with chronic lymphocytic leukemia (“CLL”)/small lymphocytic lymphoma (“SLL”) who have received at least one prior therapy, and for adult patients with MCL who have received at least one prior therapy. In China, we also market tislelizumab in two indications: for patients with classical Hodgkin’s Lymphoma (“cHL”) who have received at least two prior therapies, and for patients with locally advanced or metastatic urothelial carcinoma (“UC”), a form of bladder cancer, with PD-L1 high expression whose disease progressed during or following platinum-containing chemotherapy or within 12 months of neoadjuvant or adjuvant treatment with platinum-containing chemotherapy.

We have filed additional new or supplementary new drug applications for regulatory approvals in China or elsewhere for our internally developed products and are planning for launches in these additional drugs or indications in 2020 and beyond. Our commercial portfolio also includes the following drugs in-licensed from third parties: REVLIMID®, VIDAZA® and ABRAXANE®, which we have been marketing in China since 2017 under a license from Celgene Logistics Sàrl, a Bristol Myers Squibb company (“BMS”), and XGEVA® (denosumab), from Amgen, which we began commercializing in July 2020. On March 25, 2020, we announced that the NMPA suspended the importation, sales and use of ABRAXANE® in China supplied to us by Celgene Corporation, a BMS company, and the drug was subsequently recalled by BMS and is not currently available for sale in China. We plan on launching additional in-licensed products in China from our collaborations, including KYPROLIS® (carfilzomib) and BLINCYTO® (blinatumomab) from Amgen, and SYLVANT® (siltuximab) and QARZIBA®▼ (dinutuximab beta), from EUSA.

We have built deep clinical development capabilities, including a more than 1,350-person global clinical development team that is running over 70 ongoing or planned clinical trials in more than 35 countries that have enrolled over 10,000 patients and healthy subjects. We are conducting late-stage clinical trials of BRUKINSA® and tislelizumab, including 27 registration or registration-enabling trials in at least 15 discrete cancer indications. Our internal research capabilities have yielded another late-stage asset, pamiparib, for which we have filed a new drug application (“NDA”) in China, and five other internally developed drug candidates that are currently in early-stage clinical development. In addition, we have been able to leverage our capabilities and China’s rising importance as a clinical science center and commercial market to expand our clinical and pre-clinical portfolio with in-licensed drug candidates. We are also working with high-quality contract manufacturing organizations (“CMOs”) to manufacture our internally developed clinical and commercial products in China and globally and have built state-of-the-art small molecule and biologic manufacturing facilities in China to support the launches and potential future demand of our products.

Based on the strength of our China-inclusive global development and commercial capabilities, we have entered into collaborations with leading pharmaceutical and biotechnology companies to develop and commercialize innovative medicines in China and the Asia-Pacific region. In October 2019, we entered into a strategic collaboration with Amgen pursuant to which we have agreed to collaborate on the commercialization of Amgen's oncology products XGEVA®, KYPROLIS® and BLINCYTO® in China, and the global development and future commercialization in China of a portfolio of Amgen's clinical- and late pre-clinical-stage pipeline products, including sotorasib (AMG 510), Amgen's investigational KRAS G12C inhibitor.

Recent Developments

Recent Business Developments

On August 24, 2020, we announced that we entered into a license, distribution, and supply agreement for China with Bio-Thera Solutions, Ltd. ("Bio-Thera"), a commercial stage biopharmaceutical company (688177.SH) for Bio-Thera's BAT1706, an investigational biosimilar to Avastin® (bevacizumab). The NMPA recently accepted Bio-Thera's Biologics License Application for BAT1706. Bevacizumab has been approved in China for advanced, metastatic, or relapsed non-small cell lung cancer and metastatic colorectal cancer. The agreement is subject to approval by the shareholders of Bio-Thera at a meeting to be held in September 2020.

On July 27, 2020, we announced that the Center for Drug Evaluation ("CDE") of the NMPA granted priority review status to the accepted NDA of pamiparib, our investigational inhibitor of PARP1 and PARP2, for the treatment of patients with deleterious or suspected deleterious germline BRCA-mutated advanced ovarian, fallopian tube, or primary peritoneal cancer who have been treated with two or more lines of chemotherapy.

On July 20, 2020, we announced that we entered into a collaboration in China with Assembly Biosciences, Inc. ("Assembly") for Assembly's portfolio of three clinical-stage hepatitis B virus ("HBV") core inhibitor candidates for the treatment of patients with chronic HBV infection. Under the terms of the agreement, Assembly granted us exclusive rights to develop and commercialize ABI-H0731, ABI-H2158 and ABI-H3733 in China, including Hong Kong, Macau, and Taiwan. ABI-H0731 and ABI-H2158 are both in ongoing Phase 2 clinical trials and ABI-H3733 is in Phase 1 development. We will be responsible for development, regulatory submissions, and commercialization in China. Assembly retains full worldwide rights outside of the partnered territory for its HBV portfolio. Assembly received an upfront cash payment and is eligible to receive milestone payments pending successful development and commercialization of the licensed candidates. In addition, Assembly is eligible to receive tiered royalties of net sales. We will contribute initial funding for clinical development in China, after which the development costs for the territory will be shared equally by the parties.

On July 15, 2020, we announced the closing of a registered direct offering of 145,838,979 ordinary shares to certain existing investors. Each ordinary share was sold for a purchase price of US\$14.2308 per share (US\$185 per ADS), resulting in gross proceeds of approximately US\$2.08 billion and net proceeds, after estimated offering expenses, of approximately US\$2.07 billion. The offering was made without an underwriter or a placement agent and as a result we did not pay any underwriting discounts or commissions in connection with this offering.

On July 1, 2020, we announced that the CDE of the NMPA accepted a supplemental new drug application ("sNDA") of tislelizumab for the treatment of patients with previously treated unresectable hepatocellular carcinoma, the most common form of liver cancer.

On July 1, 2020, we began commercializing XGEVA® in China for the treatment of giant cell tumor of bone (“GCTB”). This marked the first Amgen product that was transitioned to us for commercialization in China since the commencement of our global strategic oncology collaboration in January 2020. Amgen gained approval from the NMPA for XGEVA® in May 2019 for the treatment of adults and skeletally mature adolescents (defined by at least one mature long bone and with a body weight ≥ 45 kg) with GCTB that is unresectable or where surgical resection is likely to result in severe morbidity. In addition, an sNDA for XGEVA® as a prevention for skeletal-related events in patients with multiple myeloma and in patients with bone metastases from solid tumors was accepted by the CDE of the NMPA in April 2020 and is currently under review.

On June 19, 2020, we announced that the CDE of the NMPA accepted an sNDA of tislelizumab in combination with chemotherapy for first-line treatment of patients with advanced non-squamous non-small cell lung cancer.

On June 18, 2020, we announced that our marketing authorization application (“MAA”) for BRUKINSA® for the treatment of patients with Waldenström’s macroglobulinemia (WM) who have received at least one prior therapy or as first-line treatment for patients unsuitable for chemo-immunotherapy was accepted for regulatory review by the European Medicines Agency (“EMA”).

On June 3, 2020, we announced that BRUKINSA® received approval from the NMPA in two indications, which are (1) the treatment of adult patients with CLL/SLL who have received at least one prior therapy, and (2) the treatment of adult patients with MCL who have received at least one prior therapy. Both NDAs were previously granted priority review by the CDE of the NMPA.

On May 26, 2020, we announced that we entered into a clinical collaboration agreement with Hutchison China MediTech Limited (“Chi-Med”) to evaluate the safety, tolerability and efficacy of combining two of Chi-Med’s drug candidates, surufatinib and fruquintinib, with tislelizumab, for the treatment of various solid tumor cancers, in the U.S., Europe, China and Australia.

On May 21, 2020, we announced an exclusive distribution agreement with Medison Pharma Ltd. (“Medison”) for Medison to commercialize BRUKINSA® in Israel and the acceptance of an NDA in Israel for BRUKINSA® for the treatment of patients with MCL who have received at least one prior therapy.

Coronavirus Disease 2019 (COVID-19)

We expect that the worldwide health crisis of COVID-19 will continue to have a negative impact on our operations, including commercial sales, regulatory interactions and inspections, and clinical trial recruitment and participation. Although the impact of COVID-19 on our operations in China lessened in the second quarter of 2020, there remains uncertainty regarding the future impact of the pandemic both in China as well as globally. We are striving to minimize delays and disruptions, and continue to execute on our commercialization, regulatory and clinical development goals globally.

FUTURE AND OUTLOOK

Our mission is to become a global leader in the discovery, development, and commercialization of innovative medicines for the treatment of cancer. Key elements of our strategy are as follows:

- **Realize Two Large Commercial Opportunities with BRUKINSA® (zanubrutinib) and tislelizumab.** Zanubrutinib is a wholly-owned, potentially best-in-class small molecule inhibitor of Bruton's tyrosine kinase ("BTK") for B-cell malignancies. We believe zanubrutinib may have efficacy and safety advantages compared to the other approved BTK therapies based on its ability to achieve full BTK occupancy and minimize off-target binding. There is a large global commercial opportunity for BTK inhibitors, with global revenues totaling approximately US\$5.8 billion in 2019 according to published reports. We believe that our clinical experience to date in over 2,500 patients, along with our broad clinical development plan, position us to capitalize on this commercial opportunity. In November 2019, we received accelerated approval for BRUKINSA® from the U.S. Food and Drug Administration ("FDA") for the treatment of adult patients with MCL who have received at least one prior therapy. We have built a commercial team in the United States and launched BRUKINSA® in late 2019. In June 2020, we received approval for BRUKINSA® from the NMPA in two indications – the treatment of adult patients with CLL/SLL who have received at least one prior therapy, and the treatment of adult patients with MCL who have received at least one prior therapy. Both NDAs were previously granted priority review by the CDE of the NMPA. We are conducting a broad clinical program for zanubrutinib, with near-term data readouts expected, both as a monotherapy and in combination with other therapies.

Our most recently approved drug is tislelizumab, a wholly-owned antibody against the immune checkpoint receptor programmed cell death protein 1 ("PD-1") that was designed to minimize Fc-gamma receptor binding, which is believed to play an essential role in activating phagocytosis in macrophages, to minimize its negative impact on T effector cells. We received approval from NMPA in December 2019 to market tislelizumab for the treatment of patients with cHL who have received at least two prior therapies, and we launched tislelizumab in China in March 2020. In addition, in April 2020, we received approval for tislelizumab from the NMPA for the treatment of patients with locally advanced or metastatic UC with PD-L1 high expression whose disease progressed during or following platinum-containing chemotherapy or within 12 months of neoadjuvant or adjuvant treatment with platinum-containing chemotherapy. This is the second indication approved for tislelizumab, and the first in a solid tumor indication. We believe that there is a large and growing opportunity for novel cancer therapeutics in China and 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, liver cancer and esophageal cancer. According to published reports, China has a higher proportion of PD-1 responsive tumors in its total annual cancer incidence in comparison to other geographies like the U.S. and Europe. According to a published study (Chen et al., Cancer Statistics in China, 2015, CA: Cancer J. Clin. 2016; 66(2):115-32), which we refer to as Chen et al. 2016, the annual incidence of the top ten PD-1 responsive tumors in China is estimated to be 3.0 million out of 4.3 million in total annual cancer incidence. We believe that we are uniquely positioned to capture this opportunity with our strong presence and experience in China, our global clinical development capabilities, the breadth of our development plan, which has enrolled more than 5,000 patients to date, including 16 registration or potentially registration-enabling trials, and high-quality manufacturing.

- Utilize Our Key Strategic Clinical and Commercial Capabilities.** We believe that recent changes in the regulatory environment in China have led to an unprecedented opportunity in our industry. Historically, the regulatory environment in China was considered highly challenging, with clinical development delays and regulatory approvals taking much longer than in the United States and the European Union. To address these challenges, the NMPA issued a series of reform policies and opinions, which, among other things, has expanded access to clinical patients and created an opportunity to expedite drug development and approval by removing delays and creating an environment with international quality standards for drug development, manufacturing and commercialization in China. These regulatory reforms allow clinical trials in China to play a major role in global drug development programs, with the data generated in China used to support approvals outside of China. However, challenges to benefiting from these reforms remain, including limited contract research organization (“CRO”) capability, a limited talent pool and clinical data and trial management challenges. Our strategy has been to aggressively build our clinical development and commercial capabilities in China to take advantage of these changes and mitigate the challenges with accessing China as a clinical science center. Our global oncology development team is made up of more than 1,200 employees, approximately 60% of whom are in China. We are dedicated to performing studies that conform to the highest global International Council for Harmonisation standards. We have initiated 12 global, China-inclusive pivotal studies and 27 pivotal or potentially registration-enabling studies. We have over 60 ongoing or planned trials and have enrolled over 9,000 patients and healthy subjects in our clinical trials. From a commercial perspective, our strategy in China is to seek broader access to patients in need of innovative medicines through national reimbursement. This strategy requires a large commercial organization. We have increased our commercial capability from just over 150 people when we acquired the commercial operations of Celgene (now part of BMS) in China in 2017 to over 900 people as of the end of 2019. We believe that we are well-positioned to launch our current and future pipeline of internally-developed and in-licensed drugs in China and take advantage of the opportunity of improved national reimbursement.
- Expand Our Portfolio by Leveraging Our Clinical and Commercial Capabilities.** As many leading pharmaceutical and biotechnology companies evaluate opportunities in China, we believe that collaborating with us could allow these companies to efficiently and effectively access deep local clinical development, commercial and manufacturing capabilities at global quality standards. For example, we have leveraged our unique China-inclusive development and commercial capabilities to expand our portfolio through our collaboration with Amgen. In addition, we have entered into over 10 transactions since 2017 in which we have added innovative preclinical, clinical and/or commercial-stage drugs and drug candidates to our portfolio. Our strategy is to continue to aggressively evaluate licensing opportunities to add to our pipeline of drugs and drug candidates.

- **Pursue a New Model for Global Growth.** We believe that the large addressable patient population and the expansion of reimbursement of innovative medicines in China can support a new business model for growth in our industry by allowing research and development investment for these drugs to be leveraged over a significantly larger patient pool, which can enable broader access worldwide with more affordable pricing as compared to the traditional priority market model. This global access and pricing model will allow us to leverage our strong clinical and commercial capabilities in China and globally. It also provides an opportunity to obtain return on the investments made to develop our portfolio of drug candidates. We evaluate worldwide markets by researching the opportunities, start-up risks and costs, and our capabilities. Subsequently, we design targeted market entrance strategies and plan to pursue these global markets in a staged manner based on investment and return analyses. We plan to seek approvals of our portfolio compounds globally in order for us to capitalize on these opportunities.

Financial Review

Revenue

We began generating product revenue in September 2017 through our in-license agreement with BMS to distribute the approved cancer therapies REVLIMID®, VIDAZA®, and ABRAXANE® in China. Following approval from the FDA on November 14, 2019, we launched our first internally developed drug, BRUKINSA®, in the United States. We launched our second internally developed drug, tislelizumab, in China in March 2020. In June 2020, we launched BRUKINSA® in China.

Revenues from product sales are recognized when there is a transfer of control from the Company to the customer. The Company determines transfer of control based on when the product is delivered, and title passes to the customer. Revenues from product sales are recognized net of variable consideration resulting from rebates, chargebacks, trade discounts and allowances, sales returns allowances and other incentives. Provisions for estimated reductions to revenue are provided for in the same period the related sales are recorded and are based on contractual terms, historical experience and trend analysis. We expect revenue from our internal product sales to increase throughout 2020. We began commercializing XGEVA® in China in July of 2020 and plan on launching additional in-licensed products from our collaborations with Amgen and EUSA in 2020 and 2021, and continue to expand our efforts to promote our existing commercial products.

To date, we also recorded revenue from our 2017 collaboration and license agreement with BMS 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 portion of the upfront payment related to the reimbursement of undelivered research and development services was deferred and 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 clinical trials that BMS opted into until the termination of the collaboration agreement. Pursuant to the terms of the termination agreement, we received a one-time payment of US\$150 million in June 2019, which was recognized in full at that time because we had no further performance obligations under the collaboration.

Expenses

Cost of Sales

Cost of sales includes the cost of products purchased from BMS and distributed in China and the costs to manufacture our internally developed commercial products. Costs to manufacture inventory in preparation for commercial launch of a product incurred prior to regulatory approval are expensed to research and development expense as incurred. Cost of sales for newly launched products will not be recorded until the initial pre-launch inventory is depleted and additional inventory is manufactured.

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 CROs, CMOs, 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 drugs and drug candidates:

- BRUKINSA® (zanubrutinib), a small molecule inhibitor of BTK;
- tislelizumab, a humanized monoclonal antibody against PD-1;
- pamiparib, an investigational selective small molecule inhibitor of PARP1 and PARP2;
- lifirafenib, an investigational novel small molecule inhibitor of both the monomer and dimer forms of BRAF;
- BGB-A333, an investigational humanized monoclonal antibody against PD-L1;
- BGB-A425, an investigational humanized monoclonal antibody against TIM-3;
- BGB-A1217, an investigational humanized monoclonal antibody against TIGIT; and
- BGB-11417, an investigational small molecular inhibitor of Bcl-2.

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. (“Mirati”);
- zanidatamab (ZW25) and ZW49, two bispecific antibody-based product candidates targeting HER2, under development by Zymeworks Inc.;
- BA3071, an investigational CAB-CTLA-4 antibody, under development by BioAtla LLC (“BioAtla”); and
- Research and development expense related to the co-development of pipeline assets under the Amgen Collaboration Agreement. Our total cost share obligation to Amgen is split between research and development expense and a reduction to research and development cost share liability.

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 drugs and drug candidates. We are also unable to predict when, if ever, material net cash inflows will commence from sales of our drugs and drug candidates, if approved. This is due to the numerous risks and uncertainties associated with developing such drugs and drug candidates, including the uncertainty of:

- successful enrollment in and completion of clinical trials;
- establishing an appropriate safety and efficacy profile;
- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- receipt of marketing and other required approvals from applicable regulatory authorities;
- successfully launching and commercializing our drugs and drug candidates, if and when approved, whether as monotherapies or in combination with our internally developed drugs and drug candidates or third-party products;
- market acceptance, pricing and reimbursement;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our drugs and drug candidates;
- continued acceptable safety and efficacy profiles of the products following approval;
- sufficient supply 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 drugs and drug candidates would significantly change the costs, timing and viability associated with the commercialization or development of that drug or drug candidate.

Research and development activities are central to our business model. We expect research and development costs to increase significantly for the foreseeable future as our development programs progress, as we continue to support the clinical trials of our drugs and drug candidates as treatments for various cancers and as we move these drugs and drug candidates into additional clinical trials, including potential pivotal trials. There are numerous factors associated with the successful commercialization of any of our drugs and 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 HK Listing Rules: We may not be able to ultimately develop and market pamiparib 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 planned increases in commercialization activities with respect to tislelizumab, BRUKINSA® and XGEVA® and the preparation for potential launch and commercialization of additional in-licensed products from our collaborations with Amgen and EUSA and internally developed drugs and drug candidates, if approved. 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 drugs and drug candidates as treatments for various cancers and the initiation of clinical trials for potential new indications or 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. We also incur significant legal, compliance, accounting, insurance and investor and public relations expenses associated with being a public company with our ADSs and ordinary shares listed for trading on The NASDAQ Global Select Market and HKEx, respectively.

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, Net

Other income consists primarily of gains recognized related to equity method investments, government grants and subsidies received that involve no conditions or continuing performance obligations by us, realized and unrealized gains and losses related to foreign currency exchange rates, unrealized gains and losses on equity securities, and realized gains and losses on the sale of investments.

Results of Operations

The following table summarizes our results of operations for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30,		Changes	
	2020	2019		%
	(US dollars in thousands)			
Revenues				
Product revenue, net	117,694	115,563	2,131	1.8%
Collaboration revenue	—	205,616	(205,616)	(100.0)%
Total revenues	117,694	321,179	(203,485)	(63.4)%
Expenses				
Cost of sales	28,456	33,100	(4,644)	(14.0)%
Research and development	590,270	407,111	183,159	45.0%
Selling, general and administrative	231,130	139,893	91,237	65.2%
Amortization of intangible assets	471	663	(192)	(29.0)%
Total expenses	850,327	580,767	269,560	46.4%
Loss from operations	(732,633)	(259,588)	(473,045)	182.2%
Interest income, net	7,798	7,363	435	5.9%
Other income, net	23,657	850	22,807	2,683.2%
Loss before income taxes	(701,178)	(251,375)	(449,803)	178.9%
Income tax expense	79	2,648	(2,569)	(97.0)%
Net loss	(701,257)	(254,023)	(447,234)	176.1%
Less: Net loss attributable to noncontrolling interest	(2,320)	(813)	(1,507)	185.4%
Net loss attributable to BeiGene, Ltd.	<u>(698,937)</u>	<u>(253,210)</u>	<u>(445,727)</u>	176.0%

Comparison of the Six Months Ended June 30, 2020 and 2019

Revenue

Total revenue decreased to US\$117.7 million for the six months ended June 30, 2020, from US\$321.2 million for the six months ended June 30, 2019, primarily due to the cessation of collaboration revenue following the termination of the BMS collaboration agreement in the second quarter of 2019, and the related US\$150.0 million termination fee that was recognized as revenue. The following table summarizes the components of revenue for the six months ended June 30, 2020 and 2019, respectively:

	Six Months Ended June 30,		Changes	
	2020	2019		%
	(US dollars in thousands)			
Product revenue	117,694	115,563	2,131	1.8%
Collaboration revenue:				
Reimbursement of research and development costs	—	27,634	(27,634)	(100.0)%
Research and development service revenue	—	27,982	(27,982)	(100.0)%
Other	—	150,000	(150,000)	(100.0)%
Total	<u>117,694</u>	<u>321,179</u>	<u>(203,485)</u>	(63.4)%

Net product revenues consisted of the following:

	Six Months Ended June 30,		Changes	
	2020	2019		%
	(US dollars in thousands)			
Tislelizumab	49,943	—	49,943	N/A
BRUKINSA [®]	7,691	—	7,691	N/A
REVLIMID [®]	24,847	39,957	(15,110)	(37.8)%
VIDAZA [®]	17,832	13,741	4,091	29.8%
ABRAXANE [®]	17,381	61,865	(44,484)	(71.9)%
Total product revenue	<u>117,694</u>	<u>115,563</u>	<u>2,131</u>	1.8%

Net product revenue increased 1.8% to US\$117.7 million for the six months ended June 30, 2020, compared to US\$115.6 million in the prior year period, primarily due to sales of tislelizumab in China in 2020, as well as sales of BRUKINSA® in the United States and China, partially offset by decreased sales of ABRAXANE® and REVLIMID®. Product revenues in the first half of 2020 were negatively impacted by the COVID-19 pandemic, increased generic competition, and the suspension of ABRAXANE® in China by the NMPA in March 2020. Product revenues in the first half of 2020 were positively impacted by sales of our internally developed products, tislelizumab and BRUKINSA®. Product revenue for tislelizumab reflects sales since its launch in China in March 2020, and product sales for BRUKINSA® reflect sales since its launch in China in June 2020, as well as sales in the United States during the period.

We expect product revenue from our in-licensed products to continue to be impacted by the NMPA's suspension of the importation, sales and use of ABRAXANE® in China in March 2020 and the subsequent voluntary recall of ABRAXANE® by BMS, as well as increased competition from generic products. Although the impact of COVID-19 on commercial activities in China lessened in the second quarter of 2020 compared to the first quarter of 2020, there remains uncertainty regarding the future impact of the pandemic both in China as well as globally. We do not expect revenue from ABRAXANE® until the NMPA lifts its suspension on the importation, sale and use of ABRAXANE® and qualified drug is manufactured and available for sale in China. We do not know when the NMPA suspension of ABRAXANE® will be lifted and when we will be able to re-commence sales of ABRAXANE®.

We did not have any collaboration revenue for the six months ended June 30, 2020 due to the termination of the collaboration agreement with BMS for tislelizumab in the second quarter of 2019.

Cost of Sales

Cost of sales decreased to US\$28.5 million for the six months ended June 30, 2020 from US\$33.1 million for the six months ended June 30, 2019, primarily due to a decreased volume of in-licensed sales compared to the prior year period.

Research and Development Expense

Research and development expense increased by US\$183.2 million, or 45.0%, to US\$590.3 million for the six months ended June 30, 2020 from US\$407.1 million for the six months ended June 30, 2019. The following table summarizes external clinical, external non-clinical and internal research and development expense for the six months ended June 30, 2020 and 2019, respectively:

	Six Months Ended June 30,		Changes	
	2020	2019		%
	(US dollars in thousands)			
External cost of clinical-stage programs	216,212	181,661	34,551	19.0%
Upfront license fees and milestones	48,000	30,000	18,000	60.0%
External cost of non-clinical-stage programs	18,999	21,623	(2,624)	(12.1)%
Amgen co-development expense ¹	56,703	–	56,703	N/A
Internal research and development expenses	<u>250,356</u>	<u>173,827</u>	<u>76,529</u>	44.0%
Total research and development expenses	<u><u>590,270</u></u>	<u><u>407,111</u></u>	<u><u>183,159</u></u>	45.0%

- 1 Our co-funding obligation for the development of the pipeline assets under the Amgen collaboration for the six months ended June 30, 2020 totaled US\$111.9 million, of which US\$56.7 million was recorded as research and development expense. The remaining US\$55.2 million was recorded as a reduction of the research and development cost share liability.

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\$21.1 million and US\$10.1 million, respectively, for zanubrutinib and tislelizumab, primarily due to the continued enrollment and expansion of pivotal clinical trials;
- an increase of US\$56.7 million related to expense recognized on co-development fees to Amgen;
- an increase of US\$18.0 million related to license fees under collaboration agreements, including US\$13.0 million of increased upfront payments compared to the same period last year, as well as a US\$5.0 million milestone payment accrued in the first quarter of 2020; and
- 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 development of our clinical and preclinical drug candidates, and included the following:

- US\$30.0 million increase of employee salary and benefits, primarily attributable to hiring more research and development personnel to support our expanding research and development activities;
- US\$10.2 million increase of share-based compensation expense, primarily attributable to our increased headcount, resulting in more awards being expensed related to the growing employee population;
- US\$24.7 million increase of materials and reagent expenses, primarily in connection with the in-house manufacturing of drug candidates used for clinical purposes;
- US\$3.0 million decrease of consulting fees, which was primarily attributable to decreased travel and meeting expense related to scientific, regulatory and development consulting activities, in connection with the advancement of our drug candidates; and
- US\$14.6 million increase of facilities, depreciation, office expense, rental fees, and other expenses to support the growth of our organization.

Selling, General and Administrative Expense

Selling, general and administrative expense increased by US\$91.2 million, or 65.2%, to US\$231.1 million for the six months ended June 30, 2020, from US\$139.9 million for the six months ended June 30, 2019. The increase was primarily attributable to the following:

- US\$41.0 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 organizations in China and the United States;
- US\$14.5 million increase of share-based compensation expense, primarily attributable to our increased headcount, resulting in more awards being expensed related to the growing employee population;
- US\$16.9 million increase of professional fees and consulting for general and administrative activities, including legal, recruiting, information technology, tax, accounting and audit services, primarily in connection with our growing business;
- US\$2.0 million increase in external selling and marketing expenses, including market access studies, meeting and seminar expenses, promotional activities, and sponsorship and grant expenses; and
- US\$16.8 million increase in facility expenses, rental fees, office expenses, and other administrative expenses, primarily attributable to the global expansion of our business, including the expansion of our commercial operations in China and the United States.

Interest Income, Net

Interest income, net increased by US\$0.4 million, or 5.9%, to US\$7.8 million for the six months ended June 30, 2020, from US\$7.4 million for six months ended June 30, 2019. The increase in interest income was primarily attributable to interest income on cash and short-term investment balances exceeding interest expense on our long-term debt.

Other Income, Net

Other income, net increased to US\$23.7 million of net other income for the six months ended June 30, 2020, from US\$0.9 million of net other income for the six months ended June 30, 2019. The increase was mainly attributable to the gain recognized in conjunction with the deconsolidation of MapKure, unrealized gains on equity securities and realized gains on sales of available-for-sale securities, offset by foreign currency exchange losses.

Income Tax Expense

Income tax expense was US\$0.08 million for the six months ended June 30, 2020, as compared to an income tax expense of US\$2.6 million for the six months ended June 30, 2019. The income tax expense for the six months ended June 30, 2020 was primarily attributable to income reported in certain China subsidiaries offset by the tax benefit of deferred U.S. stock-based compensation deductions. The current U.S. tax was reduced by windfall stock-based compensation deductions and research and development tax credits. The income tax expense for the six months ended June 30, 2019 was primarily attributable to income reported in the United States and certain China subsidiaries, offset by U.S. research and development tax credits and other special tax deductions.

Discussion of Certain Key Balance Sheet Items

Cash, cash equivalents, restricted cash and short-term investments

As of June 30, 2020, the Company's cash, cash equivalents, restricted cash and short-term investments primarily comprised (1) US\$2,723.7 million denominated in US dollars; (2) approximately RMB2.9 billion (equivalent to approximately US\$404.8 million) denominated in Renminbi; and (3) approximately US\$29.1 million denominated in Australian dollar, Euro and other currencies.

Accounts receivable

Accounts receivable decreased by 13.0% from US\$70.9 million as of December 31, 2019 to US\$61.7 million as of June 30, 2020, primarily due to the shorter average collection period of accounts receivable for the six months ended June 30, 2020, and the suspension of ABRAXANE® in China by the NMPA in March 2020, as compared to the year ended December 31, 2019.

Inventories

The inventories increased by 16.4% from US\$28.6 million as of December 31, 2019 to US\$33.2 million as of June 30, 2020, primarily as a result of the sales of tislelizumab in China in 2020, as well as sales of BRUKINSA® in the United States and China.

Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	As of	
	June 30, 2020	December 31, 2019
	(US dollars in thousands)	
Prepaid research and development costs	79,458	65,886
Prepaid taxes	18,792	9,498
Payroll tax receivables	17,391	5,365
Interest receivable	3,636	1,932
Prepaid insurance	6,231	711
Prepaid manufacturing costs	10,025	3,829
Other	8,933	3,017
Total	144,466	90,238

Property and equipment, net

The property and equipment increased by 6.5% from US\$242.4 million as of December 31, 2019 to US\$258.1 million as of June 30, 2020, 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\$157.2 million and US\$122.5 million as of June 30, 2020 and December 31, 2019, respectively.

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

	As of	
	June 30, 2020	December 31, 2019
	(US dollars in thousands)	
Within 3 months	154,993	118,787
3 to 6 months	752	1,889
6 months to 1 year	419	1,272
Over 1 year	1,009	540
Total	<u>157,173</u>	<u>122,488</u>

Accrued expenses and other payables

Accrued expenses and other payables consist of the following as of June 30, 2020 and December 31, 2019:

	As of	
	June 30, 2020	December 31, 2019
	(US dollars in thousands)	
Compensation related	48,980	54,156
External research and development related	99,390	62,794
Commercial activities	31,549	25,645
Income tax and other taxes	22,564	9,648
Sales rebates and returns related	3,896	3,198
Professional fees and other	1,542	8,115
Total	<u>207,921</u>	<u>163,556</u>

Accrued expenses and other payables increased by 27.1% from US\$163.6 million as of December 31, 2019 to US\$207.9 million as of June 30, 2020. The increase was primarily due to (i) hiring of more personnel to support our expanding commercial, research and clinical activities and our growing organization; (ii) expansion of clinical trials for drug candidates, including the initiation or continuation of pivotal trials; and (iii) expansion of our commercial operations and launch of the new products.

Liquidity and Capital Resources

Since our inception in 2010, 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\$701.3 million for the six months ended June 30, 2020, and net losses of US\$254.0 million for six months ended June 30, 2019. As of June 30, 2020, we had an accumulated deficit of US\$2.7 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 the United States and planned additional product launches. Our operating activities used US\$604.9 million and US\$218.1 million during the six months ended June 30, 2020 and 2019, respectively. We have financed our operations principally through proceeds from public and private offerings of our securities and proceeds from our collaboration agreements, together with product sales since September 2017.

As of June 30, 2020, we had cash, cash equivalents, restricted cash, and short-term investments of US\$3.2 billion, including approximately US\$118.2 million of cash, cash equivalents and restricted cash held by our joint venture, BeiGene Biologics, to continue phased construction of our commercial biologics facility in Guangzhou, China and to fund research and development of our biologics drug candidates in China. Restricted cash of US\$4.9 million primarily consists of RMB-denominated cash deposits pledged in designated bank accounts as collateral for bank loans and letters of credit. On July 15, 2020, we received approximately US\$2.1 billion from a registered direct offering of ordinary shares to certain existing investors, which is not included in our financial statements for the six months ended June 30, 2020.

The following table provides information regarding our cash flows for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30,	
	2020	2019
	(US dollars in thousands)	
Cash, cash equivalents and restricted cash at beginning of period	620,775	740,713
Net cash used in operating activities	(604,886)	(218,076)
Net cash (used in) provided by investing activities	(1,544,864)	364,425
Net cash provided by financing activities	2,883,161	58,346
Net effect of foreign exchange rate changes	(4,287)	(2,732)
Net increase in cash, cash equivalents, and restricted cash	729,124	201,963
Cash, cash equivalents and restricted cash at end of period	1,349,899	942,676

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\$604.9 million of cash in the six months ended June 30, 2020, which resulted principally from our net loss of US\$701.3 million, partially offset by a decrease in our net operating assets and liabilities of US\$28.7 million and by non-cash charges of US\$67.7 million related primarily to stock-based compensation expense, depreciation and amortization and other non-cash charges. The decrease in our net operating assets and liabilities was primarily due to an increase of US\$79.3 million in accounts payable and accrued expenses related to external research and development costs, which includes our co-development obligations to Amgen, a decrease of US\$9.1 million in accounts receivable, net, on product sales, an increase in operating lease liabilities of US\$7.4 million, and a decrease in other non-current assets of US\$2.6 million, all of which had a positive impact on operating cash flow. These cash inflows were partially offset by an increase of US\$54.6 million in prepaid expenses and other current assets primarily related to prepayments to CROs for clinical trials, an increase of US\$7.5 million in operating lease right-of-use assets, a decrease of US\$3.0 million in taxes payable, and an increase of US\$4.7 million in inventory, all of which had a negative impact on operating cash flow. Our non-cash charges and other adjustments to our net loss during the six months ended June 30, 2020 primarily consisted of US\$83.7 million of share-based compensation expense, US\$43.0 million of acquired in-process research and development related to license agreements in the period, US\$15.6 million of depreciation and amortization expense, and US\$5.1 million of interest expense, offset by US\$55.2 million for amortization of a research and development cost share liability related to the Amgen collaboration, and US\$11.3 million of unrealized gains from equity method investments.

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 BMS 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 in accounts receivable of US\$17.1 million related to collections on product sales from our collaboration with BMS, 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 BMS 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 Inc. (“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.

Investing Activities

Investing activities used US\$1.5 billion of cash in the six months ended June 30, 2020, consisting of US\$2.4 billion in purchases of investment securities, US\$43.0 million of acquired in-process research and development, capital expenditures of US\$54.1 million, and cash outflows for the deconsolidation of a subsidiary of US\$2.0 million, all of which were offset by sales and maturities of investment securities of US\$997.2 million.

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.

Financing Activities

Financing activities provided US\$2.9 billion of cash in the six months ended June 30, 2020, consisting primarily of US\$2.8 billion received from our collaboration with Amgen, of which US\$2.2 billion was recorded as equity, and US\$0.6 billion was recorded as a research and development cost share liability. Additionally, we received US\$28.2 million from the exercise of employee share options and proceeds from the issuance of shares through our employee share purchase plan, US\$49.5 million from proceeds of a long-term bank loan, and US\$26.2 million from proceeds of a short-term bank loan.

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, and US\$10.6 million from the exercise of employee share options.

Effects of Exchange Rates on Cash

We have substantial operations in the PRC, which generate a significant amount of RMB-denominated cash from product sales and require a significant amount of RMB-denominated cash to pay our obligations. Since the reporting currency of the Company is the U.S. dollar, periods of volatility may have a significant impact on our consolidated cash balances.

Operating Capital Requirements

We have exclusive rights to distribute and promote three of BMS's approved cancer therapies in China, for which we began recognizing revenue in the third quarter of 2017. On November 14, 2019, we received accelerated approval from the FDA for BRUKINSA® as a treatment for MCL in adult patients who have received at least one prior therapy; on December 26, 2019, we received regulatory approval from the NMPA for tislelizumab as a treatment for patients with cHL who have received at least two prior therapies; and on June 3, 2020, we received approval from the NMPA for BRUKINSA® in two indications, (i) the treatment of adult patients with CLL/SLL who have received at least one prior therapy, and (ii) the treatment of adult patients with MCL who have received at least one prior therapy. We launched BRUKINSA® in the United States in November 2019 and launched tislelizumab in China in March 2020 and BRUKINSA® in China in July 2020. However, we do not expect to generate significant revenue from product sales of our internally developed drugs and drug candidates unless and until we obtain regulatory approvals for additional indications of our currently approved drugs. We anticipate that we will continue to generate losses for the foreseeable future as we continue the development of, and seek regulatory approvals for, our drugs and drug candidates, commercialize our approved products and prepare for commercialization and begin to commercialize any future 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 as well as our internally developed products that are either approved or in late-stage clinical trials. We may need 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, 2020, 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, and the shared development costs of a portfolio of Amgen's oncology pipeline products and additional in-licensed drug candidates; our other ongoing and planned clinical trials; regulatory filings and registration of our late-stage drug candidates; expansion of our commercial operations in China and the U.S. and the launch of our in-licensed commercial drug portfolio and late-stage 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 expect in our current operating plan. 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 drugs and drug candidates.

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

- our ability to successfully commercialize our internally developed and in-licensed drugs;
- 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 drugs and drug candidates we pursue;
- the costs of establishing or expanding 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 may be required 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 the rules of the United States Securities and Exchange Commission (“SEC”), 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 11, 2020, 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, prior to which time we plan to file another shelf registration statement that will be effective 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 your ownership interest. 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, 2020:

	Payments Due by Period				
	Total	Less Than	1–3 Years	3–5 Years	More Than
		1 Year			
(US dollars in thousands)					
Contractual obligations					
Operating lease commitments	49,271	15,396	23,576	10,181	118
Purchase commitments	126,864	34,390	49,345	22,328	20,801
Debt obligations	317,716	26,061	167,099	40,238	84,318
Co-development funding commitment	1,138,057	292,557	623,000	222,500	–
Capital commitments	61,017	61,017	–	–	–
Total	1,692,925	429,421	863,020	295,247	105,237

Operating Lease Commitments

We lease office or manufacturing facilities in Beijing, Shanghai, Suzhou, Guangzhou and other cities in China, and office facilities in the United States in California, Maryland, Massachusetts and New Jersey, and in 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.

Purchase Commitments

As of June 30, 2020, purchase commitments amounted to US\$126.9 million, of which US\$105.1 million related to minimum purchase requirements for supply purchased from CMOs and US\$21.7 million related to binding purchase obligations of inventory from BMS. We do not have any minimum purchase requirements for inventory from BMS or Amgen.

Debt Obligations

Short-term Bank Loans

On January 13, 2020, BeiGene (Shanghai) Co., Ltd. entered into a one-year loan agreement with China Industrial Bank to borrow up to RMB200.0 million at a fixed interest rate of 5.6%. During the six months ended June 30, 2020, we drew down US\$20.1 million (RMB140.0 million) of the loan. Interest will be paid quarterly until the loan is fully settled. As of June 30, 2020 the amount outstanding under the loan agreement was US\$19.8 million (RMB140.0 million).

On May 21, 2020, BeiGene (Beijing) Co., Ltd. entered into a one-year loan agreement with China Merchants Bank to borrow up to RMB100.0 million. On May 27, 2020, we drew down US\$3.0 million (RMB21.5 million) at a fixed interest rate of 4.35%. On June 28, 2020, we drew down an additional US\$3.1 million (RMB21.7 million) of the loan at a fixed interest rate of 4.5%. Interest will be paid quarterly until the loan is fully settled. As of June 30, 2020 the amount outstanding under the loan agreement was US\$6.1 million (RMB43.1 million).

Long-term Bank Loans

On April 4, 2018, BeiGene Guangzhou Biologics Manufacturing Co., Ltd. (“BeiGene Guangzhou Factory”) entered into a nine-year loan agreement with China Construction Bank to borrow RMB580.0 million at a floating interest rate benchmarked against prevailing interest rates of certain PRC financial institutions. The loan is secured by BeiGene Guangzhou Factory’s land use right and certain BeiGene Guangzhou Factory fixed assets of the first phase of the Guangzhou manufacturing facility build out with a total carrying amount of US\$142.1 million. Interest expense will be paid quarterly until the loan is fully settled. As of June 30, 2020, we have drawn down the entire US\$82.1 million (RMB580.0 million) in aggregate principal amount of this loan. Maturity dates range from 2021 to 2027.

On January 22, 2020, BeiGene Guangzhou Factory entered into a nine-year bank loan with China Merchants Bank to borrow up to RMB1.1 billion at a floating interest rate benchmarked against prevailing interest rates of certain PRC financial institutions. The loan will be secured by BeiGene Guangzhou Factory’s second land use right and fixed assets that will be placed into service upon completion of the second phase of the Guangzhou manufacturing facility build out. Interest is paid quarterly until the loan is fully settled. As of June 30, 2020, we have drawn down US\$49.5 million (RMB350.0 million) of the loan. The loan interest rate was 4.4% for the six months ended June 30, 2020, and the maturity dates range from 2022 to 2029.

Shareholder Loan

On March 7, 2017, BeiGene Biologics Co., Ltd. (“BeiGene Biologics”) entered into a Shareholder Loan Contract with Guangzhou GET Technology Development Co., Ltd. (now Guangzhou High-tech Zone Technology Holding Group Co., Ltd.) (“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.

Co-development Funding Commitment

Under the Amgen collaboration, we are responsible for co-funding global development costs for the licensed Amgen oncology pipeline assets up to a total cap of US\$1,250,000,000. We are funding our portion of the co-development costs by contributing cash and development services. As of June 30, 2020, our remaining co-development funding commitment was US\$1,138,057,000.

Capital Commitments

We had capital commitments amounting to US\$61.0 million for the acquisition of property, plant and equipment as of June 30, 2020, which was primarily for BeiGene Guangzhou Factory's manufacturing facility in Guangzhou, China.

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\$1.3 billion and US\$618.0 million, restricted cash of US\$4.9 million and US\$2.8 million, and short-term investments of US\$1.8 billion and US\$364.7 million at June 30, 2020 and December 31, 2019, respectively. At June 30, 2020, the majority of our cash and cash equivalents is held in U.S. treasury securities and U.S. money market funds. We also have cash and cash equivalent deposits with various major reputable financial institutions located both within and outside 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. At June 30, 2020, our short-term investments consisted of U.S. treasury 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 significant 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, 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, 2020 by US\$7.4 million.

We do not believe that our cash, cash equivalents 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 reporting 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 and Euro. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk.

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. From 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 depreciation of approximately 1.5% in the six months ended June 30, 2020 and depreciation of approximately 1.3% in the year ended December 31, 2019, 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. Further, volatility in exchange rate fluctuations may have a significant impact on the foreign currency translation adjustments recorded in other comprehensive income (loss).

Currency Convertibility Risk

A significant portion of our expenses, 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 (the "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, 2020.

Other Business Agreements

We enter into agreements in the ordinary course of business with CROs to provide research and development services. These contracts are generally cancelable at any time by us with prior written notice.

We also enter into collaboration agreements with institutions and companies to license intellectual property. We may be obligated to make future development, regulatory and commercial milestone payments and royalty payments on future sales of specified products associated with its collaboration agreements. Payments under these agreements generally become due and payable upon achievement of such milestones or sales. These commitments are not recorded on our balance sheet because the achievement and timing of these milestones are not fixed and determinable. When the achievement of these milestones or sales have occurred, the corresponding amounts are recognized in our financial statements.

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 the rules of the SEC, 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 of the end of the period, was 12.5% as of June 30, 2020, decreased from 24.6% as of December 31, 2019. The decrease was primarily due to the increase in equity.

Significant Investments Held

Except for the investment in connection with a collaboration and license agreement we entered into with Leap and our investment in MapKure, we did not hold any other significant investments in the equity interests of any other companies as of June 30, 2020.

Future Plans for Material Investments and Capital Assets

As of June 30, 2020, we did not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the six months ended June 30, 2020, we did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As of June 30, 2020, we had a global team of approximately 4,200 employees, which increased from 3,359 employees as of December 31, 2019. Most of our employees are full-time.

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 packages were set by benchmarking with companies in similar industries and companies with similar size. The total remuneration cost incurred by the Group for the six months ended June 30, 2020 was US\$290.3 million (June 30, 2019: US\$191.2 million).

Pledge of Assets

As of June 30, 2020, we pledged a restricted deposit of US\$4.1 million in BeiGene Guangzhou Factory held in designated bank accounts for issuance of letter of credit (December 31, 2019: US\$2.0 million for issuance of letter of credit and letter of guarantee), US\$0.5 million for BeiGene Guangzhou's issuance of letter of guarantee (December 31, 2019: US\$0.5 million), US\$0.3 million in BeiGene Beijing as credit card deposit (December 31, 2019: US\$0.3 million) and BeiGene Guangzhou Factory's land use right and certain BeiGene Guangzhou Factory fixed assets of the first phase of the Guangzhou manufacturing facility build out with a total carrying amount of US\$142.1 million (December 31, 2019: US\$11.2 million) were secured for long-term bank loans.

Contingent Liabilities

As of June 30, 2020, we did not have any material contingent liabilities (as of December 31, 2019: nil).

Interim Dividend

The Board does not recommend any interim dividend for the six months ended June 30, 2020.

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 (the "Corporate Governance Code") as set out in Appendix 14 to the HK Listing Rules which are applicable to the Company.

Pursuant to code provision A.2.1 of the Corporate Governance Code, companies listed on the HKEx 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 Corporate Governance Guidelines provide the Board with the flexibility to choose the appropriate Board leadership structure of the Company based upon its view of what is in the best interest of the Company. Our Corporate Governance Guidelines also provide that if the same person holds the Chairman and Chief Executive Officer roles or if the Chairman does not otherwise qualify as independent, the independent Directors may elect a lead director. In accordance with our Corporate Governance Guidelines, the independent Directors elected Mr. Ranjeev Krishana, an independent non-executive Director of the Company, to serve as the lead director, effective February 26, 2020. The Board believes our current Board leadership structure will help ensure continuity of strong and effective leadership. The lead director has responsibilities that are set forth in our Corporate Governance Guidelines, including presiding at meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors; consulting with management regarding Board meeting schedules, locations, agendas and materials; and calling meetings of the independent and non-management Directors of the Board, when appropriate.

Our Audit Committee is in compliance with Rule 3.21 of the HK Listing Rules and the Corporate Governance Code, 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 NASDAQ Listing Rules and the rules of the U.S. Securities and Exchange Commission. 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 two independent non-executive directors, namely Mr. Thomas Malley, Mr. Timothy Chen and one non-executive director, namely Mr. Anthony C. Hooper. 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 HK Listing Rules. Effective August 24, 2020, Dr. Corazon (Corsee) D. Sanders replaced Mr. Timothy Chen as a member of the Audit Committee.

Our compensation committee (the “**Compensation Committee**”) is in compliance with Rule 3.25 of the HK Listing Rules and the Corporate Governance Code, except for the terms of reference required by paragraph B.1.2 of the Corporate Governance Code. However, the charter of the Compensation Committee complies with the NASDAQ Listing Rules. 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, President and General Manager, China, 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 (the “**Nominating and Corporate Governance Committee**”) complies with the Corporate Governance Code, except for the terms of reference required by paragraph A.5.2 of the Corporate Governance Code. However, the charter of the Nominating and Corporate Governance Committee complies with the NASDAQ Listing Rules. 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 Corporate 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 HK 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

On January 2, 2020, the Company sold 15,895,001 ADSs representing 206,635,013 ordinary shares of the Company, which represented approximately 20.5% ownership stake in the Company’s outstanding shares as at the same date, to Amgen for aggregate cash proceeds of US\$2,779,241,000, at the price of US\$13.45 per ordinary share equivalent to US\$174.85 per ADS, pursuant to the SPA executed in connection with the Amgen Collaboration Agreement.

During the Reporting Period, save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

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

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 HK Listing Rules during the Reporting Period. The change of Directors' information is set out below:

Directors	Changes in Positions held with the Company
Mr. Jing-Shyh (Sam) Su	Ceased to be a member of the Audit Committee effective May 1, 2020. Mr. Jing-Shyh (Sam) Su remains to serve as a member of the Board.
Mr. Anthony C. Hooper	Appointed as a Director effective January 2, 2020; appointed as the chairman of the commercial advisory committee of the Board (the " Commercial Advisory Committee ") effective February 26, 2020; appointed as a member of the Audit Committee effective May 1, 2020.
Dr. Xiaodong Wang	Appointed as the chairman of the scientific advisory committee of the Board (the " Scientific Advisory Committee ") effective February 26, 2020.
Mr. Michael Goller	Appointed as a member of the Scientific Advisory Committee effective February 26, 2020.
Mr. Thomas Malley	Appointed as a member of the Scientific Advisory Committee effective February 26, 2020.
Mr. Qingqing Yi	Appointed as a member of the Scientific Advisory Committee effective February 26, 2020.
Mr. Jing-Shyh (Sam) Su	Appointed as a member of the Commercial Advisory Committee effective February 26, 2020.
Mr. Timothy Chen	Appointed as a member of the Commercial Advisory Committee effective February 26, 2020.
Mr. Ranjeev Krishana	Appointed as the lead director of the Board and as a member of the Commercial Advisory Committee effective February 26, 2020.

The Scientific Advisory Committee and the Commercial Advisory Committee were established on February 26, 2020.

Use of Net Proceeds from Listing

The net proceeds from the listing of our ordinary shares on the Main Board of the HKEx on August 8, 2018 (the “Listing”) amounted to approximately US\$869.7 million, and the balance of unutilized net proceeds of approximately US\$96.2 million as of June 30, 2020.

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 the prospectus of the Company 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, 2020:

Use of proceeds	Planned applications (US dollars in thousands)	Percentage of total net proceeds (%)	Actual usage up to June 30, 2020 (US dollars in thousands)	Unutilized net proceeds as of June 30, 2020 (US dollars in thousands)
Zanubrutinib	282,656	32.5%	243,331	39,325
Tislelizumab	282,656	32.5%	257,503	25,153
Pamiparib	86,970	10.0%	55,221	31,749
For core products(a)	652,282	75.0%	556,055	96,227
To fund continued expansion of our product portfolio(b)	130,456	15.0%	130,456	—
For working capital(c)	86,971	10.0%	86,971	—
Total	869,709	100.0%	773,482	96,227

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 gradually apply the remaining net proceeds in the manner set out in the Prospectus.

Use of Net Proceeds from Amgen

On January 2, 2020, the Company sold 15,895,001 ADSs, representing 206,635,013 ordinary shares of the Company and a 20.5% ownership stake in the Company, to Amgen for aggregate cash proceeds of US\$2,779,241,000, or US\$174.85 per ADS, pursuant to the SPA executed in connection with the Amgen Collaboration Agreement. The subscription price represents: (a) a 36% premium to the 30-day volume weighted average price of the Company's ADSs as of October 30, 2019, the day prior to the date of the SPA; (b) assuming a conversion rate of US\$1.00: HK\$7.84, a 26% premium to the closing price of the Company's ordinary shares as quoted on the HKEx on October 31, 2019, the date of the SPA; (c) a 26% premium to the closing price of the Company's ADSs on the NASDAQ on October 31, 2019.

The net proceeds from the sale of the shares are being used to fund the Company's portion of global development costs under the Amgen Collaboration Agreement by contributing cash and development services up to a total cap of US\$1.25 billion, and the remaining US\$1.53 billion will be used for development, manufacturing and commercialization of the Company's internally development drug candidates, expansion of our commercialization activities with respect to REVLIMID® and VIDAZA® in China, and for future capacity expansion and general corporate use, as appropriate, as previously disclosed in the Company's Circular. As of June 30, 2020, approximately US\$130.2 million of the net proceeds had been utilized in accordance with the intended use of proceeds as previously disclosed in the Company's circular published on December 2, 2020, and approximately US\$2.65 billion remained unutilized. There has been no change in the intended use of net proceeds as previously disclosed, and the Company plans to gradually utilize the remaining net proceeds in accordance with such intended purposes depending on actual business.

For further details, please refer to the announcements of the Company dated November 1, 2019, December 9, 2019, and January 3, 2020.

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. As at the date of this announcement, the Audit Committee currently consists of three members, namely Mr. Thomas Malley, Mr. Anthony C. Hooper and Dr. Corazon (Corsee) D. Sanders. Mr. Thomas Malley and Dr. Corazon (Corsee) D. Sanders are independent non-executive directors and Mr. Anthony C. Hooper is a non-executive director. Mr. Thomas Malley is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited consolidated financial statements and interim results of the Group for the six months ended June 30, 2020. 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, a Compensation Committee, a Scientific Advisory Committee and a Commercial Advisory Committee.

Important Events after the Reporting Date

On August 24, 2020, Dr. Corazon (Corsee) D. Sanders was appointed as an independent non-executive director of the Company and a member of the Audit Committee and the Scientific Advisory Committee.

On July 15, 2020, the Company allotted and issued 145,838,979 shares, which represented approximately 12.54% of the Company's outstanding shares of the Company on the same date, for an aggregate cash consideration of approximately US\$2.08 billion at the purchase price of US\$14.2308 per share (equivalent to US\$185 per ADS), in accordance with a share purchase agreement pursuant to a general mandate. For details, please refer to the announcement of the Company dated July 16, 2020.

Save as disclosed above, no important events affecting the Company occurred since June 30, 2020 and up to the date of this announcement.

Extraordinary General Meeting and Record Date

Reference is made to the announcement (the "Announcement") issued by the Company dated March 18, 2020 in relation to the Second Amendment to the Share Purchase Agreement and the issuance of additional shares under Specific Mandate to Amgen. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those set out in the Announcement.

For the purpose of determining the entitlement to attend and vote at the EGM, the Company decided to change the record date for the purpose of determining eligibility of the members of the Company to attend and vote at the EGM as disclosed in the Announcement to 5:00 p.m. Hong Kong time on Thursday, September 10, 2020. In order to be eligible to attend and vote at the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. Hong Kong time on Thursday, September 10, 2020.

A notice convening the EGM will be published and dispatched to the shareholders of the Company in the manner required by the HK Listing Rules in due course.

Publication of Interim Results and Interim Report

This interim results announcement is published on the website of the HKEx (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, 2020 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 27, 2020

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 and Mr. Anthony C. Hooper as Non-executive Directors, and Mr. Timothy Chen, Mr. Donald W. Glazer, Mr. Michael Goller, Mr. Ranjeev Krishana, Mr. Thomas Malley, Dr. Corazon (Corsee) D. Sanders, Mr. Jing-Shyh (Sam) Su and Mr. Qingqing Yi as Independent Non-executive Directors.