3625145

SOLEXA LIMITED

Report and Accounts

31 December 2000

Registered Number: 3624145

DIRECTORS
J E Berriman
S Balasubramanian
N McCooke
T Rink
A Williamson
T Daniel
M Carthy

SECRETARY
J F Abell

AUDITORS
Ernst & Young LLP
Compass House
80 Newmarket Road
Cambridge
CB5 8DZ

BANKERS
Barclays Bank plc
Pall Mall Business Centre
Pall Mall Corporate Group
50 Pall Mall
London
SW1A 1QB

REGISTERED OFFICE
Chesterford Research Park
Little Chesterford
Saffron Walden
Essex
CB10 1XL

DIRECTOR'S REPORT

The directors present their report and accounts of Solexa Limited (the "Company") for the year ended 31 December 2000. The comparative figures cover the 69 week period from incorporation to 31 December 1999.

RESULTS AND DIVIDENDS
The retained loss for the period amounted to £518,147 (1999: £285,189) which remains to be set against reserves.

The Directors do not recommend the payment of a dividend (1999: £nil)

PRINCIPLE ACTIVITY
The Company's principle activity is the development of novel techniques for the analysis of DNA.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS
The Company has been established to undertake research and put the results of such research to commercial use.

The Company raised a further £1.5 million during the year by way of a convertible loan from Abingworth Bioventures II SICAV (see note 8 to the accounts). This has been used to establish the Company in its own premises and to build the management and scientific teams. Good progress has been made in the development of the Company's proprietary single molecule technology.

EVENTS SINCE THE BALANCE SHEET DATE

Subsequent to the year end the company raised £100,000 by way of a convertible loan from the University of Cambridge.

On 20 September 2001, the capital element of the above convertible loans of £1.6 million from Abingworth Bioventures II SICAV and University of Cambridge were converted into 800,000 ordinary shares of 0.25p each at £2 per share. In addition, £4,104 of accrued interest on the University of Cambridge loan was converted into 2,052 shares at the same rate.

Also on 20 September 2001, the company raised £12,000,000 (before expenses) by the issue of 4,000,000 'A' ordinary shares of 0.25p each at £3 per share.

RESEARCH AND DEVELOPMENT
Expenditure on research and development during the period amounted to £318,686 (1999: £245,725) all of which has been written off to the profit and loss account.

DIRECTORS AND THEIR INTERESTS

The Directors' who served during the year and their interests in the ordinary share capital of the Company at the start and end of the year were as follows:

		31 December 2000	*31 December 1999 or subsequent date of appointment*
J E Berriman		30,000	30,000
S Balasubramanian		212,500	212,500
D Klenerman		212,500	212,500
R Jennings		–	–
N McCooke	(appointed 12 December 2000)	–	–
T Rink	(appointed 1 August 2000)	40,000	–
A Williamson	(appointed 1 August 2000)	20,000	–

The following Directors had interests in options over the ordinary share capital of the company as follows:

	31 December 2000	*31 December 1999 or subsequent date of appointment*
J E Berriman	20,000	20,000
T Rink	40,000	–
A Williamson	20,000	10,000

On 20 September 2001, D Klenerman and R Jennings resigned as Directors. On the same day T Daniel and M Carthy were appointed as Directors.

AUDITORS

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001.

A resolution to reappoint Ernst & Young LLP will be put before the members at the Annual General Meeting.

By order of the board

~~J F Abell~~
~~Company Secretary~~

N.J. McCOOKE
DIRECTOR

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ERNST & YOUNG

REPORT OF THE AUDITORS
to the members of Solexa Limited

We have audited the accounts on pages 6 to 14, which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Cambridge

29 October 2001

PROFIT AND LOSS ACCOUNT
for the 52 weeks ended 31 December 2000

	Notes	*52 weeks ended 31 December 2000* £	*69 weeks ended 31 December 1999* £
Research and development costs		(318,686)	(245,725)
Administration expenses		(197,035)	(44,999)
OPERATING LOSS	2	(515,721)	(290,724)
Interest receivable	3	32,574	5,535
Interest payable and similar charges	4	(35,000)	–
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(518,147)	(285,189)
Tax on loss on ordinary activities	5	–	–
RETAINED LOSS FOR THE PERIOD	11	(518,147)	(285,189)

There were no recognised gains and losses other than the loss for the period attributable to shareholders of the Company of £518,147 (1999: £285,189).

Details of the movement on reserves are set out in note 11.

The accompany notes are an integral part of this profit and loss account.

BALANCE SHEET
at 31 December 2000

	Notes	2000 £	1999 £
FIXED ASSETS			
Tangible assets	6	306,956	68,454
CURRENT ASSETS			
Debtors	7	47,802	3,151
Cash at bank and in hand		1,240,654	295,533
		1,288,456	298,684
CREDITORS: amounts falling due within one year	8	(237,561)	(51,140)
Convertible loan note	8	(1,500,000)	–
NET CURRENT (LIABILITIES)		(449,105)	(247,544)
TOTAL ASSETS LESS LIABILITIES		(142,149)	315,998
CAPITAL RESERVES			
Called up share capital	10	3,650	3,500
Share premium account	11	657,537	597,687
Profit and loss account	11	(803,336)	(285,189)
SHAREHOLDERS' (DEFICIT)/FUNDS – ALL EQUITY		(142,149)	315,998

)
N J McCooke) Director
)

24 / 10 / 2001

The accompanying notes are an integral part of this balance sheet.

1. ACCOUNTING POLICIES

Accounting convention
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of preparing the financial statements - going concern
The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. During the year the Company incurred a loss of £518,147 (1999: £285,189). However, the Company raised £1,500,000 during the financial year ended 31 December 2000 in the form of convertible loan notes and a further £100,000 in the form of convertible loan notes after the year end. The conditions attached to the convertible loan notes are set out in note 8.

On 20 September 2001 the company raised a further £12,000,000 before expenses by the issue of 'A' ordinary shares as set out in note 15.

The Company is involved in research and development activities and until it is able to convert this activity into a significant revenue stream it will continue to rely for financial support on additional investments. If such finance were not available it might not be appropriate to continue recording the assets and liabilities of the Company at the values set out in the balance sheet and, accordingly, adjustments might be required to write down the value of assets and recognise contingent and other liabilities.

The directors believe that financial support to carry out the Company's activities will continue to be made available. They have therefore prepared these accounts on a going concern basis whilst recognising that the Company may require further funding to complete the development of its technology before it is able to generate profits. The terms on which such funding may be available, if at all, will be dependent upon the results of ongoing research and development activities.

Fixed assets
All fixed assets are recorded at cost.

Depreciation
Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	-	over 4 years
Laboratory equipment	-	over 4 years
Office equipment	-	over 4 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Research and development
Research and development expenditure including patent costs and the cost of purchased intellectual property rights is written off to the profit and loss account as incurred.

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Leasing commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pensions

The Company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Cashflow statement

The Company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised) not to present a cashflow statement as it qualifies as a small company.

Employee share options

The Company may, from time to time, grant share options to employees. In accordance with Urgent Issues Task Force pronouncement number 17 ("UITF17"), the Company records a non-cash charge to the profit and loss account for the difference between the exercise price of the option and fair value of the underlying shares on the date of grant. The profit and loss charge is recognised over the period during which the incentive benefits of the option relate. No charges have been recorded in the year to 31 December 2000 (1999: nil).

2. OPERATING LOSS

(a) This is stated after charging:

	52 weeks ended 31 December 2000	*69 weeks ended 31 December 1999*
	£	*£*
Auditors' remuneration	3,000	1,000
Depreciation of tangible fixed assets	26,740	17,946
Operating lease rentals – land and buildings	19,233	–

2. OPERATING LOSS (continued)

(b) Directors' remuneration:

	52 weeks ended 31 December 2000	*69 weeks ended 31 December 1999*
	£	*£*
Emoluments	60,080	19,620

None of the directors were members of the Company money purchase pension scheme during the year.

Emoluments includes an amount of £12,000 paid to a third party in order to secure the services of A Williamson.

(c) Staff costs

	52 weeks ended 31 December 2000	*69 weeks ended 31 December 1999*
	£	*£*
Wages and salaries	83,825	–
Social security costs	6,433	–
Other pension costs	29,107	–
	119,365	–

The monthly average number of employees during the year was as follows:

	52 weeks ended 31 December 2000	*69 weeks ended 31 December 1999*
	No.	*No.*
Administration	2	–
Research and development	1	–
	3	–

3. INTEREST RECEIVABLE

	52 weeks ended 31 December 2000	*69 weeks ended 31 December 1999*
	£	*£*
Interest received on treasury deposits	32,574	5,535

NOTES TO THE ACCOUNTS
at 31 December 2000

4. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 31 December 2000	*69 weeks ended 31 December 1999*
	£	*£*
Interest payable on convertible loan	35,000	–

5. TAX ON ORDINARY ACTIVITIES

There are tax losses of approximately £1,101,000 (1999: £341,000) available to carry forward against any future trading profits, subject to the agreement of the Inland Revenue.

6. TANGIBLE FIXED ASSETS

	Laboratory equipment	*Office equipment*	*Computer equipment*	*Total*
	£	*£*	*£*	*£*
Cost:				
At 1 January 2000	–	–	86,400	86,400
Additions	217,767	25,835	21,640	265,242
At 31 December 2000	217,767	25,835	108,040	351,642
Depreciation:				
At 1 January 2000	–	–	17,946	17,946
Provided during the period	4,518	168	22,054	26,740
At 31 December 2000	4,518	168	40,000	44,686
Net book value:				
At 31 December 2000	213,249	25,667	68,040	306,956
At 1 January 2000	–	–	68,454	68,454

7. DEBTORS

	2000	*1999*
	£	*£*
VAT receivable	15,528	2,235
Other debtors and prepayments	32,274	916
	47,802	3,151

8. CREDITORS: amounts falling due within one year

	2000	*1999*
	£	*£*
Trade creditors	42,632	–
Other taxes social security costs	13,660	752
Accruals and deferred income	181,269	50,388
	237,561	51,140
Convertible loan	1,500,000	–

The loan was advanced by Abingworth Bioventures II SICAV, a related party. It is interest bearing at 7% per annum, and is convertible into 750,000 ordinary shares at an issue price of £2 per share on demand by the lender, or in any event on 10 January 2004. The loan is repayable including an amount equal to any outstanding interest, if any, on demand by the lender.

9. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation not provided in the accounts is as follows:

	2000	*1999*
	£	*£*
Accelerated capital allowances	92,087	20,536
Losses carried forward	(330,358)	(102,417)
	(238,271)	(81,881)

10. SHARE CAPITAL

				Authorised
		2000		*1999*
	No.	*£*	*No.*	*£*
Ordinary shares of 0.25p each	3,000,000	7,500	2,000,000	5,000

On 25 September 2000, the authorised share capital of the Company was increased by 1,000,000 ordinary shares of 0.25 pence each.

				Allotted, called up and fully paid
		2000		*1999*
	No.	*£*	*No.*	*£*
Ordinary shares of 0.25p each	1,460,000	3,650	1,400,000	3,500

During the year the Company issued 60,000 ordinary shares of 0.25p, with an aggregate nominal value of £150, fully paid for cash of £60,000.

10. SHARE CAPITAL (continued)

During the year, the Company issued options to purchase ordinary shares to consultants and to a director under the Solexa Share Option Plan for Consultants (the "Consultant's Plan"), adopted 14 April 1999. Options granted under the Plan are generally exercisable for a seven year period, commencing three years from the date of grant.

At 31 December 2000, options to purchase 150,375 ordinary shares (1999: 78,000 ordinary shares) were outstanding with exercise prices between 72.5p and 100p. At 31 December 2000, 29,844 options had vested (1999: nil), and none were exercisable (1999: nil).

11. RECONCILIATION OF MOVEMENTS ON RESERVES AND SHAREHOLDERS' (DEFICIT)/FUNDS

	Share capital	*Share premium account*	*Profit & loss account*	*Total*
	£	£	£	£
On incorporation	–	–	–	–
Issue of ordinary share capital	3,500	597,687	–	601,187
Loss for the period	–	–	(285,189)	(285,189)
At 1 January 2000	3,500	597,687	(285,189)	315,998
Issue of ordinary share capital	150	59,850	–	60,000
Loss for the year	–	–	(518,147)	(525,147)
At 31 December 2000	3,650	657,537	(803,336)	(142,149)

12. CAPITAL COMMITMENTS

There were no capital commitments contracted but not provided for at the year end (1999: £nil).

13. OPERATING LEASE COMMITMENTS

At 31 December 2000 the company had annual commitments under non-cancellable operating leases as set out below:

		Land and Buildings
	2000	*1999*
	£	£
Operating leases which expire:		
Within one year	–	–
In two to five years	90,000	–
In over five years	–	–
	90,000	–

14. RELATED PARTIES

Abingworth Bioventures II SICAV (ABVII), a venture capital fund registered in Luxembourg owns 850,000 ordinary shares in the Company and is the ultimate controlling party. In addition, ABVII has advanced a loan to the Company of £1,500,000 (see note 8). Mr Berriman is a consultant to Abingworth Management Limited, which is the investment adviser of ABVII.

Cambridge University Technical Services Limited, which is a subsidiary of the University of Cambridge, owns 75,000 ordinary shares in the Company. The Company is party to agreements with Cambridge University which cover, inter alia, a research collaboration and the assignment of certain intellectual property rights. During the year ended 31 December 2000, £159,760 (1999: £226,000) was paid to Cambridge University in respect of the research collaboration and at 31 December 2000, £126,788 (1999: £40,921) was payable. Dr Balasubramanian and Dr Klenerman are employees of Cambridge University and Dr Jennings is a director of Cambridge University Technical Services Limited.

15. POST BALANCE SHEET EVENTS

Subsequent to the year end the company raised £100,000 by way of a convertible loan from the University of Cambridge.

On 20 September 2001, the capital element of the convertible loans of £1.6 million from Abingworth Bioventures II SICAV and University of Cambridge were converted into 800,000 ordinary shares of 0.25p each at £2 per share.

Also on 20 September 2001, the company raised £12,000,000 (before expenses) by the issue of 4,000,000 'A' ordinary shares of 0.25p each at £3 per share.