3625145

Solexa Limited

Report and Financial Statements

31 December 2006

Registered No 3625145

Director
J Flatley

Secretary
C Cabou

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

Bankers
Barclays Bank plc
28 Chesterton Road
Cambridge
CB4 3UT

Registered office
Chesterford Research Park
Little Chesterford
Saffron Walden
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CB10 1XL

Director's report

The director presents his report and financial statements for the year ended 31 December 2006

Results and dividends

The loss for the year amounted to £13,668,776 (2005 as restated £9,384,153) The director does not recommend the payment of an ordinary dividend

Principal activities, review of the business and future developments

The principal activity of the company during the year was the development and commercialisation of novel techniques for the analysis of DNA

The end of 2006 saw the commercial launch of the company's genome analyser and cluster station The company continues to invest in research and development and the director regards investment in this area as a prerequisite for success in the medium to long-term future

Following a transfer pricing study it has been determined that Solexa Ltd is entitled to a 25% royalty on net group sales of instruments and reagents for the use of Solexa intellectual property (IP)

The ultimate parent company, Illumina Inc , reimburses certain expenses incurred by Solexa Limited, thereby supporting the development of the company

The director is satisfied with the results for the year and is confident that future developments will generate satisfactory results

On 26 January 2007, the ultimate holding company of Solexa Limited changed to Illumina Inc following the acquisition of Solexa Inc by Illumina Inc

Principal risks and uncertainties

The principal risks and uncertainties faced by the business include the following

- The company operates in a competitive environment and other companies may market products more successfully
- The company's success depends on its ability to attract and retain key staff

Research and development

Expenditure on research and development during the year amounted to £14,794,513 (2005 as restated £9,467,663), all of which has been written off to the profit and loss account

Directors

The directors who served during the year were as follows

S D Allen	(resigned 26 January 2007)
S Balasubramanian	(resigned 26 January 2007)
T Rink	(resigned 26 January 2007)
A Smith	(resigned 26 January 2007)
J West	(resigned 26 January 2007)

In addition, J Flatley was appointed as a director on 26 January 2007

Director's report (continued)

Directors' and officers' indemnity insurance

The company has taken out insurance to indemnify, against third party proceedings, the directors of the company whilst serving on the board of the company and of any subsidiary, associate or joint venture This cover, together with that taken out by certain subsidiaries, where relevant, indemnifies all employees of the group who serve on the boards of all subsidiaries, associates and joint ventures These indemnity policies subsisted throughout the year and remain in place at the date of this report

Statement as to disclosure of information to auditors

The director, who was a member of the board at the time of approving this report, is listed on page 1 Having made enquiries of company management and of the company's auditors, the director confirms that

- to the best of his knowledge and belief, there is no information relevant to the preparation of this report of which the company's auditors are unaware, and

- he has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Auditors

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

By order of the board

Christine J Cabou

C Cabou
Secretary

December 3, 2007

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing this report and the accounts in accordance with applicable law and Generally Accepted Accounting Practice Company law requires the directors to prepare financial statements 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 financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts, and
- prepare the financial statements 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 financial statements 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

Independent auditors' report
to the members of Solexa Limited

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 22 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements

Independent auditors' report

to the members of Solexa Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Emphasis of matter – Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the company's ability to continue as a going concern The financial statements have been prepared on a going concern basis the validity of which depends on the support of the parent company The financial statements do not include any adjustments that would result from a failure to receive such support

Ernst + Young LLP

Ernst & Young LLP
Registered Auditor
Cambridge

4 December 2007

Profit and loss account
for the year ended 31 December 2006

	Notes	*2006* £	*2005* £ *(restated*)*
Turnover	2	837,073	43,420
Cost of sales		(282,512)	-
Gross profit		554,561	43,420
Other income		96,431	-
Administrative expenses		(15,008,857)	(10,581,814)
Operating loss	3	(14,357,865)	(10,538,394)
Interest receivable and other similar income	8	608,607	238,475
Interest payable and similar charges	9	(907,611)	(815,949)
		(299,004)	(577,474)
Loss on ordinary activities before taxation		(14,656,869)	(11,115,868)
Tax on loss on ordinary activities	10	988,093	1,731,715
Loss for the financial year		(13,668,776)	(9,384,153)

* Restated on implementation of FRS 20 "Share Based Payment" (see note 6)

Statement of total recognised gains and losses

	Notes	*2006* £	*2005* £ *(restated*)*
Loss for the financial year		(13,668,776)	(9,384,153)
Total recognised gains and losses relating to the year		(13,668,776)	(9,384,153)
Prior year adjustment	6, 21	(290,763)	
Total gains and losses since last annual report		(13,959,539)	

* Restated on implementation of FRS 20 "Share Based Payment" (see note 6)

Balance sheet
at 31 December 2006

	Notes	2006 £	2005 £
Fixed assets			
Intangible assets	11	690,128	849,388
Tangible assets	12	1,237,846	565,498
		1,927,974	1,414,886
Current assets			
Stocks	13	579,648	–
Debtors	14	4,994,348	3,765,900
Cash at bank		4,529,819	8,873,704
		10,103,815	12,639,604
Creditors amounts falling due within one year	15	24,899,029	13,676,822
Net current liabilities		(14,795,214)	(1,037,218)
Total assets less current liabilities		(12,867,240)	377,668
Creditors amounts falling due after more than one year	16	7,835	25,290
		(12,875,075)	352,378
Capital and reserves			
Called up share capital	20	30,224	30,224
Share premium account	21	22,329,961	22,329,961
Profit and loss account	21	(35,235,260)	(22,007,807)
		(12,875,075)	352,378

J Flatley
Director

2007

Notes to the financial statements
at 31 December 2006

1 Accounting policies

Basis of preparation

The financial statements have been prepared using the historical cost convention, and in accordance with applicable accounting standards

In preparing the financial statements for the current year, the company has adopted UK Accounting Standard FRS 20 'Share Based Payment' The adoption of FRS 20 has resulted in a change in accounting policy as no charge has previously been recorded FRS 20 requires the fair value of options and share awards which ultimately vest to be charged to the profit and loss account over the vesting or performance period Equity settled transactions are valued at their fair value at the date of grant using an appropriate pricing model If an award fails to vest as a result of certain types of performance conditions not being satisfied the charge to the profit and loss account will be adjusted to reflect this

All other accounting policies listed below have not altered from the prior year

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 £13,668,776 (2005 restated £9,384,153), and had net liabilities of £12,875,075 (2005 net assets of £352,378)

The validity of the going concern assumption depends on the continued financial support from its ultimate parent company Illumina, Inc The company has obtained confirmation that adequate funding will be made available to enable the company to discharge its liabilities as they fall due With this support in place, the directors believe that it is appropriate for the financial statements to be prepared on a going concern basis In the event that this financial support from Illumina, Inc did not continue then the going concern basis of preparation of the financial statements would no longer be appropriate and adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities

Cash flow statement

The company has taken advantage of the exemption in FRS 1 "Cash Flow Statements" which exempts a company from the requirement to prepare a statement of cash flows on the grounds that the company is wholly owned and its parent publishes consolidated financial statements

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities All charges associated with financial liabilities are classified within finance charges

Finance costs

Finance costs of debt are recognized in the profit and loss account over the term of such instruments at a constant rate on the carrying amount An estimate is made by the directors of the company as to what constitutes an appropriate interest rate

Research and development

Research and development expenditure, including patent costs, is written off to the profit and loss account in the year in which it is incurred

Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and monetary liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet and the gains or losses are included in the profit and loss account

Notes to the financial statements
at 31 December 2006

1. Accounting policies (continued)

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable

Fixed assets

All fixed assets are initially recorded at cost

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows

Leasehold property	-	Over the shorter of the lease term and the estimated useful life
Laboratory equipment	-	Over 4 years
Office equipment	-	Over 4 years
Computer equipment	-	Over 3 to 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 reasonable

Stocks

Stocks are stated at the lower of cost and net realisable value In determining the cost of raw materials the FIFO cost method is used For work in progress and finished goods, cost is taken as production cost including direct labour and an apportionment of overhead

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Notes to the financial statements
at 31 December 2006

1. Accounting policies (continued)
Share based payments
Employees of the company are granted share options in the ultimate parent undertaking, Illumina Inc The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined by means of an appropriate pricing model

No expense is recognised for awards that do not ultimately vest At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account with a corresponding entry in equity The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification No reduction is recognised if this difference is negative

This represents a change in accounting policy and has resulted in a restatement of the prior year's results (see note 6)

Lease arrangements
Where the company enters into a lease, which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies Future instalments under such leases, net of finance charges, are included with creditors Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on an actuarial basis, and the capital element which reduces the outstanding obligation for future instalments

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

Pension costs
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

2. Turnover
Turnover, which is stated net of value added tax, represents amounts invoiced to group companies and third parties Turnover is attributable to service revenue from the use of the NMR machine, reagent kit components supplied to Solexa Inc and royalty payments due from Solexa Inc

An analysis of turnover by geographical market is given below

	2006	*2005*
	£	*£*
United Kingdom	52,480	43,420
USA	784,593	-
	837,073	43,420

USA sales include £304,269 of royalty income from Solexa Inc on the sale of the company's products to third parties

Notes to the financial statements
at 31 December 2006

3 Operating loss

This is stated after charging/(crediting)

		2006 £	2005 £ (restated*)
Auditors' remuneration	- audit services	60,500	78,250
	- non-audit services	14,000	21,815
Research and development expenditure written off		14,794,513	9,467,663
Depreciation of owned fixed assets		285,220	423,455
Depreciation of assets held under finance leases		28,099	27,076
Amortisation of intangible fixed assets		159,260	159,260
Government grant income		(96,431)	-
Operating lease rentals	- land and buildings	251,407	176,356
	- plant and machinery	6,570	2,013

* Restated on implementation of FRS 20 "Share Based Payment" (see note 6)

4. Staff costs

	2006 £	2005 £ (restated*)
Wages and salaries	3,511,313	2,853,059
Social security costs	274,828	278,017
Other pension costs	251,357	229,540
	4,037,498	3,360,616

* Restated on implementation of FRS 20 "Share Based Payment" (see note 6)

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

	2006 No	2005 No
Administrative staff	10	6
Research and development	60	55
	70	61

Notes to the financial statements
at 31 December 2006

5. Directors' emoluments

	2006 £	2005 £ (restated)
Emoluments	425,036	352,073

Included within the above is a non-monetary charge relating to share based payments of £229,636 (2005 £39,574)

Value of company pension contributions to money purchase schemes	14,840	14,000

	2006 No	2005 No
Members of money purchase pension schemes	1	1

The amounts in respect of the highest paid director are as follows

	2006 £	2005 £
Emoluments	148,400	140,000
Value of company pension contributions to money purchase schemes	14,840	14,000

6. Prior year adjustment

During the year the company adopted FRS 20 'Share Based Payment', resulting in a change of accounting policy The comparative figures in the primary statements and related notes have been restated to reflect the new policy

The effects of the change in policy are summarised below

	2006 £	2005 £
Profit and Loss Account		
Increase in Administrative Expenses	966,013	290,763
Increase in Loss	966,013	290,763
Balance Sheet		
Increase in Profit & Loss Account Reserve	966,013	290,763

In addition, the group charge for share options passed down to the company of £524,690 (2005 £nil) has been debited to the profit and loss account reserve

Notes to the financial statements
at 31 December 2006

7. Share based payments
Employees are granted share options in the ultimate parent company These options vest over 4 years from the date of grant The expense is set out in note 6

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options in the year

	2006 No	*2006 WAEP*	*2005 No*	*2005 WEAP*
Outstanding as at January 1 [1]	1,102,613	$4 81	483,146	$3 21
Granted during year	513,512	$9 39	646,227	$5 97
Lapsed during year	(50,161)	$5 99	(10,294)	$5 43
Exercised during year	(72,601)	$4 70	(16,466)	$2 35
Outstanding at 31 December	1,493,363	$6 35	1,102,613	$4 81
Exercisable at 31 December	596,377	$4 58	418,200	$3 88

[1] Included within this balance are options over 530,102 (2005 459,656) shares that have not been recognised in accordance with FRS 20 as the options were granted on or before 7 November 2002 These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 20

The range of exercise prices for options outstanding at the year end was $1 28 - $10 74 (2005 $1 28 - $8 50)

The fair value of share options is calculated using the Black-Scholes option pricing model The weighted average assumptions used to estimate the fair value of stock options were as follows

	2006	*2005*
Fair value of common stock	$9 28	$5 97
Fair value of stock options granted	$9 28	$5 97
Risk-free interest rate	4 83%	4 83%
Expected life (in years)	6	6
Expected volatility	87 64%	87 64%
Expected dividend yield	0%	0%

8 Interest receivable and other similar income

	2006 £	*2005* £
Interest received on treasury deposits	344,693	110,266
Interest from group undertakings	263,914	128,209
	608,607	238,475

Notes to the financial statements
at 31 December 2006

9. Interest payable and similar charges

	2006 £	2005 £
Finance charges payable under finance leases	3,241	4,117
Interest expense on inter company loan	902,920	–
Other interest	1,450	–
Accretion of equity option on 'B' Preferred shares	–	811,832
	907,611	815,949

10. Taxation on ordinary activities

(a) Tax on loss on ordinary activities

The tax credit is made up as follows

	2006 £	2005 £
Current tax		
Research and development tax credit	(988,093)	(1,731,715)
Total current tax (note 10(b))	(988,093)	(1,731,715)

(b) Factors affecting current tax credit

The differences are reconciled below

	2006 £	2005 £ *(restated*)*
Loss on ordinary activities before tax	(14,656,869)	(11,115,868)
Loss on ordinary activities multiplied by the standard rate of tax of 30%	(4,397,060)	(3,334,760)
Effect of		
Expenses not deductible for tax purposes	228,499	353,417
Losses arising in the year not relievable against current tax	3,642,084	1,881,764
Capital allowances in (arrears)/advance of depreciation	(124,447)	(4,849)
Adjustments in respect of prior periods	–	(691,821)
Research and development tax credit – current year	(988,093)	(1,039,894)
Other timing differences	8,316	(4,609)
Enhanced R&D deduction	(1,210,066)	(839,201)
Losses surrendered for R&D Tax Credit	1,852,674	1,948,238
Total current tax (note 10(a))	(988,093)	(1,731,715)

* Restated on implementation of FRS 20 "Share Based Payment" (see note 6)

Notes to the financial statements

at 31 December 2006

10. Taxation on ordinary activities (continued)

(c) Factors that may affect future tax charges

The company has tax losses arising in the UK of £26,083,913 (2005 £13,943,633) that are available indefinitely for offset against future taxable profits Deferred tax assets have not been recognised in respect of these losses on the basis that the company is still investing heavily in research and development and, as a result, the company is uncertain as to when these losses will be used The company has also surrendered an element of their losses relating to research and development in exchange for the payment of a tax credit The company anticipates that similar surrenders will be made in the future

(d) Deferred tax

The elements of deferred taxation, which result in a nil balance at the end of the year, together with details of other amounts not provided for, are as follows

	2006 Provided £	*2006* Not provided £	*2005* Provided £	*2005* Not provided £
Depreciation in advance of capital allowances	286,299	–	161,852	–
Tax losses available	(268,383)	(7,607,084)	(152,252)	(4,030,838)
Short term timing differences	(17,916)	-	(9,600)	-
Share based payments	–	(240,578)	-	–
Provision for deferred taxation	–	(7,847,662)	–	(4,030,838)

Under the provisions of the Finance Act 2007, the rate of corporation tax will reduce from 30% to 28% on 1 April 2008 This rate change will reduce the company's unprovided deferred tax asset by £523,177 to £7,324,485 The effect of this change will be fully disclosed in the financial statements for the year ended 31 December 2007

11. Intangible fixed assets

	Intellectual property £
Cost	
At 31 December 2005	1,114,821
Amortisation	
At 1 January 2006	265,433
Provided during the year	159,260
At 31 December 2006	424,693
Net book value	
At 31 December 2006	690,128
At 1 January 2006	849,388

Notes to the financial statements
at 31 December 2006

12. Tangible fixed assets

	Leasehold property	*Assets under construction*	*Laboratory equipment*	*Office equipment*	*Computer equipment*	*Total*
	£	£	£	£	£	£
Cost						
At 1 January 2006	222,920	25,000	1,461,523	79,151	333,221	2,121,815
Additions	200,890	98,250	365,473	–	321,054	985,667
At 31 December 2006	423,810	123,250	1,826,996	79,151	654,275	3,107,482
Depreciation						
At 1 January 2006	222,254	–	1,019,606	62,612	251,845	1,556,317
Provided during the year	41,615	–	175,682	3,113	92,909	313,319
At 31 December 2006	263,869	–	1,195,288	65,725	344,754	1,869,636
Net book value						
At 31 December 2006	159,941	123,250	631,708	13,426	309,521	1,237,846
At 1 January 2006	666	25,000	441,917	16,539	81,376	565,498

The net book value of assets above includes an amount of £52,421 (2005 £75,006) in respect of assets held under finance leases

13. Stock

	2006	*2005*
	£	£
Raw materials	329,695	–
Work in progress	76,583	–
Finished goods	173,370	–
	579,648	–

14. Debtors

	2006	*2005*
	£	£
Trade debtors	7,990	3,525
Amounts owed by group undertakings	3,386,850	2,611,854
Other debtors	1,357,270	1,118,241
Prepayments and accrued income	242,238	32,280
	4,994,348	3,765,900

Notes to the financial statements
at 31 December 2006

15. Creditors: amounts falling due within one year

	2006 £	*2005* £
Obligations under finance leases (note 17)	17,454	18,107
Trade creditors	607,595	281,560
Amounts owed to group undertakings	23,498,707	12,681,709
Other taxation and social security	97,166	74,683
Pension creditor (note 18)	37,902	–
Accruals	640,205	620,763
	24,899,029	13,676,822

16. Creditors: amounts falling due after more than one year

	2006 £	*2005* £
Obligations under finance leases (note 17)	7,835	25,290

17. Obligations under finance leases

The maturity of these amounts is as follows

	2006 £	*2005* £
Amounts payable		
Within one year	19,115	21,397
In two to five years	8,025	27,139
	27,140	48,536
Less finance charges allocated to future periods	(1,851)	(5,139)
	25,289	43,397
Finance leases are analysed as follows		
Current obligations (note 15)	17,454	18,107
Non-current obligations (note 16)	7,835	25,290
	25,289	43,397

18 Pensions

The company operates a Group Personal Pension Plan with defined contributions, managed by The Prudential, for all its directors and employees The assets of the scheme are held separately from those of the Company in an independently administered fund Contributions outstanding at the year-end were £37,902, (2005 £nil)

19. Commitments under operating leases

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings *2006* £	*2005* £
Operating leases which expire		
Within one to five years	455,255	–

Notes to the financial statements
at 31 December 2006

20 Share capital

	Authorised 2006 £	2005 £
Ordinary shares of £0 0025 each	34,849	34,849

	Allotted and called up 2006 No	2006 £	2005 No	2005 £
Ordinary shares of £0 0025 each	12,089,515	30,224	12,089,515	30,224

As at 31 December 2006, all share capital is in the form of ordinary shares

The rights of the ordinary shares, and of the A ordinary and B preferred shares that were in existence during 2005, are set out below The A ordinary and B preferred shares were all converted to ordinary shares in June 2005

Ordinary shares, 'A' ordinary shares and 'B' preferred shares
Each Ordinary and 'A' ordinary share entitles the holder to one vote on all matters submitted to a vote of the Company's shareholders Each 'B' preferred share entitles the holder to one vote for every ordinary share into which the 'B' preferred shares are convertible When a dividend is declared by the Board, all 'A' ordinary and 'B' preferred shareholders are entitled to receive a fixed dividend accruing at a rate of 8% per annum (accruing on a daily basis and calculated on a simple and not compounded basis) The dividend payable to holders of the 'B' preferred shares is in priority to the dividend payable to the holders of the 'A' ordinary shares, which in turn is in priority to any dividend which the Board may declare as payable to the holders of all Ordinary shares To date, no dividends have been declared

In the event of liquidation of the Company, the return of assets to Ordinary shareholders shall be applied in the following order of priority

1 First in paying to the holders of the 'B' preferred shares the greater of a) 1 5 times the subscription price paid by them per share together with an amount equal to any arrears or accruals of dividends on the 'B' preferred shares and b) an amount equal to any arrears or accruals of dividends on the 'B' preferred shares together with the amount which the holders would receive if their 'B' preferred shares had been converted into Ordinary shares immediately prior to such liquidation
2 Second in paying to the holders of the 'A' ordinary shares the greater of a) the subscription price paid by them per share (£3) together with an amount equal to any arrears or accruals of dividends on the 'A' ordinary shares and b) an amount equal to any arrears or accruals of dividends on the 'A' ordinary shares, the amount which the holders would receive if their 'A' ordinary shares had been converted into Ordinary shares immediately prior to such liquidation on a one to one basis
3 Third in paying to the holders of the Ordinary shares any remaining capital after payment of all outstanding liabilities

Any holder of 'A' ordinary shares may require the Company to convert their 'A' ordinary shares into Ordinary shares on a one to one basis Any holder of 'B' preferred shares may require the Company to convert their 'B' preferred shares into Ordinary shares at a ratio of one Ordinary share for each 'B' preferred share This ratio may be adjusted if additional shares are issued by the Company in accordance with anti-dilution provisions

In the event of a merger and/or consolidation of the Company or an acquisition of or by the Company, which results in the shareholders receiving at least 40% of the nominal share capital and at least 40% of the voting control in the surviving or succeeding entity the shareholders shall be entitled, immediately prior to or upon the completion of such event, to the following

Notes to the financial statements

at 31 December 2006

20. Share capital (continued)

a) In the case of the 'B' preferred Shareholders, at the election of the 'B' Majority and in priority to all other Shareholders, either

i to receive, pro rata, the number of equity securities of the surviving entity determined by multiplying the sum of the subscription price paid for the 'B' preferred shares plus the per share arrears accrued on or after January 1, 2005 by the number of outstanding 'B' preferred shares and by 1 25 and dividing the result by the per share price of the equity securities issued in the merger provided, that the maximum number of equity securities issuable shall not exceed the aggregate number of equity securities issued to all other shareholders calculated on a fully-diluted basis, as if all 'A' ordinary shares, all 'B' preferred shares and all convertible securities had been fully converted into ordinary shares and any outstanding options had been fully exercised, or

ii to have each 'B' preferred share held converted into 1 25 ordinary shares, then

b) In the case of the 'A' ordinary shareholders, at the election of 51% of the 'A' ordinary shareholders, either

i to receive, pro rata, the number of equity securities of the surviving entity determined by multiplying the sum of the 'A' ordinary subscription price for each such share plus the per share arrears accrued on or after January 1, 2005 by the number of outstanding 'A' ordinary shares, and by dividing the result by the per share price of the equity securities issued in the merger provided, however, that the maximum number of equity securities issuable shall not exceed four times the aggregate number of the equity securities issued in such a merger to the holders or ordinary shares calculated on a fully-diluted basis, as if all 'A' ordinary shares, all 'B' preferred shares and all convertible securities had been fully converted into ordinary shares any outstanding options had been fully exercised, or

ii to have converted into, and re-designated as, ordinary shares at a rate of one ordinary share per each 'A' ordinary share held, then

c) In the case of the ordinary shareholders, the remaining equity securities of the surviving entity that are distributable to the shareholders of the Company

As regards redemption any 'B' preferred shareholder subject to approval by the Investor Majority may request in writing that the Company redeem on or after July 31, 2010 all of their 'B' preferred shares as a cash amount equivalent to the greater of either (i) the subscription price paid by that shareholder plus the arrears, or (ii) the fair value of the 'B' preferred shares being redeemed

21. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Share premium account*	*Equity element of preferred shares*	*Profit and loss account*	*Total shareholders' funds*
	£	£	£	£	£
At 1 January 2005	18,512	14,194,102	1,481,537	(14,395,954)	1,298,197
Conversion of B preferred shares	11,111	7,988,889	–	–	8,000,000
Reserve reclassification	–	–	(1,481,537)	1,481,537	–
Issue of share capital	601	146,970	–	–	147,571
Loss for the year – as restated*	–	–	–	(9,384,153)	(9,384,153)
Share based payments – as restated*	–	–	–	290,763	290,763
At 1 January 2006	30,224	22,329,961	–	(22,007,807)	352,378
Loss for the year	–	–	–	(13,668,776)	(13,668,776)
Share based payments	–	–	–	441,323	441,323
At 31 December 2006	30,224	22,329,961	–	(35,235,260)	(12,875,075)

* Restated on implementation of FRS 20 "Share Based Payment" (see note 6)

Notes to the financial statements

at 31 December 2006

22. Ultimate Parent Undertaking and Related Party Transactions

During the year the company's parent undertaking and controlling party was Solexa Inc , a company registered in the USA Copies of its group accounts, which include the company, are available from 25861 Industrial Blvd, Hayward, California 94545, USA

On 26 January 2007, the ultimate holding company of Solexa Limited changed to Illumina Inc following the acquisition of Solexa Inc by Illumina Inc

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8