FORM 10KSB

HedgePath Pharmaceuticals, Inc. - HPPI

Filed: March 30, 2000 (period: December 31, 1999)

Annual report filed by small businesses

FORM 10-KSB

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 1999

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___ to ___

Commission file number: 001-13467

COMMONWEALTH BIOTECHNOLOGIES, INC.
(Name of small business issuer in its charter)

Virginia	54-1641133
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

601 Biotech Drive
Richmond, Virginia 23235
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (804) 648-3820

Securities registered pursuant to Section 12(b) of the Act:	Securities registered pursuant to Section 12(g) of the Act:
None	Common Stock, without par value per share

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___
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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [ ].

The issuer's revenues for the year ended December 31, 1999 were $2,565,132.

The aggregate market value of the shares of common stock, without par value ("Common Stock"), of the registrant held by non-affiliates on March 24, 2000 was approximately $13,743,445, based upon the closing sales price of these shares of $12.875 per share, as reported on the Nasdaq SmallCap Market on March 24, 2000. As of March 24, 2000 there were 1,728,164 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its Annual Meeting of Shareholders to be held on April 27, 2000 are incorporated by reference into Part III of this Form 10-KSB.

Portions of the registrant's 1999 Annual Report to Shareholders are incorporated by reference into Part II of this Form 10-KSB.

Transitional Small Business Disclosure Format (check one:) Yes ___
No X.
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PART I

Item 1. Description of Business

Overview

Commonwealth Biotechnologies, Inc (the "Company") was founded in 1992 to provide sophisticated research and development support services on a contract basis to the biotechnology industry. The Company's customers consist of private companies, academic institutions and government agencies, all of which use biological processes to develop products for health care, agricultural and other purposes. The Company's revenues are derived principally from providing macromolecular synthetic and analytical services to researchers in the biotechnology industry or to researchers who are engaged in life sciences research in government or academic labs throughout the world.

The Company provides these services to customers on a contract basis and derives its revenues from these services, and not only from sales of commercial products resulting from the research. This arrangement distinguishes the Company from many other biotechnology companies in that the Company's revenues are not solely derived from successful commercialization of a new biotechnology product. The Company has developed a strong reputation as a leading provider of biotechnology research and development analytical services. The Company is focusing its expansion efforts on the maintenance and expansion of long term relationships with customers in the biotechnology industry and in establishing new customer relationships. The Company has implemented new technologies to provide new services to its customers, and is continuing to develop new products and services to meet the changing needs of its customers.

In general terms, the Company serves two types of customers: those who require a discrete set of analyses ("short-term projects"), and those who contract with the Company on an extended basis for performance of a variety of integrated analytical services ("long-term projects"). More often than not, short-term and long-term project customers send the Company repeat business.

The Company also derives a portion of its revenues from research grants funded by various Federal agencies. These research grants support the bulk of the Company's research efforts on its own in-house proprietary technologies. The Company is developing its own technologies in the general areas of anti-coagulation, genomic sequence analysis, and development of diagnostic test kits.

In January, 1999, the Company began sales of a new reagent (AccuTrac/TM/) which facilitates the process of automated DNA sequence analysis. In this respect, the Company hopes to broaden its revenue base by direct sales of this reagent to its clients. AccuTrac was developed within the Company and stems directly from the Company's in-house research and development programs.

Growth Strategy

The Company's strategy for growth includes:

Expansion of its Analytical Instrumentation Capacity. The Company believes there is significant demand for additional services of the type the Company currently offers. The Company's capacity to service this demand has been constrained by the limitations of its facilities and need to make significant capital expenditures on equipment. Having secured a significantly larger laboratory facility and additional research equipment, the Company has the capacity to generate substantially greater revenues from its core services, to offer new technologies, and to improve profit margins through more efficient operations.

Expansion of its Marketing Capabilities. The Company has expanded its customer base primarily through placement of print ads in several periodicals and industry sourcebooks, by attendance at a limited number of trade shows, seminars and meetings, through its own Web site, and by word-of-mouth recommendations. The Company has decreased its print-ad marketing but has worked its emphasis on Internet marketing. In March, 1999, the Company hired an Account Executive for the Western Region who serves clients in California. This individual is primarily targeting biotechnology companies on the west coast of the United States. The

Company has engaged the services of Ballas and Partners, Richmond, VA, a media relations firm, to assist the Company in design and implementation of new marketing strategies, to enhance the Company's visibility, and to aide the Company in identifying and reaching new customers.

Regulatory Compliance. The Company is registered under the Clinical Laboratories Improvement Act (CLIA), with pending accreditation by the American Association of Blood Banks. Registration under the CLIA guidelines enables the Company to accept human samples for analysis and to perform analysis of human clinical samples for the presence of known genetic markers.

The Company was accredited in 1998 under the guidelines of the National Forensic Science Technology Center, (NFSTC), to perform DNA identity testing for submission of data into the Combined DNA Index System (CODIS) data base, and is one of only a few commercial facilities nationwide accredited by the NFSTC to perform criminal (felony) DNA database testing for submission into the FBI CODIS database. All of the Company's operations fall under GLP Good Laboratory Practices.

Expansion into New Service Technologies. The Company continues to critically examine new technologies with a view towards expanding its customer base and sources of revenue. Already, the Company has made inroads in establishing new service technologies and in offering these services to its customers. In 2000, the Company expects to continue to increase its capacity or improve its analytical service offerings in the following areas:

DNA sequence analysis. The Company has positioned itself to be at the forefront in the development and application of new genome based technologies. The Company has expanded its contract DNA sequencing services and offers sophisticated sequence data analysis.

Genetic Analysis. The Company has established a Genetic Testing Group and has begun testing of human samples for the presence of genetic markers of known human pathologies. Currently, the Company performs upwards of 25 private paternity cases per month, and expects to grow this revenue stream significantly. The Company has placed a major marketing focus on attracting new private paternity cases. This includes saturation marketing in the yellow page listings of neighboring metropolitan areas and increased exposure on the Internet, including a separate "paternity" Web site. The Company has printed paternity brochures and has distributed them to regional practice law firms. The Company has signed two different agreements to perform paternity tests for private cases from Japan and Korea.

The Company is also ready to begin analysis of samples for the presence of many other marker genes. The Company will continue to focus new marketing efforts on its capabilities in this area, and is striving to make Genetic Analysis a larger revenue producing technology for the Company.

Identity Testing and Paternity Testing by Genetic Analysis. In its new facility, the Company has established a DNA Reference Laboratory containing all the necessary work areas required to provide genetic identity and paternity testing. The Company is offering paternity testing and DNA fingerprinting to the general public and to various state and federal agencies, and already has submitted bids for performing DNA fingerprint analysis for the Departments of Criminal Justice of different states.

In February, 1999, the Company hired a new Director of Human Genetics and Genetic Analysis. This scientist has many years experience in growing genetic analysis and paternity testing as a revenue source for his former employer, and the Company

expects that his presence will bring immediate visibility to the Company in these important areas.

Molecular Biology. While not truly a new technology at the Company, management has made a concerted effort to identify clients that contract with the Company to pursue comprehensive molecular biology projects.

Genomics. The Company recognized early that genomics was to become a critical component of understanding all life processes. The Company established a sophisticated genomics program over the course of last year. The Company has expanded its repertoire of genome analysis capabilities and is now offering Taqman/TM/ real time PCR analysis for genome studies. In addition to this new technology platform, the Molecular Biology group at the Company has perfected new cloning methods which speed up the process of genome sequence determination. The Company's TaqmanTM capabilities will soon be highlighted on its Web site.

Centralized Computer Facilities. The Company has acquired a more centralized server for databasing and analysis, and has established a sophisticated company-wide intranet in its new facility. New software packages have been installed to upgrade its accounting capabilities, and to permit more efficient data handling, storage, backup, and analysis and data.

Expanded DNA Synthesis Services. The Company provides "protein nucleic acids" (PNAs) to numerous clients under a broad licensing agreement with Perseptive Biosystems, Inc., Framingham, MA. In addition, demand for DNA/RNA synthesis continues to increase, and in particular, the Company is one of the few offering commercial RNA synthesis.

Expanded Cell Culture and Bacterial Culture Services. The Company has established a state-of-the-art cell culture facility in its new facility and offers large-scale cell culture services to its clients.

Expanded Mass Spectral Analysis Services. The Company has installed and now operates a MALDI-TOF mass spectrometer and can offer mass spectral analysis of virtually all macromolecules, including proteins, peptides, DNA, RNA, and PNAs. MALDI-TOF analysis complements electrospray (ES) mass spec and HPLC-ES-mass spec analyses also offered by the Company.

Bio Organic Chemistry. In the last year, the Company contracted to perform complex chemical synthesis of analogs of natural products. These compounds are being viewed as potential human pharmaceuticals. Chemical synthesis represents a new growth area for the Company and, as demand warrants, its staff will increase in this area.

Analytical Support Services

In order to analyze and experiment with cell components and macromolecules, researchers need to analyze, sequence, purify, synthesize, and characterize those components. Thus, the Company's business is dependent upon the use of sophisticated, analytical equipment. In light of increasing cost pressures, many companies, universities, and research institutions seek to avoid incurring the costs to equip and staff laboratories that can perform these analytical services. Instead, they choose to contract with the Company for these services.

The Company is a fee-for-service contractor and typically takes no ownership position in the intellectual property rights resulting from services it performs under contract, either short-term or long-term contract customers. A key to the growth of the Company has been to integrate a number of foundation technologies and provide a broad range of capabilities to customers who otherwise must go to several different sources for their needs. Since commencing operations, the Company has become noted for providing a wide range of services

relating to design, synthesis, purification, and analysis of peptides, proteins, and oligonucleotides.

Providing a wide range of services is an important element of the Company's competitive strategy. Virtually all of its closest competitors provide either DNA level technologies or protein/peptide level technologies. There are few major competitors that offer integrated DNA/RNA and protein/peptide technologies and none that offer these technologies combined with sophisticated biophysical analytical techniques, such as calorimetry, spectroscopy, and mass spectral analysis. Thus, the Company can provide complete research programs to its customers. "One stop biotechnology shopping" has proved attractive in securing long-term contracts with customers ranging from major pharmaceutical industry researchers to major government sponsors of research, such as the National Institutes of Health. The Company believes it has earned a reputation as a leading provider of high quality DNA sequencing - a reputation which has enabled it to obtain key contracts with universities, major pharmaceutical, and biotechnology companies throughout the world.

The services offered by the Company are fully detailed in its promotional brochures, and on its Web site. A one page promotional brochure has been compiled and is sent to all potential customers. The Company has instituted "fax-on-demand" for customers who seek technology descriptions and pricing information.

Customers

The Company's customers are private companies, academic institutions and government agencies throughout the world. Virtually all clients are engaged in life sciences research, and use the Company's technologies to provide data and results that support their individual research programs. As of December 1999, the Company's client lists exceeded 1,000 customers world-wide.

On average, in 1999, the Company added nearly 25 new customers per month. The Company initiated nearly 90 work orders per month. Of its domestic customers, 60% are private companies, and 40% are university or governmental labs. The Company added 58 new foreign clients in 1999, from such places as Argentina, Australia, Canada, China, Columbia, Denmark, Germany, Greece, Hong Kong, India, Israel, Italy, Japan, Korea, Mexico, Malaysia, Norway, Spain, Sweden, Switzerland, the United Kingdom, and Uruguay.

The Company's customers are derived from many sources. The Company advertises in the professional journals, exhibits at trade shows, and has its own Web site from which a potential customers may directly download order forms and place an order, if desired. The Company recieves about 200 inquires per month for its services from the Internet. The Company is also cross-listed on several biotechnology, biochemistry, and molecular biology search services, so that potential customers may find the Company using simple key word search terms. In addition, favorable word-of-mouth advertising is key to the Company's success, and has brought the Company many new investigators within a single research based institution.

CBI is committed to identifying long-term contractual clients. The Company views long-term projects as the more important source of revenue, and has continued to focus its efforts on identifying long-term customers. Long-term projects generally range from a few months to more than a year. Revenues are generally recognized as services are rendered or as products are delivered. In addition, revenue is also recognized with performance-based installments payable over the contract duration as milestones are achieved.

Operations

Requests for quotes from potential customers are received via phone, e-mail, from the Company's Web site, or by hard copy directed to the Company's business coordinator or laboratory manager. All inquiries are answered by direct mailing of the Company's brochure and price lists, with follow up phone calls, where appropriate. Price quotes for small projects on routine analytical procedures are generated by scientists that possess the expertise necessary to respond. Quotes for more complex projects are developed collaboratively by the Company personnel having the requisite expertise. Most quotations are sent back to the inquiring scientist within one working day.

Incoming orders are logged onto the Company's project management

system, assigned a work order number, and delivered to the appropriate scientist designated to oversee and coordinate all aspects of the particular project. The work to be done is scheduled on the appropriate instruments, and all necessary reagents or other supplies needed to complete the project are ordered as needed. Every customer is required to sign a service agreement prior to the Company initiating any requested work.

As a long-term project is completed, progress reports are usually sent to the customer detailing the results found to date, and the conclusions to be drawn. If the project is relatively straightforward, such as an amino acid analysis, spectroscopy, or DNA sequence analysis, the results are faxed or e-mailed to the customer prior to sending the customer the hard copy of the results. If the project involves a synthesis of a peptide or oligonucleotide, for example, the product is sent to the customer by express mail service. Every product is accompanied by a data sheet that details the physicochemical properties of the compound, including the results of all analytical tests performed which support the claimed purity and composition. The customer is invoiced upon completion of the work, or at particular points in the work program. The customer pays for the analytical services provided in accordance with the Company's standard fee structure and typically retains all rights to any intellectual property resulting from the analysis.

All data generated at the Company are archived for the customer. Where appropriate, the data are archived on selected storage media, such as back up tapes or computer disks. A file is maintained for every customer, and these files are also archived. The Company employs appropriate security measures to ensure the confidentiality of customer information.

The Company operates under strict Standard Operating Protocols ("SOPs") which detail the particular technologies used to complete the work in progress. SOPs are made available to the customer upon request. In addition, the Company's technical team follows standard operating procedures which help to produce consistent, high quality results.

Proprietary Research and Development.

The Company generally does not retain intellectual property rights on work done for its customers. In contrast, in its proprietary research and development programs, the Company is developing its own technologies, the intellectual property rights to which the Company will own. Usually, the goal of these research efforts is to bring a particular technology to a patentable stage and then license the technology to another company. If the technology is commercialized, the Company may realize licensing and/or royalty fees. However, in some instances, the Company is both the manufacturer and distributor of its own products.

Intellectual Property

HepArrest/TM/

US Patent #5,877,153, was issued March 2, 1999 to the Company and a Continuation in Part to the same patent has been filed and is pending. Both patents relate to an anti-coagulation technology the Company is developing. National patents on this technology have also been filed and are pending in Europe, Japan, and Canada.

The Company's anti-coagulation technology is an experimental new compound that counteracts the effects of heparin, which is used to prevent blood clotting during open heart surgery and other surgical procedures involving significant intervention into the circulatory system. The only drug currently available to counteract heparin exhibits toxicity and other adverse side effects, so its use is primarily restricted to open heart surgery and emergencies. However, the inability to counteract the effects of heparin can result in bleeding complications. Initial tests indicate that compounds the Company has developed can neutralize heparin's anticoagulant activity without displaying the toxicity associated with the existing drug.

The compound has been trademarked as HepArrest/TM/. The Company commissioned an independent consulting firm, the Mattson Jack Group, Mendon, NY, to assess the market potential of HepArrest, if the compound were to receive approval from the Food and Drug Administration as a human pharmaceutical.

Mattson Jack determined that there may be a substantial market for a safe and effective drug with a proven clinical profile of HepArrest.

The Company's strategy will be to license this technology to a corporate partner(s) who are well positioned to take HepArrest through all the laboratory and clinical trials necessary to commercialize the compound. In exchange, the Company expects a licencing fee and subsequent royalties against sales. To this end, Mattson Jack Group has compiled a qualified list of potential licensing partners whose own corporate strengths match the needs of the Company.

To yield a commercial product, HepArrest will require extensive additional testing and government approval. As a result, there can be no assurance that commercial products will result from these technologies, all of which should be considered highly speculative.

A reagent to aid automated DNA sequence analysis, AccuTrac/TM/

The Company developed a novel laboratory reagent that markedly improves the accuracy and reliability of automated DNA sequence analysis protocols. Such protocols are in use world-wide, and the Company believes that its reagent will be adopted for use by many of the facilities that currently perform DNA sequence analysis. The Company filed for US patent protection for its reagent, termed AccuTrac/TM/. The Company announced the implementation of AccuTrac at the Institute for Genome Research meeting in January 1999, and presented additional products based on AccuTrac at the Human Genome meeting, March 1999. The Company is aggressively marketing AccuTrac over the Internet and with print ads in the professional journals.

Other Technologies

The Company is actively pursuing development of an immunoassay for equine infections anemia. All equids are at risk for equine infectious anemia (EIA). All animals must be tested for the virus, and any animal found positive must be destroyed. Current tests for the presence of the virus are subject to false positive (and false negative) results. False positive results are unacceptable because valuable animals (for instance, race horses), may be put-down. False negative results are potentially devastating because infected animals could then move freely amongst equine populations. The work is funded by SBIR awards from the USDA totaling $250,000. The Company has developed a novel test which should effectively eliminate false positive and false negative reactions, and at the same time, afford a greater level of testing sensitivity. The Company is pursuing field trials of this test, and expects to gain USDA approval for its use. The Company hopes to enter into negotiations with a corporate partner interested in commercializing this diagnostic assay.

The Company is researching alternative applications of HepArrest/TM/, outside the area of cardiovascular surgery. As work progresses, the Company will seek patent protection for such applications.

The Company anticipates that its ability to secure and protect patents and other intellectual property rights will become increasingly important to the business of the Company in the event its proprietary research programs yield technologies which can be commercialized. There can be no assurance that the Company will be successful in

securing and protecting intellectual property rights, or that its activities will not infringe on the intellectual property rights of others.

The Company takes appropriate steps to protect its intellectual property rights and those of its customers. The Company's practice is to require its employees and consultants to execute non-disclosure and proprietary rights agreements upon commencement of employment or consulting arrangements with the Company. These agreements acknowledge the Company's exclusive ownership of all intellectual property developed by the individual during the course of his work with the Company and require that all proprietary information disclosed to the individual by the Company or its customers remain confidential.

Marketing

The Company has expanded its customer base primarily through

word-of-mouth referrals and attendance at a limited number of trade shows, seminars and meetings. Because of its ability to offer a wide range of biotechnology research services, the Company believes that it enjoys a favorable reputation among its customers, and many new customers come to the Company by word-of-mouth recommendation. The Company has constructed its own Web site (www.cbi-biotech.com) and is listed with several bio-technical and biomedical oriented sites on the Internet.

Human Resources

The Company currently has 33 full time employees, including 8 employees in administration, marketing, sales, and customer relations, 1 computer network specialist, 11 employees in research and development, and 24 employees in laboratory operations; some employees in research and development also participate in laboratory operations. Ten of the Company's employees hold doctorate degrees, and 7 have Master's degrees. None of the Company's employees are represented by a labor union. The Company has experienced no work stoppages and believes its relations with its employees to be good.

Competition

The Company faces several types of competition. The Company believes there are between 12 and 15 companies concentrating on peptide synthesis and about 20 other companies offering DNA related services in the United States. Very few companies offer both DNA/RNA and protein/peptide analysis. Other competition comes from divisions of larger research oriented companies or university core facilities. The principal competitive factors in the Company's industry are pricing, expertise, and range of services offered, and the Company believes that it competes effectively on all of these factors.

Government Regulation

The Company does not require government regulatory approvals to provide its current services. Numerous federal, state and local agencies, such as environmental, working condition and other similar regulators, have jurisdiction to take action that could have a material adverse effect upon the Company's ability to do business. The Company believes that it is in general compliance with existing federal, state and local laws and regulations and does not anticipate that continuing compliance will have any material effect upon the capital expenditures, earnings or competitive position of the Company.

The Company anticipates that its pursuit of its growth strategy will subject the Company to a heightened level of government regulation of its operations. For example, in pursuing opportunities to provide analytical services to customers seeking the approval of the United States Food and Drug Administration (the "FDA") of products, the Company's operations will become subject to compliance with standards established by the FDA, including inspections by the FDA and other federal, state and local agencies regarding work performed by the Company on specific FDA submission projects. If significant violations are discovered during an inspection, the Company may be restricted from undertaking additional work on projects until the violations are remedied. The Company has a license from the Nuclear Regulatory Commission ("NRC") for the operation of its laboratory facility.

The commercialization of the Company's proprietary technologies will be subject to extensive government regulation and approval requirements, including the need for pre-clinical laboratory and animal tests and human clinical trials. The Company does not have, and does not anticipate developing, the facilities and expertise necessary to obtain FDA approval for or to manufacture any pharmaceutical products that may result from its technologies. Instead, the Company expects to license these technologies to third parties having the necessary facilities and expertise, which would assume responsibility for and control of regulatory matters.

Item 2. Description of Property

Facilities

Construction of the Company's new facility was completed in November, 1998 at an overall cost of about $5.1 million dollars financed primarily through the Virginia Small Business Financing Authority which issued $4,000,000 in tax

exempt Industrial Revenue Bonds for the benefit of the Company. The Company's new facility encompasses 32,000 square feet of state-of-the-art laboratory and administrative space. The building is designed to facilitate movement of samples throughout each laboratory, and where necessary, to maintain and ensure custody of samples. The building houses expansion space which was purposefully left undeveloped to accommodate new technologies as they develop.

Item 3. Legal Proceedings

The Company is not presently involved in any litigation, nor, to the knowledge of the Company's management, is any litigation threatened against the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of 1999.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

Market Information

The Company's common stock is traded on the Nasdaq SmallCap Market under the symbol "CBTE." The following table sets forth the high and low sales prices for the Company's common stock for the indicated periods during 1998 and 1999, as reported on the Nasdaq SmallCap Market. The Company completed its initial public offering in October 1997 at a price of $6.00 per share. On March 24, 2000, the closing price of the Company's common stock, as reported by the Nasdaq SmallCap Market was 12.875 per share. As of March 15, 2000, there were 41 holders of record of the common stock.

1998	High Sales Price Per Share ($)	Low Sales Price Per Share ($)
First Quarter	10.50	7.50
Second Quarter	11.25	9.00
Third Quarter	10.75	5.625
Fourth Quarter	9.875	5.5
1999		
First Quarter	9.25	7.875
Second Quarter	9.00	6.438
Third Quarter	6.563	4.188
Fourth Quarter	10.250	4.750

The Company has never paid cash dividends on its capital stock. The Company currently intends to retain earnings, if any, for use in its business and does not anticipate paying any cash dividends in the foreseeable future.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information set forth on pages 7 through 17 of the Company's 1999 Annual Report to Shareholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

Item 7. Financial Statements

The Company's financial statements and the related notes thereto, together with the report of McGladrey & Pullen, LLP, set forth on pages 18 through 27 of the Company's 1999 Annual Report to Shareholders are incorporated herein by reference.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Goodman & Company, L.L.P. ("Goodman") served as the Company's independent public accountants for the fiscal years ended December 31, 1995, December 31, 1996 and December 31, 1997. For various business reasons, the Audit Committee recommended the dismissal of Goodman to the Company's Board of Directors, and on February 23, 1998, the Board officially terminated its business relationship with Goodman. Goodman's reports on the Company's financial statements for each of the last two fiscal years did not contain an adverse opinion or disclaimer of opinion. Similarly, Goodman did not modify either such report as to uncertainty, audit scope or accounting principles. There were no disagreements between the Company and Goodman regarding any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. Upon the recommendation of the Audit Committee of the Company's Board of Directors, the Board of Directors of the Company appointed on February 23, 1998 the firm McGladrey & Pullen, LLP as independent public accountants to audit the Company's consolidated financial statements.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Directors

The information relating to the directors of the Company set forth in the Company's definitive proxy statement relating to the Company's Annual Meeting of Shareholders to be held on April 27, 2000 (the "Proxy Statement") under the caption "Proposal 1: Election of Directors" is incorporated herein by reference.

Executive Officers

The information relating to the executive officers of the Company set forth in the Proxy Statement under the caption "Executive Compensation - Executive Officers of the Company" is incorporated herein by reference.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

The information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is set forth in the Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

Item 10. Executive Compensation.

The information set forth in the Proxy Statement under the caption "Executive Compensation" is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The information set forth in the Proxy Statement under the caption "Voting Securities and Principal Holders Thereof" is incorporated herein by reference.

Item 12. Certain Relationships and Related Transactions.

The information set forth in the Proxy Statement under the caption "Certain Relationships and Related Transactions" is incorporated herein by reference.

Item 13. Exhibits and Reports on Form 8-K.

(a) Exhibits

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Amended and Restated Bylaws (1)
4.1	Form of Common Stock Certificate (1)
4.2	Form of Underwriter's Warrant, as amended (1)
4.3	Form of Management Warrant, as amended (1)
10.1	Placement Agreement by and between the Company and Anderson & Strudwick, Incorporated ("A&S") (1)
10.2	Warrant Agreement between the Company and A&S (1)
10.3	Warrant Agreement between the Company and Richard J. Freer, as amended (1)
10.4	Warrant Agreement between the Company and Thomas R. Reynolds, as amended (1)
10.5	Warrant Agreement between the Company and Robert B. Harris, as amended (1)
10.6	Employment Agreement for Richard J. Freer (1)
10.7	Employment Agreement for Thomas R. Reynolds (1)
10.8	Employment Agreement for Robert B. Harris (1)
10.9	Executive Severance Agreement for Richard J. Freer (1)
10.10	Executive Severance Agreement for Thomas R. Reynolds (1)
10.11	Executive Severance Agreement for Robert B. Harris (1)
10.12	1997 Stock Incentive Plan, as amended (1)
10.13	Loan Agreement between the Company and the Virginia Small Business Financing Authority (2)
13.1	Annual Report to Shareholders for the Fiscal Year Ended December 31, 1999 incorporated in Form 10-KSB (3)
16.1	Letter on change in certifying accountant (4)
23.1	Letter of Consent from McGladrey & Pullen LLP (3)
27.1	Financial Data Schedule (3)

(1) Incorporated by reference to the Company's Registration Statement on Form SB-2, Registration No. 333-31731.
(2) Incorporated by reference to the Company's Current Report on Form 8-K, dated April 6, 1998, File No. 001-13467.
(3) Filed herewith.
(4) Incorporated by reference to Amendment No. 1 to the Company's Current Report on Form 8-K filed on March 12, 1998.

Executive Compensation Plans and Arrangements

The following is a list of all executive compensation plans and arrangements filed as exhibits to this annual report on Form 10-KSB or incorporated herein by reference:

1. Warrant Agreement between the Company and Richard J. Freer, as amended (1)
2. Warrant Agreement between the Company and Thomas R. Reynolds, as amended (1)
3. Warrant Agreement between the Company and Robert B. Harris, as amended (1)
4. Employment Agreement between the Company and Richard J. Freer (1)
5. Employment Agreement between the Company and Thomas R. Reynolds (1)
6. Employment Agreement between the Company and Robert B. Harris (1)
7. Executive Severance Agreement between the Company and Richard J. Freer (1)
8. Executive Severance Agreement between the Company and Thomas R. Reynolds (1)
9. Executive Severance Agreement between the Company and Robert B. Harris (1)
10. 1997 Stock Incentive Plan (1)

(1) Incorporated by reference to the Company's Registration Statement on Form SB-2, Registration No. 333-31731.

(b) Reports on Form 8-K

During the three months ended December 31, 1999, the Company did not file any Current Reports on Form 8-K.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMONWEALTH BIOTECHNOLOGIES, INC.

Date: March 30, 2000 By: /s/ Robert B. Harris, Ph.D.

Robert B. Harris, Ph.D
President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title(s)	Date
/s/ Richard J. Freer, Ph.D. --- Richard J. Freer, Ph.D.	Chairman and Director (Principal Executive Officer)	March 30, 2000
/s/ Robert B. Harris, Ph.D. --- Robert B. Harris, Ph.D.	President and Director	March 30, 2000
/s/ Thomas R. Reynolds, --- Thomas R. Reynolds,	Senior Vice President, Secretary and Director	March 30, 2000
s/ James H. Brennan, --- James H. Brennan	Controller (Principal Financial and Accounting Officer)	March 30, 2000
/s/ Peter C. Einselen --- Peter C. Einselen	Director	March 30, 2000
/s/ George F. Allen --- George F. Allen	Director	March 30, 2000
/s/ Dr. Raymond H. Cypess --- Dr. Raymond H. Cypess	Director	March 30, 2000

To the Shareholders of
Commonwealth Biotechnologies, Inc.

CBI was founded with a single employee working in one laboratory. Today, CBI has a staff of 37, including ten doctoral scientists. Our client base has grown to over 1,000 investigators. We invite you to scan the names on the inside covers of this report. You'll find our clients are private companies, academic institutions and government agencies from across the globe.

1999 was a year of financial challenge for CBI, but we are moving forward into 2000 confident of our mission and excited by our prospects.

1999 was also our third year of operations as a public company and marked the first full year of operations in our new facility in Richmond, Virginia. The building not only consolidated all our operations under one roof, it also allowed us to efficiently integrate our technologies, saving both time and money. Here's an example. Last year, we completed three comprehensive projects for one client in less than four months' time. The revenues realized were about $440,000, and it would not have been possible to do these projects if we had not been in our new facility.

Further, this particular client designated CBI a selected vendor as a consequence of our efficiency and the quality of the work we delivered. To our mutual satisfaction, CBI has been chosen to perform several projects of similar magnitude for this same client during the course of 2000.

[GRAPHIC]

1999 Highlights

In 1999, CBI teamed with the Illinois Institute of Technology Research Institute (IITRI) to pursue federally funded research projects. In August, IITRI notified us that our joint application for proprietary protocol development work had been funded. According to IITRI:

> "...allocating money (to CBI) was not a decision made lightly. First off, (CBI) has the science down cold. We looked around and ... they're like night and day compared to other companies." (Richmond Times Dispatch, September 1999)

Initially, this was a five-year contract award for $6 million in total. The funding agency recently increased the contract valuation by nearly 40% over the first 12 months, or by an additional $1.5 million (PR News Wire, December 1999; Richmond Times Dispatch, December 1999). Consequently, over the entire five-year period, the IITRI contract is now valued at about $8.5 million, allowing for even modest increments in contract valuation with each award year. The contract amount was increased because IITRI and the funding agency both recognize CBI's expertise and capabilities. This is a unique opportunity for CBI. To successfully complete the work, we will involve just about every employee, and will utilize virtually every technology at CBI.

There were many other highlights in 1999:

March CBI was issued the United States patent for HepArrest(TM), our lead human pharmaceutical product. Other patents protecting this property will likely be issued in 2000. Since March, we have been actively engaged in negotiations with potential Big Pharma licensing partners for further development of HepArrest(TM). A successful partnership with a Big Pharma partner will lead to commercialization of the product. It will also bring licensing fees and royalty payments to CBI (if HepArrest(TM) succeeds in clinical trials and meets compliance regulations). Royalties to CBI will provide a sustained high level of revenues in future years.

[GRAPHIC]

April CBI was named a finalist in the Breakthrough Technologies category of the Greater Richmond Technology Council.

May CBI announced that it was ready to begin paternity testing based on its ability to rapidly and efficiently perform DNA sequence analysis (Inside Business, May 1999). From a modest start of one or two analyses per month, we now process more than 30 samples monthly, and our sample stream has been growing at a rapid rate. We recently negotiated contracts to perform paternity tests for clients in the Pacific Rim, notably in Korea and Japan. We anticipate accreditation by the American Association of Blood Banks in 2000, which will allow us to compete more effectively for public money contracts to perform paternity testing. Because of our concerted marketing efforts in this area, CBI now routinely receives upwards of 100 inquiries per month for paternity testing.

May We held a dedication ceremony at the new CBI facility. We announced that Dr. Ray Cypess, President and CEO of the American Type Culture Collection in Manassas, Virginia, had been appointed to our Board of Directors. Dr. Cypess served as the keynote speaker at the ceremony. Dr. Cypess is an internationally recognized scientist and a major supporter of biotechnology in Virginia. We are pleased to have his input in shaping the future of CBI.

July CBI was awarded the "Virginia Technology Fast 50" honor by Deloitte and Touche LLP of Richmond. In other recognition, Virginia Business July 1999 named CBI to its "Sweet 16" of best performing IPO stocks in Virginia.

September CBI was recognized for its outstanding scientific achievement as an awardee of a "Phase II Small Business Innovative Research" award from the United States Department of Agriculture.

September CBI announced a second teaming agreement with Schwartz Electro Optics, Inc., a major defense contractor (Inside Business, September 1999). Our goal is to developing a bio defense system that uses laser technology to sample and analyze man-made clouds from a safe distance.

November CBI was featured in the Wall Street Transcript as an example of the new "paradigm" for biotechnology start-up companies.

CBI's Foundation

The mainstay of CBI continues to be our platform technology business. We offer custom synthetic, organic and bioorganic chemistries, spectroscopy services and a full complement of protein, DNA/RNA and genetic identity and analysis testing services. CBI has approximately 15 to 18 contracts out for bid with various potential customers. If awarded, these contracts would provide revenues of approximately $16 million to $18 million over the next two to three years. From September through December 1999, CBI signed nine new contracts with a collective valuation of nearly $2.6 million. These revenues will be realized throughout 2000. CBI's recruitment efforts have resulted in our hiring highly qualified scientists, who in turn make these strong services and contracts possible. We are excited by the international recognition these employees garner.

In the last year, CBI has begun to see the fruits of our efforts in redefining our client base. We now present ourselves to prospective clients as a "project-oriented" company, capable of moving any size project from conception to practice. Our rapidly expanding track record in securing long-term contract commitments is evidence of our success in this area.

Thanks for Your Support

CBI is ready for the new millennium, not only in terms of our compliance with computer issues, but also in terms of our abilities to meet the new challenges of science. To all our hard-working employees, we again owe our thanks and gratitude. We also acknowledge the contributions of Mr. Charles Mills, who resigned from our Board in 1999 to pursue other interests. To our current Board of Directors, our CBI consultants, and our shareholders, we again say thanks.

With best regards,

[GRAPHIC] [GRAPHIC]

Richard J. Freer, Ph.D.
Chairman of the Board

Robert B. Harris, Ph.D.
President

[GRAPHIC]

[GRAPHIC]

Thomas R. Reynolds
Senior Vice President,
Secretary

James H. Brennan
Controller

We invite your questions and inquires, and we look forward to seeing you at the 2000 Annual Meeting of Shareholders, which will be held at our new facility.

Phone: 800-735-9224
Fax: 804-648-2641
Email: info@cbi-biotech.com or cbi@i2020.net
Web: www.cbi-biotech.com.
Address: 601 Biotech Drive
Richmond, VA 23235

CBI's Business Style

Since 1992, CBI has provided sophisticated research and development services to the biotechnology industry on a contract basis. We continue to pave the way for the new model of biotechnology. Our success does not depend on commercializing any single product. Rather, CBI combines the platform technology business of life sciences contract research with extramural grant funds that are used to develop our own intellectual properties.

Virtually all our clients are engaged in life sciences research. They use CBI's technologies to generate data and results that support their individual research programs. As of December 1999, the CBI client list exceeded 1000 investigators, 60% of which are in private companies. Our clients are located in 55 countries around the world.

Our Core Focus - One Stop Services

CBI's primary focus continues to be state-of-the-art DNA/RNA and protein/peptide technologies. Genome sequence determination is a growing core business for us. CBI was recently awarded two contracts for total genome sequence determination of different bacteria. Three additional contracts for genome sequencing projects are pending with potential clients. These technologies are often combined with sophisticated biophysical techniques, such as calorimetry, spectroscopy, and mass spectral analysis so that CBI can provide "one stop-shopping" for biotechnology services. All our technologies are fully detailed in our promotional brochures and on our Web site. We are also now equipped with fax-on-demand services for potential customers who want CBI's literature (1-877-329-4224). The Internet is a major gateway for CBI product orders - more than 50% of all orders, and more than 60% of all inquiries come to us from the Internet.

CBI has focused on changing clientele to those who are engaged in project research. In the past several years we watched prices and technologies change. It became increasingly clear that it would be very difficult for CBI to sustain our business if we had to rely on investigators who sent us individual samples for analysis. It was simply not economically viable to grow CBI's business on individual analyses orders or on individual limited DNA sequencing project orders. Thus, we now present ourselves as a comprehensive project company. We have made significant progress in negotiating and signing long-term contractual clients who provide a base income to CBI.

Here are illustrations of that change in focus.

. As mentioned in the shareholder letter, last year we completed three projects for one client in less than four months time. Contract value: $440,000. This same client has selected CBI to perform several projects of similar magnitude during the course of 2000.

. CBI was awarded a research contract from IITRI. Contract value: $8.5 million over the course of five years. This contract will bring about $1.5

million to CBI in 2000.

. At any given moment, CBI routinely has more than 15 contract proposals pending with various clients. Contract value: in excess of $16 million. In the period September through December 1999, CBI signed eight new contracts with a collective valuation of nearly $1.1 million. These revenues will be realized throughout the year 2000.

Technologies at CBI

Genomics

CBI recognized early that genomics would become a critical component of understanding all life processes. The company established a sophisticated genomics program over the course of 1999. We are the recipients of two contracts for genomic sequence analysis of two microbes known to be involved in human pathology. We expect to complete this work in 2002. Several additional proposals to undertake new genome sequence analysis projects are pending.

[GRAPHIC]

CBI has expanded its repertoire of genome analysis capabilities and is now offering Taqman(TM) real time PCR analysis for genome studies. In addition to this new technology platform, the Molecular Biology group at CBI has perfected new cloning methods that speed up the process of genome sequence determination. Our Taqman(TM) capabilities will soon be highlighted on our web page. Together, these new technologies allow us to become a significant player in the genomics arena.

Identity and Paternity Testing by Genetic Analysis

CBI has established a DNA Reference Laboratory containing all the necessary work areas required to provide genetic identity and paternity testing. This technology represents a major growth area for us. We currently process more than 30 paternity cases per month, and our sample queue continues to grow. We recently signed a contract to perform paternity testing on samples received from the Pacific Rim countries, notable Korea and Japan. CBI is aggressively pursuing the private sector for paternity testing and has posted a paternity testing web page. The site is cross-listed by keyword on several Internet search engines, and is listed in the Yellow Pages(TM) under "Paternity Testing" in several major metropolitan areas in the Middle Atlantic Region. CBI printed a Paternity Testing brochure and distributed it to all members of the Association of Legal Administrators in Virginia and the surrounding states.

CBI is also accredited to perform DNA identity testing for submission of data into the F.B.I. Combined DNA Index System (CODIS) database. We are competing for state contracts to perform CODIS test analysis of the penal population. In using private companies like ours, states hope to clear their huge backlog of samples.

[GRAPHIC]

Genetic Analysis

CBI has established a Genetic Testing Group and has been registered under the Clinical Laboratories Improvement Act (CLIA). This registration enables us to accept human samples for analysis, as well as to perform analysis of human clinical samples for the presence of known genetic markers. We have already completed a contract for analysis of human tissue samples for the presence of p53, a genetic marker for cancer.

Molecular Biology

CBI continues its focus on molecular biology project research. We have expanded our services to include bacterial and eucaryotic cell over-expression of recombinant proteins. Numerous major clients have engaged our services in this area. Moving forward, we are exploring expanding our capacity for cell and bacterial cultures to even higher volumes so that we can bid on larger projects.

Bioorganic Chemistry

In the last year, CBI was contracted to perform complex

chemical syntheses of analogs of natural products. These compounds are being viewed as potential human pharmaceuticals. Chemical synthesis represents a new growth area for CBI and, as demand warrants, our staff will be increased in this area.

Other Technologies

In 1999, CBI was contracted to perform projects that integrated all aspects of our technology base. For one client, we have successfully developed an immunoassay for the presence of specific antibodies in human serum samples. Our work has allowed this client to seek FDA filing for a new diagnostic kit for early detection of cancer. For another client, we are isolating and characterizing bioactive compounds from tissue sources that possess anti-viral activity. For yet another client, we are isolating and characterizing bioactive compounds from cell culture that are reported to mediate changes in human metabolism. The list continues:

. We isolated plant DNA for determination of genomic sequence and performed DNA library searches for gene discovery.

. We developed new techniques for preparation of DNA for genomic sequence analysis.

. We isolated and determined the amino acid sequence of proteins associated with bone growth.

CBI's reputation as a state-of-the-art provider of biotechnical services has grown immensely during the past year. As a result, we count among our clients most of the very large companies involved in life sciences research.

Proprietary Research And Development

CBI is actively pursuing research and development programs to develop proprietary products. United States patent #5,877,153 was issued to the Company for one of these products, HepArrest(TM), and the continuation in part to this patent has been filed in the United States, Canada, Japan, and Europe. CBI anticipates that one or all of these continuations to our patent will issue in 2000.

HepArrest(TM)

HepArrest(TM) is intended for use in acute surgical situations where the anticoagulant effects of heparin must be reversed. Restoration of clotting function is critical post-surgery to prevent unwanted bleeding and related post-operative complications. CBI's strategy for HepArrest(TM) is to complete all pre-clinical trials and to present a viable technology to a licensing partner. We are optimistic that this partnership will be created in 2000, and that our partner will take HepArrest(TM) through the investigational new drug (IND) process as well as the human trials necessary for approval from the FDA and other regulatory agencies. To this end, CBI submitted confidential information packages last year to Big Pharma companies whose product profiles matched the likely market for HepArrest(TM). These companies each have a financial basis suitable for development of a new human pharmaceutical. In the latter part of the 1999, CBI entered into active negotiations to license HepArrest(TM) with two of these companies. We hope to enter into a licensing agreement with one of these Big Pharma companies in 2000.

HepArrest(TM) is patented in the United States and is recognized under the Patent Cooperative Treaty (PCT). National patent filings for HepArrest(TM) are pending in Europe, Canada, and Japan, the three largest potential markets for HepArrest(TM) outside of the United States.

Depending on when the process is started, CBI anticipates that the product could be launched as early as 2004 and could capture a significant portion of the market shortly thereafter. Of course, this assumes that HepArrest(TM) will be successful in clinical trials and that its use will be approved by various regulatory agencies at home and abroad. The first indicated use of HepArrest(TM) will be for coronary artery bypass graft (CABG) surgical procedures, where the anticoagulant effects of heparin must be reversed. However, CABG procedures are only one of the many potential clinical uses of HepArrest(TM). CBI's management team and consultants are working closely with our potential partners to help shape the best possible agreement for both parties.

At present, HepArrest(TM) has no other viable competitors. Even if a new product were to be developed shortly, HepArrest(TM) is appreciably ahead in the commercialization process. If HepArrest(TM)continues to perform in clinical trials as it has in pre-clinical trials, it is not unimaginable that HepArrest(TM) could capture a significantly higher market share than 65%.

While HepArrest(TM) represents the hard work of many current and former CBI employees; we must recognize the seminal contributions of Dr. Michael Sobel, Chief of Cardiovascular Surgery, Syracuse VA Medical Center. Dr. Sobel is a long time collaborator and friend of CBI. His expertise in completing the pre-clinical physiology experiments with HepArrest(TM) was instrumental in bringing us to this point.

We look forward to "the 2000 HepArrest(TM) story" with great anticipation.

AccuTrac(TM)

AccuTrac(TM) is a reagent that facilitates the process of automated DNA sequence analysis. The United States Patent Office notified CBI in February 2000 that our patent application claims for AccuTrac(TM) were allowed. CBI is currently selling AccuTrac(TM) worldwide. We recently signed a non-exclusive agreement with Cosmo Bio Co., Ltd. of Tokyo for distribution of AccuTrac(TM) in Japan. Cosmo Bio Co., Ltd, is one of the leading distributors of chemical and biological reagents in Japan. As part of our agreement, Cosmo Bio Co., Ltd., will mount an aggressive marketing campaign for AccuTrac(TM). The campaign will target investigators in Japanese companies and research institutions who are involved in DNA sequencing projects. A second distribution agreement with an additional Japanese company is pending.

We anticipate a growing market for AccuTrac(TM) as more investigators become familiar with our product.

STOCKHOLDER MATTERS

Market for Common Equity

The Company completed its initial public offering on October 28, 1997 at a price per share of $ 6.00. Since that time, the Common Stock has traded on the NASDAQ Small Cap Market ("NASDAQ"). The following table sets forth the range of high and low sales price per share of Common Stock for 1999.

Period	High Stock Price	Low Stock Price
1st Quarter, 1999	$ 9.250	$ 7.875
2nd Quarter, 1999	$ 9.000	$ 6.438
3rd Quarter, 1999	$ 6.563	$ 4.188
4th Quarter, 1999	$ 10.250	$ 4.750

On March 15, 2000 the last reported sales price for a share of the Company's Common Stock on NASDAQ was $17.875. As of March 15, 2000, there were 41 holders of record of the Company's Common stock and approximately 1,027 beneficial holders.

The Company has not paid any cash dividends on its Common Stock. The Company intends to retain its earnings to finance the growth and development of its business and does not expect to declare or pay dividends in the foreseeable future. The declaration of dividends is within the discretion of the Company. However, the Company's ability to pay dividends may be constrained by certain provisions of its industrial revenue bond financing.

Selected Financial Data

Set forth below is selected financial data with respect to the Company for the years ended December 31, 1999 and December 31, 1998, which has been derived from

the audited financial statements of the Company. The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Conditions and Results of Operation."

Management's Discussion and Analysis of Financial Condition and Results of Operation

The following should be read in conjunction with "Selected Financial Data" and the Company's Audited Financial Statements and Notes thereto included herein.

	For the Years Ended		
	December 31, 1999	December 31, 1998	December 31, 1997
Operational Data:			
Revenues:	$ 2,565,132	$ 1,604,267	$ 1,761,308
Net Loss	$ (2,091,194)	$ (2,096,937)	$ (1,168,821)
Loss Per Common Share, Basic and Diluted	$ (1.27)	$ (1.29)	$ (3.55)
Weighted average common shares outstanding	1,641,738	1,622,340	329,480
Balance Sheet Data:			
Total Current Assets	$ 560,576	$ 2,471,022	$ 6,485,965
Total Assets	$ 8,250,369	$ 10,401,182	$ 7,931,606
Total Current Liabilities	$ 967,866	$ 1,114,563	$ 624,250
Total Liabilities	$ 4,967,866	$ 5,114,563	$ 624,250
Total Stockholders equity	$ 3,282,503	$ 5,286,619	$ 7,307,356

Business Considerations

In October 1997, the Company closed its IPO and received proceeds of $5,417,578, net of underwriting and other costs. In connection with the IPO, the underwriters purchased warrants for 101,500 shares of common stock. The warrants are exercisable for a period of five years at an exercise price of $9.90 per share.

Since 1997 and through 1999, the Company has incurred recurring operating losses due to increased operating costs without corresponding increases in revenues. Through 1999, these deficits were substantially funded through use of funds obtained from the private placement and IPO. The Company has used proceeds from its offerings for capital acquisitions, which were primarily funded through its issuance of Industrial Revenue Development Bonds. At December 31, 1999, the Company has used virtually all of the funds received in connection with its offerings and is currently relying on operations for future cash flows.

Management believes that the Company will be able to overcome the 1999 working capital deficit and generate positive net cash flows from new contracts, as described below, and by continued monitoring and reduction of operating costs. The following highlights describe significant factors contemplated in management's plans with respect to continued operations:

. In the fourth quarter of 1999, the Company was awarded a five-year subcontract with the Illinois Institute of Technology Research Institute. The contract is valued at approximately $8.5 million and is expected to provide approximately $1.5 million in gross cash flow for the year ended December 31, 2000.

. Approximately eight new contracts were entered into during the last quarter of 1999, with estimated gross revenues of $1.1 million for the year 2000.

. At December 31, 1999, the Company has approximately 15 - 18 contracts out for bid with various potential customers. These contracts, if awarded, would provide the Company with approximately $8.5 - $13.5 million in additional revenues over the next two to three years.

. Management will continue to monitor and reduce operating costs.

. Subsequent to year-end, approximately $575,000 in funds were received from the exercise of stock options. In addition, management anticipates that, if the stock price remains strong, additional capital will be received in 2000 from the exercise of management and underwriter warrants. This could total in excess of $1 million.

. Continue to seek a pharmaceutical partner to begin clinical trials with regulatory bodies and to market HepArrest(TM) worldwide.

. Actively market recently patented product - AccuTrac(TM).

Overview

The Company's revenues are derived principally from providing macromolecular synthetic and analytical services to researchers in the biotechnology industry, or to researchers who are engaged in life sciences research in government or academic labs throughout the world. Development of innovative technologies for biotechnology requires sophisticated laboratory techniques, and the Company provides these services to customers on a contract basis. The Company's customers consist of private companies, academic institutions and government agencies, all of which use biological processes to develop products for health care, agricultural, and other purposes.

The Company generally derives revenue from two types of customers: those who require a discrete set of services ("short-term projects"); and those who contract with the Company on an extended basis for performance of a variety of integrated services ("long-term projects"). More often than not, the Company's customers provide repeat business to the Company. Historically, a majority of the Company's net revenues have been earned under short-term projects. However, the Company views long-term projects as the more important source of revenue, and has continued to focus its efforts on identifying long-term customers. Long-term projects generally range from a few months to more than a year. Revenues are generally recognized as services are rendered or as products are delivered. In addition, revenue is also recognized with performance-based installments payable over the contract duration as milestones are achieved.

The Company also derives revenues from government grants that partially fund the Company's research efforts for its proprietary technologies. All government grants are expense reimbursement grants which provide for

reimbursement on a monthly basis of the Company's direct costs incurred in a research project, plus indirect costs stated as a percentage of direct costs.

Revenues

Gross revenues increased by $960,865, or 59.9%, from $1,604,267 during the year ended December 31, 1998 ("1998") to $2,565,132 during the year ended December 31,1999 ("1999").

The Company experiences fluctuations in all revenue categories. Continuation of existing projects, or engagement for future projects, is usually dependent upon the customer's satisfaction with the scientific results provided in initial phases of the scientific program. Continuation of existing projects or engagement of future projects also often depends upon factors beyond the Company's control, such as the timing of product development and commercialization programs of the Company's customers. The combined impact of commencement and termination of research contracts from several large customers and unpredictable fluctuations in revenue for laboratory services can result in very large fluctuations in financial performance.

Short-Term Projects

Revenues realized from short-term projects, which is included in the Statement of Operations as Laboratory Services, increased by $16,144, or 1.8%, from $876,508 during 1998 to $892,652 during 1999.

Revenues realized from peptide synthesis increased by $33,601, or 18.2%, from $184,632 during 1998 to $218,233 during 1999. Revenues attributable to protein sequencing increased by $44,869, or 36.4%, from $123,385 during 1998 to $168,254 during 1999. Revenues derived from peptide synthesis and protein sequencing increased primarily due to new customers placing orders with the Company.

Revenues realized from molecular biology increased by $15,408, or 154.7%, from $9,957 during 1998 to $25,365 during 1999. Revenues from the new core technologies, Genetic Analysis, reported revenues during 1999 of $30,410. Revenues from DNA Sequencing decreased by $169,986, or 44.7%, from $380,575 during 1998 to $210,589 during 1999. This decrease is primarily due to a change in the marketplace wherein most DNA sequence activities are becoming associated with long- term projects.

Other "uncategorized" revenues increased by $15,410, or 17.9%, from $86,327 during 1998 to $101,737 during 1999. This increase is primarily due to additional work from our customers not previously done in prior years. These classifications are usually one-time events. Revenues realized from other core technologies remained essentially constant.

Long-Term Projects

Revenues realized from various long-term projects, which is included in the Statement of Operations as Contract Research, increased by $990,855, or 212.4%, from $466,455 during 1998 to $1,457,310 during 1999.

This increase is primarily due to work being done on 27 individual projects during 1999 compared to only 14 projects during 1998. Of the 27 projects initiated during the year, two customers accounted for 28.3% and 20.2% of the long-term contract revenue base, respectively. The Company's management continues to take an active role in negotiating new contracts. However, management is unable to say with certainty when or whether additional long-term contracts will be awarded.

Research Grants

The Company experienced a decrease in revenue realized from government grants in the amount of $87,554, or 33.5%, from $261,304 during 1998 to $173,750 during 1999. This decrease is primarily due to completion of two of the three grants. Those grants were the Phase II Small Business Technology Research grant (SBTR) from the National Institutes of Health (NIH); and a Phase I SBIR award from the NIH for development of Rapid Assay Methods for the Detection of Botulism. The remaining grant, a ($200,000) Phase II Small Business Innovative Research Award (SBIR) from the United States Department of Agriculture (USDA) for development of a Diagnostic for Equine Infectious Anemia Infection has begun its second year. Remaining funds left a total of $82,839. The Company anticipates completion of the project by August 2000.

AccuTrac(TM) Revenue

The Company began sales of a new reagent, (AccuTrac(TM)) which facilitates the process of automated DNA sequence analysis. Revenues during 1999 amounted to $41,420. There were no sales during 1998.

In February, 2000, CBI was notified of allowance of its claims on its United States patent application for AccuTrac(TM). CBI is selling AccuTrac(TM)worldwide and, just recently, signed a non-exclusive agreement with Cosmo Bio Co., Ltd., of Tokyo for distribution of AccuTrac(TM)in Japan. Cosmo Bio Co., Ltd, is one of the leading distributors of chemical and biological reagents in Japan and, as part of our agreement, Cosmo Bio Co., Ltd., will mount an aggressive marketing campaign for AccuTrac(TM),which will target investigators involved in DNA sequencing projects in Japanese companies and research institutions. An additional distribution agreement with a second Japanese company is pending.

Expenses

Cost of services consists primarily of labor and laboratory supplies. The cost of services increased by $550,114, or 48.9%, from $1,125,564 during 1998 to $1,675,677 during 1999. The cost of services as a percentage of revenue was 70.2% and 65.3% during 1998 and 1999, respectively.

Direct Materials

The costs for direct materials increased by $242,575, or 45.9%, from $527,969 during 1998 to $770,544 during 1999. Increases in direct materials were twofold. First, the Company experienced increases from suppliers in purchases of reagents, chemicals and miscellaneous materials used in all the laboratories. Second, additional work being done on twenty-seven individual projects during

1999, compared to only 14 projects during 1998. Of the 27 projects initiated, one customer accounted for 18.7% of the material costs during 1999.

Direct Labor

Labor costs increased by $265,656, or 51.9%, from $511,664 during 1998 to $777,320 during 1999. This increase reflects a reallocation of the Company's resources to the general operations of the business from the research and development area. In addition, due to the increase in long-term contracts, personnel assigned to Selling, General and Administrative (SG&A) performed additional responsibilities in the laboratories.

Other Costs

Other costs (postage, travel, equipment rental, maintenance of equipment, etc) increased by $41,882, or 48.7%, from $85,931 during 1998 to $127,813 during 1999. This increase was due to the repair and maintenance on equipment of $28,861. Other increases included waste removal of $14,289, subcontracting services of $9,729 and freight delivery to the Company's clients of $16,304.

Selling, General, and Administrative

Sales, general and administrative expenses ("SGA") consist primarily of compensation and related costs for administrative, marketing and sales personnel, facility expenditures, professional fees, consulting, taxes, and depreciation. Total SGA costs increased by $126,992, or 5.7%, from $2,244,615 during 1998 to $2,371,608 during 1999. As a percentage of revenue, these costs were 139.9% and 92.5% during 1998 and 1999, respectively.

Compensation and Benefits

Total compensation and benefits decreased by $134,739, or 17.2%, from $782,833 during 1998 to $648,094 during 1999. This decrease is primarily attributable to the resignation of one of the Company's executive officers, who opted to return to his former academic position. Additional reductions are due to reassigning a portion of management salaries allocated to direct labor and research and development.

Facility Costs

Costs for facilities decreased by $24,283, or 10.0%, from $241,845 during 1998 to $217,562 during 1998. This decrease is primarily due to the elimination of leased laboratory costs associated with the relocation of the Company to its new corporate headquarters. Additional costs associated with the relocation (and new to the Company) include electricity of $110,620, gas utility bills of $15,501, water usage of $4,388 and janitorial services of $9,035. Other facility costs include increases in telephone use of $35,307, facility maintenance costs of $7,259 and association fees of $9,511.

Professional Services

Professional fees increased by $65,610, or 32.8%, from $200,167 during 1998 to $265,777 during 1999. This increase was primarily due to legal and accounting costs associated with the year-end audit, quarterly accounting reviews, general legal support, legal costs associated with obtaining patents, and corporate liability insurance costs.

Taxes and Licenses

Taxes and license fees increased by $66,773, or 152.3%, from $43,835 during 1998 to $110,608 during 1999. This increase is primarily due to an increase in personal property taxes paid to the new jurisdiction where the facility is located. In addition, initial expenditures were realized during 1999 for Virginia sales tax and real estate taxes associated with the new facility.

Depreciation Expense

Depreciation increased by $220,479, or 71.1%, from $309,933 during 1998 to $530,412 during 1999. Increased depreciation costs are attributable to the

purchase of additional laboratory equipment consistent with expanding the Company's technology base, and the 12 months of depreciation on the Company's new corporate facility. There were no depreciation costs during 1998 for any facility costs associated by the Company.

Marketing

Marketing costs decreased by $60,100, or 17.0%, from $352,762 during 1998 to $292,662 during 1999. Reduction in the use of non-Company professional media relations work and the elimination of attendance at several trade show costs contributed to the decline in expenditures. In September 1998, the Company entered into a contract with the Mattson Jack Group to perform a global market assessment of the Company's potential human therapeutic, HepArrest(TM). Total costs during 1998 amounted to $101,083, compared to $66,667 during 1999.

Research and Development

Research and development costs within the Company fall into two general categories: grant-related research and development, and in-house research and development. These categories are distinguished in the Company by those performed in support of government grant-sponsored programs, and those performed in the absence of such grants and funded from working capital. Total expenditures for these two categories decreased by $95,245, or 20.1%, from $474,998 during 1998 to $379,753 during 1999. Total grant-related research and in-house research as a percentage of revenue were 29.6% and 14.8% during 1998 and 1999, respectively.

Grant-Related Research Activities

Expenditures to perform grant-related research activities decreased by $18,666, or 9.2%, from $202,957 during 1998 to $184,293 during 1999. All of the Company's grant-related expenditure are reimbursed from the appropriate governmental agency. This decrease in costs is primarily due to two of the three grants being completed during 1999.

Grants completed during 1999 included a Phase II Small Business Technology Research grant (SBTR) grant from the National Institutes of Health (NIH). Expenses incurred through 1999 amounted to $82,356; and a Phase I SBIR award from the NIH for development of Rapid Assay Methods for the Detection of Botulism. Expenditures incurred through 1999 amounted to $32,455. The remaining grant, a ($200,000) Phase II Small Business Innovative Research Award (SBIR) from the United States Department of Agriculture (USDA), is for the development of a Diagnostic for Equine Infectious Anemia

Infection. Expenses incurred through 1999 amounted to $70,084. The Company anticipates completion of the project by August 2000.

In-House Research Activities

Expenditures made by the Company for in-house research activities decreased by $76,580 or 28.2%, from $272,041, during 1998 to $195,461 during 1999. This decrease is primarily due to the reallocating of salaries from research and development to direct labor. This reallocation was necessary to support the additional long-term projects initiated by the Company. However, the Company continues to be actively engaged in establishing fundamental methods for genetic testing for agricultural and human applications, in developing methods of genome sequence analysis, and in pursuing fundamental research related to potential uses of HepArrest(TM) in drug formulation. In addition the Company is continuing its in-house research and development efforts with AccuTrac(TM).

Other Income and Expenses

Interest income (in total) to the Company decreased by $249,634, or 76.0%, from $328,628 during 1998 to $78,993 during 1999.

Interest income to the Company derived during 1998 resulted from investing the unused portion of the funds realized by the Company from the private placement of convertible notes in June 1997. These funds decreased by $208,636, or 86.9% from $240,096 during 1998 to $31,460 during 1999.

Interest income to the Company was also derived during 1998 from investing the unused portion of the funds-realized by the Company from the successful sale (March 1998) of Industrial Revenue Bonds (IRBs) for construction of the Company's new facility. These funds decreased by $67,977, or 76.8%, from $88,532 during 1998 to $20,555 during 1999.

Interest costs incurred by the Company during the 1999 and 1998 included: (1) interest paid to financial institutions as loans made to the Company: 2) interest paid for the Company's IRBs; and 3) amortization of costs incurred as a consequence of the completion of the Company's IRB financing. Total interest expense and amortization increased by $123,626, or 66.9%, from $184,655 during 1998 to $308,281 during 1999. This increase is primarily due the payment of 12 months interest for the Company's IRBs during 1999 as compared to nine months and 15 days during 1998.

For the Year Ended December 31, 1998 versus December 31,1997

Revenues

Gross revenues decreased by $157,041 or 8.9% from $1,761,308 during the year ended December 31, 1997 ("1997") to $1,604,267 during the year ended December 31,1998 ("1998").

Short-Term Projects

Revenues realized from short-term projects, which is included in the Statement of Operations as Laboratory Services, increased by $22,698, or 2.7%, from $853,810 during 1997 to $876,508 during 1998. Revenues from peptide synthesis increased by $47,424, or 34.6%, from $137,210 during 1997 to $184,632 during 1998. Revenues attributable to protein sequencing increased by $43,840, or 55.1%, from $79,545 during 1997 to $123,385 during 1998. Revenues derived from both peptide synthesis and protein sequencing increased primarily due to new customers placing orders with the Company, and to repeat large orders from existing customers.

Revenues from amino acid analysis decreased by $18,368, or 28.1%, from $65,282 during 1997 to $46,914 during 1998. This decrease is primarily due to one of the Company's major clients ceasing its outsource research program with the Company.

Other uncategorized revenues decreased by $50,214, or 36.8%, from $136,541 during 1997 to $86,327 during 1998. This decrease is primarily due to administrative changes in invoicing. Revenues previously identified as "Other" are now more properly classed under defined work items within the Company. Revenues realized from other core technologies remained essentially constant.

Long-Term Projects

Revenues realized from various long-term projects, which is included in the Statement of Operations as Contract Research, decreased by $94,552, or 16.8%, from $561,007 during 1997 to $466,455 during 1998. This decrease is primarily due to the delay in the awarding of new research contracts for 1998, which has the effect of shifting revenue from 1998 to future periods. As mentioned under the category of Short-Term Projects, this decrease is also due to the cutbacks in outsourced services by one of the Company's principal clients. As of December 1998, the Company had approximately 15 additional long-term contract proposals pending with many different potential customers. Although the Company's Management is taking an active role in negotiating these new contracts, management is unable to say with certainty when or whether these other new long-term contracts will be awarded.

Research Grants

The Company experienced a decrease in revenue realized from government grants in the amount of $85,187, or 24.6%, from $346,491 during 1997 to $261,304 during 1998. This decrease is primarily due to completion of work on two grants. During 1998, the Company had one ongoing Phase II Small Business Technology Research grant (SBTR) from the National Institutes of Health (NIH). In addition, during 1998, the Company was awarded a ($200,000) Phase II Small Business Innovative Research Award (SBIR) from the United States Department of Agriculture (USDA) for development of a Diagnostic for Equine Infectious Anemia Infection. Revenues

earned through December 31, 1998 amounted to $32,500. The Company anticipates to complete the project by August 2000. The Company was also awarded a Phase I SBIR ($100,000) from the NIH for development of rapid assay methods for the detection of Botulism. Revenues earned through December 31, 1998 amounted to $62,421. The Company anticipates completion of the project by April 1999. Work began in late September on both grants.

The biotechnology industry is currently progressing through a consolidation stage wherein some potential customers are cutting back on research and development, while others are trying to perform their own research services in-house. In either situation, there is a reduced dependence on the Company to perform its services for customers. If this trend continues, the Company expects that it may derive a larger portion of its revenues from laboratory services. Thus, the Company may experience a pronounced shift from contract research to laboratory services, which may result in a less predictable revenue stream.

The Company experiences quarterly fluctuations in all revenue categories. Engagements for all future projects are highly dependent upon the customer's satisfaction with the services previously provided, and upon factors beyond the Company's control, such as the timing of product development and commercialization programs of the Company's customers. The Company is unable to predict for more than a few months in advance the volume and dollar amount of future projects in any given period. The combined impact of commencement and termination of research contracts from several large customers and unpredictable fluctuations in revenue for laboratory services can result in very large fluctuations in financial performance from period to period.

Expenses

Cost of services consists primarily of labor and laboratory supplies. The cost of services increased by $331,328, or 41.7%, from $794,236 during 1997 to $1,125,564 during 1998. The cost of services as a percentage of revenue was 45.1% and 70.2% during 1997 and 1998, respectively.

Direct Labor

Labor costs increased by $172,670, or 50.9%, from $338,994 during 1997 to $511,664 during 1998. The increase in labor costs reflects the Company's growth strategy as more qualified personnel are hired full-time to perform the laboratory services. In 1998, the Company was fully staffed for the entire year, but 1997 labor costs reflect only nine months operations with the same number of employees. In addition, in 1998, fringe benefits for all employees associated with laboratory services were allocated to compensation and benefits under labor. Total costs associated with the increase in fringe benefits amounted to $42,492. Fringe benefits during 1997 were recorded under general and administrative.

Direct Materials

The costs for direct materials increased by $106,357, or 25.2%, from $421,612 during 1997 to $527,969 during 1998. These increased costs are directly attributable to the increased purchase of reagents, chemicals and miscellaneous materials used in all the laboratories, and increases in market prices of raw materials as well as relatively higher costs for specialized reagents necessary to perform analyses that the Company was not offering in 1997, such as automated C-terminal sequence analysis.

Other Costs

"Other costs" (travel, equipment rental, maintenance of equipment, etc.) increased by $58,906, or 218.0%, from $27,025 during 1997 to $85,931 during 1998. This increase was due to the rental of instrumentation necessary to be validated for a particular set of DNA analysis ($20,293). The Company sought validation on this particular instrument because it was required for submission of a long-term contract proposal. The instrument was returned and the lease terminated when the Company was not awarded the contract. Other increases included, repairs and maintenance on equipment ($23,164), and freight delivery to the Company's clients ($5,861).

Selling, General, and Administrative

Sales, general and administrative expenses ("SGA") consist primarily of compensation and related costs for administrative, marketing and sales personnel, facility expenditures, professional fees, consulting, taxes, and depreciation. Total SGA costs increased by $947,610, or 73.1%, from $1,297,005 during 1997 to $2,244,615 during 1998. As a percentage of revenue, these costs were 73.6% and 139.9% during 1997 and 1998, respectively.

Compensation and Benefits

Total Compensation and Benefits increased by $162,111, or 26.1%, from $620,722 during 1997 to $782,833 during 1998. The increase is primarily attributable to addition of the Company's executive officers to the payroll on a full-time basis during 1998. These executive officers were full time employees of the Company for only six months during 1997. Salary and benefit costs also increased due to various support personnel hired to assist in implementing the Company's growth strategy.

Facility Costs

Costs for facilities increased by $151,861, or 168.8%, from $89,984 during 1997 to $241,845 during 1998. The costs for leasing of additional laboratory space for its operations increased by $95,104 from 1997 to 1998. Additional space during 1998 was necessary to support the Company's expanded technology offerings. Once the Company relocated to its new facility in late November,1998, the Company cancelled its contract on all its leased space. Other facility costs include increases in telephone use ($8,767), waste disposal ($32,402), and electricity ($18,909).

Professional Services

Professional fees increased by $10,221, or 7.9%, from $128,946 during 1997 to $139,167 during 1998. This increase was primarily due to legal and accounting costs associated with the year-end audit, quarterly accounting reviews, general legal support, legal costs associated with obtaining patents, and corporate liability insurance costs. Consulting fees increased by $11,496, or 23.2%, from $49,504 during 1997 to $61,000 during 1998. Consulting fees include payments made to Board members for four regularly scheduled Quarterly Board meetings during 1998, compared to two meetings during 1997. Taxes and license fees increased by $31,901, or 267.3%, from 11,934 during 1997 to $43,835 during 1998. This increase is associated with the payment of property taxes based on equipment purchased during 1997 and 1998.

Depreciation Expense

Depreciation increased by $153,735, or 98.4%, from $156,198 during 1997 to $309,933 during 1998. Increased depreciation costs are attributable to the purchase of additional laboratory equipment consistent with expanding the Company's technology base, and the first month of depreciation on the Company's new corporate facility.

Other Costs

Other costs increased by $61,618 or 169.1% from $36,436 during 1997 to $98,054 during 1998. This increase was primarily attributable to the relocation costs from the move to the new corporate offices.

Marketing

Marketing costs increased by $254,780, or 257.4%, from $98,982 during 1997 to $353,762 during 1998. Salaries and fringe benefits, expenditures for a new brochure, additional advertising in the professional journals, contract costs with a media relations firm, travel, and trade show expenditures contributed to these increased costs.

In September 1998, the Company entered into a contract with the Mattson Jack Group to perform a global market assessment of the Company's potential human therapeutic, HepArrest.(TM) Total costs during 1998 of the Mattson Jack Group contract amounted to $101,083.

Selling

Expenditures during 1998 for selling amounted to $76,351. Costs associated with

selling include personnel, travel, and office expenses. During 1998, the Company hired an Account Executive for the Eastern Region to identify new clients. There were no expenses for Selling during 1997. Selling expenditures have been incurred in 1998 as part of the Company's growth strategy.

Research and Development

Research and development costs within the Company fall into two general categories: grant-related research and development, and in-house research and development. These categories are distinguished in the Company by those performed in support of government grant-sponsored programs, and those performed in the absence of such grants and funded from working capital. Total expenditures for these two categories decreased by $99,862, or 17.4%, from $574,860 during 1997 to $474,998 during 1998. Total grant-related research and in-house research as a percentage of revenue were 32.6% and 29.6% during 1997 and 1998, respectively.

Grant Related Research Activities

Expenditures to perform grant-related research activities decreased by $195,017, or 49.0%, from $397,974 during 1997 to $202,957 during 1998. All of the Company's grant-related expenditures are reimbursed from the appropriate governmental agency. This decrease is mainly due to completion of on-going research programs during 1998.

In-House Research Activities

Expenditures made by the Company for in- house research activities increased by $95,155 or 53.8%, from $176,886 during 1997 to $272,041 during 1998. The Company is actively engaged in establishing fundamental methods for genetic testing for agricultural and human applications, in developing methods of genome sequence analysis, and in pursuing fundamental research related to potential uses of HepArrest(TM) in drug formulation.

During 1998, as a direct result of the Company's in-house research and development efforts, the Company perfected AccuTrac(TM) as a reagent to facilitate automated DNA sequence analysis. The Company's in-house research efforts in 1998 resulted in registration under the Clinical Laboratories Improvement Act (CLIA), with pending accreditation by the Virginia Department of Health. Registration under CLIA guidelines allows the Company to perform analysis of human clinical samples for the presence of known genetic markers. Further, in 1998, as a result of the Company's in-house research and development efforts, the Company received accreditation by the United States Department of Agriculture to receive bovine DNA samples from Europe to perform genetic, lineage and identity analysis. Lastly, the Company passed another accreditation level with the National Forensic Science Technology Center (NFSTC) to perform DNA identity testing for submission of data into the Combined DNA Index System (CODIS) data base.

Other Income and Expenses

Interest income is derived from investing the unused portion of the funds realized by the Company from the private placement of convertible notes in June 1997 and initial public offering of common stock in October 1997. Interest income is also derived from

investing the unused portion of the funds realized by the Company from the successful sale (March 1998) of Industrial Revenue Bonds (IRBs) for construction of the Company's new facility.

Other Income

Interest income to the Company increased by $236,631, or 257.2%, from $91,997 during 1997 to $328,628 during 1998. Interest income realized from unused funds from the IPO increased by $148,056, or 160.8% from $92,039 during 1997 to $240,095 during 1998. Interest income earned from the unused portion of the funds realized from the sale of IRBs amounted to $88,532. There was no interest income earned from the unused portion of the funds realized from the sale of IRBs during 1997.

Other Expense

Interest costs incurred by the Company during 1998 included: 1) interest paid to financial institutions on loans made to the Company; 2) interest paid to the Trustee for the Company's IRBs; and 3) amortization of bond costs incurred as a consequence of the completion of the Company's IRB financing. Interest costs incurred by the Company during 1997 included: 1) interest paid to financial institutions on loans made to the Company; 2) interest expense related to a one-time charge as a result of issuance of the notes in June 1997; and 3) amortization of loan costs associated with the Company's private placement of $3,000,000 aggregate principal amount of convertible notes.

Interest expenses decreased by $54,871, or 23.7%, from $231,108 during 1997 to $176,237 during 1998. During 1997, the Company experienced a one-time charge to interest expense amounting to $204,039 as a result of issuance of the convertible notes in June 1997. Interest paid to financial institutions remained relatively constant in both 1997, $27,069, and 1998, $29,425. The total outstanding principal amount of these loans as of December 31, 1998, was $249,680. Interest expense paid to the Trustee for the Company's IRBs was $146,812 during 1998. There was no interest expense associated with the IRB's in 1997. Bond amortization cost decreased by $116,500 from $124,918 during 1997 to $8,418 during 1998. The 1998 amortization represents loan amortization costs for the new facility as compared to 1997 costs for the amortization of loans associated with the Company's private placement of $3,000,000 aggregate principal amount of convertible notes.

Liquidity and Capital Resources

Consistent with the Company's implementation of its growth strategy, 1999 showed a net operating cash outflow in the amount of $2,072,244, as compared to an outflow of $1,385,680 in 1998. The decrease in both years is due to the continuation of substantial investments made by the Company in facility costs, personnel, equipment, sales, and marketing efforts. These cost outlays were made possible by capital realized from the Company's private placement of convertible notes and initial public offering of common stock. As of September 30, 1999, all proceeds from the initial public offering have been expended.

Net working capital as of December 31, 1999 and December 31, 1998 was ($407,290) and $1,356,459 respectively. This decrease is a direct result of capital expenditures for new scientific instrumentation, computers and furniture and fixtures; costs associated with the new facility, implementation of marketing and selling divisions within the Company and costs associated with additional staffing and direct materials necessary to expand the Company's technology offerings. During 1999 the Company obtained a $400,000 line of credit. As of December 1999, the Company expended $300,000 of the line. The Company anticipates paying down the line by September 2000.

The Company is now working on funds generated solely by revenues earned. The Company continues to search for long-term projects as the more important source of revenue and has continued to focus its efforts on identifying long-term customers. Long-term projects generally range from a few months to more than a year. In the fourth quarter of 1999, the Company was awarded a five-year subcontract with the Illinois Institute of Technology Research Institute. The contract is valued at approximately $8.5 million and is expected to provide approximately $1.5 million in gross cash flow for the year ended December 31, 2000. At December 31, 1999, the Company has approximately 15 - 18 contracts out for bid with various potential customers. These contracts, if awarded, would provide the

Company with approximately $8.5 - $13.5 million in revenues over the next two to three years. In addition, CBI has signed eight new contracts with a collective valuation of nearly $1.1 million. These revenues will be realized throughout 2000.

On February 17, 2000, the Company received funds totaling $99,000 from a former Director of the Company. These funds were to exercise 10,000 options at $9.90 per share. On February 22, 2000, funds totaling $474,151 were received from the same individual to exercise 47,894 shares at $9.90 per share.

IRBs sold by the Company (in the amount of $4,000,000) were issued by the Virginia Small Business Financing Authority. The IRBs were issued pursuant to an Indenture of Trust dated March 15,1998, between the Virginia Small Business Financing Authority and Crestar Bank, (a Virginia banking association), the named Trustee. The IRBs were issued and sold to facilitate construction of the

Company's facility in the Gateway Centre Development at 601 Biotech Drive in Richmond, Virginia. Funds generated by the sale of the IRBs are restricted and may only be used for the construction of the Company's new facility. Construction of the new facility began in early June and was completed in late November 1998. Of the $4,000,000 issued by the Virginia Small Business Financing Authority, $418,047 remains as restricted cash on the balance sheet of the Company as of December 31, 1999. All of the Company's administrative and research operations have been consolidated into this facility and are fully operational.

Year 2000 Project

The Company has worked to resolve the potential impact of the Year 2000 (Y2K) on the ability of the Company's computerized information systems to accurately process information that may be date-sensitive. Systems that do not properly recognize such information could generate erroneous data.

The Company developed a plan for Y2K information systems compliance, including its core processing system. Phases of the plan included: awareness, which is management's knowledge and recognition of the Y2K issue and appointment of project team to address the impact on the Company; assessment of the magnitude of the Y2K issue; resolution, which involved the process of reprogramming or replacement of all existing systems which were not Y2K compliant; validation, which was the testing phase; and implementation, which was the final phase that involved the placing of revised and tested systems into operation. Management believes that the Company's core systems are Y2K compliant. As of March 9, 2000, the Company has not suffered any setbacks due to the Y2K issue.

Forward Looking Statements

Management has included herein certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used, statements that are not historical in nature, including the words "anticipated", "estimate", "should", "expect", "believe", "intend", and similar expressions are intended to identify forward-looking statements. Such statements are, by their nature, subject to certain risks and uncertainties.

Among the factors that could cause the actual results to differ materially from those projected are the following:

. business conditions and the general economy

. the development and implementation of the Company's long term business goals,

. federal, state, and local regulatory environment

. lack of demand for the Company's services

. the ability of the Company's customers to perform services similar to those offered by the Company "in-house"

. potential cost containment by the Company's customers resulting in fewer research and development projects

. the Company's ability to receive accreditation to provide various services, including, but not limited to paternity testing

. the Company's ability to hire and retain highly skilled employees

Other risks, uncertainties and factors that could cause actual results to differ materially from those projected are detailed from time to time in reports filed by the Company with the Securities and Exchange Commission, including Forms 8-K, 10-QSB, and 10-KSB.

[GRAPHIC]
MCGLADREY & PULLEN, LLP

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors and Stockholders
Commonwealth Biotechnologies, Inc.
Richmond, Virginia

We have audited the accompanying balance sheets of Commonwealth Biotechnologies, Inc. as of December 31, 1999 and 1998 and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Biotechnologies, Inc. as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

Richmond, Virginia
February 11, 2000

Commonwealth Biotechnologies, Inc.

BALANCE SHEETS
December 31, 1999 and 1998

	1999	1998
Assets		
Current Assets		
Cash and cash equivalents	$ 31,630	$ 2,091,586
Accounts receivable (Note 3)	458,677	302,936
Prepaid expenses	70,269	76,500
Total current assets	560,576	2,471,022
Property and Equipment (Notes 2, 3 and 4)	7,019,109	7,263,788
Other Assets		
Bond issuance costs, less accumulated amortization 1999 $19,161; 1998 $8,418	249,437	260,181
Restricted cash (Note 4)	418,047	402,991
Deposits and other	3,200	3,200
Total other assets	670,684	666,372
	$ 8,250,369	$ 10,401,182
Liabilities and Stockholders' Equity		
Current Liabilities		
Demand note payable (Note 3)	$ 199,680	$ 249,680
Line of credit	282,000	--
Accounts payable and other current liabilities	480,726	797,597
Deferred revenue	5,460	67,286
Total current liabilities	967,866	1,114,563
Bonds Payable (Note 4)	4,000,000	4,000,000
Total liabilities	4,967,866	5,114,563
Commitments (Notes 5 and 6)		

Stockholders' Equity		
Common stock, no par value, 10,000,000 shares authorized, 1999 1,643,727; 1998 1,633,214, shares issued and outstanding	--	--
Additional paid-in capital	8,925,742	8,838,664
Accumulated deficit	(5,643,239)	(3,552,045)
Total stockholders' equity	3,282,503	5,286,619
	$ 8,250,369	$ 10,401,182

See Notes to Financial Statements.

Commonwealth Biotechnologies, Inc.

STATEMENTS OF OPERATIONS
Years Ended December 31, 1999 and 1998

	1999	1998
Revenue (Note 7):		
Laboratory services	$ 892,652	$ 876,508
Contract research	1,457,310	466,455
Product sales	41,420	--
Government grants	173,750	261,304
Total revenue	2,565,132	1,604,267
Costs and expenses (Note 8):		
Cost of services	1,675,677	1,125,564
Sales, general and administrative	2,371,608	2,244,615
Research and development	379,753	474,998
Total costs and expenses	4,427,038	3,845,177
Operating loss	(1,861,906)	(2,240,910)
Other income (expense):		
Interest expense (Note 4)	(308,281)	(184,655)
Interest income	78,993	328,628
Total other income (expense)	(229,288)	143,973
Net loss	$(2,091,194)	$(2,096,937)
Loss per common share, basic and diluted	$ (1.27)	$ (1.29)

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 1999 and 1998

	Number of Shares Outstanding	Additional Paid-In Capital	Accumulated Deficit	Total
Balance, January 1, 1998	1,620,514	$ 8,762,464	$(1,455,108)	$ 7,307,356
Issuance of common stock	12,700	76,200	--	76,200
Net loss	--	--	(2,096,937)	(2,096,937)
Balance, December 31, 1998	1,633,214	8,838,644	(3,552,045)	5,286,619
Issuance of common stock	10,513	63,078	--	63,078
Fair value of options issued in connection with line of credit (Note 3)	--	24,000	--	24,000

Net loss	--	--	(2,091,194)	(2,091,194)
Balance, December 31, 1999	1,643,727	$ 8,925,742	$(5,643,239)	$ 3,258,503

See Notes to Financial Statements.

Commonwealth Biotechnologies, Inc.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 1999 and 1998

	1999	1998
Cash Flows From Operating Activities		
Net loss	$(2,091,194)	$(2,096,937)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	547,156	319,180
Changes in assets and liabilities:		
Accounts receivable	(155,741)	(149,709)
Prepaid expenses	6,232	(13,527)
Accounts payable	(316,871)	488,027
Deferred revenue	(61,826)	67,286
Net cash used in operating activities	(2,072,244)	(1,385,680)
Cash Flows From Investing Activities		
Purchases of property and equipment	(285,734)	(6,137,909)
Deposits	--	1,800
Net cash used in investing activities	(285,734)	(6,136,109)
Cash Flows From Financing Activities		
Proceeds from issuance of bonds payable, net of issuance cost	--	3,731,401
Restricted cash	(15,056)	(402,991)
Principal payments on long-term debt and note payable	(50,000)	(65,000)
Proceeds form line of credit	300,000	--
Proceeds from issuance of common stock	63,078	76,200
Net cash provided by financing activities	298,022	3,339,610
Net decrease in cash and cash equivalents	(2,059,956)	(4,182,179)
Cash and cash equivalents:		
Beginning	2,091,586	6,273,765
Ending	$ 31,630	$ 2,091,586
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 291,538	$ 165,678

See Notes to Financial Statements.

COMMONWEALTH BIOTECHNOLOGIES, INC.
Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Commonwealth Biotechnologies, Inc., (the "Company"), was formed on September 30, 1992, for the purpose of providing specialized analytical laboratory services for the life scientist. The Company provides basic research services in the general areas of protein/peptide and DNA/RNA chemistries. Such services include synthesis, sequence analysis, composition analysis, protein purification and biophysical characterization of biologically relevant materials. The Company also pursues its own research and development leading to intellectual properties.

A summary of the Company's significant accounting policies follows:

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and

assumptions that affect the reported amounts of asset and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Revenue recognition: The Company recognizes revenue and related profit upon the completion of laboratory service projects, or upon the delivery and acceptance of biologically relevant materials that have been synthesized in accordance with project terms. Laboratory service projects are generally administered under fee-for-service contracts or purchase orders. Any revenues from research and development arrangements, including corporate contracts and research grants, are recognized pursuant to the terms of the related agreements as work is performed, or as scientific milestones, if any, are achieved. Amounts received in advance of the performance of services or acceptance of a milestone, are recorded as deferred revenue.

Cash and cash equivalents: The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At times, the Company maintains cash balances in excess of FDIC insured amounts.

Property and equipment: Property and equipment are recorded at cost. Depreciation is computed principally by the straight-line method over the following estimated useful lives providing depreciation and amortization for financial reporting purposes. The cost of repairs and maintenance is expensed as incurred. The estimated useful lives of assets are as follows:

Buildings	39.5
Laboratory and computer equipment	5.0
Furniture and fixtures and office equipment	7.0
Automobile	5.0

Other assets: Bond issuance costs consist of origination cost associated with the 1998 bond issue and are being amortized over twenty-five years using the effective interest method. Amortization expense was $10,743 and $8,418 for the year ended December 31, 1999 and 1998, respectively.

Income taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Research and development: Costs incurred in connection with research and development activities are expensed as incurred. These consist of direct and indirect costs associated with specific research and development projects. Internal research and development cost, which are included in research and development cost in the statement of operations, were $199,316 and $272,041 for the years ended December 31, 1999 and 1998, respectively.

Loss Per Common Share: Basic loss per share has been computed on the basis of the weighted-average number of common shares outstanding. Common shares issuable upon exercise of the employee stock options (see Note 10) have not been included in the computation because their inclusion would have had an anti-dilutive effect applicable to the net loss. Following is information regarding the computation of loss per share data for the years ended December 31, 1999 and 1998, respectively.

	1999		1998	
	Numerator	Denominator	Numerator	Denominator
Basic Loss Per Share				
Loss available to stockholders	$(2,091,194)	--	$(2,096,937)	--
Average shares outstanding	--	1,641,738	--	1,622,340
Effect of Dilutive Shares	--	--	--	--

Fair Value of Financial Instruments: The Company has determined, based on available market information and appropriate valuation methodologies, that the fair value of its financial instruments approximates carrying value. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of the instruments. The carrying amounts of debt approximates fair value because the interest rates under the credit agreement are predominantly variable, based on current market conditions.

Note 2. Property and Equipment

Property and equipment consisted of the following:

	1999	1998
Land	$ 403,919	$ 403,919
Building	4,816,507	4,783,107
Laboratory and computer equipment	2,659,965	2,473,938
Furniture, fixtures and office equipment	242,164	175,858
Automobile	24,637	24,637
	8,147,192	7,861,459
Less accumulated depreciation	1,128,083	597,671
	$7,019,109	$7,263,788

Depreciation expense was $530,412 and $309,933 for the years ended December 31, 1999 and 1998, respectively.

Note 3. Demand Notes Payable and Line-of-Credit

The Company has a demand note payable with a bank, which bears interest at the bank's prime rate plus 1% (9.5% at December 31, 1999). The note has no stated maturity and is collateralized by a security interest in the Company's accounts receivable, equipment and intangibles.

The Company has an unsecured line-of-credit in the amount of $400,000 from a corporation solely owned by a significant shareholder of the Company. Interest is payable monthly at a rate of 6% on the outstanding balance, which is due September 30, 2000. Related interest expense was $2,918 for the year ended December 31, 1999.

As part of the line-of-credit, the Company issued an option to acquire 10,000 common shares to shareholder of the lender. These options have been credited to additional paid-in capital at their fair value with a corresponding reduction in the recorded amount of the outstanding borrowing. The resulting discount is being amortized as an increase to interest expense over the life of the line-of-credit.

Note 4. Bonds Payable

Bonds payable consist of:

	1999	1998

Industrial Revenue Development Bonds Series 1998A, 5.2%-7.0%, payable in monthly installments of interest only through March 15, 2000, annual installments of principal and interest from March 15, 2001 through March 15, 2023, secured by a first deed of trust on land and building with a carrying value of $5,062,004	$ 3,670,000	$ 3,670,000
Industrial Revenue Development Bonds Series 1998B, 8.0%, payable in monthly installments of interest only through March 15, 2023 and a final payment of $330,000 due March 15, 2023, secured by a second deed of trust on land and building with a carrying value of $5,062,004	330,000	330,000
	$ 4,000,000	$ 4,000,000

The bond agreements require the Company to maintain debt service reserve funds which are held by a trustee. Debt service reserve funds are included in the balance sheets as restricted cash.

Maturities of long-term debt are as follows:

Year	Amount
2000	$ --
2001	85,000
2002	90,000
2003	95,000
2004	100,000
Thereafter	3,630,000
	$ 4,000,000

The total interest expense reported in the Statements of Operations for the years ended December 31, 1999 and 1998 was $308,281 and $184,655, respectively. During 1998, $53,815 of interest was capitalized as part of the cost of the Company's new laboratory facility. No interest was capitalized in 1999.

Note 5. Commitments and Contingencies

Leases: Through November 1998, the Company leased its laboratory and office space under an operating lease. Upon moving to its new facility in November 1998, the leases were canceled. Total rent expense for all operating leases, including equipment leases for each of the years ended December 31, 1999 and 1998, was $27,580 and $174,662, respectively.

Employment Agreements: On June 24, 1997, the Company entered into employment agreements with its founders. Each of the agreements has a term of five years with specified base salaries and provide for successive one-year terms. In addition, except for 1997, the employment agreements provide the Company's executive officers with annual bonuses equal to, in the aggregate, 15% of the Company's pretax net income for the preceding fiscal year. For the fiscal year ended December 31, 1999 and 1998, there were no bonuses for the Company's executive officers.

Note 6. Retirement Plan

The Company maintains a 401(k) Plan (the "Plan") which covers substantially all employees. Under the Plan, employees may elect to defer a portion of their salary, up to the maximum allowed by law, and the Company will match the contribution up to 1% of the employee's salary. The Company made contributions of $8,138 and $6,309 to the Plan in 1999 and 1998, respectively.

Note 7. Major Customers

During 1999, the Company derived revenues from two customers amounting to $413,059 and $294,613, respectively, and comprised of 28% of the total revenue for 1999. For the year ended December 31, 1998, there were no revenue concentrations.

Note 8. Compensation and Benefit Costs

Compensation and benefit costs are included in the statements of operations as follows:

	1999	1998
Cost of services	$ 777,320	$ 511,664
Selling, general and administrative expenses	648,094	782,833
Research and development costs	319,849	378,619
	$1,745,263	$1,673,116

Note 9. Income Taxes

The difference between expected income tax benefits and income tax benefits recorded in the financial statements is explained below:

	1999	1998
Income taxes (credits) computed at 35% statutory rate	$(731,918)	$(733,928)
Change in valuation allowance	830,883	775,461
Other, primarily state income tax benefit	(98,965)	(41,533)
	$ --	$ --

The significant components of deferred income tax assets and liabilities as of December 31 consist of the following:

	1999	1998
Deferred tax assets:		
Effect of net operating loss	$2,247,779	$1,190,578
Other	78,984	182,047
	2,326,763	1,372,625
Deferred tax liabilities:		
Tax depreciation in excess of book depreciation	291,321	168,066
Net deferred tax asset before valuation allowance	2,035,442	1,204,559
Less valuation allowance	2,035,442	1,204,559
Net deferred tax asset	$ --	$ --

Operating loss carryforwards of approximately $2,420,000 and $2,382,000 may be used to offset future taxable income, which were generated in the years ended December 31, 1999 and 1998, respectively. The loss carryforwards expire in 2019 and 2018, respectively.

Note 10. Stock Compensation

The Company adopted its Stock Incentive Plan (the "Plan") on June 24, 1997. The Plan provides for the granting to employees, officers, directors, consultants and certain other nonemployees of the Company options to purchase shares of common stock. A maximum of 410,000 shares of common stock may be issued pursuant to the Plan. Of the maximum number of shares to be issued under the Plan, 270,000 have been reserved and granted for incentive awards to be granted to the founders of the Company, and 61,000 shares are reserved for incentive awards to be granted to others. Additionally, the Company has reserved an aggregate of 201,500 shares of common stock for issuance upon exercise of the Underwriter's Warrants (100,000) and the Management warrants (101,500).

Incentive awards may be in the form of stock options, restricted stock, incentive stock or tax offset rights. In the case of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended), the exercise price will not be less than 100% of the fair market value of shares covered at the time of the grant, or 110% for incentive stock options granted to persons who own more than 10% of the Company's voting stock. Options granted under the Plan generally vest over a five-year period from the date of grant and are exercisable for ten years, except that the term may not exceed five years for incentive stock options granted to persons who own more than 10% of the Company's outstanding common stock.

The Company applies Accounting Principles Board Opinion No. 25 and related accounting interpretations in accounting for its Plan and accordingly, no compensation cost has been recognized. Had compensation cost for the Company's Plan been determined based on the fair value at the grant dates for awards under the Plan consistent with the method prescribed by FASB No. 123, Accounting for Stock-Based Compensation, the Company's net loss and loss per share would have increased to the proforma amounts indicated below as if the Plan had been in effect for the periods presented:

	1999	1998
Net loss:		
As reported, historically	$ (2,091,194)	$ (2,096,937)
Proforma	(2,185,093)	(2,304,273)
Loss per common share:		
As reported, historically	(1.27)	(1.29)
Proforma	(1.33)	(1.42)

Under FASB No. 123, the fair value of each management stock option and warrant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used for grants in 1999, 1998 and 1997, respectively: No dividend yield, expected volatility of 76%, 76% and 34%, risk-free interest rate of 6.5%, 5.1% and 5.5%, and expected lives of 5 years.

Stock option and warrant transactions are summarized as follows:

	1999	Weighted Average Exercise Price	1998	Weighted Average Exercise Price
Options and warrants outstanding, beginning of year	531,750	$ 9.11	515,900	$ 9.23
Granted	18,750	5.31	32,400	8.25
Exercised	(10,513)	6.00	(12,700)	6.00
Lapsed	(12,700)	6.43	(3,850)	6.00
Options and warrants outstanding, end of year	527,287	$ 8.83	531,750	$ 9.11
Options and warrants exercisable, end of year	402,340	$ 9.11	346,808	$ 9.05
Weighted-average fair value per option and warrant for options and warrants granted during the year	$ 3.66		$ 5.71	

The following table summarizes information about stock options and warrants outstanding at December 31, 1999:

Outstanding			Exercisable	
Exercise	Weighted Average Remaining	Weighted Average Exercise		Weighted Average Exercise

Prices Per Share	Number Outstanding	Contractual Life (Years)	Price Per Share	Number Exercisable	Price Per Share
$ 5.50 - 7.00	90,687	8	$ 5.86	73,937	$ 5.88
7.50 - 9.00	30,900	9	7.99	10,540	7.95
9.25 - 10.00	405,700	6	9.90	317,363	9.90
$ 5.50 - 10.00	527,287	7	$ 8.83	401,840	$ 9.11

In addition to the above summary, during 1999, the Company committed to issue 15,700 options which have measurement dates during the year ended December 31, 2000.

Note 11. Business Considerations

In June 1997, the Company sold 60 convertible subordinated notes, with a principal amount of $50,000, in a private placement offering at an offering price of $50,000 per note. Each note was automatically converted into a minimum of 8,333.33 shares of the Company's stock at the closing of the Company's initial public offering (IPO). The Company received net proceeds of $2,626,269, net of underwriting and other offering costs.

Upon closing of the private placement offering, the Company issued warrants to members of Management for the purchase of 100,000 shares of common stock. The warrants are exercisable for a period of ten years at an exercise price of $9.90 per share.

In October 1997, the Company closed its IPO and received net proceeds of $5,417,578, net of underwriting and other costs. In connection with the IPO, the underwriters purchased warrants for 101,500 shares of common stock. The warrants are exercisable for a period of five years at an exercise price of $9.90 per share.

Since 1997 and through 1999, the Company has incurred recurring operating losses due to increased operating costs without corresponding increases in revenues. Through 1999, these deficits were substantially funded through use of funds obtained from the private placement and IPO. The Company has also used proceeds from its offerings for capital acquisitions, which were primarily funded through its issuance of Industrial Revenue Development Bonds. At December 31, 1999, the Company has used virtually all of the funds received in connection with its offerings and is currently relying on operations for future cash flows.

Management believes that the Company will be able to overcome the 1999 working capital deficit and generate positive net cash flows from new contracts, as described below, and by continued monitoring and reduction of operating costs. The following highlights describe significant factors contemplated in management's plans with respect to continued operations:

. In the fourth quarter of 1999, the Company was awarded a five year subcontract with the Illinois Institute of Technology Research Institute. The contract is valued at approximately $8.5 million and is expected to provide approximately $1.5 million in gross cash flow for the year ended December 31, 2000.

. Approximately eight new contracts, with estimated gross revenues of $1.1 million for the year 2000, were entered into during the last quarter of 1999.

. At December 31, 1999, the Company has approximately 15 - 18 contracts out for bid with various potential customers. These contracts, if awarded, would provide the Company with approximately $8.5 - $13.5 million in additional revenues over the next two to three years.

. Management will continue to monitor and reduce operating costs.

. Subsequent to year end, approximately $575,000 in funds were received from the exercise of stock options. In addition, management anticipates that, if the stock price remains strong, additional capital will be received in 2000 from the exercise of management and underwriter warrants. This could total in excess of $1 million.

. Continue to seek a pharmaceutical partner to begin clinical trials with regulatory bodies and to market HepArrest worldwide.

. Actively market our recently patented product - Accutrac.

[PHOTO]

The Executive Officers and Board of Directors

Executive Officers

Richard J. Freer, Ph.D
Chairman of the Board

Robert B. Harris, Ph.D.
President

Thomas R. Reynolds
Senior Vice President and Secretary

James H. Brennan, MBA
Controller

Directors

Richard J. Freer, Ph.D.
Chairman of the Board

Robert B. Harris, Ph.D.
President

Thomas R. Reynolds
Senior Vice President and Secretary

Dr. Raymond Cypess
Director and CEO, American Type Culture Collection

Peter Einselen
Director, and Senior Vice President,
Anderson & Strudwick, Inc.

The Honorable George F. Allen
Director, and Partner,
McGuire, Woods, Battle & Boothe, LLP

Corporate Information

Corporate Office:

Commonwealth Biotechnologies, Inc.
601 Biotech Drive
Richmond, Virginia 23235

phone: 800-735-9224; 804-648-3820
fax:804-648-2641
email: info@cbi-biotech.com
web site: www.cbi-biotech.com

Patent Counsel

Burns Doan Swecker and Mathis, LLP
1737 King Street
Alexandria, Virginia 22314

Transfer Agent and Registrar
American Securities Transfer
and Trust, Inc.
938 Quail Street, Suite 101
Denver, CO

General Counsel

LeClair Ryan
A Professional Corporation
707 East Main Street, 11th Floor
Richmond, Virginia 23219

Independent Auditors

McGladrey and Pullen, LLP
1051 East Cary Street
Richmond, Virginia 23226

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

As independent auditors, we hereby consent to the incorporation of our report, dated February 11, 2000, incorporated by reference in this annual report of Commonwealth Biotechnologies, Inc. on Form 10-KSB, into the Company's previously filed Form S-8 Registration Statement File No. 333-51995.

Richmond, Virginia
March 30, 2000

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