UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended March 31, 1997

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____to _____

Commission file number 2-93826-W

CHEUNG LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

Maryland	52-1256615
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

10220-I Old Columbia Road Columbia, Maryland	21046-1705
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (410) 290-5390
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $.01 per share
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

As of March 31,1997, the Registrant had outstanding 25,727,775 shares of Common Stock, $.01 par value.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CHEUNG LABORATORIES, INC.
BALANCE SHEETS
March 31, 1997(unaudited) and September 30, 1996(audited)

ASSETS

	3/31/1997	9/30/1996
Current assets:		
Cash and cash equivalents	$6,756	$246,931
Accounts receivable (net of an allowance for doubtful accounts of $21,903 and $20,770 on 3/3/1997 and 9/30/1996 respectively)	175,863	154,335
Interest receivable - Ardex	21,709	5,333
Inventories	305,747	270,952

Prepaid expenses	3,320	1,669
Other current asset	26,755	26,755
Total current assets	540,149	705,975
Property and equipment - at cost:		
Furniture and office equipment	179,970	176,541
Laboratory and shop equipment	62,228	62,228
	242,197	238,769
Less accumulated depreciation	210,041	205,766
Net value of property and equipment	32,156	33,003
Other assets:		
Investment in Aestar Fine Chemical Company - at cost	-	8,000,000
Funds held under investment contract	-	40,000
Notes receivable - Ardex Equipment, L.L.C.	400,000	400,000
Patent licenses (net of accumulated amortization of $45,178 and $37,328 on 3/31/1997 and 9/30/1996, RESPECTIVELY	134,772	142,622
Total other assets	534,772	8,582,622
Total assets	$1,107,077	$9,321,600

LIABILITIES AND STOCKHOLDERS' EQUITY

	3/31/1997	9/30/1996
Current liabilities:		
Accounts payable - trade	$655,125	$197,190
Notes payable - related parties, current portion	237,962	331,712
Accrued interest payable - related parties	224,603	339,660
Accrued interest payable - other	57,230	8,417
Accrued compensation	271,843	186,459
Accrued professional fees	136,352	76,352
Other accrued liabilities	15,453	100,905
Deferred revenues	112,031	115,531
Total current liabilities	1,710,599	1,352,726
Long term liabilities:		
Note payable - related party, due after one year	8,000	8,000
Notes payable - private placement	1,295,000	1,205,000
Total long-term liabilities	1,303,000	1,213,000
Total liabilities	3,013,599	2,565,726

Stockholders' equity:		
Capital stock - $.01 par value; 51,000,000 shares authorized, 25,727,775 and 41,206,360 issued and tstanding for 3/31/1997 and 9/30/1996, respectively.	257,758	412,063
Additional paid-in capital	11,090,970	18,555,444
Accumulated deficit	(13,255,249)	(12,211,633)
Total stockholders' equity	(1,906,522)	6,755,874
Total liabilities and shareholders' equity	1,107,077	$9,321,600

See accompanying notes.

CHEUNG LABORATORIES, INC.STATEMENTS OF OPERATIONS
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31		Six Months Ended March 31	
	1997	1996	1997	1996
Revenue:				
Hyperthermia sales and parts	$19,253	$89,312	113,293	90,312
Consulting service and repair	0	8,750	0	8,750
Returns and allowance	0	0	0	0
Total revenue	19,253	98,062	113,293	99,062
Cost of sales	12,248	25,442	44,111	25,887
Gross profit	7,005	72,629	69,182	73,175
Operating expenses:				
Selling, general and administrative	577,735	257,443	974,011	483,497
Research and development	(133)	0	42,101	7,610
Total operating expenses	577,602*	257,443	1,016,112	491,107
(Loss) Income from operations	(570,597)	(184,823)	(946,930)	(417,932)
Loss in investment fund	0		(40,000)	
Other(expense) income	8,287	194	24,865	1,750
Interest expense	(40,381)	(21,732)	(78,882)	(43,379)
(Loss) Income before income taxes	(602,691)	(206,361)	(1,040,948)	(459,561)
Income taxes	0	0	0	0
Net (loss) income	(602,691)	(206,361)	(1,040,948)	(459,561)
Net (loss)income per common share	(0.024)	($0.005)	($0.040)	($0.012)
Weighted average shares outstanding	25,638,317	39,414,081	25,433,061	39,371,243

* This amount included $190,000 consulting fees for services rendered in the current and prior quarters.

See accompanying notes.

CHEUNG LABORATORIES, INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended March 31,	
	1997	1996
Cash flows from operating activities:		

Net (loss) income	(1,040,948)	(459,561)
Noncash items included in net (loss) income:		
Loss in investment fund	(40,000)	
Depreciation and amortization	5,655	(4,219)
Bad debt expense	1,133	990
Net changes in:		
Accounts receivable	(21,528)	(34,213)
Inventories	(34,795)	13,634
Accrued interest receivable	(16,376)	0
Prepaid expenses	(1,651)	5,500
Accounts payable-trade	457,935	54,946
Accrued interest payable - related parties	(115,057)	38,377
Accrued interest payable - other	48,813	1,891
Accrued compensation	85,384	44,353
Accrued professional fees	60,000	42,842
Other accrued liabilities	(85,452)	(18,281)
Net cash (used) provided by operating activities	(616,886)	(296,193)
Cash flows from investing activities:		
Investment in Ardex Equipment L.L.C.		50,000
Purchase of property and equipment	(3,428)	(150)
Funds returned - investment contract		139,000
Net cash provided (used) by investing activities	(3,428)	188,850
Cash flows from financing activities:		
Payment on notes payable	(3,750)	(28,500)
Proceeds of stock issuances	383,889	133,945
Net cash provided by financing activities	380,084	105,445
Net increase(decrease) in cash	(240,175)	(1,898)
Cash at beginning of period	246,931	7,238
Cash at end of the period	6,756	5,340

See accompanying notes.

CHEUNG LABORATORIES, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The information presented for the six month periods ended March 31, 1996 and March 31, 1997 is unaudited, but includes all adjustments (consisting only of normal recurring accruals) that Cheung Laboratories, Inc.'s (the "Company") management believes to be necessary for the fair presentation of results for the periods presented. The September 30, 1996 balance sheet was derived from audited financial statements. These financial statements should be read in conjunction with the Company's audited financial

statements for the year ended September 30, 1996, which were included as part of the Company's Report on Form 10-K.

Note 2. Common Stock Outstanding and Per Share Information

Per share data is based on the weighted average number of shares of Common Stock outstanding during each of the periods, including conversion of debt in the amount of $339,867 to 449,415 shares using the closing price $0.75625 of January 15, 1997, the date of the transaction. Outstanding warrants, options and Notes which can be converted into Common Stock, are not included in the calculation of the per share data.

Note 3. Inventories

Inventories are carried at the lower of actual cost or market and cost is determined using the average cost matter. The components of inventories on 3/31/97 and 9/30/96 are as follows:

	3/31/1997	9/30/1996
Finished products	$62,218	$55,138
Work in process	51,977	46,062
Materials	191,551	169,752
	$305,747	$270,952

Note 4. Private Placement

On January 7, 1997, the Company offered the following: (i) up to an aggregate of $300,000 of its 8% Senior Secured Convertible Promissory Notes (the "Offering Notes") for sale (the "Offering") and warrants to purchase Common Stock of the Company ("Warrants") to accredited investors; and (ii) to rescind its 1996 sale of 8% Senior Secured Convertible Promissory Notes ("Rescission Notes") and underlying warrants ("Rescission Warrants") for an aggregate amount of $1,205,000 (the "Rescission Offer"). Rescission for $1,090,000 has been rejected and remains as an investment under the new terms, amount for $115,000 has been rescinded and will be refunded.

Item 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements in this report that relate to future plans, events or performance are forward-looking statements. Actual results, events or performance may differ materially due to a variety of factors, including the factors described on the Form 10-K for the year ended September 30, 1996. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

Cheung Laboratories, Inc. is engaged in developing, licensing and marketing minimally invasive medical devices and systems utilized in the treatment of cancer and genitourinary diseases associated with benign growth of the prostate in older males, the most common being benign prostatic hyperplasia ("BPH"). The Company has recently acquired the right to use technologies which the Company believes have the potential to significantly enhance the capabilities of both its cancer and BPH treatment systems.

The Company's current cancer treatment system is the Microfocus 1000, which is designed to increase the efficacy of existing cancer treatment modalities, including external beam radiation, interstitial radiation, brachytherapy and chemotherapy. The Microfocus 1000 has Food and Drug Administration ("FDA") pre-market approval ("PMA") and has been marketed by the Company since 1989.

The Company acquired an exclusive license to use three patents involving a technology known as Adaptive Phased Array ("APA") from the Massachusetts Institute of Technology ("MIT"). APA technology was originally developed for use in microwave radar systems for the U.S. Department of Defense to track targets and to nullify the energy beam from enemy jamming equipment. The Company has incorporated the APA technology into a device based on the current Microfocus 1000 to be used in the treatment of breast cancer. Based upon information currently available, the Company believes the APA technology will allow focusing microwave heat on target tumors inside the body and will nullify undesired heat induced in healthy tissue. The Company is in the engineering stage to develop additional commercial applications of the APA technology.

The Company is required to seek an investigational device exemption ("IDE") from the FDA to begin patient studies in the United States. Data from such studies will be used to seek PMA which must be received prior to commercial distribution of the Microfocus APA in the United States.

On March 5, 1997 the Company delivered its new breast cancer treatment system to Massachusetts General Hospital (MGH) under a collaborative research arrangement. MGH plans to evaluate the APA technology in vivo studies using animal tumor models in its ability to focus heat to the tumor models.

The Company's current BPH system is the Microfocus 800 (Microfocus 800) which utilizes a non-surgical catheter-based therapy that incorporates proprietary microwave technology and is designed to preferentially heat diseased areas of the prostate to a temperature sufficient to cause cell death in those areas. The Company does not have an IDE or PMA on its current BPH system and it is therefore not currently available for commercial distribution in the United States. The Microfocus 800 is manufactured in Canada and is approved for export from Canada.

The Company has acquired by license patented compression technology from MMTC, Inc. ("MMTC") which has been incorporated into the current Microfocus 800. The new device consists of a microwave antenna combined with a balloon mechanism which expands to compress the walls of the urethra as the prostate is heated. The Company believes the compression technology will provide the following advantages: Immediate relief, no drainage catheter required, more efficient therapeutic temperatures, minimum discomfort, allows use of lower temperatures and minimizes urethral damage. The device will also require the Company to seek an IDE and PMA from the FDA prior to any commercial sales of the device in the United States. On March 26, 1997 the Company delivered its new BPH treatment system to the Albert Einstein College of Medicine in New York city to conduct preclinical evaluation. The data resulting from animal test will be used in obtaining approval from the FDA to begin clinical

test.

The Company's objective is to establish itself as a leader in the design, development, and marketing of clinically effective minimally-invasive thermotherapy solutions for the treatment of cancer and for urological disorders. The Company's focus is to integrate new technology recently acquired by the Company to significantly expand the capabilities and market for its products and increase efforts for FDA approval of all products. Key elements to achieve the broadened strategy are to (i) develop products for the oncology market, (ii) focus on the large and growing urology market, (iii) develop new marketing strategies and relationships based upon selling services and sharing treatment revenue, (iv) establish strategic partnerships, (v) maintain technological leadership and protect technology advantages through patents and (vi) seek early regulatory approvals in target markets.

Results of Operations

Six Months Ended March 31, 1996 and 1997

Revenue increased to $113,293 in the six months ended March 31, 1997 from $90,312 in the same period in the prior fiscal year. The increase was due primarily to increased sales of Microfocus products. With the renewed focus on the development and sale of the Microfocus products, the Company anticipates that sales of its thermotherapy systems will account for all sales in the foreseeable future. The Company will focus on developing its new products. Increased sales of products are not expected until the new technologies are developed and approved for sale by governmental regulatory agencies.

Cost of product sales increased to $44,111 in the six months ended March 31, 1997 from $25,887 in the six months ended March 31, 1996 due to increased sales volume.

Research and development expense increased to $42,101 in the six months ended March 31, 1997 from $7,610 in the six months ended March 31, 1996 due to increased emphasis on technology enhancements. The Company expects to significantly increase its expenditures for research and development to fund the development or enhancement of products by incorporating the APA technology and the MMTC technology.

Selling, general and administrative expenses increased in amount to $974,011 in the six months ended March 31, 1997 from $483,497 in the six months ended March 31, 1997. The increase was primarily due to activities related to the restructuring of the Company. The Company expects selling and marketing expense to increase substantially as it expands its advertising and promotional activities and increases its marketing and sales force, principally for the commercialization of its thermotherapy systems.

Interest expense increased to $78,882 in the six months ended March 31, 1997 from $43,379 in the six months ended March 31, 1996.

Liquidity and Capital Resources

Since inception, the Company's expenses have significantly exceeded its revenues, resulting in an accumulated deficit of $13,255,249 at March 31, 1997. The Company has funded its operations primarily through the sale of equity securities. At March 31, 1997, the Company had cash, cash equivalents and short-term investments aggregating approximately $6,756. Net cash used in the Company's operating activities was $616,886 for the six months ended March 31, 1997.

The Company has incurred negative cash flows from operations since its inception, and has expended, and expects to continue to expend in the future, substantial funds to complete its planned product development efforts, including seeking FDA approval for the domestic sale of the Company's products, expand its sales and marketing activities. The Company expects that its existing capital resources will not be adequate to fund the Company's operations through the next twelve months. The Company is dependent on raising additional capital to fund its development of technology and to implement its business plan. Such dependence will continue at least until the Company begins marketing its new technologies.

The Company's future capital requirements and the adequacy of available funds will depend on numerous factors, including the successful commercialization of the thermotherapy systems progress in its product development efforts, the magnitude and scope of such efforts, progress with preclinical studies and clinical trials, the cost and timing of manufacturing scale-up, the development of effective sales and marketing activities, the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights, competing technological and market developments, and the development of strategic alliances for the marketing of its products. To the extent that funds generated from the Company's operations are insufficient to meet current or planned operating requirements, the Company will be required to obtain additional funds through equity or debt financing, strategic alliances with corporate partners and others, or through other sources. The Company does not have any committed sources of additional financing, and there can be no assurance that additional funding, if necessary, will be available on acceptable terms, if at all. If adequate funds are not available, the Company may be required to delay, scale-back or eliminate certain aspects of its operations or attempt to obtain funds through arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of its technologies, product candidates, products or potential markets. If adequate funds are not available, the Company's business, financial condition and results of operations will be materially and adversely effected.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

none.

Item 2. Change in Securities

none

Item 3. Defaults upon Senior Securities

none.

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

none.

Item 5. Other Information

On April 23, 1997, Mr. Verle Blaha resigned as interim President and CEO of CLI as well as a Director. In addition, Mr. Richard H. Jackson and Dr. Robert F. Schiffmann resigned as Directors on April 23, 1997 and May 5, 1997 respectively.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
11 Computation of earning per share

27 Financial Data Schedule

(b) Reports on From 8-K

Two reports on Form 8-K were filed during the period pertaining the following events:

(i) On March 5, 1997 the Company delivered its new breast cancer treatment systems to Massachusetts General Hospital (MGH) under a collaborative research arrangement. MGH plans to evaluate the APA technology in vivo studies using animal tumor models in its ability to focus heat to the tumor models.

(ii) On March 26, 1997 the Company delivered its new Benign Prostatic Hyperplasia (BPH) treatment system to the Albert Einstein College of Medicine in New York City for preclinical evaluations. The data resulting from the animal test will be used in obtaining approval from the Food and Drug Administration to begin clinical test.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: May 14, 1997 Cheung Laboratories, Inc.
(Registrant)

/s/ Augustine Y. Cheung
Augustine Y. Cheung
Chairman of the Board

/s/ John Mon
John Mon
Treasurer
(Principal Financial Officer)

EXHIBIT 11

CHEUNG LABORATORIES, INC.
COMPUTATION OF EARNING PER SHARE

	Three Months Ended March 31,		Six Months Ended March 31,	
	1997	1996	1997	1996
Net (loss) income	(602,691)	(206,361)	(1,040,948)	(459,561)
weighted average shares outstanding	25,638,317	39,414,081	25,433,061	39,371,243
Net (loss) income per common share	(0.024)	(0.005)	(0.040)	(0.012)

* Outstanding warrants, options and Notes which can be converted into Common Stock, are not included in the calculation of the per share data.

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This schedule contains summary financial information extracted from the financial statements in this 10Q and is qualified in its entirety by reference to such financial statements

6-MOS	
SEP-30-1997	
OCT-1-1996	
MAR-31-1997	
	6,756
	0
	197,572
	21,903
	305,747
	540,149
	242,197
	210,041
	1,107,077
	1,710,599
	0
	0
	0
	(1,906,522)
	0
	1,107,077
	113,293
	113,293
	44,111
	44,111
	946,930
	0
	78,882
	(1,040,948)
	0
	0
	0
	0
	0
	(1,040,948)
	(.024)
	0