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 June 30, 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 June 30,1997, the Registrant had outstanding 27,153,163 shares of Common Stock, $.01 par value.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CHEUNG LABORATORIES, INC.
BALANCE SHEETS
June 30, 1997 and September 30, 1996

ASSETS

	6/30/1997	9/30/1996
Current assets:		
Cash and cash equivalents	$120,549	$246,931
Accounts receivable (net of an allowance for doubtful accounts of $21,939 and $20,770 on 6/30/1997 and 9/30/1996 respectively)	169,212	154,335
Interest receivable - Ardex	30,143	5,333

Inventories	307,549	270,952
Prepaid expenses	2,718	1,669
Other current asset	26,755	26,755
Total current assets	656,925	705,975
Property and equipment - at cost:		
Furniture and office equipment	180,348	176,541
Laboratory and shop equipment	62,228	62,228
	242,575	238,769
Less accumulated depreciation	212,264	205,766
Net value of property and equipment	30,312	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 $49,279 and $37,328 on 6/30/1997 and 9/30/1996, respectively)	130,671	142,622
Total other assets	530,671	8,582,622
Total assets	$1,217,908	$9,321,600

LIABILITIES AND STOCKHOLDERS' EQUITY

	6/30/1997	9/30/1996
Current liabilities:		
Accounts payable - trade	$660,050	$197,190
Notes payable-related parties, current portion	457,962	331,712
Accrued interest payable - related parties	255,422	339,660
Accrued interest payable - other	57,230	8,417
Accrued compensation	320,443	186,459
Accrued professional fees	218,352	76,352
Other accrued liabilities	16,765	100,905
Deferred revenues	112,031	115,531
Total current liabilities	2,098,255	1,352,726
Long term liabilities:		
Note payable-related party,due after one year	8,000	8,000
Notes payable - private placement	1,361,750	1,205,000
Total long-term liabilities	1,369,750	1,213,000
Total liabilities	3,468,005	2,565,726

Stockholders' equity:		
Capital stock - $.01 par value; 51,000,000 shares authorized, 27,153,163 and 41,206,360 issued and outstanding for 6/30/1997 and 9/30/1996, respectively.	271,532	412,063
Additional paid-in capital	11,600,896	18,555,444
Accumulated deficit	(14,122,525)	(12,211,633)
Total stockholders' equity (deficit)	(2,250,097)	6,755,874
Total liabilities and shareholders' equity	$1,217,908	$9,321,600

See accompanying notes.

CHEUNG LABORATORIES, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30, 1997	Three Months Ended June 30, 1996	Nine Months Ended June 30 1997	Nine Months Ended June 30 1996
Revenue:				
Hyperthermia sales and parts	$3,675	$31,277	$116,968	$121,589
Consulting service and repairs	-	-	-	8,750
Returns and allowance	-	(60,000)	-	(60,000)
Total revenue	3,675	(28,723)	116,968	70,339
Cost of sales	2,029	-	46,141	25,887
Gross profit (loss)	1,646	(28,723)	70,828	44,452
Operating expenses:				
Selling, general and administrative	732,784*	280,009	1,709,454	763,506
Research and development	102,843	-	144,945	7,610
Total operating expenses	835,627	280,009	1,854,399	771,116
(Loss) Income from operations	(833,981)	(308,732)	(1,783,572)	(726,664)
Loss in investment fund	-	-	(40,000)	-
Other(expense) income	8,448	17	33,313	1,767
Interest expense	(41,752)	(21,388)	(120,633)	(64,767)
(Loss) Income before income taxes	(867,285)	(330,103)	(1,910,892)	(789,664)
Income taxes	-	-	-	-
Net (loss) income	(867,285)	(330,103)	(1,910,892)	(789,664)
Net (loss) income per common share	($0.033)	($0.014)	($0.073)	($0.033)
Weighted average shares outstanding	26,495,072	24,221,487	26,007,435	23,930,090

(1) This amount includes $280,000 in compensation expense recorded for the 500,000 shares of common stock issued to Spencer Volk.

See accompanying notes.

CHEUNG LABORATORIES, INC.
STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30,	
	1997	1996
Cash flows from operating activities:		
Net (loss) income	$(1,910,892)	$(789,665)
Noncash items included in net (loss) income:		
Loss in investment fund	-	-
Depreciation and amortization	17,269	9,606
Bad debt expense	1,170	(254)
Net changes in:		
Accounts receivable	(14,877)	(33,900)
Inventories	(36,597)	24,679
Accrued interest receivable	(24,810)	-
Prepaid expenses	(1,049)	(15,965)
Accounts payable-trade	462,860	4,614
Accrued interest payable - related parties	(84,238)	126,420
Accrued interest payable - other	48,813	1,891
Accrued compensation	133,984	73,994
Accrued professional fees	142,000	87,766
Other accrued liabilities	(84,129)	84,812
Net cash (used) provided by operating activities	(1,350,496)	(426,002)
Cash flows from investing activities:		
Purchase of property and equipment	(3,806)	(150)
Funds returned - investment contract	40,000	139,000
Net cash provided (used) by investing activities	36,194	138,850
Cash flows from financing activities:		
Payment on notes payable (net)	283,000	24,000
Proceeds of stock issuances	904,920	295,221
Net cash provided by financing activities	1,187,290	319,221
Net increase (decrease) in cash	(126,382)	32,069
Cash at beginning of period	246,931	7,238

Cash at end of the period	120,549	39,307
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See accompanying notes.

CHEUNG LABORATORIES, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The information presented for the nine month periods ended June 30, 1996 and June 30, 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 annual 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. Outstanding warrants, options, notes which can be converted into Common Stock, and the 16,000,000 shares retired in October 1996 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 method. The components of inventories on 6/30/97 and 9/30/1996 are as follows:

	6/30/1997	9/30/1996
Finished products	$62,586	$55,138
Work in process	52,283	46,062
Materials	192,680	169,752
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	$307,549	$270,952
	========	========

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 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 intends to concentrate its business on the development of two recently acquired technologies: (I) adaptive phase array ("APA") targeting of microwave energy, which the Company believes will have broad potential medical applications, and (ii) balloon catheter technology for enhanced thermotherapy of BPH and other genitourinary tract conditions. While the balloon catheter technology is related to the Company's previous BPH thermotherapy devices, the Company believes the APA technology has the potential to serve as the core technology for a broad array of medical devices, and accordingly the Company will devote most of its resources to the exploitation of the APA technology.

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"). The APA technology was originally developed for use in microwave radar systems for the U.S. Department of Defense to track missiles and to nullify the energy beam from enemy jamming equipment. The significance of the APA technology is its ability to deliver and focus heat to tumor sites in the human body without burning the skin and the surrounding healthy tissues. Medical benefits of selectively heating tissue have been demonstrated for years. Delivering the necessary heat within the body without damaging surrounding tissue has been a major impediment to the use of thermotherapy for deep seated disease. The APA technology concentrates the microwave energy and resulting heating on a well defined target area and nullifies energy in surrounding tissue. The Company will attempt to develop applications of the APA technology in the following areas:

Cancer Treatment -- Deep-seated malignant tumors, including tumors of the breast, colon, pancreas, lung, prostrate, liver and cervix, are some of the most difficult cancers to treat conventionally. When medical devices based on the Company's APA technology are completed, oncologists will be able to utilize thermotherapy for these cancers in conjunction with radiation or chemotherapy. The first system intended for commercialization by the Company using the APA technology will be a breast cancer thermotherapy system for the purpose of heating solid tumors in intact breast.

Targeted Drug Delivery -- Research suggests that focused heat can provide the means to melt heat sensitive liposomes (micro-carriers) which encapsulate toxic drugs and to target specific tissue or organ sites to allow localized drug release at focus and further suggests that additional controlled heating will enhance intracellular drug absorption. By combining the heat sensitive liposomes with the Company's APA technology, the Company believes a drug delivery system can be developed which can concentrate and release the medication only at the tumor site.

Targeted Gene Therapy -- Laboratory testing indicates that artificial gene molecules can be delivered by heat sensitive liposomes to the desired gene site where they can then be released using focused heat. It further appears that focused heat will target the replacement gene to the chromosome site and trigger the gene repair to occur.

The Company is required to seek an investigational device exemption ("IDE") from the Food and Drug Administration (FDA) to begin patient studies in the United States. Data from such studies will be used to seek Premarketing Approval (PMA) which must be received prior to commercial distribution of the Company s new medical devices 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 to evaluate the APA technology in vivo studies using animal tumor models in its ability to focus heat to the tumor models. The study was completed recently and it confirmed that the APA technologies can indeed focus heat deep within the body without heating surrounding tissue or the skin.

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 recently acquired a patented balloon catheter technology from MMTC, Inc., which has been incorporated into a device to be utilized with the catheter used in the Company's existing Microfocus BPH System. The device consists of a microwave antenna combined with a balloon dilation ("angioplasty") mechanism which expands to compress the walls of the urethra as the prostate is heated. The combined use of balloon angioplasty and microwave heating provides a dual modality treatment approach which it is believed will provide significantly improved treatment benefits over the "heat alone" systems currently available commercially. First, the heat and compression create a natural stent in the wall of the urethra thus permitting immediate relief. Second, the system's relatively low temperature (43 to 44 degree Celsius) are sufficient to kill prostatic cells outside the urethra but are not high enough to cause swelling in the urethra as is often associated with competitive treatments using high temperatures and no compression. 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 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.

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 has ceased active sales of its current equipment and is focusing on the development of the new technologies 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) continue research & development on the use of the Company's technology platform to include targeted drug delivery and targeted gene therapy, (iv) develop new marketing strategies and relationships based upon selling services and sharing treatment revenue, (v) establish strategic partnerships with research, engineering and business entities, (vi) maintain technological leadership and protect technology advantages through patents, (vii) seek early regulatory approvals in target markets, and (viii) develop a marketing plan allowing the Company to participate in the revenue stream generated by treatments administered utilizing the Company's products.

Results of Operations

Nine Months Ended June 30, 1996 and 1997

Revenue increased to $116,968 in the nine months ended June 30, 1997 from $70,339 in the same period in the prior fiscal year. The Company has ceased active sales of its current equipment and is focusing on the development of the new technologies recently it acquired to significantly expand the capabilities and market for its products. Accordingly, gross sales for the quarter ended June 30, 1997 was $3,675 compared with $31,277 for the same quarter in the previous fiscal year. With the focus on the development and marketing of the new thermotherapy systems utilizing the patented technologies, the Company anticipates that most of its future revenue will be generated by treatments administered utilizing its thermotherapy systems and the sales of disposable kits. Revenue from the new technologies is not expected until the new technologies are developed and approved for sale by governmental regulatory agencies.

Cost of sales increased to $46,141 in the nine months ended June 30, 1997 from $25,887 in the nine months ended June, 1996 due to increased sales volume.

Research and development expense increased to $144,945 in the nine months ended June 30, 1997 from $7,610 in the nine months ended June 30, 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 $1,709,454 in the nine months ended June 30, 1997 from $763,506 in the nine months ended June 30, 1996. The higher expenses were primarily due to the increase in consulting and legal expenses, compensation expenses, including $280,000 in compensation expense recorded for the 500,000 shares of common stock issued to Spencer Volk, and 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 new thermotherapy systems.

Interest expense increased to $120,634 in the nine months ended June 30, 1997 from $64,767 in the nine months ended June 30, 1996. The increase was primarily due to the accrued interest on the $1,505,000 8% convertible notes.

Liquidity and Capital Resources

Since inception, the Company's expenses have significantly exceeded its revenues, resulting in an accumulated deficit of $14,122,525 and a shareholders deficit of $2,250,097 at June 30, 1997. The Company has funded its operations primarily through the sale of equity securities. At June 30, 1997, the Company had cash, cash equivalents and short-term investments aggregating approximately $120,549. Net cash used in the Company's operating activities was $1,350,496 for the nine months ended June 30, 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; the emerging of competing technological and market developments; and the development of strategic alliances for the marketing of the Company s 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

The Company has been named as a defendant in a lawsuit filed by Eastwell Management Services, Ltd. ("Eastwell") in the United States District Court for the District of Maryland. In the lawsuit, Eastwell is seeking damages in the amount of $125,000, plus interest for an alleged breach of a loan agreement between the Company and Eastwell. The Company denies that any funds are due to Eastwell and has filed an Answer and Counterclaim seeking damages from Eastwell for breach of related agreements.

Item 2. Change in Securities

The securities sold by the Company without registration under the Securities Act of 1933 (the "33 Act") in the Quarter ended June 30, 1997 are summarized in the following table. These securities were sold without registration pursuant to an exemption in Section 4(2) of the 33 Act.

Date	Title	Name	Amount
4/1/97	8% Senior Convertible Note	Charles & Barbara Young	$10,000
4/18/97	8% Senior Convertible Note	Ryan, Lee & Co.	$20,000
5/21/97	8% Senior Convertible Note	Ryan, Lee & Co.	$13,000
5/6/97	8% Senior Convertible Note	Ryan, Lee & Co.	$10,000
6/16/97	8% Senior Convertible Note	Ryan, Lee & Co.	$12,000
6/17/97	8% Senior Convertible Note	Ryan, Lee & Co.	$11,000
6/18/97	8% Senior Convertible Note	Ryan, Lee & Co.	$36,700
4/24/97	8% Senior Convertible Note	Sidney&Carolyn Markowitz	$10,000
5/10/97	8% Senior Convertible Note	Donald Beard	$20,000
5/23/97	8% Senior Convertible Note	Stearns Management	$16,750

6/16/97	8% Senior Convertible Note	Sivertsen & Associates	$10,000
6/18/97	8% Senior Convertible Note	Mette Larsen	$42,000
6/18/97	8% Senior Convertible Note	Ole Larsen	$10,000
6/18/97	8% Senior Convertible Note	Michael Slattery	$10,000
6/18/97	8% Senior Convertible Note	Philip Felice	$41,000
6/23/97	8% Senior Convertible Note	Nisha Sethi	$10,000
6/24/97	8% Senior Convertible Note	Dennis Farrell	$12,500
6/25/97	8% Senior Convertible Note	Howard Conyack	$10,250
6/25/97	8% Senior Convertible Note	Barbara Friedman	$15,000
6/26/97	8% Senior Convertible Note	Alex Nazarenko	$20,000
5/22/97	12% Note	Horton Trust	$220,000
6/3/97	Common Stock	Spencer Volk	$100,000

Note: In the quarter ended June 30, 1997, the Company issued 500,000 shares to Spencer Volk as part of the compensation outlined in the Employment Agreement between Mr. Volk and the Company.

Item 3. Defaults upon Senior Securities

none.

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

none.

Item 5. Other Information

On May 28, 1997, the Company elected Mel Soule and Walter Herbst as Directors of the Board, replacing Richard Jackson and Robert Schiffmann, who resigned. From 1994 through 1997, Mr. Soule was the president and chief executive officer of Grace Biomedical Division, a subsidiary of the W.R. Grace & Co. From 1993 through 1994, Mr. Soule was the director of commercial planning for the Washington Research Center of W.R. Grace & Co. From 1992-1993, Mr. Soule was a senior development manager for W.R. Grace & Co. Mr. Soule holds an MBA degree from Wilmington College and a BA from the University of Massachusetts. Mr. Herbst has been and currently is chief executive officer of Herbst Lazar Bell, Inc., the engineering firm he founded in 1962. Mr. Herbst also serves as a faculty fellow in industrial design at the Northwestern University McCormick School of Engineering and Applied Sciences. Mr. Herbst holds a B.S.A. in Industrial Design from the University of Illinois and a Master of Management from the Kellogg Graduate School of Northwestern University.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit.

11. Computation of per share earnings.

27. Financial Data Schedule

(b) Reports on Form 8-K

One report on Form 8-K was filed during the period reported pertaining to the appointment of Spencer Volk as the President and Chief Executive Officer on May 11, 1997.

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: August 19, 1997	Cheung Laboratories, Inc.
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	(Registrant)

/s/ Spencer J. Volk

Spencer J. Volk
President

/s/John Mon

John Mon
Treasurer

EXHIBIT 11

CHEUNG LABORATORIES, INC.
COMPUTATION OF EARNING (LOSS) PER SHARE

	Three Months Ended June 30		Nine Months Ended June 30	
	1997	1996	1997	1996
Net (loss) income	($867,285)	($330,103)	($1,910,892)	($789,664)
Weighted average shares outstanding	26,495,072	24,221,487	26,007,435	23,930,090
Net (loss)income per common share	($0.033)	($0.014)	($0.073)	($0.033)

* Outstanding warrants, options, notes which can be converted into Common Stock, and the 16,000,000 shares retired in October 1996 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

9-MOS
SEP-30-1997
OCT-1-1996
JUN-30-1997
120,549
0
199,355
21,939
307,549
656,925
242,575
212,264
1,217,908
2,098,255
0
0
0
(2,250,107)
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1,217,908
116,968
116,968
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120,633
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