

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

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 1996

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 (I.R.S. Employer Identification No.)  
incorporation or organization

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

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  
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(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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not 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-K or any amendment to this Form 10-K. [ ]

As of November 22, 1996, 25,206,360 shares of the Registrant's Common Stock were issued and outstanding. As of November 22, 1996, the aggregate market value of voting stock held by nonaffiliates of the Registrant was approximately \$7,977,252 based on the average of the closing bid and asked prices for the Registrant's Common Stock as quoted NASD OTC Bulletin Board.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in this Report on Form 10-K: None.

PART I

ITEM 1. BUSINESS

The Company

Overview

Cheung Laboratories, Inc. ("CLI" or the "Company") was incorporated in the State of Maryland in 1982 under the name A.Y. Cheung Associates, Inc. The Company changed its name to Cheung Laboratories, Inc. on June 31, 1984. CLI is engaged in developing and marketing minimally invasive medical devices and systems utilized in the treatment of cancer and in the treatment of 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 utilizes proprietary microwave technology to preferentially heat the cancerous area to a temperature sufficient to cause cell death in the cancerous cells. Because healthy cells are

not as susceptible to heat as cancerous cells, they can survive the thermotherapy. The treatment is currently utilized primarily on surface cancers. The Microfocus 1000 also utilizes licensed patented technology which the Company calls Direct Coupling Technology ("DCT"). The DCT allows the Microfocus 1000 to air cool the body surface while applying the heat. The Microfocus 1000 has Food and Drug Administration ("FDA") premarket approval ("PMA") and has been marketed by the Company since 1989.

The Company recently 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 is incorporating the APA technology into a device based on the current Microfocus 1000 which is currently designated as the Microfocus APA (the "Microfocus APA"). Based upon information currently available, the Company believes the Microfocus APA will allow focusing microwave heat on target tumors inside the body and will nullify undesired heat induced in healthy tissue. The current thermotherapy systems, including the Microfocus 1000, are useful only on superficial cancers. The Microfocus APA will allow thermotherapy treatment to be administered to malignant tumors deep within the body such as lung, pancreatic, breast and prostate cancer. It will be minimally invasive in that one or more thin catheters will be inserted into the tumor and surrounding area to facilitate the placement of sensors and a temperature probe. The sensor acts as a guidance center which generates feedback signals to the system to make adjustment in order to maintain the focus of heat within the tumor even if a patient moves his or her position. The temperature probe maintains proper temperature within the tumor and surrounding areas. The Company is in the engineering stage to develop the 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.

The Company's BPH systems currently include the Microfocus 800, 500C, 100C and 100 (collectively "Microfocus System") which are all designed to treat BPH. The Microfocus 800 is the most current design and is targeted for use by private

urologists in their offices. The procedure 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 the Microfocus System and it is therefore not currently available for commercial distribution in the United States. The Microfocus System is manufactured in Canada and is approved for export from Canada.

The Microfocus System is a thermotherapy system which utilizes transurethral and transrectal applicators to deliver heat directly to diseased portions of the prostate. CLI has conducted preclinical evaluations on its Microfocus System and is now waiting for protocol from its principal investigator to obtain data for the filing of an IDE with the FDA to allow restricted sales of systems to hospitals in the United States. This procedure is required to place the Microfocus System in hospitals within the United States and gather clinical data for safety and efficacy demonstrations. Such demonstrations are necessary to obtain a PMA from the FDA for commercialization in the United States. The Microfocus System is currently sold outside of the United States.

The Company has recently acquired by license patented compression technology from MMTC, Inc. ("MMTC") which is being incorporated into a device to be utilized with the catheter used in the Microfocus System. The 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 is in the engineering stage to develop a commercial application of the technology. The device will require the Company to seek an IDE and PMA from the FDA prior to any commercial sales of the device in the United States.

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. To date, the Company has focused on marketing current products and, other than for the Microfocus 1000, has not had the capital to seek governmental approvals and complete commercialization of its technology. The focus will now be expanded 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.

#### Targeted Illnesses

The Company's products and potential products seek to treat cancer and BPH.

a. Cancer. Historically, cancer has been treated by surgical intervention, chemotherapy or radiation therapy. The Company's equipment for the treatment of cancer is based upon a microwave thermotherapy system. Thermotherapy (also known as hyperthermia), or heat therapy, has been used in medicine since antiquity. In modern thermotherapy, a controlled heat dose is targeted to treatment sites using microwave and/or other energy for therapeutic benefits. Thermotherapy is effective in treating malignant tumors because these tumors cannot effectively withstand the increased temperatures brought about by the thermotherapy treatment, while normal tissue can withstand the higher temperatures. Because cancerous tissue has poor blood circulation, its capacity to dissipate heat is

less than that of normal tissue. As an adjuvant to surgery, thermotherapy is used to decrease tumor mass and thereby facilitate its removal surgically. As an adjuvant to radiation therapy, thermotherapy has been shown to be particularly effective in killing cells which are resistant to radiation therapy. Thermotherapy has also been shown to enhance the effectiveness of certain forms of chemotherapy by killing cells in areas poorly served by the tumor's circulatory system. In the case of both radiation therapy and chemotherapy, thermotherapy may, in time, permit lower dosages and, therefore, reduced side effects.

Thermotherapy can be administered to various anatomical sites through local, regional or whole body administration. Local thermotherapy treatment may be invasive (internal) or non-invasive (external). Invasive heating techniques, in turn, may be interstitial (via implants into body tissue) or intracavitary (via natural bodily orifice). Regional thermotherapy treatment is primarily non-invasive, via external beam radiation. Whole body thermotherapy has been effectively employed as an adjuvant to chemotherapy, but only by practitioners skilled in the complex techniques which minimize the side effects of the procedure.

Thermotherapy has been the subject of medical investigation and commercial interest in the United States, Canada, Europe, and Asia for almost 25 years. Because of a well-documented biological rationale for the use of thermotherapy as a tumor-shrinking agent, it was originally greeted with great optimism by oncologists. This optimism was founded on many published reports that thermotherapy enhanced the effectiveness of radiation by killing cells exponentially as a function of temperature at temperatures greater than 42 degrees celsius maintained for certain minimal time periods, and selectively killing S-phase and other radiation-resistant cells. Thermotherapy was also found to enhance the effectiveness of chemotherapeutic agents through a variety of mechanisms including increase in drug uptake, inhibition of repair mechanisms, and temperature-dependent increases in drug activity.

The results of early clinical trials in the United States, however, have been disappointing due to the lack of effective equipment. Most of the equipment used in the past to heat the tumors was crudely designed. In many instances, the equipment was thought to be able to heat large deep-seated tumors when only small superficial tumors could in fact be heated.

Due to the initial hope associated with the use of thermotherapy to treat cancer, many companies attempted to develop thermotherapy systems. Early developers of thermotherapy equipment conducted phase III randomized studies in the United States. These trials became known as the Radiation Therapy Oncology Group 81-04 study (the "RTOG Study"). The results of the RTOG Study published in 1989 showed no clear treatment benefits when combining thermotherapy and radiation therapy as compared to the radiation therapy alone. These study results had a negative effect on thermotherapy use and research. Until the recent publication of numerous European clinical trials reporting the effectiveness of the thermotherapy as an adjuvant therapy to radiation, the RTOG Study proved to be a difficult barrier to companies attempting to win market acceptance for their FDA-approved thermotherapy devices. Despite the negative RTOG Study, thermotherapy is currently used on a limited basis at oncology centers in the United States, primarily for the treatment of superficial cancer.

In contrast to the use of thermotherapy in the United States, the use of thermotherapy in Europe and Asia is more widespread both commercially and clinically. Since 1993, numerous randomized clinical trials have reported that:

- o thermotherapy combined with radiation therapy doubles the tumor complete response compared to radiation therapy alone; and
- o thermotherapy combined with chemotherapy doubles the tumor complete response compared with chemotherapy alone.

Unlike radiation therapy or chemotherapy, which are highly toxic treatment modalities, thermotherapy is relatively innocuous. For this reason, thermoenhanced combination therapies are associated with little or no additional patient morbidity or side effects. Nevertheless, the fundamental shortcoming of existing thermotherapy equipment is the same everywhere: the inability to achieve focused heating of deep tumors while sparing adjacent and intervening normal tissue and skin. Despite 25 years of effort by engineers and clinicians, the problem of targeting the cancerous tumor with the therapeutic agent (heat) has not advanced far beyond what was possible at the beginning of the thermotherapy "era." For this reason, the Company believes that the combination of the thermotherapy treatment and the APA focusing technology for heating of deep tumors constitutes a significant advance in the use of thermotherapy as a cancer treatment.

b. Benign Prostatic Hyperplasia. BPH is a non-cancerous urological disease in which the prostate enlarges and constricts the urethra. Symptoms associated with BPH affect the quality of life of millions of sufferers worldwide and BPH can lead to irreversible bladder or kidney damage. The prostate is a walnut-size gland surrounding the male urethra that produces seminal fluid and plays a key role in sperm preservation and transportation. As the prostate expands, it compresses or constricts the urethra, thereby restricting the normal passage of urine. This restriction of the urethra may require a patient to exert excessive bladder pressure to urinate. Since the urination process is one of the body's primary means of cleansing impurities, the inability to urinate adequately increases the possibility of infection and bladder and kidney damage.

Because BPH is an age-related disorder, its incidence increases as the population ages. As many as 27 million men between the age of 50 and 80 in the United States alone suffer from BPH. As the population continues to age, the number will continue to increase dramatically. Current estimates are that by the age of 55, fifty percent of all men, and by 80, eighty percent of all men will have BPH.

Like cancer, BPH historically has been treated by surgical intervention or by drug therapy. As BPH progresses, the urethra passing through the prostate constricts making urination difficult. The primary surgical treatment for BPH is transurethral resection of the prostate ("TURP"), a procedure in which the prostatic urethra and surrounding diseased tissue in the prostate are trimmed, thereby widening the urethral channel for urine flow. While the TURP procedure typically has been considered the most effective treatment available, the procedure has many shortcomings which undermine its value. A significant number of patients who undergo TURP encounter significant complications. These complications can include painful urination, infection, impotence, incontinence and excessive bleeding. Furthermore, the cost of the TURP procedure is also very high, ranging from \$8,000 to \$12,000. Medicare alone spent \$1 billion to cover TURP procedures last year. This high cost also fails to reflect the cost of lost work time and reduction in quality of life. Finally, the TURP procedure is time consuming, requiring hospitalization for up to three days.

Other less radical surgical procedures are available in addition to the TURP procedure. Interstitial RF Therapy and Laser Therapies employ concentrated radiofrequency waves or laser radiation instead of a surgical knife. There is minimal bleeding and damage to the urethra associated with these procedures. However, the side effects and costs associated with surgery still remain.

Drug therapy has emerged as an alternative to surgery in the last several years. There are several drugs available for BPH treatment, the two most widely prescribed drugs being Hytrin and Proscar. Hytrin works by relaxing certain involuntary muscles surrounding the urethra, thereby easing urinary flow and Proscar is intended to actually shrink the enlarged gland. Drugs, however, offer only modest relief and cost hundreds of dollars per year. In short, neither the surgical nor the medicinal treatments available for BPH provide satisfactory, cost-effective solutions to BPH.

With the limited effectiveness of BPH drugs and the cost and potential side effects associated with surgery, the Company believes thermotherapy provides a better alternative for the treatment of BPH. The Company further believes the percentage of men with moderate to severe symptoms of the disease who seek treatment will increase in the future as a result of increased consumer knowledge of the disease and the development of treatments with less severe complications and side effects than traditional treatments.

Cheung Laboratories Approach.

Cancer Treatment. The Company has received PMA from FDA for the use of the Microfocus 1000 as an adjuvant to radiation therapy for surface and subsurface cancer. The Company's clinical studies submitted to the FDA indicate a better than 86% positive response rate which is the best among all competing systems. However, the Microfocus 1000 still suffers from the limitations of inability to focus deep and surface hot spots at undesirable locations. The Company intends to utilize the licensed APA technology to improve the performance of the Microfocus 1000. With added hardware and software, the Company is in the development stage of a thermotherapy system capable of focusing accurately and delivering repeatable microwave energy to induce hyperthermia without undesirable hot spots within surface and subsurface tumors such as breast tumors. With additional antenna and geometric configuration design, and frequency modification, the Company hopes to develop thermotherapy systems for deep seated tumors such as those located in the lung, prostate, rectum, liver and pancreas. The Company now possesses the technology which it believes will lead to the capability to develop and commercialize the next generation of thermotherapy equipment which is capable of overcoming the previous limitations of current thermotherapy systems, thus allowing the realization of minimally invasive, non-toxic and side effect free treatment to cancer.

BPH Treatment. The Microfocus patented technology further enhances the therapeutic capabilities of the treatment by providing combined therapy of compression and heat. Preclinical studies in phantoms and animal tissues indicate the technology will not only provide long term clinical benefits as in the case of other BPH systems but also immediate symptomatic relief which is also necessary for most BPH patients.

#### Business Strategy

The Company's mission is to develop effective and clinically-practical means of applying heat for therapeutic purposes. The Company's initial objective will be the design, development and marketing of microwave-based treatments for urological disorders, cancer and other diseases. The Company believes its depth of experience and its relationship with third parties in technological, manufacturing and marketing matters position the Company to exploit this market. To meet this objective, the Company has identified the following actions upon which the Company will focus its efforts:

#### Enhancement of Benign Prostatic Treatments.

The technology licensed from MMTC allows the design of a catheter which combines tissue compression with thermotherapy for BPH treatment. Such a combination therapy is believed to be synergistically beneficial clinically since compression may provide immediate urine obstruction relief and thermotherapy produces long term symptom relief control resulting from shrinkage of the benign growth. With this new technology, the Company believes that it will be able to offer a new BPH treatment system superior to other commercially available BPH thermotherapy devices.

#### Development of Specific Cancer Treatments.

The Microfocus APA is in the design stage and will be a patented breast cancer thermotherapy system for the purpose of heating both primary ductal tumors in compressed breast tissue as well as recurrent breast cancer (chest wall) tumors. The compressed breast tissue geometry is desirable in a thermotherapy treatment for four primary reasons:

- o compressing the breast tissue to the range of 6 to 8 centimeters requires less penetration for microwaves;
- o breast compression to a flat geometry allows a single applicator design to treat a wide range of breast sizes;
- o standard x-ray imaging techniques can be used with the breast compression to accurately locate the tumor; and
- o patient motion effects which could degrade the thermotherapy treatment are minimized.

The amount of breast compression can be varied to accommodate patient tolerance. When completed, the Company anticipates that the standard breast-compression thermotherapy system will feature a phased array system using dual-opposed applicators. If marketing studies determine that compression is undesirable, the Company can design a somewhat more costly four-channel phased array system that will deliver deep thermotherapy using an adaptive breast cradle to immobilize but not compress the breast.

The Microfocus APA will later be modified to incorporate additional patented technology licensed from MIT. This additional technology allows deep-heating thermotherapy. A prototype of this system involving a monopole annular phased array which would surround the patient is presently planned. The adaptive phased array will be used to treat deep-seated tumors in organs like prostate, liver, pancreas, rectum, and cervix. Rings of different sizes will permit thermotherapy for other cancer sites such as the head, neck and limbs.

In addition, the APA technology will also allow the development of an externally focused minimally invasive treatment system for prostate cancer.

#### Develop Technological Partnerships.

In addition to collaboration with MIT and MMTC, the Company is working with, or anticipates working with various international and domestic institutions to assist in the development and testing of new Microfocus products. There is no assurance that such partnerships will develop.

## Marketing.

The Company intends to create a marketing and sales strategy to allow it to become the market leader in the business of microwave thermotherapy systems for treatment of cancer, BPH and other diseases. The Company will seek to establish itself as the technology leader in the thermotherapy business and form strategic marketing alliances with other partners to implement its marketing and sales plan worldwide.

The Company believes its licensed proprietary technology will allow the instrumentation of a new line of thermotherapy systems which will provide significant benefits over existing products. The Company has retained a product design firm in Chicago to coordinate the engineering of initial prototypes and manufacturing of the final products. Working closely with clinicians, scientists and the Company, the product designers will construct working prototypes for clinical trials. The Company anticipates that such prototypes will result in enhanced thermotherapy systems for manufacturing and marketing.

The Company further believes that with its licensed technologies, the Company can develop clinical thermotherapy treatment systems capable of offering minimally-invasive, effective non-toxic and side effect free treatment which targets only the tumors in patients suffering from cancer, BPH and other diseases. The Company is formulating a sale and distribution strategy based on placements of systems in hospitals and clinics in order to derive profit from sharing of patient treatment revenue.

In the cancer treatment market, the Company is developing the concept of thermoenhanced combination treatment procedures which combine thermotherapy with radiation therapy and/or chemotherapy. Thermotherapy treatment is used to improve the efficacy of these existing treatments while decreasing system toxicity. The Company plans to place Microfocus 1000 systems, and when available Microfocus APA systems, in treatment centers at nominal costs to the centers themselves and to share in treatment revenue.

The Company intends to re-engineer its Microfocus System to include the MMTC technology, to create a second generation, versatile and low cost BPH treatment system with the added capability of balloon compression and minimally-invasive temperature sensing. With these new technologies, the Company believes it can obtain governmental approval which will allow it to compete in the new BPH treatment market recently created as a result of the FDA's approval of the first microwave BPH treatment device, as well as the growing market of prostate cancer treatment. The Company plans to market its lines of prostate treatment systems by forming individual joint ventures with private entrepreneurs and urologists to operate prostate treatment clinics. The Company intends to derive most of its revenue from sharing treatment revenue rather than from the initial sale of the systems.

## Cheung Laboratories Product Description and Technology.

### Cancer Treatment.

#### Microfocus 1000

The Company's Microfocus 1000 is manufactured at the Company's headquarters from various components provided by suppliers. Some of the components are modified by the Company or by the manufacturer at the Company's direction. The Company considers there to be proprietary trade secret knowledge involved in the manufacture of some of the components of the Microfocus 1000 and

in the assembly of the components to form the Microfocus 1000. The Company has taken what it considers appropriate steps to safeguard this proprietary information. Other than its rights to use patents under license, the Company does not have patents on any of the components of the Microfocus 1000 or on the complete Microfocus 1000.

Competitors of the Company, particularly BSD Medical Corporation and Labthermics Technologies, Inc., have obtained a number of patents on thermotherapy products. The Company does not believe that the Microfocus 1000 infringes on any valid patents granted to others.

The Company expects to rely upon trade secrets, unpatented proprietary know-how and technological innovation in maintaining the competitive position of its Microfocus 1000. The Company intends to apply for patent protection for any patentable product it may develop. The Company believes it possesses significant proprietary knowledge relating to its hardware and software that are utilized in connection with the Microfocus 1000. However, there can be no assurance that competitors may not independently develop similar technology or that the Company will be able to maintain the secrecy of its proprietary information. There can also be no assurance that competitors will not claim that the Microfocus 1000 or another Company product infringes on a patent held by such competitor. If an owner of a patent were to assert an infringement of its patent(s) against the Company, and the Company were ultimately determined to be infringing a valid and enforceable patent, and if a license could not be obtained on a reasonable basis from such patent owner or such products could not be re-designed so that they no longer infringed the other patent(s), there could be a material adverse effect on the Company's business.

The Microfocus 1000 has FDA premarket approval and has been marketed since 1989. For the year ended September 30, 1996, the Company sold 0 Microfocus 1000 systems. Since obtaining the PMA, the Company has sold over 35 Microfocus 1000 systems worldwide.

Prostatic Treatment.

BPH Systems

CLI designed the Microfocus System for the treatment of BPH ("Microfocus Systems"). The four versions of the Microfocus System are the Microfocus Models 800, 500C, 100C and 100. The Microfocus System is presently being manufactured via a joint venture in Canada and sold in Europe and the Far East. For the year ended September 30, 1996 the Company sold four (4) Microfocus Systems, with sales from inception of the Company to date totalling over 75 Microfocus Systems.

CLI is conducting preclinical evaluations on its BPH systems to obtain data for the filing of an IDE (Investigational Device Exemption) with the FDA to allow restricted sales of systems to hospitals in the USA. The Company is recently received the protocol from its principal investigator which will allow the Company to proceed with its FDA approval efforts. This procedure is required to place the BPH system in United States hospitals and gather clinical data for safety and efficacy demonstrations. Such demonstrations are necessary to obtain a PMA from the FDA for commercialization in the United States.

Patents and Proprietary Rights

The Company owns no patents. The Company has under license one U.S. patent on the Microfocus 1000, three U.S. patents on the technology underlying the Microfocus APA and one U.S. patent on the technology underlying the improved BPH

treatment system. The United States patents licensed to the Company claim methods and devices which the Company believes are critical to providing safe and efficacious treatment for cancer and BPH. One of the MIT patents as well as the BPH patent also have or will have patent protection in a number of foreign jurisdictions, including Canada and selected European nations.

The patents and the rights under which they are asserted are as follows:

1. DCT Technology. The Company received an exclusive license to the use of the DCT technology from Haim Bither Cancer Institute ("H.B.C.I."). The DCT technology allows the Company to air cool the area being treated with microwaves. The Company has no further obligations to maintain or preserve its rights to use this patent. The Patent expires on May 31, 1999.

2. APA Technology. On June 12, 1996, the Company entered into a Patent License Agreement with the Massachusetts Institute of Technology ("MIT"). The terms of the license agreement have since been modified. Pursuant to the license, the Company has the exclusive right to use the technology in breast, head and neck and deep seated thermotherapy of other organs. Assuming certain milestone criteria are met, the license will not expire until 10 years after the first annual sale or use of the licensed technology or June 1, 2008, unless further extended. The Company is obligated to pay a royalty to MIT based principally upon treatment revenue.

3. BPH Balloon Therapy. On August 23, 1996 the Company entered into a License Agreement with MMTC, Inc. ("MMTC"). Pursuant to the license, the Company has the exclusive worldwide license to use microwave balloon catheters. The license is perpetual unless certain events of default occur. The Company has paid and is obligated to pay royalties and licensing fees. Failure to comply with the payment obligations will allow MMTC to cancel the license.

There can be no assurance, however, that the patents being licensed will offer any degree of protection from competitors. There can be no assurance that any of the licensed patents or applications will not be challenged, invalidated or circumvented in the future. In addition, there can be no assurance that competitors, many of which have substantial resources and have made substantial investments in competing technologies, will not seek to apply for and obtain patents that will prevent, limit or interfere with the Company's ability to make, use or sell products utilizing the patented technologies in the United States or in international markets.

Other companies have developed or are in the process of developing medical methods and devices to treat BPH and cancer with microwave energy. Several companies have applied for, and in some cases received, patents related to such medical methods and devices. The Company has not received any notices of infringement from any other company.

The Company also relies on trade secrets and proprietary know-how, which it seeks to protect, in part, through proprietary information agreements with employees, consultants and other parties. The Company's proprietary information agreements with its employees and most of its consultants contain industry standard provisions requiring such individuals to assign to the Company, without additional consideration, any inventions conceived or reduced to practice while retained by the Company, subject to customary exceptions. The Company's officers and other key employees also agree not to compete with the Company for a period following termination. There can be no assurance that proprietary information or non-compete agreements with employees, consultants

and others will not be breached, that the Company would have adequate remedies for any breach, or that third parties will not nonetheless gain access to the Company's technology.

#### Third Party Reimbursement

The Company believes that third party reimbursement will be essential to commercial acceptance of the Microfocus 1000, the Microfocus APA and Microfocus System procedures, and that overall cost effectiveness and physician advocacy will be keys to obtaining such reimbursement. The Company believes that the procedure can be performed for substantially lower total cost than surgical treatments for BPH or cancer or continuous drug therapy. Consequently, the Company believes that third party payers seeking procedures that provide quality clinical outcomes at lower cost will help drive acceptance of the Company's products.

The Company's strategy for obtaining reimbursement in the United States is to obtain appropriate reimbursement codes and perform studies in conjunction with clinical studies to establish the efficacy and cost effectiveness of the its procedures as compared to surgical and drug treatments for BPH and cancer. The Company plans to use this information when approaching health care payers to obtain reimbursement authorizations. The Company also plans to work closely with the medical community to establish an attractive relative value and reimbursement level for the Microfocus procedure.

With the increasing use of managed care and capitation as a means to control health care costs in the United States, the Company believes that physicians may view the Company's products as a tool to efficaciously treat BPH and cancer patients at a lower total cost, thus providing them with a competitive advantage when negotiating managed care contracts. This is especially important in the United States, where a significant portion of the aging Medicare population is moving into a managed care system.

Following regulatory approval, physicians using the Company's Microfocus 1000 or, when completed, the Microfocus APA to treat cancer and the Microfocus System to treat BPH will submit insurance claims for reimbursement for the procedure to third party payers, such as Medicare carriers, Medicaid carriers, Health Maintenance Organizations ("HMOs") and private insurers. In the United States and in international markets, third party reimbursement is generally available for existing therapies used to treat cancer and BPH. The availability and level of reimbursement from such payors for the use of the Company's Microfocus 1000 and the Microfocus System will be a significant factor in the Company's ability to commercialize its cancer and BPH systems. The Company believes that new regulations regarding third party reimbursement for certain investigational devices in the United States will allow it to pursue early reimbursement from Medicare with individual clinical sites prior to receiving FDA approval. However, the Company believes that FDA approval will be necessary to obtain a national coverage determination from Medicare. The national coverage determination for third party reimbursement will depend on the determination of the United States Health Care Financing Administration ("HCFA"), which establishes national coverage policies for Medicare carriers, including the amount to be reimbursed, for coverage of claims submitted for reimbursement related to specific procedures. Private insurance companies and HMOs make their own determinations regarding coverage and reimbursement based upon "usual and customary" fees. Reimbursement experience with a particular third party payor does not reflect a formal reimbursement determination by the third party payor. There can be no assurance that the Company will receive favorable coding,

coverage and reimbursement determinations for its Microfocus System, Microfocus 1000, and when available, Microfocus APA from Medicare and other payers or that amounts reimbursed to physicians for performing its procedure will be sufficient to encourage physicians to use the Company's products.

Internationally, reimbursement approvals for the Microfocus procedure will be sought on an individual country basis. Some international countries currently have established reimbursement authorizations for transurethral microwave therapy. Clinical studies and physician advocacy will be used to support reimbursement requests in countries where there is currently no reimbursement for such procedures.

#### Manufacturing

The Microfocus 1000 and the Microfocus System were designed to be manufactured under FDA approved Good Manufacturing Procedures ("GMP"). Historically, the Company has manufactured and assembled the Microfocus 1000 in its Columbia, Maryland facility and its Microfocus System at the site of its joint venture in Canada. While the Microfocus System will continue to be manufactured at the current location in Canada, the Microfocus 1000 (and successor products) will be manufactured by third party contractors. The Company intends to manufacture the Microfocus APA in the same manner as the Microfocus 1000.

The Company's products are designed and manufactured with proprietary know how the Company has developed over its history. Proprietary know how is required to manufacture the subassemblies including, but not limited to, the solid-state microwave generators, cooling units, microwave applicators and control algorithms that run the systems. All third party contractors will be required to sign agreements to protect any disclosed proprietary know how.

#### Research and Development

The Company continues to refine and upgrade the components of its Microfocus 1000 and Microfocus System and to pursue the use of thermotherapy in the treatment of various diseases. The Company also has been successful in developing relationships with outside parties for research and development.

The APA technology recently licensed by the Company was originally developed for phased array radar applications. MIT and the Company have worked together over the past two years in the development of a comprehensive phased array thermotherapy system using prototypes of various array applicators developed for various tumor sites. Preclinical evaluations in test phantoms have demonstrated that one configuration of this system is suitable for the heating of tumors in breast tissue. Further developments will lead to other configurations most suitable for treatment of prostate, brain, liver, lung and other deep seated tumors.

The Company intends to initiate clinical evaluations of the APA technology in the United Kingdom at a cancer research center. The Company is presently negotiating a clinical study research agreement with the institution. Clinical trials in the United States will begin after the receipt of an IDE from the FDA.

The MMTc technology recently licensed by the Company is a bimodal treatment which the Company believes will yield a better and faster response rate while using lower and safer amounts of power. Based upon initial review of the technology, the Company believes the technology can easily be incorporated into the current Microfocus 800 system. Clinical trials are planned for early 1997.

In September 1996, the Company retained the engineering firm of Herbst LaZar Bell Inc. ("HLB") to assist in the adaptation of the APA technology into the Microfocus APA. Under the agreement with HLB, the APA technology will be used to develop a prototype Microfocus APA which will be utilized in treating breast cancer. The engineering will focus on integrating the Microfocus 1000 with the Microfocus APA and updating software. The Company will pay HLB 55% of its standard fee rate and the balance of any fees will be paid in shares of Common Stock at a value of \$1.25 per share.

## Competition

### Thermotherapy For Cancer

The Company believes that there are at least six other domestic firms, as well as a number of foreign firms, producing, or designing and intending to produce, thermotherapy systems to treat cancer. Of those firms, at least four have obtained PMA for their machines and several have obtained IDE for their machines. Some, and possibly all, of those firms have greater resources than those which the Company now has or may reasonably be expected to have in the near future. Other firms not presently in competition with the Company may decide to produce thermotherapy systems which compete with those of the Company. At least some of those firms may reasonably be expected to have resources greater than those of the Company. As acceptance of thermotherapy as a cancer treatment increases, the Company expects that the competition will also increase. There can be no assurance that the Company will be able to successfully meet such competition. In addition, the thermotherapy industry is one of rapid technological change. There can be no assurance that systems or technologies superior to that of the Company will not be produced.

The two major competitors of the Company for the Microfocus 1000 are BSD Medical Corporation in Salt Lake City, Utah ("BSD") and Labthermics Technology, Inc. in Champaign, Illinois ("Labthermics"), each of which manufactures thermotherapy machines competitive with the Company's Microfocus 1000. The major factors in competition for sales of thermotherapy equipment are product performance, product service and product cost. The product performance of the Company's Microfocus 1000 in PMA clinical trials has been superior to the performance of competing machines. The system manufactured by BSD uses microwave technology. Labthermics uses ultrasound technology to heat the cancer site. As previously mentioned, the Company received PMA approval of its Microfocus 1000 on November 17, 1989.

BSD received its FDA approval in 1983 and was allowed to begin marketing its system at that time. To date, BSD has sold approximately 200 thermotherapy systems worldwide. As of September 30, 1996 with the Company's limited marketing efforts, 35 of the Microfocus 1000 have been sold worldwide. Therefore, BSD has a much larger presence in the thermotherapy market than has the Company.

As thermotherapy manufacturers penetrate the market, there will be an increase in price competition. There are signs that price competition is actively taking place in the current market. The Company feels that its business strategy and low production costs for its Microfocus 1000 will enable it to be very price competitive.

Service in the thermotherapy business includes maintenance of the thermotherapy machines to minimize downtime as well as training for personnel who will utilize the machines to render treatment to patients. The Company has warranty and service policies which are competitive within the industry.

The Company's warranty for the Microfocus 1000 is for a period of 12 months and the Company offers a service policy following expiration of the warranty. These terms are substantially similar to the warranties and service policies offered by competitors. The Company provides three to four days of training for the personnel who will be operating each machine that the Company sells. The Company also provides training programs at its facility in Maryland for doctors who desire to receive training on the Company's Microfocus 1000. Both training courses are helpful in marketing the Company's Microfocus 1000, because users who become familiar with one machine have a reluctance to switch to another machine which would require additional training. For this reason, the Company will seek to increase the frequency of its training sessions given at its facility in Maryland. BSD provides a similar training course on a quarterly basis at its facility in Salt Lake City.

#### Thermotherapy For Prostatic Diseases

The thermotherapy industry is highly competitive. Along with technological developments affecting the equipment, increasing usage of thermotherapy for other medical purposes is also developing. The latest and potentially largest market is the use of thermotherapy for the treatment of prostatic diseases, namely the urethral obstruction caused by Benign Prostatic Hyperplasia (BPH). Due to the increased potential of this marketplace, there will be a greater number of domestic and international companies entering this field. The Company believes there are as many as 10 companies in the USA and as many as 15 companies worldwide which are planning or already active in this marketplace.

On May 7, 1996, the FDA for the first time approved a microwave based BPH treatment device manufactured by EDAP Technomed, Inc. ("Technomed"). This approval should enhance market acceptance of microwave BPH treatment systems both in the United States and abroad but gives Technomed a competitive advantage of being first to the market in the United States. Currently, the Company manufactures and sells its BPH treatment systems outside of the United States through its Canadian facility. The Company's BPH systems are not approved by the FDA for sale in the United States. However, the Company intends to apply for FDA approval in the near future.

With the increased number of companies in the BPH thermotherapy treatment market, many of those companies have greater resources than the companies already in the field of thermotherapy treatment for cancer. Large global companies such as Dornier, Olympus and EDAP Technomed International ("Technomed") will spend large amounts of resources to market and develop the BPH industry. In addition to the above companies, the following are companies offering BPH thermotherapy systems in the worldwide marketplace: BSD, Direx Medical, Technomatix (Primus), Lund Science, Quantum, GENEMED, Bruker, Urologix, and Meditherm. There are several other companies which have not yet brought their products to the international marketplace. Presently, Technomed is considered the market leader with its system called the Prostatron. The Prostatron unit is a high cost system which sells for approximately U.S. \$500,000. Other companies are marketing their systems in the range of US \$100,000 to \$300,000. The Company is manufacturing its line of Microfocus BPH Systems at its facility in Canada and is presently offering the systems in the range of U.S. \$50,000 to \$150,000. To date, it is believed there are over 600 installed BPH Systems worldwide of which Technomed and Direx have the largest share of approximately 30% combined. There are approximately 75 Microfocus BPH Systems installed worldwide.

## Government Regulation

United States Regulation. In the United States, the FDA regulates the sale and use of medical devices, which include the Company's thermotherapy systems for both cancer and BPH. A company introducing a medical device in the United States must go through a two step process. The company must first obtain an Investigational Device Exemption ("IDE") permit from the FDA. In IDE is granted upon the manufacturer adequately demonstrating the safety of the device for patient use. Receipt of the IDE allows the use of the device on patients for the purpose of obtaining efficacy confirmation. A PMA is granted upon compilation of sufficient clinical data to establish efficacy for the indicated use of the device. This process is not only time consuming but is also expensive. Obtaining PMA is a significant barrier to entry into the thermotherapy market. Firms which lack PMA face significant impediments to the successful marketing of their thermotherapy equipment, because under applicable regulations customers can obtain reimbursement from Medicare, Medicaid and health insurers only for treatment with products that have PMA.

CLI has an IDE and PMA for the Microfocus 1000. The Company does not have an IDE on the Microfocus System.

The Federal Communications Commission (the "FCC") regulates the frequencies of microwave and radio-frequency emissions from medical and other types of equipment to prevent interference with commercial and governmental communications networks. The frequency of 915 MHZ has been approved by the FCC for medical applications and machines utilizing that frequency do not require shielding to prevent interference with communications. The Microfocus 1000 and the Microfocus System utilize the 915 MHZ frequency.

In December 1984, the Health Care Financing Administration ("HCFA") approved reimbursement under Medicare and Medicaid for thermotherapy treatment when used in conjunction with radiation therapy for the treatment of surface and subsurface tumors. At this time, most of the large medical insurance carriers in the United States have approved reimbursement for such thermotherapy treatment under their health policies. Thermotherapy treatment administered using equipment which has received PMA is eligible for such reimbursement.

The Company and its facilities are subject to inspection by the FDA at any time to insure compliance with FDA regulations in the production and sale of medical products. Failure to comply or maintain compliance with those regulations could have a material adverse effect upon the Company's operations. The Company believes that it is substantially in compliance with FDA regulations governing the manufacturing and marketing of medical devices.

Foreign Regulation. Sales of medical devices outside of the United States are subject to United States export requirements and foreign regulatory requirements. Export sales of investigational devices that are subject to PMA requirements and have not received FDA marketing approval generally may be subject to FDA export permit requirements under the Federal Food, Drug and Cosmetic Act ("FDC Act") depending upon, among other things, the purpose of the export (investigational or commercial) and on whether the device has valid marketing authorization in a country listed in the FDA Export Reform and Enhancement Act of 1996. In order to obtain such a permit, when required, the Company must provide the FDA with documentation from the medical device regulatory authority of the country in which the purchaser is located, stating that the device has the approval of the country. In addition, the FDA must find that exportation of the device is not contrary to the public health and safety of the country in order for the Company to obtain the permit.

The Company currently sells products in selected countries in Asia and Europe. The registration requirements within these countries is the sole responsibility of the distributors in each of these countries. Legal restrictions on the sale of imported medical devices vary from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA approval, and the requirements may differ. The Company expects to receive approvals for marketing in a number of countries outside the United States prior to the time that it will be able to market its products in the United States. The timing for such approvals is not known.

#### Product Liability and Insurance

The business of the Company entails the risk of product liability claims. Although the Company has not experienced any product liability claims to date, any such claims could have an adverse impact on the Company. In the past and currently, the Company has not maintained product liability insurance. The Company is currently in the process of securing product liability insurance in the amount of \$5,000,000. The Company evaluates its insurance requirements on an ongoing basis. There can be no assurance that product liability claims will be covered by such insurance, will not exceed such insurance coverage limits or that such insurance will be available on commercially reasonable terms or at all.

#### Terminated Business Opportunities

Due to the slow development of the market for thermotherapy products, the Company sought to develop other business opportunities to provide a quicker and greater return to the Company's shareholders. With the recent acquisition of new technology, the Company believes that its best opportunity for long-term growth is to focus its activities on its core business--thermotherapy products. Accordingly, the Company has terminated, or is terminating, the joint ventures and/or business opportunities which do not focus on or enhance the core business. The following are assets and projects which have been terminated during 1996:

Aestar Fine Chemical Company. The Company has previously disclosed the investment in the Company by Mr. Gao Yu Wen of assets valued at approximately \$10,000,000 in exchange for 20,000,000 shares of Common Stock of the Company. As part of the investment of Mr. Gao in the Company, Mr. Gao transferred to the Company a 9.5% interest in the Aestar Fine Chemical Incorporation Limited Company ("Aestar"). Aestar is a corporation organized under the laws of the People's Republic of China. The Company originally looked to this interest in Aestar as a significant source of dividend income and as a vehicle to facilitate joint ventures for the manufacturing and sale of cosmetics in China.

On June 8, 1996, the parties entered into a Redemption Agreement by which the Company agreed to repurchase from Mr. Gao 16,000,000 shares of the Company's Common Stock in consideration for the Company's 9.5% interest in Aestar and to repurchase an additional 4,000,000 shares of Common Stock at a price of \$.55 per shares for a total of \$2.2 million. Under the terms of the Redemption Agreement, the entire 20,000,000 shares were retained by Mr. Gao to secure the payment of the \$2.2 million. On October 23, 1996, the Company and Mr. Gao, through his representatives, executed an Amendment by which Mr. Gao agreed (i) to immediately deliver to the Company the 16,000,000 shares of Common Stock; (ii) to give the Company an additional one month to purchase the remaining 4,000,000 shares; and (iii) to reduce the purchase price to \$2,160,000. Pursuant to the terms of the Amendment, on October 23, 1996, Mr. Gao's representatives delivered duly executed stock certificates and stock powers for the 16,000,000

shares of Common Stock which stock has been cancelled on the records of the Company. This represents a repurchase by the Company of nearly forty percent (40%) of its issued and outstanding stock.

Eastwell Management Services Limited. The Company entered into negotiations to acquire 100% of the outstanding stock of Asia-Pacific Communication Corporation Limited, formerly known as Novatel, Asia ("APC"), from Eastwell Management Services Limited ("Eastwell") in exchange for 24 million shares of the Company's Common Stock and warrants to acquire another five percent (5%) interest in the Company. The proposed terms of the agreement were set forth in an Acquisition Agreement, dated March, 1994 (the "Acquisition Agreement"). APC (which was formerly known as Novatel, Asia) is in the business of manufacturing telecommunications equipment and providing telecommunications services. The consummation of the agreement with Eastwell was contingent upon satisfaction of certain conditions precedent. Because those conditions were not satisfied, the Company elected not to proceed with the agreement with Eastwell. There is no written agreement terminating the contemplated transaction with Eastwell.

Rainbow Ball Development Limited. On October 11, 1993, the Company entered into an agreement with Mr. Carlton Poon ("Poon") whereby Poon agreed to provide approximately \$125,000 U.S. to fund a joint venture between the Company and Poon named Rainbow Ball Development Limited ("Rainbow Ball"). Rainbow Ball was formed to develop, manufacture and market certain medical imaging technology and a portable x-ray device. After Mr. Poon funded the \$125,000 the parties decided not to proceed with the joint venture. By means of a Termination Agreement, dated August 28, 1996, the parties terminated the joint venture. Under the terms of the Termination Agreement, the Company is to deliver to Mr. Poon 355,757 fully paid and non-assessable shares of Company Common Stock in full satisfaction of all obligations of the Company and Rainbow Ball to Mr. Poon.

Unisol. By Purchase Agreement, dated April 26, 1995, the Company entered into an agreement to purchase a 50% interest in the United Aerosol and Home Products Company, Ltd. ("Unisol"), located in Zhongshan, China, from Cosmos Peace Development Corporation, a Hong Kong corporation ("Cosmos"). The Company was introduced to Unisol through Mr. Gao as part of the joint ventures to be implemented in China. Unisol is a specialty chemical and fine chemical aerosol packaging and bottle/can filling business. The purchase price was to be 20% of the appraised value of Unisol equipment, payable in the Company's Common Stock based upon the value of the Common Stock at the close of business on April 26, 1996. The Unisol acquisition was executed as part of the Gao transaction. The intent of the Unisol acquisition was to manufacture and package personal care and cosmetic products. The agreement was verbally terminated on October 23, 1996, at the same time that the Company executed the Amendment by which the Company redeemed its stock from Mr. Gao. There is no written agreement terminating the relationship between the Company and Unisol.

Ardex Equipment, LLC. The Company invested \$450,000 (of which \$50,000 has been repaid to the Company) to acquire a 17.1111% interest in Ardex Equipment, LLC ("Ardex"). The Company originally contracted to acquire a controlling interest in Ardex. Ardex manufactures industrial plumbing equipment. With the redemption of the Common Stock from Mr. Gao, the Company is also terminating its relationship with Ardex. Under the terms of a Binding Letter of Intent, dated August 2, 1996, agreed to convert the Company's equity interest into a 5 year negotiable promissory note, to bear interest at the rate of eight percent (8%). The note is payable on an interest-only basis until the principal becomes due. Principal becomes due upon the first to happen of the following: (i) a public or private offering successfully completed by Ardex of \$1.5 million in the aggregate or more; (ii) ninety (90) days following a year end of Ardex in which

sales for the year have been \$3,000,000 or more; (iii) Ardex having a cash balance of \$800,000 or more from operations; or (iv) five years from the date of the promissory note.

#### Employees

As of September 30, 1996, the Company had seven (7) full-time employees, of whom three (3) are managerial, one (1) is engineering, one (1) administrative, one (1) is in production in the main office in Maryland and one (1) employee is in the Hong Kong office.

None of the Company's employees is represented by a collective bargaining organization. The Company considers its relations with its employees to be good.

#### ITEM 2. PROPERTIES

The Company's corporate headquarters consist of approximately 5,918 square feet of office, laboratory and production space at 10220-I Old Columbia Road, Columbia, Maryland 21046-1705. The Company leases the premises from an unaffiliated party on an oral month-to-month basis. Monthly rent is \$4,172.00.

The Company also leases office space consisting of approximately 500 square feet located at 11/F Flat B, Hanley House 68 Canton Road, T.S.T. Kowloon, Hong Kong. The property is leased on an oral month-to-month basis from an unaffiliated party at a monthly lease rate of \$1,200 (U.S.).

#### ITEM 3. LEGAL PROCEEDINGS

The Company presently is not a party to any litigation, and the Company is not aware of any threat of litigation.

In the normal course of business, the Company may be subject to warranty and product liability claims on its thermotherapy equipment. The Company does not have a product liability insurance policy in effect. The assertion of any product liability claim against the Company, therefore, may have an adverse affect on its financial condition. As of September 30, 1996, no liability claims against the Company have been asserted.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders during the calendar year ending 1996.

### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the NASD OTC Bulletin Board. The quotations set forth below reflect inter-dealer prices, do not include retail markups, markdowns or commissions, and may not necessarily represent actual transactions. There were approximately 2,600 holders of record of the Common Stock as of September 30, 1996. The Company has never paid cash dividends on its stock and does not expect to pay any cash dividends in the foreseeable future.

Period	Year ended September 30			
	1995		1996	
	High	Low	High	Low
1st Quarter (Oct. 1 to Dec. 31)	19/32	1/4	17/32	1/2
2nd Quarter (Jan. 1 to March 31)	35/64	1/4	5/8	25/64
3rd Quarter (April 1 to June 30)	1	5/8	1-1/16	17/64
4th Quarter (July 1 to Sept. 30)	1-23/32	31/32	1-9/32	21/32

#### ITEM 6. SELECTED FINANCIAL DATA

The following table summarizes certain financial data for the Company for the years ended September 30, 1996, 1995, 1994, 1993, and 1992 and is qualified in its entirety by, and should be read in conjunction with the Financial Statements, the related Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

	Fiscal Year Ended				
	September 30,				
	1992	1993	1994	1995	1996
	----	----	----	----	----
Statement of Operations Data:					
Revenues:					
Product Sales	\$2,012,544	\$1,811,774	\$1,025,651	\$157,618	\$74,006
Research and development contracts	18,750	40,377	60,742	0	0
Total revenues	2,031,114	\$1,852,151	\$1,086,393	\$157,618	\$74,006
Cost of product sales	733,111	694,150	494,946	67,350	64,406
Gross margin on product sales	1,298,003	1,158,001	591,447	90,268	9,600
Other costs and expenses:					
Research and development	152,898	186,916	202,569	18,546	94,012
Selling, general and administrative	574,005	739,595	704,295	1,369,845	1,338,370
Amortization of intangible assets	-	-	-	-	-
Total operating expenses	726,903	926,511	906,864	1,388,391	1,432,382
Profit (Loss) from operations	571,110	231,490	(315,417)	(1,298,123)	(1,422,782)
Other income (expense)	147,390	(7,244)	170,997	(8,389)	(425,183)(1)
Interest income (expense)	(210,870)	(236,847)	(184,700)	(90,808)	(85,506)
Extraordinary Item - Gain or forgiveness of debt	-	-	591,728	-	-
Net income (loss)	507,620	(12,601)	390,880	(1,397,317)	(1,933,471)
Net loss per share(1)	0.034	(\$ .001)	\$ .023	(\$ .060)	(\$ .049)
Weighted average shares outstanding(1)	15,081,378	15,608,490	16,712,978	23,466,070	39,499,650

	At September 30,				
	1992	1993	1994	1995	1996
	----	----	----	----	----
Balance Sheet Data:					
Working Capital	(2,795,328)	(2,434,832)	(748,193)	(1,101,136)	(646,754)
Total Assets	1,111,676	998,403	955,456	9,710,742	9,321,600(2)
Long-term debt, less current maturities	-	-	26,000	2,000	1,213,000
Redeemable Convertible Preferred Stock	-	-	-	-	-
Accumulated deficit	(9,214,607)	(9,271,725)	(8,880,845)	(10,278,162)	(12,211,633)
Total stockholders' equity (deficit)	(2,716,230)	(2,346,021)	(666,542)	8,128,768	6,755,874(2)

(1) Includes \$17,009 gain on disposition of investment in Ardex Equipment, L.L.C.

(2) On October 23, 1996, the Company, based on the provisions of an agreement reached on June 6, 1996, as amended, redeemed 16,000,000 shares of its Common Stock. The redemption provided for the Company to return its investment in Aestar Fine Chemical Company (valued at \$8,000,000 on the Company's September 30, 1996 balance sheet) and to relinquish its rights to the funds held under an investment contract (\$40,000 at September 30, 1996) in order to affect the transaction. This transaction has a significant impact on the financial position, current ratios and stockholder's equity of the Company. If the foregoing transaction had occurred on or before September 30, 1996, total assets would have been reduced by \$8,040,000 and stockholder's equity would have been reduced by \$8,040,000, resulting in a negative stockholder's equity of (\$1,284,126).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Statements regarding the Company's expectations as to demand for its products and certain other information presented in this Form 10-K constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Although the Company believes that its expectations are based on reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results will not differ materially from its expectations. Factors which could cause actual results to differ from expectations include, but are not limited to the following:

1. Decreasing Sales, Increasing Losses and Undercapitalization. The Company's product sales have been substantially decreasing over the past three years. There is no assurance sales will increase with the application of new technologies being developed by the Company. The Company has had increasing losses for the last three years which have resulted in an accumulated deficit of \$12,211,633 for the period ending September 30, 1996. Losses will continue until current and future sales increase substantially. The Company lacks adequate capital to finance its research and development and marketing. Lack of adequate capital and governmental regulatory approvals will effect future sales. Furthermore, hyperthermia has not been widely accepted by the medical community as an effective cancer treatment.
2. Limited Products. The Company currently has a limited number of products. Failure to develop new products utilizing current products and newly acquired technology will effect the profitability of the Company.
3. Lack of a Current Marketing Plan. The Company does not have an active current marketing plan. It is developing a plan to share revenue from treatment which is dependant on market acceptance and adequate capitalization.

General

Since inception, the Company has incurred substantial operating losses, principally from expenses associated with the Company's research and development programs, the clinical trials conducted in connection with the Company's thermotherapy systems and the preparation of the related IDE and PMA application for submission to the FDA. The Company has experienced significant operating losses and as of September 30, 1996 had an accumulated deficit of \$12,211,633. The Company expects such operating losses to continue and possibly increase in the near term and for the foreseeable future as it continues its product development efforts, expands its marketing and sales activities and scales up its manufacturing operations. The Company's ability to achieve profitability is dependent upon its ability to successfully obtain governmental approvals, manufacture, market and sell its new technology and integrate such technology

into its thermotherapy systems. The Company has not been able to successfully market its current thermotherapy system. There can be no assurance that the Company will be able to successfully commercialize its newly acquired technology and apply it to its current thermotherapy systems or that profitability will ever be achieved. The operating results of the Company have fluctuated significantly in the past on an annual and a quarterly basis. The Company expects that its operating results will fluctuate significantly from quarter to quarter in the future and will depend on a number of factors, many of which are outside the Company's control.

The major obstacles facing the Company over the last several years have been inadequate funding, a negative net worth, and the slow development of the thermotherapy market as a sizeable market due to technical shortcomings of the thermotherapy equipment available commercially. To overcome these problems, during the past two years the Company embarked upon a diversification program whereby the Company sought a strategic partner that could provide both capital and new opportunities for the Company. The result of this effort was the agreement with Mr. Gao Yu Wen which infused capital and gave the Company the opportunity to develop through a strategic alliance was to be a cosmetic and fine chemical business for the sale of these products in China. As set forth above in "Terminated Business Opportunities," the relationship with Mr. Gao has been terminated and the Company has redeemed 16 million of the 20 million shares purchased by Mr. Gao.

The Company has refocused the Company's efforts on the enhancement of current products through the development of new technology and sale of the thermotherapy products as the Company's core business. The Company is currently focused on the enhancement of its thermotherapy equipment and obtaining governmental approvals. Towards this end the Company has licensed the APA technology and the MMTC technology.

The Company anticipates that its results of operations will be affected for the foreseeable future by a number of factors, including its ability to develop the new technology to enhance its current systems, regulatory matters, health care cost reimbursements, clinical studies and market acceptance.

#### Results of Operations

Comparison of Fiscal Year Ended September 30, 1996 to Fiscal Year Ended September 30, 1995

Product sales decreased to \$74,006 in fiscal 1996 from \$157,618 in fiscal 1995. The decrease was due, primarily, to decreased emphasis on sales of Microfocus products as the Company sought other business opportunities. 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 decreased to \$64,406 in fiscal 1996 from \$67,350 in fiscal 1995 due to decreased sales volume. The Company expects gross margins to increase in the future due to improved overhead absorption and manufacturing efficiencies.

Research and development expense increased to \$94,012 in fiscal 1996 from \$18,546 in fiscal 1995 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 decreased in amount to \$1,338,370 in fiscal 1996 from \$1,369,845 in fiscal 1995. 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 decreased to \$85,506 in fiscal 1996 from \$90,805 in fiscal 1995.

Comparison of Fiscal Year Ended September 30, 1995 to Fiscal Year Ended September 30, 1994

Product sales decreased to \$157,618 in fiscal 1995 from \$1,086,393 in fiscal 1994. The decrease was due, primarily, to continued slowing sales in the thermotherapy market.

Cost of product sales decreased to \$67,350 in fiscal 1995 from \$494,946 in fiscal 1994 due to decreased sales volume.

Research and development expense decreased to \$18,546 in fiscal 1995 from \$202,569 in fiscal 1994. Most of the decrease was due a softening of the marketplace for thermotherapy products and a shift in focus from development efforts relating to the Company's core technologies to seeking new business opportunities and partners.

Selling, general and administrative expenses increased to \$1,369,845 in fiscal 1995 from \$704,295 in fiscal 1994.

Interest expense decreased to \$90,808 in fiscal 1995 from \$184,700 in fiscal 1994 due to conversion of debt to equity.

#### Liquidity and Capital Resources

Since inception, the Company's expenses have significantly exceeded its revenues, resulting in an accumulated deficit of \$12,211,633 at September 30, 1996. The Company has funded its operations primarily through the sale of equity securities. At September 30, 1996, the Company had cash, cash equivalents and short-term investments aggregating approximately \$246,931. Net cash used in the Company's operating activities was \$1,462,588 for the fiscal year ended September 30, 1996.

The Company does not have any bank financing arrangements. The Company's indebtedness consists of two notes payable to Dr. Augustine Cheung with a total face amount of \$121,419; a note payable to Yu Shai Lai in the amount of \$36,041; a note payable to Ada Lam in the amount of \$28,502; a note payable to Ruth Kurz in the amount of \$93,750; a note payable to Lake Shu Loon in the amount of \$10,000; an oral agreement to pay Charles Shelton an amount currently estimated between \$35,000 and \$50,000; and trade debt totaling \$197,190. In addition, commencing on July 10, 1996, the Company sold \$1,205,000 in senior secured convertible notes accruing interest at 8 percent per annum (the "Senior Notes"). The Senior Notes have priority over payment of any other indebtedness of the Company. The holders of the Senior Notes can elect to either convert the notes into Common Stock at an option price of \$0.41 per share or be paid principal and interest upon the earlier to occur of (i) the next private offering; or (ii) December 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 and scale up its manufacturing. 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 a marketing 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.

The Company has agreed to pay Gao Yu Wen \$2,160,000 on or before March 31, 1997 to redeem 4,000,000 shares of the Company's Common Stock. The Company has agreed to pay MIT \$10,000 in 1997 and also must develop time table which requires the expenditure of research and development funds. The Company has also entered into a Settlement Agreement, dated October 28, 1996, whereby the Company undertook to use its best efforts to pay to William O. Cave, a former director, the sum of \$194,825 on or before February 28, 1997. The Company has a contingent liability to MMTC in the amount of \$50,000 in 1997 if the Company fails to meet the milestones identified under "Patents and Proprietary Rights," above; and must develop criteria which require the expenditure of research and development funds. The Company is also required to pay HLB certain engineering fees, the amount of which are presently unknown. The Company is also required to do clinical trials to prepare for submission of products to the FDA. The amount required to perform such trials and to prosecute the applications is not currently known. The Company does not currently have funds available to do such trials and clinical work. The Company has committed to pay advisors and officers pursuant to contractual arrangements set forth in "Directors and Executive Officers of the Registrant" and "Certain Relationships and Related Transactions." The Company will be dependent on additional capital to be raised to fulfill all of the above agreements and obligations.

During fiscal year 1996, the Company issued a large number of options and warrants in connection with its funding activities. Options or warrants to officers, directors, related parties and five percent (5%) shareholders are addressed in Part III of this Form 10-K. In addition to those options and warrants, the Company has issued options and warrants in connection with funding activities to purchase a total of 4,670,715 shares of Common Stock, with

exercise prices ranging from \$.25 per share to \$.41 per share. Some of the warrants issued have anti-dilution provisions which may affect the total number of shares available for purchase under the warrants.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements, supplementary data and report of independent public accountants are filed as part of this report on pages F-1 through F-15.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No change of accountants and/or disagreements on any matter of accounting principles or financial statement disclosures have occurred within the last two years.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The directors and executive officers of the Company are as follows:

Name	Age	Positions with the Company
Augustine Y. Cheung	49	Chairman of the Board
Verle D. Blaha	66	Chief Executive Officer, President and Director
Charles C. Shelton	51	Executive Vice President and Director
Robert F. Schiffmann	61	Director
Joseph M. Colino	57	Director
John Mon	44	Treasurer/General Manager

Dr. Cheung was the founder of the Company, was President from 1982 to 1986, was Chief Executive Officer from 1982 to 1996 and has been Chairman since 1982. From 1982 to 1985, Dr. Cheung was a Research Associate Professor of the Department of Electrical Engineering and Computer Science at George Washington University and from 1975 to 1981 was a Research Associate Professor and Assistant Professor at the Institute for Physical Science and Technology and the Department of Radiation Therapy at the University of Maryland. Dr. Cheung holds a Ph.D. and Masters degree from University of Maryland.

Mr. Blaha has been a director, President and Chief Executive Officer of the Company since September 6, 1996. Prior to joining the Company, Mr. Blaha provided consulting services to the microwave industry. From 1986 to 1991, Mr. Blaha was a director, and the President and Chief Operations Officer for the Company. From 1982 to 1986, Mr. Blaha was Vice President and General Manager of Holaday Industries, Inc. From 1957 to 1982, Mr. Blaha held a succession of senior management positions at Litton Industries, Inc. Mr. Blaha was Senior Vice President of Technology and Development of Litton's Microwave Cooking Products Division. Mr. Blaha holds a B.S.B and an MBA degree from University of Minnesota.

Mr. Shelton has served as the Company's in-house counsel from 1993 to 1996, and as Executive Vice President and a director from 1993. Mr. Shelton has practiced in the areas of corporate and tax law with Charles C. Shelton, PA, from 1993 to the present. From 1973 to 1993, he practiced law with Semmes, Bowen & Semmes. Mr. Shelton is a Vice President and director with HRP Technologies, Inc. (previously known as Ardex Equipment, LLC), a public company traded on the Bulletin Board.

Mr. Colino has been a director since 1995. From 1991 to the present, Mr. Colino has served as the President of HRP Technologies, Inc. (previously known as Ardex Equipment, LLC) and Parec Enterprises, Inc..

Mr. Schiffmann has served as a director of the Company since September 1986. Since 1991, Mr. Schiffmann has served as President of R. F. Schiffmann Associates, Inc., a microwave consulting laboratory. He is also Chairman of Quicklave L.L.C., and Microwave Concepts, Inc., which are independent research companies specializing in microwave technology. Mr. Schiffmann holds a Bachelor of Science Degree in Pharmaceutical Science from Columbia University and a Master of Science degree from Purdue University.

Mr. Mon has served as Treasurer/General Manager of the Company since 1989. From 1984 to 1988, Mr. Mon was an economist with the U.S. Department of Commerce in charge of forecasting business sales, inventory and prices for all business sectors in the estimation of Gross National Product. Mr. Mon holds a B.S. degree from the University of Maryland.

Mr. Shelton and Mr. Colino have notified the Company that they will not serve on the Board of Directors after the expiration of their current terms and, accordingly, they are not seeking re-election to the Board of Directors.

Nominee to the Board of Directors

The following individual has been nominated to serve on the Board of Directors:

Warren C. Stearns. Mr. Stearns was nominated to serve to on the Board of Directors on August 14, 1996. Mr. Stearns has been and currently is President of Stearns Management Company, a capital advisory firm, since 1989. Prior to 1989, Mr. Stearns acted as vice president of Stearns Management Company. Mr. Stearns holds an M.B.A. degree from Harvard University and a B.A. degree from Amherst College.

Advisory Board

The Company is presently organizing an Advisory Board to be comprised of business and industry professionals and experts. The Company presently anticipates have as many as six members on the Advisory Board. The purpose of the Advisory Board will be to assist the management of the Company in identifying technology trends and new business opportunities within the industry. The Advisory Board will operate in a consulting fashion and will not act as managers or directors of the Company. The following persons have been nominated to serve on the Company's Advisory Board:

Stuart Fuchs. Mr. Fuchs has been nominated to serve as Chairman of the Advisory Board. He is President of Nace Resources, Inc., a firm providing consulting and marketing services to companies in the biotechnology and medical device fields.

Prior to founding Nace in 1995, Mr. Fuchs was an investment banker in the Fixed Income Division of Goldman Sachs & Co. in New York and Chicago. Until joining Goldman Sachs in 1976, he was an attorney practicing securities and tax law with Barrett Smith Shapiro & Simon in New York, New York. Mr. Fuchs is a graduate of Harvard College and Harvard Law School.

Michael Davidson, M.D. Dr. Davidson has been nominated to serve as a member of the Advisory Board. Dr. Davidson is a physician specializing in design of clinical trials. Dr. Davidson currently practices and is President of the Chicago Center for Clinical Research. Dr. Davidson holds a B.A., M.S. from Northwestern University and a M.D. from Ohio State University.

The Company may designate additional individuals to serve on the Advisory Board as the Company identifies individuals with appropriate qualifications.

#### Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the National Association of Securities Dealers. Officers, directors and greater than ten-percent shareholders are required by Securities and Exchange Commission regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to the Company between October 1, 1995 and September 30, 1996, on year-end reports furnished to the Company after September 30, 1996 and on representations that no other reports were required, the Company has determined that during the last fiscal year all applicable 16(a) filing requirements were met except as follows:

Dr. Augustine Y. Cheung, Chairman of the Board of Directors, acquired 2,000 shares of Common Stock on January 17, 1994; acquired 1,2000,000 shares of Common Stock on June 30, 1994; acquired 2000 shares of Common Stock on December 31, 1994; acquired 249,058 shares of Common Stock on June 30, 1995; acquired 52,000 shares of Common Stock on September 30, 1996; and disposed of 195,000 shares of Common Stock on March 7, 1995. Dr. Cheung also received an option to acquire 50,000 shares of Common Stock on December 31, 1996 and an option to acquire 400,000 shares of Common Stock on May 16, 1996. Each of these transactions should have been reported on Form 3 and Forms 4. The transactions were instead disclosed on a Form 5 filed on or about November 10, 1996.

John Mon, Treasurer/General Manager, and a former director of the Company, acquired 2,000 shares of Common Stock on January 17, 1994; acquired 49,800 shares of Common Stock on January 17, 1994; acquired 2,000 shares of Common Stock on December 31, 1994; and acquired 58,505 shares of Common Stock on June 30, 1995. Mr. Mon also received an option to acquire 400,000 shares of Common Stock on May 16, 1996. These transactions should have been reported on Form 3 and Form 4. The transactions were instead disclosed on a Form 5 filed on or about November 10, 1996.

Robert F. Schiffman, a director, acquired 62,000 shares of Common Stock on September 30, 1996 and received an option to purchase 100,000 shares of Common Stock on May 16, 1996. These transactions should have been disclosed on Forms 4. The transactions were instead disclosed on a Form 5 filed on or about November 13, 1996.

Charles C. Shelton, a director and Executive Vice President, acquired 103,000 shares of Common Stock on December 20, 1993; acquired 2,000 shares of Common Stock on January 17, 1994; acquired 150,000 shares of Common Stock on September 9, 1994; acquired 2,000 shares of Common Stock on January 17, 1996; and received an option to acquire 400,000 shares of Common Stock on May 16, 1996. These transactions should have been reported on Form 3 and Form 4. The transactions were instead disclosed on a Form 5 filed on or about November 16, 1996.

Joseph M. Colino, a director, acquired 2800 shares of Common Stock on June 30, 1995. This transaction should have been reported on Form 3. The transaction was instead disclosed on a Form 5 filed on or about November 15, 1996.

ITEM 11. Executive Compensation

The following table sets forth the aggregate cash compensation paid for services rendered to the Company in all capacities during the last three fiscal years to the Company's Chief Executive Officer and to each of the Company's other executive officers where annual salary and bonus for the most recent fiscal year exceeded \$100,000.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards		All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)	Stock Options (#)	
Augustine Y. Cheung, Chairman of the Board of Directors	1996	\$125,000			2,000(1)	400,000(2)	
	1995	\$125,000			2,000	-	
	1994	\$114,480			2,000	50,000(3)	

- (1) In each of 1994, 1995 and 1996, Dr. Cheung received 2,000 shares of Common Stock for his services as a director.
- (2) In 1996, Dr. Cheung received an option to purchase 400,000 shares at \$0.35 per share, exercisable on or before May 16, 2001
- (3) In 1994, Dr. Cheung received an option to purchase 50,000 shares at \$0.125 per share, which he exercised on September 30, 1996.

There are no option, retirement, pension, or profit sharing plans for the benefit of the Company's officers, directors and employees. The Company does provide health insurance coverage for its employees. The Board of Directors may recommend and adopt additional programs in the future for the benefit of officers, directors and employees.

Option Grants in 1996

Information concerning 1996 grants to named executive officers is reflected in the table below. The amounts shown for each of the named executive officers as potential realizable values are based on arbitrarily assumed annualized rates of stock price appreciation of five percent and ten percent over the full five (and in one case eight) year term of the options. These potential realizable values are based solely on arbitrarily assumed rates of price appreciation required by applicable SEC regulations. Actual gains, if any, on option exercises and Common Stockholdings are dependent on the future performance of

the Company and overall stock market conditions. There can be no assurance that the potential realizable values shown in this table will be achieved.

Option Grants in 1996

Name	Options Granted (#)	Individual Grants % of Total Options Granted to Employees in 1996	Exercise Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					(5%)	(10%)
Augustine Y. Cheung	400,000	16.53%	\$0.35	5/16/2001	\$38,679	\$ 85,471
Verle D. Blaha	400,000	16.53%	\$0.41	8/13/2004	\$78,302	\$187,548
John Mon	400,000	16.53%	\$0.35	5/16/2001	\$38,679	\$ 85,471
Charles C. Shelton	400,000	16.53%	\$0.35	5/16/2001	\$38,679	\$ 85,471

Aggregated Option Exercises and Year-End Option Values in 1996

The following table summarizes for each of the named executive officers of the Company the number of stock options, if any, exercised during 1996, the aggregate dollar value realized upon exercise, the total number of unexercised options held at September 30, 1996 and the aggregate dollar value of the in-the-money unexercised options, if any, held at September 30, 1996. Value realized upon exercise is the difference between the fair market value of the underlying stock on the exercise date and the exercise price of the option. The value of unexercised, in-the-money options at September 30, 1996 is the difference between its exercise price and the fair market value of the underlying stock on September 30, 1996, which was \$1.03 per share based on the closing bid price of the Common Stock on September 30, 1996. The underlying options have not been and may never be exercised; and actual gains, if any, on exercise will depend on the value of the Common Stock on the actual date of exercise. There can be no assurance that these values will be realized.

Aggregated Option Exercises in 1996 and Year-End Option Values

Name	Number of Unexercised Options at 9/30/96			Value of Unexercised In-the-Money Options at 9/30/96		
	Shares Acquired on Exercise	Value Realized (\$)	Exercisable	Unexercisable	Exercisable	Unexercisable
Augustine Y. Cheung	50,000	\$45,310	400,000	0	\$272,480	0
Verle D. Blaha	50,000	\$45,310	400,000	0	\$272,480	0
John Mon	0	0	400,000	0	\$272,480	0
Charles C. Shelton	0	0	400,000	0	\$272,480	0
Robert F. Schiffman	0	0	100,000	0	\$ 68,120	0

Long-Term Incentive Plan Awards in 1996

The registrant has no "long-term incentive plan".

Future Benefits or Pension Plan Disclosure in 1996

The Company has no such benefit plans.

Director Compensation

During 1996, the Company paid to each outside board member \$500 per year. Each director receives an automatic grant of 2,000 shares of Common Stock for each year served.

Employment Contracts and Termination of Employment and Change-In-Control Arrangements

Verle D. Blaha. On August 15, 1996, the Company entered into a letter agreement with New Opportunities, Ltd. ("NOL") a company controlled by Mr. Blaha. Pursuant to the Agreement, Mr. Blaha agreed to become a director, President and Chief Executive Officer of the Company in exchange for the Company paying NOL the following:

1. Payment of \$25,000.
2. Payment of \$175.00 per hour, to a maximum of 8 hours per day, 40 hours per week regardless of actual time spent.
3. Reimbursement of business expenses and providing residential accommodations in Maryland and all utilities.
4. Options to acquire 400,000 shares of the Company's Common Stock for a term ending August 13, 2004 at a price of \$.41.
5. Full indemnity by the Company.
6. The Agreement terminates January 27, 1997, but the Company and Mr. Blaha anticipate that the employment relationship will continue on similar terms.

Other

### Stock Option Plans

The Company does not currently have any Stock Option Plans. The Company anticipates adopting such a plan during fiscal year 1997.

### Report of the Compensation Committee on Executive Compensation

The Company does not presently have a Compensation Committee, but the Company contemplates formation of a Compensation Committee during the fiscal year 1997.

The Compensation Committee of the Board of Directors will be composed of two non-employee directors. The Committee will be responsible for establishing and administering the compensation policies applicable to the Company's officers and key personnel.

### Stockholder Return Performance Graph

Federal regulation requires that inclusion of a line graph comparing cumulative total shareholder return on Common Stock with the cumulative total return of (1) NASDAQ Combined Index and (2) a published industry or line-of-business index. The performance comparison appears below. The Board of Directors and its Compensation Committee recognize that the market price of stock is influenced by many factors, only one of which is Company performance. The stock price performance shown on the graph is not necessarily indicative of future price performance.

[GRAPHIC OMITTED]

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding shares of voting securities of the Company beneficially owned as of September 30, 1996 by: (i) each person known by the Company to beneficially own 5% or more of the outstanding voting securities, (ii) by each director or nominee for director, (iii) by each person named in the summary compensation table and (iv) by all officers and directors as a group.

Name and Addresses of Officers, Directors and Principal Shareholders	Amount of Common Stock*	Percentage of Voting Securities*(1)
Augustine Y. Cheung(2)(3) 10220-I Old Columbia Road Columbia, MD 21046-1705	6,669,408	26.46
Verle D. Blaha(2)(5)(6) 14 Sunset Lane North Oaks, MN 55127	1,053,186	4.18
John Mon(2)(7) 10220-I Old Columbia Road Columbia, MD 21046-1705	566,418	2.25
Robert F. Schiffmann(2)(8) 149 West 88th Street New York, NY 10024	310,684	1.23
Joseph M. Colino(2) 1952 Cardinal Lake Drive Cherry Hill, NJ 08003	5,500	**
Charles C. Shelton(2)(3) 9160 Rumsey Road, Suite B-1 Columbia, Maryland 21045-1928	665,250	2.64
Revlon Group, Incorporated and its wholly-owned subsidiary PPI Four Corp. 767 Fifth Avenue New York, New York 10153	1,500,000	5.95
Yue Soon Limited 287-291 Des Vouex Rd. Central, 21st Floor Hong Kong	1,600,000	6.34
Gao Yu Wen Zhongshan Economic Committee Sun Wen Road E. Shigizhongshan Guangdong, China	4,030,000(3)	15.99
Executive Officers and Directors as a group (6 individuals)	9,270,446	36.78

\* Assumes exercise of all exercisable options held by listed security holders which can be exercised within 60 days from September 30, 1996.

\*\* Less than 1%.

(1) Except as noted, the above table does not give effect to an aggregate of approximately 4,670,715 shares of Common Stock underlying outstanding stock options and warrants held by persons not reflected in this table. Outstanding options and warrants entitle the holders thereof to no voting rights.

(2) Director or Executive Officer.

(3) Includes 400,000 shares underlying an option exercisable commencing May 16, 1995 through May 16, 2001 at \$.35 per share.

(4) Since the end of the Fiscal Year, the Company has repurchased from Mr. Gao 16,000,000 shares in exchange for the Company's 9.5% interest in Aestar. Accordingly, Mr. Gao presently owns only 4,030,000 shares.

(5) Does not include 42,000 Common Shares owned by Lustral Blaha, Mr. Blaha's wife. Mr. Blaha disclaims any beneficial ownership with respect to said Common Shares. The Company believes Lustral Blaha owns 42,000 Common Shares.

(6) Includes 400,000 shares underlying an option to New Opportunities, Ltd, an affiliate of Mr. Blaha's. The option exercisable commencing August 15, 1996 through August 14, 2004 at \$.41 per share.

(7) Includes 400,000 shares underlying an option to Mr. Mon exercisable commencing May 16, 1996 through May 16, 2001 at \$.35 per share.

(8) Includes 100,000 shares underlying an option to Mr. Schiffmann exercisable commencing May 16, 1996 through May 16, 2001 at \$.35 per share. Also includes 1,500 shares held by Marilyn T. Schiffmann, his wife; 725 shares held as custodian for Erica M. Payne, UGMA NY; and 725 shares held as custodian for Robert F. Schiffmann Jr. UGMA NY.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

SMC Contract. On May 28, 1996, the Company entered into a consulting agreement with Stearns Management Company ("SMC"). Warren C. Stearns, a nominee to the Board of Directors, is President of SMC. Pursuant to the Agreement, SMC has an exclusive arrangement to render services involving solicitation of outside capital, restructuring the Company, business plans, marketing, election of advisory personnel, adding additional directors and sale of stock by insiders. The agreement is terminable upon 10 days written notice or otherwise stays in effect for one year or until a registration statement covering a public offering of the Company's securities is declared effective by the SEC.

In exchange for such services, SMC was paid \$57,000 and the Company (i) granted to SMC a transferable warrant to purchase 168,292 shares of Common Stock (which have been assigned to Amalgam and (ii) agreed to grant to assignees of SMC a warrant to purchase, in the aggregate, a five percent (5%) interest in the equity of the Company as of the next registered public offering of Common Stock of the Company. The warrants, all of which are exercisable at \$0.41 per share, contain anti-dilution provisions and are exercisable for five years and renewable for an additional five years. Mr. Stearns is paid a per diem expense of \$1,500 per day or \$190 per hour and reimbursement for expenses at cost plus 20%.

Nace Resources Contract. On August 1, 1996, the Company entered into a Consulting Agreement with Nace Resources, Inc. ("NRI"), an affiliate of Mr. Fuchs, chairman of the Advisory Board. The agreement requires Mr. Fuchs, as designated consultant, to consult and advise the Company with respect to the development and application of the Company's products and proprietary

technology. The term of the agreement is for a one year period with an additional renewal period. The Company paid \$75,000 to NRI and commencing August 1, 1996, shall pay \$20,000 per month. NRI has agreed to defer \$5,000 per month until the Company receives \$5,000,000 of gross proceeds from an offering of the Company's stock. In addition, the Company will reimburse NRI for expenses.

In addition to the compensation due under the terms of the consulting agreement, the Company has agreed to grant to NRI warrants to purchase 397,619 shares of Common Stock, subject to adjustment, at an exercise price of \$0.41 per share for consulting services. In addition, the Company has granted to NRI warrants to purchase approximately 195,122 shares of Common Stock at an exercise price of \$0.41 per share in exchange for providing certain financial advisory services to the Company in 1996. Finally, Mr. Fuchs will be entitled to additional warrants to purchase shares of Common Stock after completion of the next offering. The number of shares granted will depend on the offering price of the Common Stock.

**Promissory Notes.** From 1987 through 1995, the Company borrowed money from related parties. In 1996, the Company formalized such borrowings by executing promissory notes to the following related parties:

An unsecured term note, dated June 30, 1994, payable to Dr. Augustine Cheung, accruing interest at the rate of ten percent (10%) per annum, in the amount of \$42,669. The principal and accrued interest shall be due and payable on its maturity date on June 30, 1998.

An unsecured term note, dated January 26, 1987, payable to Dr. Augustine Cheung, accruing interest at the rate of twelve percent (12%) per annum, in the amount of \$78,750. The principal and accrued interest shall be due and payable on its maturity date on January 26, 1998.

A demand note, dated May 16, 1988, payable to Yu Shai Lai, a relative of Dr. Cheung, accruing interest at the rate of twelve percent (12%) per annum, in the amount of \$36,041.

A demand note, dated October 2, 1990, payable to Ada Lam, a former employee, accruing interest at the rate of twelve percent (12%) per annum, in the amount of \$28,502.

The Company also may have the obligation to execute a promissory note payable to Charles C. Shelton in the face amount of \$50,000. The Company has certain offsets available against Mr. Shelton so the final amount to be due under this promissory note is still under negotiation.

**Settlement Agreement.** On October 28, 1996, the Company entered into a Settlement Agreement with William O. Cave, a former director of the Company. Under the terms of the Settlement Agreement, the Company paid \$30,000 to Mr. Cave and agrees to pay an additional \$194,825. The Company is to use its best efforts to pay this sum on or before February 28, 1997. If the balance owing is not paid on or before February 28, 1997, then the outstanding balance shall accrue interest at the rate of 15% per annum. In addition, the Company agreed to grant to Mr. Cave warrants to purchase 56,340 shares of Common Stock at an exercise price of \$.50 per share.

**Rescission Agreement.** On February 16, 1995, Gao Yu Wen executed a subscription agreement with the Company to purchase 20,000,000 shares of Common Stock at \$.50 per share or \$10,000,000. The price was paid by paying \$2,000,000 cash and property transferring to the Company 9.5% of the outstanding equity of Aestar Fine Chemical Company ("Aestar"). On June 6, 1996 the Company and Gao entered a Redemption Agreement wherein the Company renounced any interest in Aestar and Gao agreed that upon the Company delivery \$2,200,000 to Gao he would return

return the 20,000,000 shares of the Company. The promise to pay \$2,200,000 by November 30, 1996 was secured by all 20,000,000 shares. On October 23, 1996, the Company and Mr. Gao executed a Amendment by which the terms of the Redemption Agreement were modified. Under the terms of the First Amendment, Mr. Gao agreed to immediately convey to the Company certificates representing 16 million shares of Common Stock. The \$2,200,000 payment was reduced to \$2,160,000 and the timing was extended until December 31, 1996, with an additional three months period at a penalty of 3/4% per month. On October 23, 1996, Mr. Gao conveyed the 16 million shares to the Company.

On April 26, 1995, the Company entered into an Investment Agreement with Gao whereby the Company transferred \$700,000 to Gao to invest as agent of the Company at the rate of no less than 17% per annum. Gao repaid \$190,000 by September 30, 1996. The remaining amount has been forgiven as part of the Redemption Agreement.

Rescission of Ardex Acquisition. On or about March 31, 1995, the Company invested \$400,000 in Ardex Equipment, LLC ("Ardex") and paid \$50,000 to Charles C. Shelton and Joseph Colino, who were then directors of the Company, in exchange for a 17.1111% interest in Ardex. In 1996, the Company received \$50,000 distribution from Ardex. On August 2, 1996, the Company and Ardex entered into a binding Letter of Intent rescinding the Company's investment in Ardex (the "Rescission"). Pursuant to the Rescission, the Company was to receive a 5-year negotiable promissory note for \$350,000 bearing interest at 8% per annum. Interest only is paid until the principal becomes due. Principal is due upon the first of the following events to occur: (i) completion of a public or private offering by Ardex of \$1,500,000 or more; (ii) 90 days following the year end in sales have been or exceed \$3,000,000; (iii) Ardex having a cash balance of \$800,000 or more from operations; or (iv) five years from the date of the note. The note is to be secured by a limited guarantee of Charles C. Shelton, Joseph Colino and John Kohlman only to the extent of their interest in Ardex and their options in the Company. In addition, Mr. Shelton is to execute a promissory note for \$15,000; Mr. Colino is to execute a note for \$22,500; and Mr. Kohlman is to execute a note for \$12,000. These notes will be secured by the same security as the Ardex note. Under the terms of the Rescission, all of the previously mentioned notes and ancillary documents were to have been executed on or before August 31, 1996, but none have been delivered to the Company as of the date hereof. The Company is continuing with its efforts to obtain the documents contemplated by the Rescission.

Legal Fees. Charles C. Shelton, Esq. rendered legal services to the Company throughout the year ended September 30, 1996. Mr. Shelton billed the Company fees totalling \$118,204, \$92,052 of which was billed by Charles C. Shelton, \$10,000 of which was for services as an employee of Company, and \$16,152 for expenses.

#### PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Index to Financial Statements and Supplemental Schedules

Title of Documents	Page No.
Independent Auditors' Report	F-1

Balance Sheet	F-2
Statements of Operations	F-4
Statements of Changes in Stockholders' Equity	F-5
Statements of Cash Flows	F-6
Notes to Financial Statements	F-8

(a)(2) No schedules are provided because of the absence of conditions under which they are required.

(b) Reports on Form 8-K.

The following reports on Form 8-K were filed by the Company during the last quarter of the period covered by this report.

On August 28, 1996, the Company filed a report on Form 8-K announcing the execution of the an exclusive license agreement with MMTc.

On September 6, 1996, the Company filed a report on Form 8-K announcing the appointment of Verle D. Blaha as acting President and Chief Executive Officer of the Company.

On October 23, 1996, the Company filed a report on Form 8-K announcing the redemption of 16,000,000 shares of the Company's Common Stock from Mr. Gao Yu Wen.

The Company filed no other reports on Form 8-K during the fourth quarter of its fiscal year ended December 31, 1996.

(c) Exhibits.

The following documents are included as exhibits to this report:

Exhibit Number	Description
3.1	Articles of Incorporation of the Company as filed May 19, 1982 with the State of Maryland Department of Assignments and Taxation.(1)
3.1.1	Articles of Amendment and Restatement to the Articles of Incorporation of the Company as filed June 21, 1984 with the State of Maryland Department of Assignments and Taxation.*
3.1.2	Articles of Amendment to the Aritcles of Incorporation of the Company as filed December 14, 1994 with the State of Maryland Department of Assignments and Taxation*
3.2.1	Amendment to the By-laws of the Company adopted December 9, 1994*

Exhibit Number	Description
9.1	Irrevocable Proxy between Augustine Y. Cheung, as representative of the Company and Gao Yu Wen regarding 20,000,000 shares of Common Stock dated June 6, 1996 (pursuant to the Redemption Agreement, the number of shares governed by the proxy has been reduced to 4,000,000)*
10.1	Patent License Agreement between the Company and Massachusetts Institute of Technology dated June 1, 1996 (Confidential Treatment Requested)*
10.2	License Agreement between the Company and MMTTC, Inc. dated August 23, 1996 (Confidential Treatment Requested)*
10.3	Letter Agreement between the Company and H.B.C.I., Inc. dated September 17, 1996*
10.4	Letter Agreement between the Company and Herbst, Lazar, Bell, Inc. dated October 4, 1996*
10.5	Agreement between the Company and Stearns Management Company dated May 28, 1996*
10.6	Consulting Agreement between the Company and NACE Resources, Inc. dated August 1, 1996*
10.7	Settlement Agreement between the Company and William O. Cave, dated October 28, 1996*
10.8	Redemption Agreement between the Company and Mr. Sun Shou Y. representative of Mr. Gao Yu Wen, dated June 6, 1996 and Letter of Intent between the parties dated May 27, 1996*
10.9	Amendment among the Company, Sun Shau Yi, Ou Yang An, Gao Yu Wen, dated October 23, 1996*
10.10	Binding Letter of Intent Concerning Rescission of Cheung Laboratories, Inc. Investment in Ardex Equipment, LLC between the Company and Ardex dated August 2, 1996*
10.11	Letter Agreement between the Company and New Opportunities, Ltd., an affiliate of Verle D. Blaha, dated August 15, 1996*
10.12	Unsecured Promissory Note, dated June 30, 1994, in the amount of \$42,669 and bearing interest at ten percent per annum, payable to Augustine Cheung*
10.13	Unsecured Promissory Note, dated January 26, 1987, in the amount of \$78,750 and bearing interest at the rate of twelve percent, payable to Augustine Cheung*
10.14	Demand Promissory Note, dated October 2, 1990, in the amount of \$28,502 and bearing interest at the rate of twelve percent, payable to Ada Lam*
10.15	8% Senior Secured Convertible Note*
10.16	Registration Rights Agreement*
10.17	Warrant to Purchase Shares of Common Stock of Cheung Laboratories, Inc.*
10.18	Certificate of Warrant to Purchase Common Stock of Cheung Laboratories, Inc. dated June 1, 1996*
10.19	Certificate of Warrant to Purchase Common Stock of Cheung Laboratories, Inc. dated May 28, 1996*
21.1	Subsidiaries of the Registrant
23.1	Consent of Stegman & Company, independent public accountants of the Company*
27.1	Financial Data Schedule

- - - - -  
\* Filed herewith

(1) Pursuant to Rule 12b-32, this exhibit is incorporated herein by reference to the exhibits filed with respect to the Company's Registration Statement on Form S-1, as amended, originally filed on October 17, 1984, Registration No. 2-93826-W.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CHEUNG LABORATORIES, INC.

December \_\_, 1996

By /s/ Verle D. Blaha  
-----  
Verle D. Blaha  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Verle D. Blaha ----- Verle D. Blaha	Chief Executive Officer, President and Director	December __, 1996
/s/ John Mon ----- John Mon	General Manager, Treasurer	December __, 1996
/s/ Dr. Augustine Y. Cheung ----- Dr. Augustine Y. Cheung	Chairman	December __, 1996
/s/ Robert F. Schiffmann ----- Robert F. Schiffmann	Director	December __, 1996
/s/ Charles C. Shelton ----- Charles C. Shelton	Director	December __, 1996
/s/ Joseph M. Colino ----- Joseph M. Colino	Director	December __, 1996

CHEUNG LABORATORIES, INC.

REPORT ON AUDITS OF  
FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
SEPTEMBER 30, 1996, 1995 AND 1994

No extracts from this report may be published without our written consent

Stegman & Company

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Cheung Laboratories, Inc.  
Columbia, Maryland

We have audited the accompanying balance sheets of Cheung Laboratories, Inc., as of September 30, 1996 and 1995, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1996. 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 Cheung Laboratories, Inc., as of September 30, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 of the financial statements, the Company has suffered recurring losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Towson, Maryland  
November 1, 1996

CHEUNG LABORATORIES, INC.  
BALANCE SHEETS  
SEPTEMBER 30, 1996 AND 1995

ASSETS

	1996	1995
	-----	-----
<b>CURRENT ASSETS:</b>		
Cash	\$ 246,931	\$ 7,238
Accounts receivable (net of an allowance for doubtful accounts of \$20,770 and \$56,659 in 1996 and 1995, respectively)	154,335	137,101
Interest receivable - related parties	5,333	-
Inventories	270,952	301,279
Prepaid expenses	1,669	7,669
Other current assets	26,755	25,551
	-----	-----
Total current assets	705,975	478,838
	-----	-----
<b>PROPERTY AND EQUIPMENT - at cost:</b>		
Furniture and office equipment	176,541	168,777
Laboratory and shop equipment	62,228	74,733
	-----	-----
Less accumulated depreciation	238,769	243,510
	205,766	197,897
	-----	-----
Net value of property and equipment	33,003	45,613
	-----	-----
<b>OTHER ASSETS:</b>		
Investment in Aestar Fine Chemical Company - at cost	8,000,000	8,000,000
Investment in Ardex Equipment, L.L.C. - at equity	-	482,991
Funds held under investment contract	40,000	650,000
Notes receivable - Ardex Equipment, L.L.C.	400,000	-
Patent licenses (net of accumulated amortization of \$37,328 and \$26,650 in 1996 and 1995, respectively)	142,622	53,300
	-----	-----
Total other assets	8,582,622	9,186,291
	-----	-----
<b>TOTAL ASSETS</b>	<b>\$9,321,600</b>	<b>\$9,710,742</b>
	=====	=====

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1996	1995
	-----	-----
<b>CURRENT LIABILITIES:</b>		
Accounts payable - trade	\$ 197,190	\$ 228,360
Notes payable - related parties, current portion	331,712	463,685
Accrued interest payable - related parties	339,660	343,265
Accrued interest payable - other	8,417	5,264
Accrued compensation	186,459	352,498
Accrued professional fees	76,352	1,500
Other accrued liabilities	100,905	69,871
Deferred revenues	112,031	115,531
	-----	-----
Total current liabilities	1,352,726	1,579,974
	-----	-----
<b>LONG-TERM LIABILITIES:</b>		
Note payable - related party, due after one year	8,000	2,000
Notes payable - private placement	1,205,000	-
	-----	-----
Total long-term liabilities	1,213,000	2,000
	-----	-----
Total liabilities	2,565,726	1,581,974
	-----	-----
<b>STOCKHOLDERS' EQUITY:</b>		
Capital stock - \$.01 par value; 51,000,000 shares authorized, 41,206,360 and 39,207,664 issued and outstanding for 1996 and 1995, respectively	412,063	392,076
Additional paid-in capital	18,555,444	18,014,854
Accumulated deficit	(12,211,633)	(10,278,162)
	-----	-----
Total stockholders' equity	6,755,874	8,128,768
	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 9,321,600</b>	<b>\$ 9,710,742</b>
	=====	=====

CHEUNG LABORATORIES, INC.

STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

	1996	1995	1994
	-----		
REVENUES:			
Hyperthermia sales and parts	\$ 134,006	\$ 157,618	\$1,025,651
Consulting service and repairs	-	-	60,742
Returns and allowances	(60,000)	-	-
	-----		
Total revenues	74,006	157,618	1,086,393
COST OF SALES	64,406	67,350	494,946
	-----		
GROSS PROFIT	9,600	90,268	591,447
	-----		
OPERATING EXPENSES:			
Selling, general and administrative	1,338,370	1,369,845	704,295
Research and development	94,012	18,546	202,569
	-----		
Total operating expenses	1,432,382	1,388,391	906,864
	-----		
(LOSS) INCOME FROM OPERATIONS	(1,422,782)	(1,298,123)	(315,417)
COSTS INCURRED IN DEVELOPING COSMETICS DIVISION	(471,000)	-	-
EQUITY IN LOSS OF ARDEX EQUIPMENT, L.L.C.	-	(17,009)	-
GAIN ON DISPOSITION OF INVESTMENT IN ARDEX EQUIPMENT, L.L.C.	17,009	-	-
OTHER INCOME	28,808	8,620	170,997
INTEREST EXPENSE	(85,506)	(90,805)	(184,700)
	-----		
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(1,933,471)	(1,397,317)	(329,120)
INCOME TAXES	-	-	(128,272)
	-----		
LOSS BEFORE EXTRAORDINARY ITEM	(1,933,471)	(1,397,317)	(200,848)
EXTRAORDINARY ITEM - Gain due to forgiveness of debt (net of tax of \$128,272 for 1995)	-	-	591,728
	-----		
NET (LOSS) INCOME	\$(1,933,471)	\$(1,397,317)	\$ 390,880
	=====	=====	=====
EARNINGS PER COMMON SHARE:			
Loss before extraordinary item	\$(.049)	\$(.060)	\$(.012)
Extraordinary item	.000	.000	.035
	-----		
Net (loss) income	\$(.049)	\$(.060)	\$ .023
	=====	=====	=====

See accompanying notes.

CHEUNG LABORATORIES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deficit	Total
Balances at October 1, 1993	15,900,000	\$159,000	\$ 6,766,704	\$ (9,271,725)	\$(2,346,021)
Reissuance of retired shares	219,251	2,192	-	-	2,192
Issuance of 2,504,400 shares of common stock as payment of indebtedness and expenses	2,504,400	25,044	1,261,363	-	1,286,407
Net income	-	-	-	390,880	390,880
Balances at September 30, 1994	18,623,651	186,236	8,028,067	(8,880,845)	(666,542)
Sale of common stock	20,003,000	200,030	9,801,470	-	10,001,500
Issuance of 581,013 shares of common stock as payment of indebtedness and expenses	581,013	5,810	185,317	-	191,127
Net loss	-	-	-	(1,397,317)	(1,397,317)
Balances at September 30, 1995	39,207,664	392,076	18,014,854	(10,278,162)	8,128,768
Sale of common stock	1,299,711	12,997	406,513	-	419,510
Issuance of 698,985 shares of common stock as payment of indebtedness and expenses	698,985	6,990	134,077	-	141,067
Net loss	-	-	-	(1,933,471)	(1,933,471)
Balances at September 30, 1996	41,206,360 =====	\$412,063 =====	\$18,555,444 =====	\$(12,211,633) =====	\$ 6,755,874 =====

See accompanying notes.

CHEUNG LABORATORIES, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

	1996	1995	1994
-----			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	\$(1,933,471)	\$(1,397,317)	\$390,880
Noncash items included in net (loss) income:			
Funds held under investment contract used for cosmetic division expenses	471,000	-	-
Depreciation and amortization	18,545	13,922	13,043
Bad debt expense	51,397	180,539	11,114
Gain on disposition of investment in Ardex Equipment, L.L.C.	(17,009)	-	-
Equity in loss of Ardex Equipment, L.L.C.	-	17,009	-
Forgiveness of debt	-	-	(720,000)
Common stock issued for operating expenses	9,000	108,926	21,320
Net changes in:			
Accounts receivable	(68,631)	208,680	(80,423)
Inventories	45,327	(80,478)	167,783
Accrued interest receivable	(5,333)	-	-
Prepaid expenses	6,000	(5,875)	5,875
Other current assets	(1,204)	(25,551)	-
Accounts payable - trade	(31,170)	15,299	30,842
Accrued interest payable - related parties	53,462	84,889	163,609
Accrued interest payable - other	3,153	(41,163)	(13,133)
Accrued compensation	(166,039)	51,423	174,802
Accrued professional fees	74,852	(174,606)	6,848
Other accrued liabilities	31,033	24,803	(124,497)
Deferred revenues	(3,500)	105,531	(2,117)
	-----	-----	-----
Net cash (used) provided by operating activities	(1,462,588)	(913,969)	45,946
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Rescission of investment in Ardex Equipment, L.L.C.	100,000	-	-
Purchases of patent licenses	(100,000)	-	-
Investment in Ardex Equipment, L.L.C.	-	(500,000)	-
Purchase of property and equipment	(10,256)	(5,183)	(3,384)
Funds invested - investment contract	-	(700,000)	-
Funds returned - investment contract	139,000	50,000	-
	-----	-----	-----
Net cash provided (used) by investing activities	128,744	(1,155,183)	(3,384)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from notes payable	1,205,000	-	-
Payment on notes payable - related parties	(48,973)	-	-
Payment on notes payable	(2,000)	(24,000)	-
Proceeds of stock issuances	419,510	2,001,500	-
	-----	-----	-----
Net cash provided by financing activities	1,573,537	1,977,500	-
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH	239,693	(91,652)	42,562
CASH AT BEGINNING OF YEAR	7,238	98,890	56,328
	-----	-----	-----
CASH AT END OF YEAR	\$ 246,931	\$ 7,238	\$ 98,890
	=====	=====	=====

See accompanying notes

Cheung Laboratories, Inc.

Statements of Cash Flows (Continued)

For the Years Ended September 30, 1996, 1995 and 1994

	1996	1995	1994
	-----	-----	-----
Schedule of noncash investing and financing transactions:			
Stock issued as debt and accrued interest repayment:			
Notes payable	\$75,000 =====	\$50,000 =====	\$959,230 =====
Accounts payable	\$ - =====	\$ - =====	\$ 24,000 =====
Accrued interest	\$57,067 =====	\$32,200 =====	\$291,666 =====
Schedule of noncash investing and financing activities:			
Proceeds of notes payable:			
Increase in notes payable	\$ -	\$25,223	\$ 50,000
Offset of accounts payable	-	(25,223)	(50,000)
	-----	-----	-----
Net cash received	\$ - =====	\$ - =====	\$ - =====
Payment on notes payable:			
Decrease in notes payable	\$25,223	\$24,000	\$ -
Offset of accounts receivable	(25,223)	-	-
	-----	-----	-----
Net cash paid	\$ - =====	\$24,000 =====	\$ - =====
Acquisition of a 9.5% interest in the Aestar Fine Chemical Company in exchange for 16,000,000 shares of common stock			
	\$ - =====	\$8,000,000 =====	\$ - =====
Rescission of investment in Ardex Equipment, L.L.C. in exchange for notes receivable			
	\$400,000 =====	\$ - =====	\$ - =====
Cash paid during the year for:			
Interest	\$45,000 =====	\$47,079 =====	\$33,991 =====
Income taxes	\$ - =====	\$ - =====	\$ - =====

See accompanying notes.

CHEUNG LABORATORIES, INC.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

1. DESCRIPTION OF BUSINESS

Cheung Laboratories, Inc. (the "Company") is in the business of providing hyperthermia products for medical applications. The Company markets its products internationally and was classified as a development stage company until October 1, 1989.

In an effort to diversify the Company's operations and investments, the Company acquired an interest in the Aestar Fine Chemical Company ("Aestar") in 1995. Aestar is located in the City of Zhongshan, China, and operates in the cosmetic and fine chemicals business. The Company's previous business plan relating to this investment was to use the dividend income it anticipated to receive from Aestar for development of cosmetics and fine chemical joint ventures. Subsequently, in 1996 the Company has reached an agreement with Aestar to rescind this agreement.

Additionally, the Company has rescinded its interest in Ardex Equipment, L.L.C., (Ardex) which operates in the industrial plumbing equipment business.

2. GOING CONCERN UNCERTAINTY

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates continuation of the Company as a going concern. However, the Company has sustained substantial operating losses in recent years. In addition, the Company has used substantial amounts of working capital in its operations.

Further, at September 30, 1996, current liabilities exceed current assets by \$646,754. The Company has defaulted on a substantial majority of its loan agreements because cash flow is insufficient to make principal and interest payments on a timely basis. In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements and the success of its future operations.

During 1996, in an attempt to focus its resources on its core business, the Company rescinded its investment in Ardex and entered into an agreement to rescind its investment in Aestar. The rescission of Aestar has been disclosed in the notes to the financial statements as a subsequent event and it had a significant impact on the Company's financial condition and stockholder's equity. See note 14 for a further impact of the rescission.

Despite these efforts, working capital deficits continue as the majority of cash funds raised during 1996 was in the form of the issuance of capital stock and debt financing through private placement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable

Accounts receivable consist of the following:

	1996	1995
	-----	
Trade receivables	\$138,465	\$192,444
Related party receivables:		
Microfocus	1,910	1,316
Ardex Equipment, L.L.C.	34,730	-
Allowance for doubtful accounts	(20,770)	(56,659)
	-----	
	\$154,335	\$137,101
	=====	=====

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method. Inventories are comprised of the following at September 30:

	1996	1995
	-----	
Materials	\$169,752	\$220,553
Work-in-process	46,062	52,449
Finished products	55,138	28,277
	-----	
	\$270,952	\$301,279
	=====	=====

Property and Equipment

Depreciation is computed using the straight-line method for financial reporting and accelerated methods for tax reporting purposes. Depreciation is computed over the estimated useful lives of the assets as follows:

Furniture and office equipment	5 years
Laboratory and shop equipment	5 years

Depreciation expense for the years ended September 30, 1996, 1995 and 1994 was \$7,868, \$7,259 and \$6,380 respectively. Major renewals and betterments are capitalized at cost, and ordinary repairs and maintenance are charged against operations as incurred. Related costs and accumulated depreciation are eliminated from the accounts upon disposition of an asset and the resulting gain or loss is reflected in the statement of operations and accumulated deficit.

#### Investments - at Equity

Investments in which the Company has a 20% to 50% interest or otherwise exercises significant influence are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses. Otherwise, investments are carried at cost and dividend income is recognized as earned in other income.

#### Patent Licenses

The Company has purchased several licenses to use the rights to patented technologies. Patent licenses are amortized straight-line over the remaining patent life. Amortization expense for the years ended September 30, 1996, 1995 and 1994 was \$10,678, \$6,663 and \$6,663, respectively.

#### Revenue Recognition

Revenue is recognized when systems, products or components are shipped and when consulting services are rendered. Deferred revenue includes customer deposits received on contingent sale agreements.

#### Research and Development

Research and development costs are expensed as incurred. Equipment and facilities acquired for research and development activities which have alternative future uses are capitalized and charged to expense over their estimated useful lives.

#### Net Income (Loss) Per Share

Net income (loss) per share is computed based upon common shares outstanding during the periods after giving retroactive effect to all stock splits and conversions. Net income (loss) is based on the actual weighted average number of common shares outstanding during the period of 39,499,650 for 1996, 23,466,070 for 1995, and 16,912,978 for 1994.

#### Use of 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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

Accounting for the Impairment of Long-Lived Assets

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, (SFAS No. 121). SFAS No. 121 requires that assets to be held and used be evaluated for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. SFAS No. 121 also requires that assets to be disposed of be reported at the lower of cost or fair value less selling costs. Implementation of SFAS No. 121 is not expected to have a material impact on the results of operations or financial position. SFAS No. 121 is effective for the Company as of October 1, 1996.

Accounting for Stock Based Compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123), which is effective for the Company's year ending September 30, 1997. SFAS No. 123 allows companies either to continue to account for stock-based employee compensation plans under existing accounting standards or to adopt a fair-value-based method of accounting as defined in the new standard. The Company will follow the existing accounting standards for these plans, but will provide pro forma disclosure of net income and earnings per share as if the expense provisions of SFAS No. 123 had been adopted. Implementation of SFAS No. 123 is not expected to have a material impact on results of operations or financial condition.

5. RELATED PARTY TRANSACTIONS

Notes Receivable - Related Parties

Notes receivable due from related parties consist of the following:

	1996	1995
	-----	-----
Term note due August 31, 2001 from Ardex Equipment, L.L.C., accruing interest at 8% per annum.	\$350,000	\$ -
Term note due August 31, 2001 from the principals of Ardex Equipment, L.L.C., accruing interest at 8% per annum.	50,000	-
	-----	-----
	\$400,000	\$ -
	=====	=====

Notes Payable - Related Parties

Notes payable to related parties as of September 30 are comprised of the following:

	1996	1995
	-----	-----
Term note payable to an officer and stockholder of the Company, accruing interest at 10% per annum.	\$ 42,669	\$42,669
Term notes payable to an officer and stockholder of the Company, accruing interest at 12% per annum.	78,750	85,000
Demand note payable to relative of an officer and stockholder of the Company, accruing interest at 12% per annum.	36,041	36,041
Demand note payable to related party of remainder of funds borrowed for discontinued project, note bears interest at 12% per annum.	28,502	28,502
Term notes payable to interested parties of the Company accruing interest at 9 to 12% per annum.	103,750	223,473
Term note payable to stockholder of the Company accruing interest at 10% per annum payable in monthly payments of \$2,000 for 25 months. The note is secured by all accounts receivable and general intangibles of the Company.	50,000	50,000
	-----	-----
	339,712	465,685
Less current portion	331,712	463,685
	-----	-----
Long-term portion - due in 1997	\$ 8,000	\$ 2,000
	=====	=====

Interest accrued on these notes amounted to \$339,660 and \$343,265 at September 30, 1996 and 1995, respectively.

Notes Payable - Private Placement

During the year ended September 30, 1996, the Company issued \$1,205,000 in senior secured convertible notes accruing interest at 8% per annum. The notes and accrued interest have priority over payment of any other indebtedness of the Company. On or after the next private offering, or upon maturity, whichever shall first occur, the holder may elect to convert the principal amount and any accrued interest into common stock at an option price of \$.41 per share or can elect to be repaid from the proceeds of the private offering. The notes mature and become due the earlier of the next private offering or December 31, 1997. Interest accrued on these notes amounted to \$1,262 at September 30, 1996.

6. INVESTMENT IN AESTAR FINE CHEMICAL COMPANY - AT COST

During 1995, the Company acquired a 9.5% equity interest in Aestar Fine Chemical Company (Aestar) in exchange for 16,000,000 shares of its common stock. The investment is carried at cost, as measured by the \$.50 per share fair market value of the 16,000,000 shares of the Company's common stock. There were no dividends received during the years ended September 30, 1996 and 1995. The common stock of Aestar is not actively traded, therefore the market value of this investment is not readily determinable. The Company has subsequently entered into an agreement to rescind this investment. See note 14 to the financial statements.

7. INVESTMENT IN ARDEX EQUIPMENT, L.L.C. - AT EQUITY

The Company purchased a 19.25% equity interest in Ardex Equipment, L.L.C. (Ardex) in 1995. The investment is carried at cost, adjusted for the Company's proportionate share of Ardex's loss from the purchase date through September 30, 1995. Ardex is not actively traded, therefore the market value of this investment is not readily determinable. During 1996, the Company entered into an agreement to rescind its investment in Ardex, the effects of which are reflected in these financial statements.

8. FUNDS HELD UNDER INVESTMENT CONTRACT

During 1995, the issuance of 20,000,000 shares of common stock to Mr. Gao Yu Wen enabled Mr. Gao to obtain a majority interest in the Company. Mr. Gao has essentially recapitalized the Company through this investment of \$2,000,000 in cash and an \$8,000,000 interest in Aestar. Pursuant to the terms of an investment agreement between the Company and Mr. Gao, the Company has invested surplus working capital funds in Hong Kong and China. At September 30, 1995, the Company had drawn \$50,000 from the account, reducing the balance to \$650,000. The balance as of September 30, 1996 has been further reduced to \$40,000 to reflect \$471,000 in costs incurred by Mr. Gao while developing a cosmetic division in Hong Kong on behalf of the Company, per an agreement, subsequently entered into to rescind the investment in Aestar Fine Chemical Company.

9. INCOME TAXES

Income tax expense on (loss) income before extraordinary item differs from that computed at the federal income tax rate as follows:

	1996	1995	1994
	-----		
Income tax (benefit) at statutory rate (34%)	\$(657,380)	\$(475,088)	\$(128,272)
Tax benefits not recognized	657,380	475,088	-
	-----	-----	-----
Income tax (benefit) expense	\$ -	\$ -	\$(128,272)
	=====	=====	=====

The tax benefit of net operating losses has been completely offset by a valuation allowance until the Company demonstrates earnings that would utilize the net operating loss carryforwards. The 1994 tax benefit resulted from utilizing net operating loss carryforwards as a result of a gain from the forgiveness of debt. At September 30, 1996, the Company has net operating loss carryforwards exceeding \$10,000,000. These carryovers expire in various amounts through the period 1997 to 2011. Due to the sale of stock to the majority stockholder, the use of the net operating losses will be subject to an annual limitation.

10. COMMON STOCK

During the year ended September 30, 1996, the Company issued 1,299,711 shares of common stock for \$419,510, 689,985 shares were issued to extinguish debt, and 9,000 shares were issued as payments for various operating expenses.

During the year ended September 30, 1995, the Company issued 20,000,000 shares of common stock in exchange for \$2,000,000 in cash and \$8,000,000 as a 9.5% interest in the Aestar from an investor. This transaction enabled the investor to obtain a majority interest in the Company's common stock. Additionally, the Company issued 3,000 shares of common stock for \$1,500, 360,000 shares were issued to extinguish debt, and 221,000 shares were issued as payments for various operating expenses.

During the year ended September 30, 1994, the Board of Directors and stockholders authorized the issuance of 35,100,000 additional shares of common stock. In addition 219,251 of retired shares were reissued, 2,174,800 shares were issued to extinguish debt and 329,600 shares were issued as employee wages.

11. STOCK OPTIONS AND WARRANTS

The Company has granted stock options to certain employees on a periodic basis at the discretion of the Board of Directors. Options are granted at market value at the date of the grant and are immediately exercisable. Following is a summary of stock options as of and for the year ended September 30, 1996:

For the year ended September 30, 1996:

Share options granted	2,420,000
Price range of share options granted	\$.35 to \$.41
Options exercised	100,000
Price range of shares exercised	\$.35 to \$.41

As of September 30, 1996:

Unexercised options outstanding	2,850,000
Weighted average exercise price	\$.34
Price range of outstanding options	\$.25 to \$.41

As of September 30, 1996 there were warrants outstanding to purchase 3,320,715 shares of the Company's stock at a price of \$.41 per share. The Company is also obligated to sell additional shares to certain individuals at a price based on future stock sales by the Company.

12. COMMITMENTS AND CONTINGENCIES

Potential Liability and Insurance

In the normal course of business, the Company may be subject to warranty and product liability claims on its hyperthermia equipment. Currently, the Company does not have a product liability insurance policy in effect although management does anticipate obtaining such coverage when adequate financial resources are available. The assertion of any product liability claim against the Company, therefore, may have an adverse effect on its financial condition. As of September 30, 1996, no product, warranty claims or other liabilities against the Company have been asserted.

Warranty Reserve

The Company warrants its hyperthermia units to be free from defects in material and workmanship under normal use and service for the period of one year from the date of shipment. Claims have been confined to basic repairs. Given the one year limitation of the warranty, management has elected to not set up a warranty reserve but, instead, to expense repairs as costs are incurred.

13. GAIN ON EXTINGUISHMENT OF DEBT

The 1994 extraordinary gain of \$591,728 (net of income taxes) results from the forgiveness of notes payable and accrued interest.

14. SUBSEQUENT EVENT - STOCK REDEMPTION

On October 23, 1996, the Company, based on the provisions of an agreement reached on June 6, 1996, redeemed 16,000,000 shares of its common stock.

The redemption provided for the Company to return its investment in Aestar Fine Chemical Company (valued at \$8,000,000 on the Company's September 30, 1996 balance sheet) and to relinquish its rights to the funds held under investment contract (\$40,000 at September 30, 1996) in order to affect the transaction. This transaction has a significant impact on the financial position, current ratios and stockholders' equity of the Company. If the foregoing transaction had occurred on or before September 30, 1996, total assets would have been reduced by \$8,040,000, and stockholders' equity would have decreased by \$8,040,000, resulting in a total negative stockholders' equity of \$(1,284,126).

As part of this agreement, the Company has the option to redeem an additional 4,000,000 shares owned by the Gao Group if a payment of \$2,160,000 is made on or before December 31, 1996. This deadline may be extended until March 31, 1997 with the payment of an .75% monthly interest factor.

15. SUBSEQUENT EVENT - PURCHASE OF PORTABLE X-RAY TECHNOLOGY

On August 28, 1996, the Company entered into a termination agreement with Carlton Poor, a representative of Rainbow Ball Development Limited ("Rainbow Ball"). This agreement terminated a previous agreement with Rainbow Ball under which the Company was to share its portable x-ray business line. The termination agreement returns all rights to the portable x-ray business line to the Company in exchange for 355,757 shares of the Company's common stock to be issued in October 1996.

16. SUBSEQUENT EVENT - TERMINATION OF PURCHASE OPTION

On April 26, 1995, the Company entered into an agreement to purchase a 50% interest in the United Aerosol and Home Products Company, LTD ("Unisol"), located in Zhongshan, China. Unisol is a specialty chemical and fine chemical aerosol packaging and bottle/can filling business. The purchase price was to be 20% of the appraised value of Unisol equipment, payable in the Company's common stock at the close of business on April 26, 1996. The Unisol acquisition was executed as part of the Gao transaction. This agreement was verbally terminated on October 23, 1996, at the same time that the Company executed the agreement by which the Company redeemed its stock from Mr. Gao.

ARTICLES OF AMENDMENT AND RESTATEMENT

A.Y. CHEUNG ASSOCIATES, INC., a Maryland corporation, having its principal office at 5026 Herzel Place, Suite 101, Beltsville, Maryland 20705 (hereinafter referred to as the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: The Corporation desires to amend and restate its Charter as currently in effect as hereinafter provided. The provisions set forth in these Articles of Amendment and Restatement are all the provisions of the Charter of the Corporation as currently in effect.

SECOND: The Charter of the Corporation is hereby amended by striking in their entirety Articles FIRST through EIGHTH, inclusive, and by substituting in lieu thereof the following:

FIRST: The name of the corporation (which is hereinafter called the "Corporation") is:

CHEUNG LABORATORIES, INC.

SECOND: The purposes for which the Corporation is formed are as follows:

(a) To carry on the business of a system engineering company specializing in the application of electromagnetic energy for scientific, industrial, and

medical markets and, without limiting the generality of the foregoing, to manufacture, prepare for market, buy or otherwise acquire, sell, or otherwise deal in or with, import, export and transport, at wholesale or retail or otherwise, devices relating thereto; and to engage in any other lawful business or activity.

(b) To do anything permitted by Section 2-103 of the Corporations and Associations Article of the Annotated Code of Maryland, as amended from time to time.

The foregoing enumerated purposes shall be in no way limited or restricted by reference to, or inference from, the terms of any other clause of this or any other Article of the Charter of the Corporation, and each shall be regarded as independent; and they are intended to be and shall be construed as powers as well as purposes and shall be in addition to and not in limitation of the powers of corporations under the laws of the State of Maryland.

THIRD: The current post office address of the principal office of the Corporation in this State is 5026 Herzel Place, Suite 101, Beltsville, Maryland 20705. The name and address of the current resident agent of the Corporation is Michael J. Cromwell, III, 10 Light Street, Baltimore, Maryland 21202. Said resident agent is a citizen of the State of Maryland and actually resides therein.

FOURTH: The total number of shares of stock of all classes which the Corporation has authority to issue is 15,900,000 shares of common stock, with a par value of \$.01 per share, amounting in the aggregate to \$159,000.

FIFTH: The number of directors of the Corporation shall be three (3), which number may be increased or decreased pursuant to the By-Laws of the Corporation, but shall never be less than three (3). The names of the current directors, who shall act until their successors are duly chosen and qualified, are: Augustine Y. Cheung; Fee-Wah Cheung; Vance Y. Hum.

SIXTH: The Board of Directors shall manage the business and affairs of the Corporation and may exercise all the powers of the Corporation except those conferred upon or reserved to the stockholders by law, including but not limited to the following:

(a) The Board of Directors shall have the power from time to time and in its sole discretion: (1) to determine, in accordance with sound accounting practice, what constitutes annual or other net profits, earnings, surplus or net assets in excess of capital; (2) to fix and vary from time to time the amount to be reserved as working capital, or determine that retained earnings or surplus shall remain in the hands of the Corporation; (3) to set apart any funds of the Corporation for the establishment of such reserves in such amounts and for such proper purposes as it shall determine and to abolish or redesignate any such reserves or any part thereof; (4) to determine whether there shall be declared, distributed or paid any distribution or dividend in stock, cash or other securities or property, out of surplus or any other funds or amounts legally available therefor, and to declare, distribute and pay the same at such times and to the stockholders of record on such dates as it may from time to time deem appropriate; and (5) to determine whether, to what extent, at what times and places, and under what conditions and regulations the books, accounts and documents of the Corporation, or any of them, shall be open to the inspection of stockholders, except as otherwise provided by statute or by the By-Laws, and, except as so provided, no stockholder shall have the right to inspect any book, account or document of the Corporation unless authorized to do so by resolution of the Board of Directors.

(b) The Board of Directors of the Corporation shall have the power in its sole discretion and without limitation, subject only to any restrictions imposed

by law, to authorize the issuance from time to time of shares of the Corporation's stock, with or without par value, of any class, whether now or hereafter authorized, and of securities convertible into shares of the Corporation's stock, with or without par value, of any class, whether now or hereafter authorized, for such consideration (regardless of the value or amount of such consideration) and in such manner and by such means as the Board of Directors may deem advisable.

(c) The Board of Directors shall have the power in its sole discretion and without limitation, subject only to any restrictions imposed by law, to classify or reclassify any unissued shares of stock, whether now or hereafter authorized, by setting, altering or eliminating in any one or more respects, from time to time before the issuance of such shares, any feature of such shares, including but not limited to the designation, par value, preferences, conversion or other rights, voting powers, qualifications, and terms and conditions of redemption of, and limitations as to dividends and any restrictions on, such shares.

The enumeration and definition of particular powers of the Board of Directors included in the foregoing provisions of this Article SIXTH shall in no way be limited or restricted by reference to or inference from the terms of any other clause of this or any other Article of the Charter of the Corporation, or construed as or deemed by inference or otherwise in any manner to exclude or limit any powers conferred upon the Board of Directors under applicable law now or hereafter in force.

SEVENTH: No holders of any shares of the stock of the Corporation of any class shall have any preemptive right to purchase, subscribe for or otherwise acquire any shares of stock of the Corporation of any class now or hereafter authorized, or any securities exchangeable for or convertible into such shares, or any warrants or other instruments evidencing rights or options to subscribe for, purchase or otherwise acquire such shares, other than such, if any, as the Board of Directors in its discretion may fix.

EIGHTH: The Corporation reserves the right from time to time to make any amendments of its Charter which may now or hereafter be authorized by law, including any amendments changing the terms or contract rights, as expressly set forth in its Charter, of any of its outstanding stock by classification, reclassification or otherwise, and any objecting stockholder whose rights may or shall be substantially adversely affected shall not be entitled to the same rights as an objecting stockholder in the case of a consolidation, merger, share exchange or sale, lease, exchange or transfer of all or substantially all of the assets of the Corporation.

NINTH: The duration of the Corporation shall be perpetual.

THIRD: By written informal action unanimously taken by the Board of Directors of the Corporation, pursuant to and in accordance with Section 2-408(c) of the Corporations and Associations Article of the Annotated Code of Maryland, the Board of Directors of the Corporation duly advised the foregoing Articles of Amendment and Restatement and, by written informal action unanimously taken by the stockholders of the Corporation, in accordance with Section 2-505 of the Corporations and Associations Article of the Annotated Code of Maryland, the stockholders of the Corporation duly approved said Articles of Amendment and Restatement.

FOURTH: (a) The total number of shares of all classes of stock of the Corporation heretofore authorized is 5,000 shares of common stock all of one class. Such shares are without par value.

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(b) The total number of shares of all classes of stock of the Corporation as increased is 15,900,000 shares of common stock all of one class. Such shares have a par value of \$.01 per share, amounting in the aggregate to \$159,000.

FIFTH: Upon the effectiveness of these Articles of Amendment and Restatement with the State Department of Assessments and Taxation of Maryland, each of the authorized shares of common stock without par value shall be changed and split on the basis of three thousand one hundred eighty (3,180) shares of common stock with a par value of \$.01 per share for each share without par value, provided that any fractional interest shall be eliminated by being rounded off to a full share of stock.

IN WITNESS WHEREOF, A.Y. CHEUNG ASSOCIATES, INC. has caused these presents to be signed in its name and on its behalf by its President and its corporate seal to be hereunder affixed and attested by its Assistant Secretary on this \_\_\_\_ day of June, 1996, and its President acknowledges that these Articles of Amendment and Restatement are the act and deed of A.Y. CHEUNG ASSOCIATES, INC. and, under the penalties of perjury, that the matters and facts set forth herein with respect to authorization and approval are true in all material respects to the best of his knowledge, information and belief.

ATTEST:  
\_\_\_\_\_  
Vance Y. Hum, Assistant Secretary

By: \_\_\_\_\_  
A.Y. CHEUNG ASSOCIATES, INC.  
Augustine Y. Cheung, President

[SEAL]

CHEUNG LABORATORIES, INC.  
ARTICLES OF AMENDMENT

CHEUNG LABORATORIES, INC., a Maryland corporation, having its principal office at 10220 Old Columbia Road, Suite I, Columbia, MD 21046-1705 (hereinafter referred to as the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: The Charter of the Corporation is hereby amended by striking in their entirety Articles THIRD, FOURTH and FIFTH, and by substituting in lieu thereof the following:

THIRD: The current post office address of the principal office of the Corporation in this State is 10220 Old Columbia Road, Suite I, Columbia, MD 21046-1705. The name and address of the current resident agent of the Corporation is Charles C. Shelton, 210 West Pennsylvania Avenue, Suite 520, Baltimore, Maryland 21204-5325. Said resident is a citizen of the State of Maryland and actually resides therein.

FOURTH: The total number of shares of stock of all classes which the Corporation has authority to issue is 51,000,000 shares of common stock, with a par value of \$.01 per share, amounting in the aggregate to \$510,000.

FIFTH: The number of directors of the Corporation shall be eight (8), which number may be increased or decreased pursuant to the ByLaws of the Corporation, but shall never be less than three (3). The names of the current directors, who shall act until their successors are duly chosen and qualified are:

Augustine Y. Cheung, Chairman  
Robert F. Schiffmann  
John J. Kohlman  
William O. Cave, Sr.  
Dennis Smith  
John Mon  
Charles C. Shelton, Esquire  
Shiu Ming (Tom) Hong

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SECOND: The Articles of Incorporation are hereby amended by adding thereto the following new Article TENTH:

TENTH: The Directors and Officers of the Corporation shall not be liable for any money damages whatsoever, except to the extent provided by Md. Code Ann., Corps. & Assn's. ss.2-405.2 and Md. Code Ann., Cts. & Jud. Pro. ss.5-349, or any successor or later-adopted provisions of law with similar import.

Any amendment, modification, or repeal of the foregoing sentence by the Board of Directors or stockholders of the Corporation shall be prospective in operation and effect only, and shall not adversely affect any right or protection of a Director or Officer of the Corporation in respect of any act or omission occurring prior to the time of such amendment, modification, or repeal.

THIRD: By written informal action unanimously taken by the Board of Directors of the corporation, pursuant to and in accordance with Section 2-408(c) of the Corporations and Associations Article of the Annotated Code of Maryland, the Board of Directors of the Corporation duly advised the foregoing Articles of Amendment and, by action taken by the stockholders of the Corporation pursuant to a stockholders meeting held April 15, 1994, and proxy statement dated March 25, 1994, the stockholder of the Corporation duly approved said Articles of Amendment.

IN WITNESS WHEREOF, CHEUNG LABORATORIES, INC. has caused these presents to be signed in its name and on behalf by its President and its corporate seal to be hereunder affixed and attested to by its Secretary on this \_\_\_\_ day of December, 1994, and its President acknowledges that these Articles of Amendment are the act and deed of CHEUNG LABORATORIES, INC. and, under the penalties of perjury, that the matters and facts set forth herein with respect to authorization and approval are true in all material respects to the best of his knowledge, information and belief.

ATTEST:  
/s/  
-----  
Charles C. Shelton, Secretary

CHEUNG LABORATORIES, INC.  
By: /s/  
-----  
Augustine Y. Cheung, President

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BY-LAWS

ARTICLE I.  
STOCKHOLDERS

Section 1. ANNUAL MEETING

The annual meeting of the stockholders of the Corporation shall be held during the month of January of each year at such time as the Board of Directors shall, in their discretion, fix. The business to be transacted at the annual meeting shall include the election of directors, consideration and action upon the report of the President, and any other business within the power of the Corporation.

Section 2. SPECIAL MEETING

At any time in the intervals between annual meetings, a special meeting of the stockholders may be called by the President or by the Board of Directors.

Section 3. NOTICE OF MEETING

Not less than ten (10) days nor more than ninety (90) days before the date of every stockholders' meeting, the Secretary shall give to each stockholder entitled to vote at such meeting, written or printed notice stating the time and place of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, either by presenting it to him personally, by leaving it at his residence or usual place of business, or by mailing it to him at his address as it appears on the records of the Corporation.

No business shall be transacted at a special meeting save that specially named in the notice.

Notwithstanding the foregoing provisions, each person entitled to notice waives notice if he before or after the meeting signs a waiver of the notice which is filed with the records of stockholders meetings, or is present at the meeting in person or by proxy.

Section 4. QUORUM

At any meeting of stockholders the presence in person or by proxy of stockholders entitled to cast a majority of the votes thereat shall constitute a quorum. A majority of the votes cast at a meeting of stockholders, duly called and at which a quorum is present shall be sufficient to take or authorize action upon any matter which may properly come before the meeting unless more than a majority of votes is required by statute, by the Charter of the Corporation, or by these By-Laws.

In the absence of a quorum, a majority of the shares represented in person or by proxy may adjourn the meeting from time to time not exceeding a total of sixty (60) days without further notice other than by announcement at such meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting originally called. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. In the event that at any meeting a quorum exists for the transaction of some business but does not exist for the transaction of other business, the business as to which a quorum is present may be transacted by the holders of stock present in person or by proxy who are entitled to vote thereon.

Section 5. VOTING

Each share of common stock will be entitled to one vote, unless the Charter of the Corporation provides for a greater or lesser number of votes per share or limits or denies voting rights.

Section 6. PROXIES

At all meetings of stockholders, a stockholder may vote the shares owned of record by him either in person or by proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact. Such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

Section 7. PLACE OF MEETING

The Board of Directors may designate any place, either within or without the State of Maryland, as the place of meeting for any annual or special meeting of stockholders.

Section 8. CONDUCT OF MEETINGS

Meetings of stockholders shall be presided over by the Chairman of the Board, if one be elected and is present at the meeting or, if not, by the President of the Corporation or, if he is not present, by a Vice President of the Corporation or, if he is not present, by a Vice President, or, if no Vice President is present, by a chairman to be elected at the meeting. The Secretary of the Corporation, or if he is not present, any Assistant Secretary, shall act as secretary of such meetings. In the absence of the Secretary and any Assistant Secretary, the presiding officer may appoint a person to act as secretary of the meeting.

Section 9. INFORMAL ACTION BY STOCKHOLDERS

Any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting if there is filed with the records of stockholders' meetings a unanimous written consent which sets forth the action and is signed by each stockholder entitled to vote on the matter and a written waiver of any right to dissent signed by each stockholder entitled to notice of the meeting but not entitled to vote at it.

ARTICLE II.  
DIRECTORS

Section 1. POWERS

The business and affairs of the Corporation shall be managed by its Board of Directors, which may exercise all of the powers of the Corporation, except such as are by statute, by the Charter of the Corporation, or by these By-Laws expressly conferred upon or reserved to the stockholders.

Section 2. NUMBER AND TENURE

The number of Directors shall be three (3), which number may be altered by a majority of the entire Board of Directors, provided that it shall never be less than three (3) nor more than nine (9). Each Director shall hold office until the next annual meeting of stockholders or until his successor shall have been elected and shall have qualified. The number of Directors may be increased or decreased by the affirmative vote of not less than two-thirds (2/3) of the entire Board of Directors, but the action may not affect the tenure of office of any Director.

Section 3. VACANCIES

Any vacancy occurring in the Board of Directors, other than one occurring because of an increase in the number of Directors, may be filled by the affirmative vote of a majority of the remaining Directors. Any vacancy occurring in the Board of Directors due to an increase in the number of Directors may be filled by a majority of the entire Board of Directors. A Director elected to fill a vacancy shall serve until the next annual meeting of stockholders and until his successor is elected and qualifies.

Section 4. REGULAR MEETING

The Board of Directors shall meet for the purpose of organization, the election of Officers, and the transaction of other business as soon as practicable after each annual meeting of stockholders. Other regular meetings of the Board of Directors shall be held at such times and such places, either within or without the State of Maryland, as may be designated from time to time by the Board of Directors.

Section 5. SPECIAL MEETING

Special meetings of the Board of Directors may be called by the President or by any two Directors. The person or persons authorized to call special meetings of the Board of Directors may fix any time and place, either within or without the State of Maryland, as the time and place for holding the special meeting of the Board of Directors called by them.

Section 6. NOTICE

Notice of every regular or special meeting of the Board shall be given to each Director by written notice stating the time and place of the

meeting. Notice is given to a Director when it is delivered personally to him, left at his residence of usual place of business, or sent by telegraph, at least twenty-four (24) hours before the time of the meeting or, in the alternative, be mailed to his address as it appears on the records of the Corporation at least seventy-two (72) hours before the time of the meeting. Any Director may waive notice of any meeting by written waiver filed with the records of the meeting, either before or after the holding thereof. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 7. QUORUM

Unless otherwise provided by statute, by the Charter of the Corporation, or by these By-Laws, a majority of the Board of Directors shall constitute a quorum for the transaction of business, but if less than such quorum is present at a meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

Section 8. MANNER OF ACTING

The action of a majority of the Directors present at a meeting at which a quorum is present shall be the action of the Board of Directors unless the concurrence of a greater proportion is required for such action by statute, by the Charter of the Corporation, or by these By-Laws.

Section 9. COMPENSATION

By resolution of the Board of Directors a fixed sum and expenses of attendance, if any, may be paid to the Directors for attendance at meetings of the Board of Directors or of committees thereof. Other compensation for their services as such or on committees of the Board of Directors may also be paid to Directors. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 10. INFORMAL ACTION

Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if a written consent to such action is signed by all members of the Board of Directors and such written consent is filed with the minutes of proceedings of the Board of Directors.

Section 11. MEETING BY CONFERENCE TELEPHONE

Members of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participating in a meeting by these means constitutes presence in person at a meeting.

ARTICLE III.  
COMMITTEES

Section 1. COMMITTEES

The Board of Directors may appoint from among its members an Executive Committee and other committees composed of two or more Directors and delegate to these committees in the intervals between meetings of the Board of Directors any of the powers of the Board of Directors, except the power to declare dividends or distributions on stock approve any merger or share exchange which does not require stockholder approval, amend the By-Laws, issue stock other than as permitted by statute, or recommend to the stockholders any action which requires stockholder approval. Each committee may fix rules of procedure for its business. A majority of the members of a committee shall constitute a quorum for the transaction of business and the act of a majority of those present at a meeting at which a quorum is present shall be the act of the committee. The members of a committee present at any meeting, whether or not they constitute a quorum, may appoint a Director to act in place of an absent member. The members of a committee may conduct any meeting thereof by conference telephone in accordance with the provisions of Article II, Section 11.

Section 2. MINUTES

Each committee shall keep minutes of its proceedings and report the same to the Board of Directors as and when required by the Board.

Section 3. EMERGENCY

In the event of a state of disaster of sufficient severity to prevent the conduct and management of the affairs and business of the Corporation under the direction of its Directors and Officers as contemplated by its Charter and By-Laws, any two or more available members of the then incumbent Executive Committee shall constitute a quorum of that Committee for the full conduct and management of the affairs and business of the Corporation in accordance with the provisions of Article III, Section 1. In the event of the unavailability, at such time, of a minimum of two members of the then incumbent Executive Committee, the available directors shall elect an Executive Committee consisting of any two members of the Board of Directors, whether or not they be Officers of the Corporation, which two members shall constitute the Executive Committee for the full conduct and management of the affairs of the Corporation in accordance with the foregoing provisions of this Section 3. This Section shall be subject to implementation by resolution of the Board of Directors passed from time to time for that purpose, and any provisions of the By-Laws (other than this Section 3) and any resolutions which are contrary to the provisions of this Section 3 or to the provisions of any such complementary resolutions shall be suspended until it shall be determined by any interim Executive Committee acting under this Section 3 that it shall be to the advantage of the Corporation to resume the conduct and management of its affairs and business under all the other provisions of the By-Laws.

ARTICLE IV.  
OFFICERS

Section 1. EXECUTIVE OFFICERS

The Corporation shall have a President, who shall be a Director of the Corporation, a Secretary, and a Treasurer. It may also have a Chairman of the Board, who shall be a Director of the Corporation, one or more Vice Presidents, one or more Assistant Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as the Board of Directors may elect. Any two offices may be held by the same person, except those of President and Vice President, but no Officer shall execute, acknowledge or verify any instrument in more than one capacity if such instrument is required to be executed, acknowledged or verified by any two or more Officers.

Section 2. ELECTION AND TENURE

The Officers of the Corporation shall be elected by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the stockholders, or as soon after such first meeting as may be convenient. Each Officer shall hold office for such period, not to exceed one (1) year, as the Board of Directors may fix or until his successor shall have been duly elected and shall have qualified.

The Board of Directors may, at any time, and from time to time, authorize the making or adoption by the Corporation of special contracts with an Officer for services of such Officer for a fixed period and on such terms and conditions, and with such powers, duties and compensation, as may be fixed by such contract, and may elect such Officer for such term or terms, whether exceeding one (1) year or not, as may be specified by such contract.

Section 3. REMOVAL

Any Officer or agent of the Corporation may be removed by the Board of Directors whenever, in its judgment, the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 4. VACANCIES

A vacancy in any office may be filled by the Board of Directors for the unexpired portion of the term.

Section 5. CHAIRMAN OF THE BOARD

The Chairman of the Board, if one be elected, shall preside at all meetings of the Board of Directors and of the stockholders at which he shall be present. He shall have and may exercise such powers as are, from time to time, assigned to him by the Board of Directors.

Section 6. PRESIDENT

The President shall be elected from the Board of Directors and shall, in the absence of the Chairman of the Board, preside at all meetings of the Board and of the stockholders at which he is present. He shall be the chief executive office of the Corporation and, subject to the control of the Board of Directors, shall, in general, supervise and administer all of the business and affairs of the Corporation. In general, the President shall have all powers and shall perform all duties incident to the office of President and such as may from time to time be prescribed by the Board of Directors.

Section 7. VICE PRESIDENTS

The Vice President or Vice Presidents, at the request of the President or in his absence or during his inability to act, shall perform the duties and exercise the functions of the President, and when so acting shall have the powers of the President. If there be more than one Vice President, the Board of Directors may determine which one or more of the Vice Presidents shall perform any of such duties or exercise any of such functions, or if such determination is not made by the Board of Directors, the President may make such determination; otherwise any of the Vice Presidents may perform any of such duties, and have such additional descriptive designations (if any) in their titles as may be assigned by the Board of Directors or the President.

Section 8. THE SECRETARY

The Secretary shall in general have all powers and perform all duties incident to the office of Secretary and such as may from time to time be prescribed by the Board of Directors or by the President.

Section 9. THE TREASURER

The Treasurer shall have general charge of the financial affairs of the Corporation. He shall in general have all powers and perform all duties incident to the office of Treasurer and such as may from time to time be prescribed by the Board of Directors or by the President.

Section 10. ASSISTANT OFFICERS

The Assistant Vice Presidents shall have such duties as may from time to time be assigned to them by the Board of Directors or the

President. The Assistant Secretaries shall have such duties as may from time to time be assigned to them by the Board of Directors or the Secretary. The Assistant Treasurers shall have such duties as may from time to time be assigned to them by the Board of Directors of the Treasurer.

Section 11. OTHER OFFICERS

Such other officers as may be elected by the Board of Directors shall have such powers and perform such duties as the Board may from time to time prescribe.

Section 12. SALARIES

The salaries of the Officers shall be fixed from time to time by the Board of Directors, and no Officer shall be prevented from receiving such salary by reason of the fact that he is also a Director of the Corporation.

Section 13. SPECIAL APPOINTMENTS

In the absence or incapacity of any Officer, or in the event of a vacancy in any office, the Board of Directors may designate any person to fill any such office pro tempore or for any particular purpose.

ARTICLE V.  
SEAL

The seal of the Corporation shall be circular in form with the words "CHEUNG LABORATORIES, INC." in the periphery and the words and figures "INCORPORATED 1982 MARYLAND" in the center.

ARTICLE VI.  
STOCK

Section 1. CERTIFICATES OF STOCK

Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Each certificate shall be signed,

manually or by facsimile, by the President or a Vice President and countersigned by the Secretary or the Treasurer and shall be sealed with the corporate seal or a facsimile of it. All certificates surrendered to the Corporation for transfer shall be cancelled, and no new certificates shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, stolen, destroyed or mutilated certificate, a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

Section 2. TRANSFER OF SHARES

Transfer of shares of the Corporation shall be made only on its stock transfer books by the holder of record thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed to be the owner thereof for all purposes. The Board of Directors shall have power and authority to make such other rules and regulations as it may deem necessary or appropriate concerning the issue, transfer and registration of certificates of stock; and may appoint transfer agents and registrars thereof. The duties of transfer agent and registrar may be combined.

Section 3. FIXING DATE FOR DETERMINATION OF STOCKHOLDERS' RIGHTS

The Board of Directors may fix, in advance, a date as the record date for the purpose of determining the stockholders entitled to notice of, or to vote at, any meeting of stockholders, or the stockholders entitled to receive payment of any dividend or the allotment of any rights, or in order to make a determination of stockholders for any other proper purpose. Only stockholders of record on such date shall be entitled to notice of, and to vote at, such meeting or to receive such dividends or rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after such record date fixed as aforesaid.

ARTICLE VII.  
AMENDMENTS

The By-Laws may be altered, amended or repealed, and new By-Laws may be adopted, by a majority of the entire Board of Directors.

ARTICLE VIII.  
FISCAL YEAR

The fiscal year of the Corporation shall end on September 30 of each year.

ARTICLE IX.  
INDEMNIFICATION

Section 1. DEFINITIONS

As used in this Article IX, any word or words defined in Section 2-418 of the Corporations and Associations Article of the Annotated Code of Maryland, as amended from time to time (the "Indemnification Section"), shall have the same meaning as provided in the Indemnification Section.

Section 2. DIRECTORS AND OFFICERS

The Corporation shall indemnify and advance expenses to a Director or Officer of the Corporation in connection with a proceeding to the fullest extent permitted by and in accordance with the Indemnification Section.

Section 3. OTHER EMPLOYEES AND AGENTS

With respect to an employee or agent, other than a Director of Officer, of the Corporation, the Corporation may, as determined by the Board of Directors of the Corporation, indemnify and advance expenses to such employee or agent in connection with a proceeding to the extent permitted by and in accordance with the Indemnification Section.

ARTICLE X.  
WAIVER OF NOTICE

Unless otherwise provided by law, whenever any notice is required to be given to any stockholder or director of the Corporation under the provisions of these ByLaws or under the provisions of the Articles of Incorporation, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE XI.  
AMENDMENTS

These By-Laws may be altered, amended or repealed and new By-Laws may be adopted by a vote of the stockholders representing a majority of all shares issued and outstanding, at any annual stockholders' meeting or at any special stockholders' meeting when the proposed amendment has been set out in the notice of such meeting.

CHEUNG LABORATORIES, INC.

AMENDMENT TO BY-LAWS

ARTICLE II  
DIRECTORS

Section 6 - NOTICE

Notice of every regular or special meeting of the Board of Directors shall be given to each Director by written notice stating the time and place of the meeting. Notice is given to a Director when it is delivered personally to him, left at his last known business or residence address, sent by telecopier or facsimile transmission to the Director's last known telephone or telecopier number, or by overnight delivery, including, but not limited to, Federal Express, as least 24 hours before the time of the meeting or, in the alternative be mailed to his last known business or residence address as it appears on the records of the Corporation at least 72 hours before the time of the meeting. Any Director may waive notice of any meeting by written waiver filed with the records of the meeting, either before or after the holding thereof. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transacting of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need to be specified in the notice or waiver of such meeting.

The Board of Directors may exclude from deliberations of the Board, and also from participation at a meeting of the Board (such exclusion from participation including lack of notice of the Board meeting as well as actual participation in the Board meeting) any Director or Directors which the Board of Directors has a bona fide reason to believe has a conflict of interest in receiving and evaluating sensitive information dealing with business opportunities or business of the Corporation such that the imparting of such knowledge to the affected Director or Directors could cause serious injury to the Corporation's business or business opportunities. This provision shall take effect immediately upon approval by the Board of Directors.

IRREVOCABLE PROXY

In consideration of the terms of a Redemption Agreement between Cheung Laboratories, Inc. (the "Corporation") and the undersigned, dated June 6, 1996, the undersigned holder of 20,000,000 shares of the common stock of the Corporation (hereinafter referred to as the "Common Stock") hereby appoints Dr. Augustine Y. Cheung as agent and proxy of the undersigned, and representative of the Corporation, with full power of substitution, to vote all shares of Common Stock which the undersigned would be entitled to vote, with all power which the undersigned would possess, upon all matters that may properly come before the shareholders of the Corporation.

This proxy shall be irrevocable for the period June 6, 1996 through February 28, 1997 and the undersigned hereby revokes any proxy or proxies heretofore given to vote such shares of Common Stock.

WITNESS:

STOCKHOLDER:

/S/ Gao Yu Wen  
Gao Yu Wen

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

and

CHEUNG LABORATORIES, INC.

PATENT LICENSE AGREEMENT

M.I.T.'S OFFER TO CHEUNG LABORATORIES, INC. TO  
ENTER INTO THIS LICENSE AGREEMENT SHALL EXTEND UNTIL  
NO LATER THAN JUNE 1, 1996.

(EXCLUSIVE)

319999.001(B&F)

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MASSACHUSETTS INSTITUTE OF TECHNOLOGY

and

CHEUNG LABORATORIES, INC.

PATENT LICENSE AGREEMENT

This Agreement is made and entered into this \_\_\_\_ day of \_\_\_\_\_, 1996, (the "Effective Date") by and between MASSACHUSETTS INSTITUTE OF TECHNOLOGY, a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts and having its principal office at 77 Massachusetts Avenue, Cambridge, Massachusetts 02139 (hereinafter referred to as "M.I.T."), and CHEUNG LABORATORIES, INC., a corporation duly organized under the laws of Maryland and having its principal office at 10220-I Old Columbia Road, Columbia, MD 21046-1705 (hereinafter referred to as "Licensee").

W I T N E S S E T H

WHEREAS, M.I.T. is the owner of certain Intellectual Property Rights (as later defined herein) relating to M.I.T. Case No. 5493L, U.S. Patent No. 5,251-645, "Adaptive Hyperthermia System" by Alan Fenn, and M.I.T. Case No. 5672L, "Non- Invasive Monopole Hyperthermia Array for Brain Tumor Heating" by Alan Fenn, and M.I.T. Case No. 6512L "Minimally Invasive Monopole Phased Array Hyperthermia Applicators for Treating Carcinoma" by Alan Fenn and has the right to grant licenses under said Patent Rights (as later defined herein), subject only to a royalty-free, nonexclusive license heretofore granted to the United States Government;

WHEREAS, M.I.T. desires to have the Patent Rights developed and commercialized to benefit the public and is willing to grant a license thereunder;

WHEREAS, M.I.T. is the owner of certain rights, title and interest in the Program (as later defined herein) relating to M.I.T. Case No. 7299LS, "NULLGSC," by Alan J. Fenn and M.I.T. Case No. 7928LS, "FOCUSGSC," by Alan J. Fenn subject only to the royalty-free, nonexclusive license rights of the United States

Government pursuant to 48 CFR 52.227-14 (Civilian Agencies) or DFARS 252.227-7013 (Defense Agencies), and has the right to grant licenses thereunder;

WHEREAS, M.I.T. desires to have the Program developed and commercialized to benefit the public and is willing to grant a license thereunder;

WHEREAS, Licensee has represented to M.I.T., to induce M.I.T. to enter into this Agreement, that Licensee is experienced in the development, production, manufacture, marketing and sale of products similar to the Licensed Product(s) (as later defined herein) and/or the use of the Licenses Process(es) (as later defined herein) and that it shall commit itself to a thorough, vigorous and diligent program of exploiting the Patent Rights, and to a thorough, vigorous and diligent program of exploiting the Patent Rights, and to a thorough, vigorous and diligent program of exploiting the Program, so that public utilization shall result therefrom, all in the manner provided herein; and

WHEREAS, Licensee desires to obtain a license under the Patent Rights and also desires to obtain a license to the Program, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the mutual terms, conditions and covenants contained herein, the parties hereto agree as follows:

#### 1. DEFINITIONS

For purposes of this Agreement, the following words and phrases shall have the following meanings:

1.1. "Licensee" shall include a related company of Cheung Laboratories, Inc., the voting stock of which is directly or indirectly at least fifty percent (50%) owned or controlled by Cheung Laboratories, Inc., an organization which directly or indirectly controls more than fifty percent (50%) of the voting stock of Cheung Laboratories, Inc. and an organization, the majority ownership of which is directly or indirectly common to the ownership of Cheung Laboratories, Inc.

1.2. "Patent Rights" shall mean all of the following M.I.T. intellectual property:

- (a) the United States patents listed in Appendix A;
- (b) the United States patent applications listed in Appendix A, and divisionals, continuations and claims of continuation-in-part applications which shall be directed to subject matter specifically described in such patent applications, and the resulting patents;
- (c) any patents resulting from reissues or reexaminations of the United States patents described in (a) and (b) above;
- (d) the Foreign patents listed in Appendix A;
- (e) the Foreign patent applications listed in Appendix A, and divisionals, continuations and claims of continuation-in-part applications which shall be directed to subject matter specifically described in such Foreign patent applications, and the resulting patents;
- (f) Foreign patent applications filed after the Effective Date in the countries listed in Appendix B and divisionals, continuations and claims of continuation-in-part applications which shall be directed to subject matter specifically described in such patent applications, and the resulting patents; and
- (g) any Foreign patents, resulting from equivalent Foreign procedures to United States reissues and reexaminations, of the Foreign patents described in (d), (e) and (f) above.

1.3. "Copyright" shall mean M.I.T.'s copyrights in the Program.

1.4. "Program" shall mean the computer program(s), "NULLGSC" and "FOCUSGSC" and related documentation, if any described in Appendix C (hereinafter the "M.I.T. Copyrighted Program"), and shall also include Adaptations, Derivative Works and Translations. Program shall also include any additional computer programs, including but not limited to acceleration software, developed for use with any of the Intellectual Property Rights. Program may be protected by both Patent Rights and Copyrights.

1.5. "Adaptations" shall mean the Program as it may be adapted by Licensee for hardware other than the original M.I.T. Cray computer.

1.6. "Derivative Works" shall mean a program that uses the M.I.T. Copyrighted Program and/or Adaptation, but which has enhanced and new features or fewer features. Licensee shall be entitled to establish all proprietary rights for itself in the intellectual property represented by Licensee-created enhancements and new features, whether in the nature of trade secrets, copyrights or patent rights or other rights. M.I.T. shall be entitled to establish all proprietary rights for itself in the intellectual property represented by M.I.T.-created enhancements and new features, whether in the nature of copyrights or patent rights or other rights.

1.7. "Translation" shall mean a translation of the Program into another language.

1.8. "Intellectual Property Rights" shall mean all of the Patent Rights and Copyright.

1.9. A "Licensed Product" shall mean Licensee's hyperthermia machine and accessories, or part thereof which:

- (a) is covered in whole or in part by an issued, unexpired claim or a pending claim contained in the Patent Rights in the country in which any such Licensed Product or part thereof is made, used or sold; or
- (b) is manufactured by using a process or is employed to practice a process which is covered in whole or in part by an issued, unexpired claim or a pending claim contained in the Patent Rights in the county in which any Licensed Process is used or in which such product or part thereof is used or sold.
- (c) is covered by the Copyright.

1.10. A "Licensed Process" shall mean any process which is covered in whole or in part by an issued, unexpired claim or a pending claim contained in the Patent Rights, or is covered by the Copyright.

1.11. "Net Sales" shall mean Licensee's and its sublicensees' billings, including Treatment Revenue, for Licensed Products and Licensed Processes less the sum of the following items, providing that these items are payable by Licensee or deductible from Licensee's billings within sixty (60) days of receiving payments from Licensee's customer(s):

- (a) discounts allowed in amounts customary in the trade for quantity purchases, cash payments, prompt payments, wholesalers and distributors;
- (b) sales, tariff duties and/or use taxes directly imposed and with reference to particular sales;
- (c) outbound transportation prepaid or allowed;
- (d) amounts allowed or credited on returns; and
- (e) allowance for bad debt, not to exceed Five Percent (5%) of Net Sales per calendar year.

No other deductions shall be made for commissions paid to individuals whether they be with independent sales agencies or regularly employed by Licensee and on its payroll, or for the cost of collections. Licensed Products shall be considered "sold" ninety (90) days after billing or invoicing, or upon receipt of payment, whichever comes first, provided, however, that Licensed Products are actually shipped to customers. If a Licensed Product or Licensed Process shall be distributed or invoiced for a discounted price substantially lower than customary in the trade or distributed at no cost to affiliates or otherwise, Net Sales shall be based on the customary amount billed for such Licensed Products or Licensed Processes.

1.12. "Field of Use One" shall mean Breast Hyperthermia.

1.13. "Field of Use Two" shall mean Head and Neck Hyperthermia.

1.14. "Field of Use Three" shall mean Deep Seated Hyperthermia of other organs, including, but not limited to, liver, lung and prostate.

1.15. On the Effective Date, "Exclusive Fields of Use" shall mean, Field of Use One, Field of Use Two, and Field of Use Three. This definition may be modified according to paragraphs 3.3(b), 3.4(b) and 3.5(b).

1.16. "Other Revenue" shall mean Licensee's gross revenues from the sale of services, including but not limited to, fees for consulting, research and development, and training in connection with:

- a. the sublicensing of the Intellectual Property Rights and/or;
- b. the use of sale, lease or other transfer of Licensed Products or Licensed Processes.

1.17. "End User" shall mean a customer authorized to use a single copy of the Licensed Product for internal purposes only and not for further distribution.

## 2. GRANT

2.1. M.I.T. hereby grants to Licensee the right and license for Field of Use One, Field of Use Two, and Field of Use Three to practice under the Patent Rights and, to the extent not prohibited by other patents, to make, have made, use, lease, sell and import Licenses Products and to practice the Licensed Processes, until the expiration of the last to expire of the Patent Rights, unless this Agreement shall be sooner terminated according to the terms hereof.

2.2. M.I.T. hereby grants to Licensee the following rights and licenses for the Exclusive Fields of Use to the end of the term for which the Copyright shall be granted, unless this Agreement shall be sooner terminated:

- (a) to use and reproduce the Program;
- (b) to create Derivatives;
- (c) to lease, transfer and sublicense Licensed Products to End-Users through the normal channels of distribution; and

- (d) to grant any or all of the above rights and licenses to Sublicensees.

2.3. In order to establish a period of exclusivity for Licensee, M.I.T. hereby agrees that it shall not grant any other license to the Patent Rights for the Exclusive Fields of Use, and also that it shall not grant any other license to the Copyright for the Exclusive Fields of Use, subject only to Paragraph 2.6 and to the royalty-free, nonexclusive license rights of the United States Government pursuant to 48 CFR 52.227- 14 (Civilian Agencies) or DFARS 252.227-7013 (Defense Agencies) during the period of time commencing with the Effective Date and terminating with the first to occur of:

- (a) the expiration of ten (10) years after the first commercial sale of a Licensed Product or first commercial use of a Licensed Process; or
- (b) the expiration of twelve (12) years after the Effective Date of this Agreement.

2.4. At the end of the exclusive period, the license granted hereunder shall become nonexclusive and shall extend to the end of the term or terms for which any Patent Rights are issued, unless sooner terminated as hereinafter provided. The period of exclusivity may be extended with the written consent of M.I.T., on a field of use basis, which consent shall not unreasonably be withheld, provided that Licensee is a licensee in good standing, owing no fees, royalties or any other monies to M.I.T., and having met all the diligence milestones pertaining to the particular field of use in which an extension of the period of exclusivity is under consideration.

2.5. M.I.T. reserves the right to practice under the Patent Rights for its own noncommercial research purposes.

2.6. M.I.T. reserves the right to use the Program, to use and create derivatives of the Program and to distribute the Program and M.I.T.-created derivatives to third parties for noncommercial research purposes.

2.7. Licensee agrees that Licensed Products leased or sold in the United States shall be manufactured substantially in the United States.

2.8. In order to encourage and facilitate the development of Licensed Products, M.I.T. agrees to perform the work described in the Technology Transfer Agreement attached to this license as Addendum A.

2.9. Licensee shall have the right to enter into sublicensing agreements for the rights, privileges and licenses granted hereunder only during the exclusive period of this Agreement. Such sublicenses may extend past the expiration date of the exclusive period of this Agreement, but any exclusivity of such sublicenses shall expire upon the expiration of Licensee's exclusivity. Upon any termination of this Agreement, sublicensees' rights shall also terminate, subject to Paragraph 13.6 hereof.

2.10. Licensee agrees that any sublicenses granted by it shall provide that the obligations to M.I.T. of Articles 2, 5, 7, 8, 9, 10, 12, 13, and 15 of this Agreement shall be binding upon the sublicensee as if it were a party to this Agreement. Licensee further agrees to attach copies of these Articles to sublicense agreements.

2.11. Licensee agrees to forward to M.I.T. a copy of any and all sublicense agreements promptly upon execution by the parties.

2.12. Licensee shall not receive from sublicensees anything of value in lieu of cash payments in consideration for any sublicense under this Agreement, without the express prior written permission of M.I.T.

2.13. The license granted hereunder shall not be construed to confer any rights upon Licensee by implication, estoppel or otherwise as to any technology not specifically set forth in Appendix A hereof.

### 3. DUE DILIGENCE

3.1. Licensee shall use its best efforts to bring one or more Licensed Products or Licenses Processes to market through a thorough, vigorous and diligent program for exploitation of the Intellectual Property Rights and to continue active, diligent marketing efforts for one or more Licensed Products or Licensed Processes throughout the life of this Agreement.

3.2. (a) In addition, pertaining to Field of Use One, Licensee shall adhere to the following milestones.

(i) On or before December 31, 1996, Licensee shall deliver a Licensed Product to one site suitable for clinical testing in Field of Use One.

(ii) On or before June 30, 1997, Licensee shall deliver to M.I.T. clinical data obtained from at least ten (10) patients enrolled in the clinical trials referred to in 3.2(a)(i) above.

(iii) As soon as possible, but in all events on or before June 30, 1999, Licensee shall apply for FDA approval for commercial sales of a Licensed Product in Field of Use One.

(iv) Licensee shall make sales of Licensed Products in Field of Use One according to the following schedule:

1998	at least 1 unit
1999	at least 5 units
2000	at least 10 units
2001 and each year thereafter	at least 25 units

(b) In addition, pertaining to Field of Use Two, Licensee shall develop a business plan for commercialization of the Intellectual Property Rights in Field of Use Two and submit it to M.I.T. on or before June 30, 1997.

(c) In addition, pertaining to Field of Use Three, Licensee shall seek to include in the protocols for the clinical trials to be conducted pursuant to Section 3.2(a), clinical testing directed toward the commercialization of the Intellectual Property Rights in Field of Use Three. On or before September 30, 1996, Licensee shall provide M.I.T. a definitive business plan for such commercialization of the Intellectual Property Rights in Field of Use Three.

- 3.3. (a) Failure to comply with paragraphs 3.2(a)(i), (ii), or (iii), shall be grounds for M.I.T. to terminate this license pursuant to paragraph 13.3 hereof.
- (b) Failure to comply with paragraph 3.2(a)(iv) shall be grounds to remove Field of Use One from the definition of "Exclusive Fields of Use", thereby terminating Licensee's exclusive rights to Field of Use One.

3.4. Failure to comply with paragraphs 3.2(b) shall be grounds for M.I.T. to terminate the grant in paragraph 2.1 of rights to Field of Use Two pursuant to paragraph 13.3 hereof.

3.5. Failure to comply with paragraphs 3.2(c) shall be grounds for M.I.T. to terminate the grant in paragraph 2.1 of rights to Field of Use Three pursuant to paragraph 13.3 hereof.

#### 4. ROYALTIES

4.1. For the rights, privileges and license granted hereunder, Licensee shall pay royalties to M.I.T. in the manner hereinafter provided to the end of the term of the Patent Rights or until this Agreement shall be terminated:

- (a) License Issue Fee of [Confidential Treatment Requested], which said License Issue Fee shall be deemed earned and due according to the following schedule:
- (i) [Confidential Treatment Requested] shall be due on the Effective Date.
  - (ii) [Confidential Treatment Requested] shall be due June 15, 1996.
  - (iii) [Confidential Treatment Requested] shall be due upon Licensee's raising the first One Hundred Thousand Dollars

of investment capital directly related to the commercialization of the Intellectual Property Rights.

- (b) License Maintenance Fees of [Confidential Treatment Requested] per year payable on January 1, 1997, January 1, 1998 and on January 1, 1999; provided, however, that Running Royalties subsequently due on Net Sales for each paid year, if any, shall be creditable against the License Maintenance Fee for said year. License Maintenance Fees paid in excess of Running Royalties shall not be creditable to Running Royalties for future years.
- (c) License Maintenance Fees of [Confidential Treatment Requested] per year payable on January 1, 2000 and on January 1, 2001 provided, however, that Running Royalties subsequently due on Net Sales for each said year, if any, shall be creditable against the License Maintenance Fee for said year. License Maintenance Fees paid in excess of Running Royalties shall not be creditable to Running Royalties for future years.
- (d) License Maintenance Fees of [Confidential Treatment Requested] per year payable on January 1, 2002 and on January 1 of each year thereafter; provided, however, License Maintenance Fees may be credited to Running Royalties subsequently due on Net Sales for each said year, if any. License Maintenance Fees paid in excess of Running Royalties shall not be creditable to Running Royalties for future years.
- (e) Running Royalties in an amount equal to [Confidential Treatment Requested] percent (\_\_\_%) of Net Sales of the Licensed Products and Licenses Processes used, leased or sold by and/or for Licensee and/or its sublicensees for Licensed Products which are both made and leased or sold and for Licensed Processes which are both used and leased or sold in a country in which there is a valid, issued claim of a patent described in either Appendices A or B.

- (f) Running Royalties in an amount equal to [Confidential Treatment Requested] percent (\_\_\_%) of Net Sales of the Licensed Products and Licensed Processes used, leased or sold by and/or for Licensee and/or its sublicensees for Licensed Products which are either made or leased or sold and for Licensed Processes which are either used or leased or sold in a country in which there is a valid, issued claim of a patent described in either Appendices A or B, or in a country in which there is a pending claim pertaining to M.I.T. Case 6521L, providing that such country is Canada.
- (g) Running Royalties in an amount equal to [Confidential Treatment Requested] percent (\_\_\_%) of Net Sales of the Licensed Products and Licensed Processes used, leased or sold by and/or for Licensee and/or its sublicensees for Licensed Products which are neither made nor leased nor sold in a country in which there is a valid, issued claim of a patent described in either Appendices A or B, but which utilize the Copyright and/or practice of run the Program, as described in Appendix C and for Licensed Processes which are neither used nor leased nor sold in a country in which, but which utilize the Copyright and/or practice or run the Program as described in Appendix C.
- (h) Running Royalties in an amount equal to [Confidential Treatment Requested] percent (\_\_\_%) of Net Sales of the Program delivered to End-Users if the Program is sold separately from the Licensed Products.
- (i) If Other Revenue is greater than Net Sales, then Running Royalties in an amount equal to [Confidential Treatment Requested] (\_\_\_%) of Other Revenue;
- (j) If Other Revenue is less than Net Sales, then Running Royalties in an amount equal to [Confidential Treatment Requested] (\_\_\_%) of Other Revenue.

4.2. All payments due hereunder shall be paid in full, without deduction of taxes or other fees which may be imposed by any government and which shall be paid by Licensee.

4.3. No multiple royalties shall be payable because any Licensed Product, its manufacture, use, lease or sale are or shall be covered by more than one Intellectual Property Rights patent application of Intellectual Property Rights patent licensed under this Agreement.

4.4. Royalty payments shall be paid in United States dollars in Cambridge, Massachusetts, or at such other place as M.I.T. may reasonably designate consistent with the laws and regulations controlling in any foreign country. If any currency conversion shall be required in connection with the payment of royalties hereunder, such conversion shall be made by using the exchange rate prevailing at the Chase Manhattan Bank (N.A.) on the last business day of the calendar quarterly reporting period to which such royalty payments relate.

#### 5. REPORTS AND RECORDS

5.1. Licensee shall keep full, true and accurate books of account containing all particulars that may be necessary for the purpose of showing the amounts payable to M.I.T. hereunder. Said books of account shall be left at Licensee's principal place of business or the principal place of business of the appropriate division of Licensee to which this Agreement relates. Said books and the supporting data shall be open at all reasonable times for five (5) years following the end of the calendar year to which they pertain, to the inspection of M.I.T. or its agents for the purpose of verifying Licensee's royalty statement or compliance in other respects with this Agreement. Should such inspection lead to the discovery of a greater than Ten Percent (10%) discrepancy in reporting to M.I.T.'s detriment, Licensee agrees to pay the reasonable cost of such inspection.

5.2. Licensee shall deliver to M.I.T. true and accurate reports, giving such particulars of the business conducted by Licensee and its sublicensees under this Agreement as shall be pertinent to diligence under Article 3 and royalty accounting hereunder:

- (a) before the first commercial sale of a Licensed Product or Licensed Process, annually, on January 31 or each year; and
- (b) after the first commercial sale of a Licensed Product or Licensed Process, quarterly, within sixty (60) days after March 31, June 30, September 30 and December 31, of each year.

These reports shall include at least the following:

- (a) number of Licensed Products manufactured, leased and sold by and/or for Licensee and all sublicensees;
- (b) accounting for all Licensed Processes used or sold by and/or for Licensee and all sublicensees;
- (c) accounting for Net Sales, noting the deductions and credits applicable as provided in Paragraphs 1.11 and 6.3, accounting for Other Revenue;
- (d) Running Royalties due under Paragraph 4.1(e) and (f);
- (e) Running Royalties due under Paragraph 4.1(g) and (h);
- (f) total royalties due; and
- (g) names and addresses of all sublicensees of Licensee.

5.3. With each such report submitted, Licensee shall pay to M.I.T. the royalties due and payable under this Agreement. If no royalties shall be due, Licensee shall so report.

5.4. On or before the ninetieth (90th) day following the close of Licensee's fiscal year, Licensee shall provide M.I.T. with Licensee's certified financial statements for the preceding fiscal year including, at a minimum, a Balance Sheet and an Operating Statement.

5.5. The royalty payments set forth in this Agreement and amounts due under Article 6 shall, if overdue, bear interest until payment at a per annum rate two percent (2%) above the prime rate in effect at the Chase Manhattan Bank (N.A.) on the due date. The payment of such interest shall not foreclose M.I.T. from exercising any other rights it may have as a consequence of the lateness of any payment.

## 6. PATENT PROSECUTION

6.1. M.I.T. shall have the administrative responsibility to apply for, see, prompt issuance of, and maintain during the term of this Agreement the Patent Rights in the United States and in the foreign countries listed in Appendices A and B hereto. Appendix B may be amended by verbal agreement of both parties, such agreement to be confirmed in writing within ten (10) days. The prosecution, filing and maintenance of all Patent Rights patents and applications shall be the primary responsibility of M.I.T.; provided, however, Licensee shall have reasonable opportunities to advise M.I.T. and shall cooperate with M.I.T. in such prosecution, filing and maintenance.

6.2. Payment of all fees and costs relating to the filing, prosecution, and maintenance of the Patent Rights incurred after the date of this Agreement shall be the responsibility of Licensee. M.I.T. is not financially obliged to maintain and prosecute patents.

6.3. M.I.T. agrees that Licensee may take a cumulative life of license credit for expenditures on the Patent Rights, such credit not to exceed [Confidential Treatment Requested] and to be taken according to the following schedule:

- (a) Licensee may credit their above referenced patent prosecution and maintenance expenditures incurred in a given calendar year against up to one half of License Maintenance Fees due the following January 1 under paragraphs 4.1(b), (c), and (d).
- (b) In the event that Running Royalties exceed the License Maintenance Fee for a given year, and Licensee owes M.I.T. Running Royalties in addition to the License Maintenance Fee already paid, then Licensee may use their patent prosecution and

maintenance credit against up to one half of the Running Royalties due paragraphs 4.1(e), (f) and (g).

## 7. INFRINGEMENT

7.1. Licensee shall inform M.I.T. promptly in writing of any alleged infringement of the Intellectual Property Rights by a third party of which it becomes aware and of any available evidence thereof. M.I.T. shall inform Licensee promptly in writing of any alleged infringement of the Intellectual Property Rights by a third party of which it becomes aware and of any available evidence thereof. Within ten (10) business days of such notice the parties shall confer to determine how best to proceed.

7.2. During the term of this Agreement, M.I.T. shall have the right, but shall not be obligated, to prosecute at its own expense all infringements of the Intellectual Property Rights and, in furtherance of such right, Licensee hereby agrees that M.I.T. may include Licensee as a party plaintiff in any such suit, without expense to Licensee. The total cost of any such infringement action commenced or defended solely by M.I.T. shall be borne by M.I.T. and M.I.T. shall keep any recovery or damages for past infringement derived therefrom.

7.3. If within six (6) months after having been notified of any alleged infringement, M.I.T. shall have been unsuccessful in persuading the alleged infringer to desist and shall not have brought and shall not be diligently prosecuting an infringement action, or if M.I.T. shall notify Licensee at any time prior thereto of its intention not to bring suit against any alleged infringer for the Field of Use, then, and in those events only, Licensee shall have the right, but shall not be obligated, to prosecute at its own expense any infringement of the Intellectual Property Rights for the Field of Use, and Licensee may, for such purposes, use the name of M.I.T. as party plaintiff; provided, however, that such right to bring such an infringement action shall remain in effect only for so long as the license granted herein remains exclusive. No settlement, consent judgment or other voluntary final disposition of the suit may be entered into without the consent of M.I.T., which consent shall not unreasonably be withheld. Licensee shall indemnify M.I.T. against any order for costs that may be made against M.I.T. in such proceedings.

7.4. In the event that Licensee shall undertake the enforcement and/or defense of the Intellectual Property Rights by litigation, Licensee may withhold up to fifty percent (50%) of the payments otherwise thereafter due M.I.T. under Article 4 hereunder and apply the same toward reimbursement of up to half of Licensee's expenses, including reasonable attorneys' fees, in connection therewith. Any recovery of damages by Licensee for each such suit shall be applied first in satisfaction of any unreimbursed expenses and legal fees of Licensee relating to such suit, and next toward reimbursement of M.I.T. for any payments under Article 4 past due or withheld and applied pursuant to this Article 7. The balance remaining from any such recovery shall be divided so that the percentage of the recovery due M.I.T. is calculated by creating a fraction, the numerator of which is the amount of royalties withheld, and denominator of which is the cost of litigation paid by Licensee, but in no event shall such sum be less than Ten Percent (10%) of the net recovery.

7.5. In the event that a declaratory judgment action alleging invalidity or noninfringement of any of the Intellectual Property Rights shall be brought against Licensee, M.I.T., at its option, shall have the right, within thirty (30) days after commencement of such action, to intervene and take over the sole defense of the action at its own expense.

7.6. In any infringement suit as either party may institute to enforce the Patent Rights pursuant to this Agreement, the other party hereto shall, at the request and expense of the party initiating such suit, cooperate in all respects and, to the extent possible, have its employees testify when requested and make available relevant records, papers, information, samples, specimens, and the like.

7.7. Licensee, during the exclusive period of this Agreement, shall have the sole right in accordance with the terms and conditions herein to sublicense any alleged infringer for the Field of Use for future use of the Intellectual Property Rights. Any upfront fees as part of such a sublicense shall be shared equally between Licensee and M.I.T.; other royalties shall be treated per Article 4.

#### 8. PRODUCT LIABILITY

8.1. Licensee shall at all times during the term of this Agreement and thereafter, indemnify, defend and hold M.I.T., its trustees, directors, officers, employees

and affiliates, harmless against all claims, proceedings, demands and liabilities of any kind whatsoever, including legal expenses and reasonable attorneys' fees, arising out of the death of or injury to any person or persons or out of any damage to property, resulting from the production, manufacture, sale, use, lease, consumption or advertisement of the Licensed Product(s) and/or Licensed Process(es) or arising from any obligation of Licensee hereunder.

8.2. Licensee shall obtain and carry in full force and effect commercial, general liability insurance which shall protect Licensee and M.I.T. with respect to events covered by Paragraph 8.1 above. Such insurance shall be written by a reputable insurance company authorized to do business in the Commonwealth of Massachusetts, shall list M.I.T. as an additional named insured thereunder, shall be endorsed to include product liability coverage and shall require thirty (30) days written notice to be given to M.I.T. prior to any cancellation or material change thereof. The limits of such insurance shall not be less than One Million Dollars (\$1,000,000) per occurrence with an aggregate of Three Million Dollars (\$3,000,000) for personal injury or death, and One Million Dollars (\$1,000,000) per occurrence with an aggregate of Three Million Dollars (\$3,000,000) for property damage. Licensee shall provide M.I.T. with Certificates of Insurance evidencing the same.

8.3. EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS AGREEMENT, M.I.T., ITS TRUSTEES, DIRECTORS, OFFICERS, EMPLOYEES, AND AFFILIATES MAKE NO REPRESENTATIONS AND EXTENT NO WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, VALIDITY OF PATENT RIGHTS CLAIMS, ISSUED OR PENDING, AND TO THE COPYRIGHT AND THE ABSENCE OF LATENT OR OTHER DEFECTS, WHETHER OR NOT DISCOVERABLE. NOTHING IN THIS AGREEMENT SHALL BE CONSTRUED AS A REPRESENTATION MADE OR WARRANTY GIVEN BY M.I.T. THAT THE PRACTICE BY LICENSEE OF THE LICENSE GRANTED HEREUNDER SHALL NOT INFRINGE THE PATENT RIGHTS OR THE COPYRIGHT OF ANY THIRD PARTY. IN NO EVENT SHALL M.I.T., ITS TRUSTEES, DIRECTORS, OFFICERS, EMPLOYEES AND AFFILIATES BE LIABLE FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY KIND, INCLUDING ECONOMIC DAMAGE OR INJURY TO PROPERTY AND LOST PROFITS, REGARDLESS OF WHETHER M.I.T. SHALL BE ADVISED, SHALL

HAVE OTHER REASON TO KNOW, OR IN FACT SHALL KNOW OF THE POSSIBILITY OF THE FOREGOING.

#### 9. EXPORT CONTROLS

Licensee acknowledges that it is subject to United States laws and regulations controlling the export of technical data, computer software, laboratory prototypes and other commodities (including the Arms Export Control Act, as amended and the United States Department of Commerce Export Administration Regulations). The transfer of such items may require a license from the cognizant agency of the United States Government and/or written assurances by Licensee that Licensee shall not export data or commodities to certain foreign countries without prior approval of such agency. M.I.T. neither represents that a license shall not be required nor that, if required, it shall be issued.

#### 10. NON-USE OF NAMES

Licensee shall not use the names or trademarks of the Massachusetts Institute of Technology or Lincoln Laboratory, nor any adaption thereof, nor the names of any of their employees, in any advertising, promotional or sales literature without prior written consent obtained from M.I.T., or said employee, in each case, except that Licensee may state that it is licensed by M.I.T. under one or more of the patents and/or applications comprising the Patent Rights, and that it has a license to the Copyright.

#### 11. ASSIGNMENT

This Agreement is not assignable and any attempt to do so shall be void.

#### 12. DISPUTE RESOLUTION

12.1. Except for the right of either party to apply to a court of competent jurisdiction for a temporary restraining order, a preliminary injunction, or other equitable relief to preserve the status quo or prevent irreparable harm, any and all claims, disputes

or controversies arising under, out of, on in connection with the Agreement, including any dispute relating to patent validity or infringement, which the parties shall be unable to resolve within sixty (60) days shall be mediated in good faith. The party raising such dispute shall promptly advise the other party of such claim, dispute or controversy in a writing which describes in reasonable detail the nature of such dispute. By not later than five (5) business days after the recipient has received such notice of dispute, each party shall have selected for itself a representative who shall have the authority to bind such party, and shall additionally have advised the other party in writing of the name and title of such representative. By not later than ten (10) business days after the date of such notice of dispute, the party against whom the dispute shall be raised shall select a mediation firm in the Boston area and such representatives shall schedule a date with such firm for a mediation hearing. The parties shall enter into good faith mediation and shall share the costs equally. If the representatives of the parties have not been able to resolve the dispute within fifteen (15) business days after such mediation hearing, then any and all claims, disputes or controversies arising under, out of, or in connection with this Agreement, including any dispute relating to patent validity or infringement, shall be resolved by final and binding arbitration in Boston, Massachusetts under the rules of the American Arbitration Association, or the Patent Arbitration Rules if applicable, then obtaining. The arbitrators shall have no power to add to, subtract from or modify any of the terms or conditions of this Agreement, not to award punitive damages. Any award rendered in such arbitration may be enforced by either party in either the courts of the Commonwealth of Massachusetts or in the United States District Court for the District of Massachusetts, to whose jurisdiction for such purposes M.I.T. and Licensee each hereby irrevocably consents and submits.

12.2. Notwithstanding the foregoing, nothing in this Article shall be construed to waive any rights or timely performance of any obligations existing under this Agreement.

### 13. TERMINATION

13.1. If Licensee shall cease to carry on its business, this Agreement shall terminate upon notice by M.I.T.

13.2. Should Licensee fail to make any payment whatsoever due and payable to M.I.T. hereunder, M.I.T. shall have the right to terminate this

Agreement effective on thirty (30) days' notice, unless Licensee shall make all such payments to M.I.T. within said thirty (30) day period. Upon the expiration of the thirty (30) day period, if Licensee shall not have made all such payments to M.I.T., the rights, privileges and license granted hereunder shall automatically terminate.

13.3. Upon any material breach or default of this Agreement by Licensee (including, but not limited to, breach or default under Paragraph 3.3), other than those occurrences set out in Paragraphs 13.1 and 13.2 hereinabove, which shall always take precedence in that order over any material breach or default referred to in this Paragraph 13.3, M.I.T. shall have the right to terminate this Agreement and the rights, privileges and license granted hereunder effective on ninety (90) days' notice to Licensee. Such termination shall become automatically effective unless Licensee shall have cured any such material breach or default prior to the expiration of the ninety (90) days period.

13.4. Licensee shall have the right to terminate this Agreement at any time on six (6) months' notice to M.I.T., and upon payment of all amounts due M.I.T. through the effective date of the termination.

13.5. Upon termination of this Agreement for any reason, nothing herein shall be construed to release either party from any obligation that matured prior to the effective date of such termination; and Articles 1, 8, 9, 10, 12, 13.5, 13.6, and 15 shall survive any such termination. Licensee and any sublicensee thereof may, however, after the effective date of such termination, sell all Licensed Products, and complete Licensed Products in the process of manufacture at the time of such termination and sell the same, provided that Licensee shall make the payments to M.I.T. as required by Article 4 of this Agreement and shall submit the reports required by Article 5 hereof.

13.6. Upon termination of this Agreement for any reason:

- (a) Licensee shall provide M.I.T. with written assurance that the original and all copies of the Program and Derivatives, have been destroyed, except that, upon prior written authorization from M.I.T. Licensee may retain a copy for archival purposes; and
- (b) the rights of End-Users to the use and enjoyment of the Licensed Products shall not be abridged or diminished in any way, except that any End-User leasing or sublicensing the Licensed Products and not

then in default shall have the right to obtain a lease or sublicense directly from M.I.T. under reasonable terms and conditions.

13.7. Upon termination of this Agreement for any reason, any sublicensee not then in default shall have the right to seek a license from M.I.T. M.I.T. agrees to negotiate such licenses in good faith under reasonable terms and conditions.

14. PAYMENTS, NOTICES  
AND OTHER COMMUNICATIONS

Any payment, notice or other communication pursuant to this Agreement shall be sufficiently made or given on the date of mailing if sent to such party by certified first class mail, return receipt requested, postage prepaid, addressed to it at its address below or as it shall designate by written notice given to the other party:

In the case of M.I.T.:

Director  
Technology Licensing Office  
Massachusetts Institute of Technology  
Room E32-300  
Cambridge, Massachusetts 02139

In the case of Licensee:

Augustine Y. Cheung  
Chairman and CEO  
Cheung Laboratories, Inc.  
10220-I Old Columbia Road  
Columbia, MD 21046-1705

15. MISCELLANEOUS PROVISIONS

15.1. All disputes arising out of or related to this Agreement, or the performance, enforcement, breach or termination hereof, and any remedies relating thereto, shall be construed, governed, interpreted and applied in accordance with the laws of the Commonwealth of Massachusetts, U.S.A., except that questions affecting the construction and effect of any patent shall be determined by the law of the country in which the patent shall have been granted.

15.2. The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument signed by the parties.

15.3. The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or unenforceable under any controlling body of the law, such invalidity or unenforceability shall not in any way affect the validity of enforceability of the remaining provisions hereof.

15.4. Licensee agrees to mark the Licensed Products sold in the United States with all applicable United States patent numbers. All Licensed Products shipped to or sold in other countries shall be marked in such a manner as to conform with the patent laws and practice of the country of manufacture or sale.

15.5. The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

IN WITNESS WHEREOF, the parties have duly executed this Agreement the day and year set forth below.

MASSACHUSETTS INSTITUTE OF  
TECHNOLOGY

CHEUNG LABORATORIES, INC.

By: /s/ \_\_\_\_\_  
By: /s/ \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Date:

Date:

APPENDIX A

PATENT RIGHTS ON THE EFFECTIVE DATE

UNITED STATES PATENT RIGHTS

M.I.T. Case No. 5493L  
U.S. Patent No. 5,251,645  
"Adaptive Nulling Hyperthermia Array:  
By Alan Fenn

M.I.T. Case No. 6512L  
U.S. Serial Number 157,928  
"Minimally Invasive Monopole Phased Array Hyperthermia Applicators  
For Treating Breast Carcinomas"  
By Alan Fenn

FOREIGN PATENT RIGHTS

M.I.T. Case No. 6512L  
PCT Application designating EPO, Canada and Japan  
"Minimally Invasive Monopole Phased Hyperthermia Applicators  
For Treating Breast Carcinomas"  
By Alan Fenn

APPENDIX B

1. Foreign patent applications and patents within the Patent Rights as of Effective Date:

M.I.T. Case No. 6512L  
PCT Application designating EP0, Canada and Japan  
"Minimally Invasive Monopole Phased Hyperthermia Applicators  
For Treating Breast Carcinomas"  
By Alan Fenn

2. Foreign countries in which Patent Rights shall be filed, prosecuted and maintained in accordance with Article 6.

No additional instructions as of February 23, 1996.

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APPENDIX C

M.I.T. COPYRIGHTED SOFTWARE

M.I.T. Case No. 7299LS  
"NULLGSC"  
By Alan Fenn

M.I.T. Case No. 7298LS  
"FOCUSGSC"  
By Alan Fenn

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LICENSE AGREEMENT

AGREEMENT, dated August , 1996, by and between MMTC, INC. ("MMTC") a Delaware corporation having its principal executive offices at 12 Roszel Road, Suite A-203, Princeton, New Jersey 08450, and CHEUNG LABORATORIES, INC. ("CLI"), a Maryland corporation having its principal executive offices at 10220-I Old Columbia Rd. Columbia, MD 21046.

WHEREAS, MMTC owns or controls certain patents relating to a microwave balloon catheter which may have application for treatment of diseases of the prostate;

WHEREAS, CLI desires to acquire a perpetual, exclusive, and worldwide license under said patents for use in the Field (as defined below);

WHEREAS, MMTC is willing to grant CLI said license for use in the Field.

NOW, THEREFORE, in consideration of the mutual covenants and agreements provided herein, MMTC and CLI hereby agree as follows:

SECTION 1 - DEFINITIONS

For purposes of this Agreement the following definitions shall be applicable:

1.1 "Affiliate" shall mean, with respect to any party, a person, firm, partnership, trust, company or other entity which, directly or indirectly, ( i ) owns or controls said party, or (ii) is owned or controlled by such party or by any person, firm, partnership, trust, company or other entity which owns or controls, directly or indirectly, said party. For purposes of this Section 1.1, "owned" or "owns" shall mean the legal or beneficial ownership of fifty percent (50 %) or more of the issued and voting capital or other share participation, and "controls" or "controlled" shall mean the power to vote or direct fifty percent (50 %) or more of the voting power or otherwise to direct the affairs thereof, but only for so long as said ownership or control shall continue.

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1.2 "Field" shall mean the treatment of prostatic disease in humans, excepting the treatment of cancer of the prostate.

1.3 "Licensed Patents" shall mean only all patents listed in Appendix I, annexed hereto and made a part hereof and any patents which may issue from applications listed on Appendix I, together with all divisionals, continuations-in-part, patents of additions and extensions and reissues thereof.

1.4 "Licensed Products" shall mean anything the manufacture, use or sale of which would, in the absence of a license, infringe any of the Licensed Patents and is used in the Field.

1.5 "Net Sales" shall mean gross sales of Licensed Products sold by CLI, its Affiliates and sublicensees to third parties, less the total of ( i ) ordinary and customary cash and trade discounts, ( ii ) returns, ( iii ) allowances, ( iv ) commissions to independent sales agents, and (v ) excise, sales or use taxes, other consumption taxes, customs duties and compulsory payments to governmental authorities actually paid or deducted which are related to gross sales of Licensed Products sold by CLI, its Affiliates and sublicensees to their distributors but shall not include sales by such distributors to third parties. In the event that any component or item within the definition of "Licensed Product" hereunder is separately sold and is also sold as part of or in conjunction with another significant component which is not within the definition of "Licensed Product", then Net Sales thereof shall be determined as if such item or component had been sold separately.

1.6 "Nonpatent Countries" shall mean those countries where the manufacture, use or sale of the Licensed Products does not infringe an unexpired Licensed Patent applicable to that country.

1.7 "Patent Countries" shall mean those countries where the manufacture, use or sale of the Licensed Products would, in the absence of a license, infringe an unexpired Licensed Patent applicable to that country.

1.8 "Payment Computation Period" shall mean each fiscal quarter, or any portion thereof, ending on the last day of the third, sixth, ninth, and twelfth accounting periods of a given CLI fiscal year. In the event CLI should change its fiscal year end so that CLI has a transitional fiscal year which is longer

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or shorter than twelve months, the Payment Computation Periods for such transitional fiscal year shall be in accordance with generally accepted accounting principles and approximately equal to the length of three (3) fiscal accounting periods in a fiscal year consisting of twelve months.

## SECTION 2 - GRANT OF LICENSE

2.1 Subject to the terms of this Agreement, MMTC hereby grants to CLI, and CLI hereby accepts, a perpetual, exclusive and worldwide license, to make, have made, use and sell the Licensed Products in the Field. It is understood that the foregoing exclusive license grants to CLI the rights enumerated to the exclusion of all other parties in the Field, including MMTC and its Affiliates.

## SECTION 3 - LICENSE FEES AND ROYALTIES

3.1 In consideration of the patent licenses, CLI shall pay to MMTC a license fee in the total amount of [Confidential Treatment Requested] which shall be payable within thirty (30) days after execution of this Agreement. The foregoing license fee paid to MMTC shall be creditable against future royalties due under Section 3.3 hereof.

3.2 CLI shall pay MMTC an additional license fee ("Additional License Fee") of [Confidential Treatment Requested] for each failure by CLI to meet any of the following development milestones by the specified date:

- ( i ) to commence a clinical safety trial with not less than ten (10) patients by March 31, 1997;
- ( ii ) to file IDE within 6 months after signing of agreement; or
- ( iii ) to commence clinical efficacy immediately upon receipt of IDE approval.

CLI shall pay any required Additional License Fee to MMTC within sixty (60) days after the applicable date set forth in Section 3.2 ( i ), ( ii ), or ( iii ) above. CLI shall

provide MMTC with written notification that it has met each of the development milestones set forth above in Section 3.2 ( i ), ( ii ), and ( iii ) within sixty (60) days of meeting such milestone. Notwithstanding the provisions of this Section 3.2 , if CLI should fail to meet any of the development milestones set forth above in Section 3.2 ( i ), ( ii ), or ( iii ), in lieu of paying the required Additional License Fee , CLI, at its option, may terminate this Agreement and relinquish all its rights under this Agreement to the Licensed Patents. If CLI should fail to meet any of the development milestones set forth above in Section 3.2 ( i ), ( ii ), or ( iii ) and should fail to pay the required Additional License Fee, MMTC, at its option, may terminate this Agreement as provided in Section 12.2 hereof. All Additional License Fees paid by CLI to MMTC shall be creditable against future royalties due under Section 3.3 hereof.

3.3 In consideration of the license granted to CLI under Section 2.1 hereof , CLI shall pay to MMTC royalties based on Net Sales of Licensed Products in Patent Countries as follows:

( i ) At the rate of [Confidential Treatment Requested] of annual Net Sales.

The royalties payable under this Section 3.3 shall only be payable on Net Sales in Patent Countries and shall not be payable on Net Sales in Nonpatent Countries, regardless of the country of manufacture of the Licensed Product. The duration of royalty payments under this section 3.3 shall be determined on a country-by-country basis and, subject to the provisions of Sections 6.1 and 8.3 hereof, shall continue in each country until the expiration of the last to expire of the Licensed Patents in such country with claims directed to the Licensed Product sold in such country by CLI, its Affiliates and sublicensees.

3.4 CLI shall pay MMTC minimum annual royalties of [confidential treatment requested] for a period of seven (7) years commencing with the earlier of (i) the first full CLI fiscal year following the first commercial sale of a Licensed Product in the United States and ( ii ) CLI's 2000 fiscal year (the fiscal year beginning after December 31, 1999). In the event the royalties payable pursuant to Section 3.3 hereof for any CLI fiscal year should be less than the minimum annual royalties payable for such fiscal year pursuant to this section 3.4, then CLI, within sixty (60) days after the end of such fiscal year, shall pay to MMTC an additional royalty for such fiscal year which shall be

equal to the difference between the minimum annual royalty payable pursuant to this Section 3.4 and the royalty payable pursuant to Section 3.3. for such fiscal year. Any additional royalties paid by CLI pursuant to this Section 3.4 shall be creditable against future royalties due under Section 3.3 hereof. If CLI should fail to pay MMTC the additional royalties under this Section 3.4 hereof for any CLI fiscal year, MMTC shall have the right, at its option, to terminate this Agreement pursuant to Section 12.2 hereof. If CLI terminates this Agreement pursuant to Sections 12.1 or 12.3, CLI obligations to pay annual minimum royalties pursuant to this Section 3.4 shall cease as of the effective date of termination.

SECTION 4 - PAYMENT PROCEDURES, REPORTS,  
RECORDS, TAXES, AND AUDITING

4.1 Sales between or among CLI, its Affiliates and sublicensees shall not be subject to royalties under Section 3.3 hereof, but in such cases royalties shall be calculated upon Net Sales by such persons to independent third parties, including distributors. CLI shall be responsible for payment of any royalties accrued on sales of Licensed Products to such independent third parties through its Affiliates or sublicensees.

4.2 CLI shall pay to MMTC royalties on Net Sales in Patent Countries during each Payment Computation Period within sixty (60) days after the end of each such Payment Computation Period, and each payment shall be accompanied by a report identifying the Licensed Product, the Net Sales in Patent Countries, and the royalties payable to MMTC, as well as computation thereof. Said reports shall be certified as true and correct by the Controller of CLI. Said reports shall be kept confidential by MMTC and not disclosed to any party (other than accountants under Section 4.3 hereof and MMTC's attorneys who shall all be subject to the same obligations of confidentiality as those imposed on MMTC hereunder) And shall only be used for the purposes of this Agreement.

4.3 CLI shall, and shall cause its Affiliates and sublicensees to, keep full and accurate books and records setting forth gross sales of Licensed Products and Net Sales in Patent Countries and amounts payable to MMTC hereunder. CLI shall permit MMTC, at MMTC's expense, by independent certified public accountants employed by MMTC and acceptable to CLI, to examine such books and records at any reasonable time, but not later than two (2) years following the rendering of any

such reports, accountings, and payments. Such independent accountants shall not disclose to MMTC any of CLI's cost data. The opinion of said independent accountants regarding such reports, accountings, and payments shall be binding on the parties hereto.

#### SECTION 5 - CONFIDENTIALITY

5.1 During the term of this Agreement and for a period of ten (10) years after expiration or termination hereof (except in case of termination by MMTC under Sections 12.2 and 12.3 hereof), MMTC shall keep confidential and not disclose to others or use for any purpose, other than as authorized herein, and know-how, data or information directed to Licensed Products which is disclosed to MMTC or its Affiliates by CLI; provided, however, the foregoing obligations of confidentiality and non-use shall not apply to the extent that such know-how, data and information is:

- ( i ) already known to MMTC at the time of disclosure hereunder of hereafter developed by MMTC independent of any disclosure hereunder as MMTC can demonstrate by competent proof; or
- ( ii ) publicly known prior to or after disclosure hereunder other than through acts or omissions of MMTC, its Affiliates, or its Affiliates' employees.

5.2 During the term of this Agreement and for the period of ten (10) years after expiration of termination hereof, CLI shall keep confidential and not disclose to others or use for any purpose, other than as authorized herein, and know-how, data or information directed to the Licensed Products or Licensed Patents which is disclosed to CLI or its Affiliates by MMTC; provided, however, the foregoing obligations of confidentiality and non-use shall not apply to the extent that such know-how, data and information is:

- ( i ) already known to CLI at the time of disclosure hereunder or hereafter developed by CLI independent of any disclosure hereunder as CLI can demonstrate by competent proof; or

- ( ii ) publicly known prior to or after disclosure hereunder other than through acts or omissions of CLI, its Affiliates, or its Affiliates employees; or
- ( iii ) disclosed in good faith to CLI by a third party under a reasonable claim of right; or
- ( iv ) disclosed to third parties under a secrecy agreement with essentially the same confidentiality provisions provided herein for use solely in connection with CLI's exercise of its rights under this Agreement.

Disclosure may be made by CLI to governmental agencies to the extent required or desirable to secure governmental approval for marketing of Licensed Products and to preclinical and clinical investigators where necessary or desirable for their information to the extent normal and usual in the custom of the trade and under a secrecy agreement with confidentiality provisions which are similar to those contained herein. Nothing herein shall be deemed to limit the right of clinical investigators from publishing the results of their work.

#### SECTION 6 - REDUCTION OF ROYALTIES

6.1 Royalties payable by CLI to MMTC under Section 3.3 hereof shall be reduced as follows:

- ( i ) If CLI or its Affiliates or sublicensees reasonably determine in good faith with respect to any Patent Country that, in order to avoid infringement of any patent not licensed hereunder, it is reasonably necessary to obtain a license regarding Licensed Products under any patent not licensed hereunder in order to make, use or sell Licensed Products in such country and to pay a royalty under such license, CLI shall notify MMTC, and CLI's obligations to pay royalties under Section 3.3 hereof shall be reduced with respect to Net Sales in such Patent Country by an amount equal to fifty percent (50%) of the royalty payable by CLI under such additional license. CLI shall, however, make a good faith attempt to negotiate the royalty rate and calculation

of royalties payable to such third parties with a view to minimizing the royalty to be deducted under this Section 6.1 (i).

- ( ii ) If a third party obtains, by order, decree or grant from a competent governmental authority in any Patent Country, a compulsory license under the Licensed Patents authorizing such third party to manufacture, use or sell any Licensed Product in such country, MMTC shall give prompt notice to CLI. During the period of time sales are made pursuant to such compulsory license, CLI's obligations to pay royalties under Section 3.3 hereof with respect to sales in such country shall be reduced to the rate payable to MMTC by said third party.

#### SECTION 7 - COMMERCIALIZATION

7.1 Subject to the provisions of Sections 3.3. and 3.4, CLI will use reasonable efforts to market Licensed Products in such countries where such marketing will be commercially reasonable to CLI under the circumstances pertaining from time to time. Notwithstanding the foregoing , but subject to the provisions of Section 3.3 and 3.4, nothing in this Agreement shall require CLI to maximize sales of Licensed Products nor prevent CLI, its Affiliates or sublicensees from manufacturing, using or selling in any country any products similar to or competitive with the Licensed Products. MMTC also agrees that nothing in this Agreement shall in any way limit CLI's sole and exclusive right to determine, in its discretion, the timing or manner of marketing, manufacturing or advertising Licensed Products, provided such marketing, manufacturing, or advertising is in compliance with applicable laws and regulations.

#### SECTION 8 - PATENTS

8.1 MMTC and CLI shall cooperate in connection with the continued prosecution by MMTC of the patent applications listed on Appendix I. If CLI desires that MMTC file any application for a patent in specific countries other than those enumerated on Appendix I or file any patent application on improvements and variations upon inventions disclosed in the Licensed Patents for use in the Field, CLI shall advise MMTC of such countries or improvements, variations or inventions, as the case may be. Provided that MMTC has no

reasonable objection thereto, MMTC shall thereupon file patent applications as requested. So long as this Agreement is in effect, CLI shall pay the reasonable expenses incurred after the date of this Agreement, including reasonable fees for patent counsel, for filing and prosecuting the patent applications listed on Appendix I and such other patent application filing requested by CLI pursuant to this Section 8.1. In addition, MMTC shall take all necessary steps and pay all expenses necessary to maintain for the full life thereof all Licensed Patents, and, so long as this Agreement is in effect, CLI shall reimburse MMTC its reasonable expenses in connection therewith. MMTC agrees to sign such further authorizations and instruments and take such further action as may be requested by CLI to implement the foregoing. In connection with any patent filing and prosecution pursuant to this Section 8.1, the cooperation between the parties shall include, without limitation:

- ( i ) CLI having full access to all documentation, filings and communications to or from the respective patent offices, and shall be kept fully advised as to the status of all pending applications;
- ( ii ) MMTC and its agents and attorneys consulting with CLI prior to taking any action or making any filing or submission in connection with such patent prosecutions; and
- ( iii ) MMTC and its agents and attorneys giving due consideration to all suggestions and comments of CLI regarding any aspect of such patent prosecutions.

8.2 If any claim relating to Licensed Patents becomes, within any Patent Country, the subject of a judgment, decree or decision of a court, tribunal, or other authority of competent jurisdiction, which judgement, decree, or decision is or becomes final (there being no further right of review) and adjudicates the validity, enforceability, scope, or infringement of the same, the construction of such claim in such judgment, decree or decision shall be followed thereafter in such country in determining whether a product is licensed hereunder, not only as to such claim but also as to all other claims to which such construction reasonably applies. If at any time there are two or more conflicting final judgments, decrees, or decisions with respect to the same claim, the decision of the higher tribunal shall thereafter control, but if the tribunal be of equal rank, then the final judgment, decree, or decision more favorable to such claim shall control unless and until the majority of such tribunals of

equal rank adopt or follow a less favorable final judgment, decree, or decision, in which event the latter shall control.

8.3 In the event any infringement action shall be brought within any Patent Country against CLI or any of its Affiliates or sublicensees because of the manufacture, use or sale of Licensed Products, CLI shall promptly notify MMTC thereof. CLI shall continue to pay royalties hereunder during the continuance of such infringement action and all appeals thereof, provided that CLI or MMTC shall defend such action. If neither CLI nor MMTC shall assume the defense of such infringement action, upon request by CLI to MMTC, then during the pendency of such infringement action, CLI's obligations to pay royalties under Section 3.3 with respect to sales in such country shall cease.

8.4 If any third party shall, in the reasonable opinion of CLI, within any Patent Country, infringe any of the Licensed Patents, CLI shall promptly notify MMTC. CLI shall have the right to bring suit and to take action in its own name or in the name of MMTC where necessary. CLI and MMTC shall, at the other's request, take all action necessary to assist in such suits (including joining as a party). If MMTC is required or requested by CLI to join in any suit brought by CLI, MMTC may be represented at CLI's expense by counsel of MMTC's choice, provided that the expense is reasonable and the hourly rates charged by MMTC's counsel are not greater than those of CLI's counsel on the same suit. Any monetary recovery in connection with such infringement action shall be applied to reimburse MMTC and CLI for their out-of-pocket expenses (including reasonable attorneys' fees and any amounts paid hereunder by CLI to MMTC for employees or counsel fees) in prosecuting such infringement. Any balance shall be shared equally between CLI and MMTC. If such recovery is less than the out-of-pocket expenses, reimbursement shall be on a pro-rated basis. CLI's obligations to pay royalties to MMTC pursuant to Sections 3.3 and 3.4 shall not be reduced or diminished because of the pendency of any infringement action.

8.5 MMTC will cooperate with CLI in the defense of any suit, action or proceeding against CLI alleging the infringement of a patent or other intellectual property right owned by a third party by reason of the use by CLI of the Licensed Patents in the manufacture, use or sale of the Licensed Products or in the exercise of any other right granted hereunder to CLI. CLI shall give MMTC prompt notice of the commencement of any such suit, action or proceeding or claim of infringement.

MMTC shall give to CLI all authority (including the right to exclusive control of the defense of any such suit, action or proceeding and the exclusive right to compromise, litigate, settle or otherwise dispose of any suit, action or proceeding), information and assistance necessary to defend or settle any such suit, action or proceeding. CLI may join MMTC as a defendant, if necessary or desirable, and MMTC shall execute all documents and take all other actions, including giving testimony, which may be reasonably required in connection with the defense of such suit, action or proceeding. CLI agrees to reimburse MMTC for any costs and expenses to the extent such costs and expenses are approved in advance by CLI.

8.6 CLI shall mark all Licensed Products made, used or sold under the terms of this Agreement, or their containers, in accordance with the patent laws of the country where made, used or sold.

8.7 Anything to the contrary notwithstanding in this Section 8 (including use of the word "reimburse"), CLI shall pay MMTC in advance for all costs and expenses, other than legal fees and expenses, which will be incurred by MMTC in connection with Section 8. With respect to reimbursement by CLI of legal fees and expenses incurred by MMTC pursuant to Section 8, CLI shall pay such legal fees and expenses directly to MMTC's legal counsel promptly upon MMTC's submission to CLI of bills for such legal fees and expenses and MMTC shall not be required to first pay such legal fees and expenses in order to seek reimbursement from CLI.

#### SECTION 9 - REPRESENTATION AND WARRANTIES

9.1 MMTC hereby represents and warrants to CLI as follows:

- ( i ) MMTC has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder, and the execution, delivery and performance of this Agreement by MMTC have been duly and validly authorized and approved by proper corporate action on the part of MMTC and MMTC has taken all other action required by law, its corporate statutes, certificate of incorporation or by-laws or any agreement to which it is a party or to which it may be subject required to authorize such execution, delivery and performance. Assuming due authorization, execution and delivery on the part of CLI, this Agreement constitutes a legal, valid and binding obligation of MMTC enforceable

against MMTC in accordance with its terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws of general application relating to creditors' rights.

- ( ii ) To the best of MMTC's knowledge, the execution and delivery of this Agreement by MMTC and the performance by MMTC contemplated hereunder will not violate any ordinance, law, decree or government regulation or any order of any court or other governmental department, authority, agency or instrumentality thereof.
- ( iii) Except as set forth in that certain letter dated May 14, 1992, from MMTC to CLI, a copy of which is attached hereto as Appendix II, to the best of MMTC's knowledge, as of the date hereof, the issued Licensed Patents are valid and enforceable patents and MMTC has no knowledge that any third party is infringing such Licensed Patents or that the manufacture, use and sale by CLI of Licensed Products will infringe any other patents of MMTC or its Affiliates or patents of third parties. Appendix I lists all patents and patent applications related to the Licensed Product beneficially owned by MMTC or its Affiliates. In addition, MMTC is the legal and beneficial owner of all of the Licensed Patents, and no other person, firm, corporation or other entity, has any right, interest or claim in or to the Licensed Patents.
- ( iv ) Neither the execution and delivery of this Agreement nor the performance hereof by MMTC requires MMTC to obtain any permits, authorizations or consents from any governmental body or from any other person, firm or corporation, and such execution, delivery and performance will not result in the breach of or give rise to any termination of any agreement or contract to which MMTC may be a party or which otherwise relates to the Licensed Patents or the Licensed Products.
- ( v ) Upon execution of this Agreement, MMTC will disclose to technical personnel of CLI all data and material information, known to it or its Affiliates, with respect to the safety and efficacy of the Licensed Products.

9.2 CLI hereby represents and warrants to MMTC as follows:

- ( i ) CLI has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder, and the execution, delivery and performance of this Agreement by CLI have been duly and validly authorized and approved by proper corporate action on the part of CLI and . and CLI has taken all other action required by law, its certificate of incorporation or by-laws or any agreement to which it is a party or to which it may be subject required to authorize such execution and delivery. Assuming due authorization, execution and delivery on the part of MMTC, this Agreement constitutes a legal, valid and binding obligation of CLI, enforceable against CLI in accordance with its terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws of general application relating to creditors' rights.
- ( ii ) To the best of CLI's knowledge, the execution and delivery of this Agreement and the performance by CLI contemplated hereunder will not violate any state, federal or other statute or regulation or any order of any court or other governmental department, authority, agency or instrumentality of the United States.

(ii) CLI shall purchase product liability that is satisfactory to MMTC in the amount of not less than \$5,000,000 for product liability.

#### SECTION 10 - INDEMNIFICATION

10.1 CLI agrees to indemnify and hold MMTC, its directors, officers, agents and employees harmless from all loss, damage, liability, claim of loss, lawsuit, action, cost, fees (including reasonable attorneys' fees) , expenses, and other claims asserted against them or any of them for damage, injury, or death arising directly or indirectly as a result of the clinical testing or use,, manufacturing, processing, packaging, marketing, sale or distribution of Licensed Products, in each case by CLI, its Affiliates or sublicensees. CLI shall have no obligation to indemnify MMTC or its directors, officers, agents or employees under this Section 10.1 in the event a judge or jury makes a specific finding or verdict, which is sustained through final appeal of gross negligence that is willful or wanton or of intentional and conscious wrongdoing.

MMTC shall give CLI notice as soon as practicable of any such claim or action and CLI shall have the right to participate in any compromise, settlement or defense thereof.

#### SECTION 11 - TERM

11.1 This Agreement shall commence as of the effective date hereof and shall continue in perpetuity unless terminated earlier in accordance with Section 12.

11.2 The term of CLI's royalty obligations under Section 3.3 of this Agreement shall be for the life of any patent included within the Licensed Patents and licensed to CLI pursuant to Section 2.1.

11.3 CLI's obligation to pay royalties pursuant to Sections 3.3 and 3.4 hereof shall cease and CLI shall be deemed to have a fully paid-up license upon the earlier of ( i ) the expiration of all patents within the Licensed Patents or ( ii ) respecting the Patent Country or Patent Countries in question, the termination of CLI's obligation to pay royalties pursuant to Section 8.

#### SECTION 12 - TERMINATION

12.1 If at any time CLI shall, in its reasonable judgment, determine that it is not reasonably practicable to sell or continue to sell Licensed Products, CLI, upon sixty (60) days notice to MMTC, shall have the right, as CLI may elect, to terminate this Agreement, whereupon this Agreement shall terminate sixty (60) days after the date of such notice.

12.2 If CLI fails to pay MMTC any required Additional License Fee required by Section 3.2 hereof, royalties required by Section 3.3 hereof, or minimum annual royalties required by Section 3.4 hereof, and such breach or default as not cured within thirty (30) days after the giving of notice by MMTC specifying such breach or default, MMTC shall have the right to terminate this Agreement immediately upon expiration of such thirty (30) day period and to institute arbitration proceedings to recover any unpaid royalties accrued on or before termination.

12.3 Subject to the provisions of Section 12.2, if either CLI or MMTC breaches or defaults in the performance or observance of any of the provisions of this Agreement and such breach of default is not cured within ninety (90) days after the giving of notice by the other party specifying such breach or default, the other party shall have the right to terminate this Agreement upon a further thirty (30) days notice. If any representation or warranty of any party as contained in this Agreement shall be materially incorrect or inaccurate, such shall be deemed to be a material breach or default of this Agreement by such party.

12.4 Termination of this Agreement for any reason shall be without prejudice to:

- ( i ) the rights and obligations of the parties as provided in Sections 5.1, 5.2 and 10.1 hereof;
- ( ii ) MMTC's right to receive all payments accrued under Sections 3.3 and 3.4 hereof prior to the effective date of such termination; and
- ( iii ) any other remedies which either party may otherwise have.

12.5 Upon any termination by CLI under Section 12.1 hereof, or termination by MMTC under Section 12.2 or 12.3 hereof, all rights granted to CLI pursuant to this Agreement shall terminate.

12.6 CLI shall raise \$5,000,000 in funds by March 31, 1997. If CLI does not secure the \$5,000,000 in funds by said date, MMTC shall at its option, terminate this agreement and shall be allowed to retain any and all funds received by MMTC from CLI.

#### SECTION 13 - DISPOSITION OF LICENSED PRODUCTS

13.1 Upon termination of this Agreement in its entirety by either party, CLI shall provide MMTC with a written inventory of all Licensed Products in the process of manufacture or in stock and shall dispose of such Licensed Products within a period of one (1) year following such termination; provided, however, that all such Licensed Products shall be subject to the terms of this Agreement.

SECTION 14 - FORCE MAJEURE

14.1 No party shall be liable for failure of or delay in performing obligations set forth in this Agreement, and no party shall be deemed in breach of its obligations, if such failure or delay is due to natural disasters or any causes reasonably beyond the control of such party.

SECTION 15 - ASSIGNMENT / SUBLICENSE

15.1 This Agreement is binding upon and shall inure to the benefit of MMTC and its legal representatives, successors and assigns. Any sublicense by CLI shall not operate to relieve CLI of any obligations or liabilities under this Agreement, including, without limitation, the obligation of CLI to pay license fees and royalties under Section 3. This Agreement shall not otherwise be assignable by MMTC or CLI or sublicensed by CLI except with the prior written consent of the respective other party, which consent shall not be unreasonably withheld; provided, however, that either party shall have the right to:

- ( i ) Assign its rights and obligations under this Agreement to any successor (including the surviving entity in any consolidation or merger) to all or substantially all of its business, provided, that such successor assumes all of such party's obligations under this Agreement; or
- ( ii ) Transfer its interest or any part thereof under this Agreement to any Affiliate, or designate and cause any Affiliate to perform all or part of its obligations under this Agreement or to have the benefit of all or part of its rights hereunder. In the event of any such transfer, the transferee Affiliate shall assume and be bound by the provisions of this Agreement, and its performance under this Agreement shall be guaranteed by the transferring party.

SECTION 16 - MISCELLANEOUS

16.1 Governing Law and Arbitration - This Agreement shall be governed by and construed under the laws of the State of New York, regardless of the choice of law principles of New York or any other jurisdiction. Except as otherwise provided in Sections 4.3 hereof, any claim or controversy arising out of or relating to this Agreement shall be settled by final and binding arbitration by three (3) arbitrators, in accordance with the then-existing rules of the American Arbitration Association, and judgement upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The parties shall each select one arbitrator and the arbitrators selected by the parties shall mutually agree on a third arbitrator. Such arbitration shall be held in New York, New York.

16.2 Entire Agreement- This agreement sets forth the entire agreement and understanding among the parties hereto as to the subject matter hereof and has priority over all documents, verbal consents or understandings made among MMTC and CLI and their respective Affiliates before the conclusion of this Agreement with respect to the subject matter hereof; none of the terms of this Agreement shall be amended or modified except in writing signed by the parties hereto.

16.3 Waivers - A waiver by any party of any term or condition of this Agreement in any one instance shall not be deemed or construed to be a waiver of such term or condition for any similar instance in the future or of any subsequent breach hereof. All rights, remedies, undertakings, obligations and agreements contained in this Agreement shall be cumulative and none of them shall be a limitation of any other remedy, right, undertaking, obligation or agreement of any party.

16.4 Public Statements - Neither party shall make any public statement or make any press release expressly or implicitly identifying this Agreement or the other party without first obtaining the consent of the other party (which consent shall not be unreasonably withheld) , except that consent of the other party shall not be required as to any public statement or other

communication ( i ) which is reasonably believed to be required by law, or (ii) which has already been publicly disclosed and is still accurate.

16.5 Severability - If and solely to the extent that any provision of this Agreement shall be invalid or unenforceable, or shall render this entire Agreement to be unenforceable or invalid, such offering provision shall be of no effect and shall not effect the validity of the remainder of this Agreement or any of its provisions; provided, however, the parties shall use their respective reasonable efforts to renegotiate the offending provisions to best accomplish the original intentions of the parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their duly authorized officers.

MMTC, INC.

By:/s/ \_\_\_\_\_

Its: \_\_\_\_\_

Dated: \_\_\_\_\_

CHEUNG LABORATORIES, INC.

By:/s/ \_\_\_\_\_

Its: \_\_\_\_\_

Dated: \_\_\_\_\_

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Appendix I  
Licensed Patents

1. Patents

Country	Patent Number	Issue Date	Title
U.S.	5, 007, 937	April 16, 1991	Catheters for Treating Prostate Disease

2. Applications

Country	Application Number	Filing Date	Title
European Countries Canada Japan	PCT/0591/02509	April 12, 1991	Catheters for Treating Prostate Disease

3. All other patents and applications in any country, now owned or hereafter acquired by MMTC, based on or related to the patents and patent applications listed in paragraph 1 of this Appendix I.

4. All divisionals, continuations, continuations-in-part, patents of addition, extensions and reissues of any patents or applications within the foregoing paragraphs 1 and 2 of this Appendix I.

CHEUNG LABORATORIES, INC.  
[LETTERHEAD]

September 17, 1990

Dr. Haim I. Bicher  
H.B.C.I., Inc.  
12099 W. Washington Blvd., Suite 304  
Los Angeles, CA 90066

RE: Cheung Laboratories, Inc. proposal to H.B.C.I.

The following proposal is to set forth certain understanding between Cheung Laboratories, Inc. (hereafter referred to as CLI) located at 9140-Guilford Road, Columbia, MD 21046 and H.B.C.I., Inc. located 12099 Washington Blvd., Suite 304, Los Angeles, CA 90066. Specifically, this proposal outlines the terms and conditions of the sales of CLI's Hyperthermia System 100A, with consideration given to H.B.C.I., Inc., for exclusive assignments of certain patents, technology transfer and manufacturing rights.

1. CLI will sell H.B.C.I., Inc. one System 100A as specified at the sales price of \$149,950 F.O.B., Columbia, MD. This System 100A comes with on-site training and installation, free software update and CLI's limited one full year warranty on parts and labor.

2. CLI will credit H.B.C.I., Inc. \$79,950 for the following:

(i) H.B.C.I., Inc. will fully and exclusively license without royalties, the patent rights of its microwave air cooled applicators patent #4332260 to CLI. CLI will have the right to defend the validity and content of said patent with H.B.C.I. technical help. H.B.C.I. will retain full rights to manufacture and sell under said patent.

(ii) H.B.C.I., Inc. will fully and exclusively license without royalties its patent rights of its thermocouple probes patent #4369795 to CLI. CLI will have the right to defend the validity and content of said patent with H.B.C.I. technical help. CLI will consider purchase of H.B.C.I.'s thermocouples. H.B.C.I. will retain full rights to manufacture and sell under said patent.

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(iii) CLI will explore the possibility of jointly developing and marketing the POPAS System.

(iv) Upon acceptance of this proposal, H.B.C.I., Inc. shall Federal Express a deposit of U.S. \$30,000 to CLI. September 24, 1990.

(v) CLI, on a best effort, shall have the System 100A delivered to H.B.C.I., Inc. and installed the first week of October 1990. Upon satisfaction of installation and training, H.B.C.I., Inc. shall immediately make us the second payment, U.S. \$30,000, plus delivery, crating if needed, and insurance.

(vi) The balance of \$10,000 shall be paid to CLI by H.B.C.I., Inc. no later than 90 days after delivery of System 100A. H.B.C.I., Inc. at its option can submit the payment of the balance or return the Luxtron 3000 Thermometry unit inclusive of extensions and probes in the same condition as received.

H.B.C.I., Inc. shall finalize license agreements of patent rights to CLI of the patents contained in a. and b. above no later than 60 days after signing this agreement.

If the foregoing is in accordance with your understanding of the terms and conditions agreed upon between the two parties, please sign and date below, fax and send back to CLI. CLI shall verify and send back to you a copy of this agreement, whereupon this shall become the agreement between the parties, and shall not be modified except by writing agreed to and executed by both parties hereto.

CHEUNG LABORATORIES, INC.

By /s/

-----  
John Mon, Marketing Manager

Agreed and Accepted this \_\_\_\_ day of \_\_\_\_\_, 1990.

H.B.C.I., Inc.

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By /s/

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Haim I. Bicher, M.D.  
H.B.C.I. President

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CHEUNG LABORATORIES, INC.  
[LETTERHEAD]

October 4, 1996

Mr. Lorin M. Spak  
Herbst LaZar Bell, Inc.  
355 North Canal Street  
Chicago, Illinois 60606

Dear Mr. Spak:

Please consider this letter in substitution of an earlier letter faxed to you on September 27, 1996.

Following verbal discussions, as recently as this morning, with Warren Stearns, Stuart Fuchs, Verle Blaha, and others, your proposal, your letter of September 5th, and Walter's letter of the 9th; this letter is to express our intent (mutually, if executed in the space provided below) to enter into a business relationship between Herbst LaZar Bell, Inc. ("HLB") and Cheung Laboratories, Inc. ("CLI") pursuant to which CLI undertakes to engage HLB for certain tasks (essentially outlined in your proposal, but most probably subject to modest modification over time) under the terms and conditions as are set forth herein.

While your letter outlines a well thought out and comprehensive program that we intend to implement, Verle Blaha has explained to Walter Herbst that we underestimated the work necessary to get our next financing underway and are consequently delayed. The investors are there and our paperwork isn't. While this situation is both frustrating and a bit embarrassing, I know that Verle has told Walter that it also would not be fair to you to enter into the full program you proposed on a formally binding basis until we can assure you that we have in hand the funds to pay the cash portion of your charges on a timely basis. We are nevertheless very pleased that you think enough of the potential of the technology array we now possess that you are willing to work with us and I assure you that we want to add HLB to our growing term of top flight experts.

In this regard we agree with the arrangements set forth in principle in your proposal and letter of the 5th as to the tasks to be accomplished and cash compensation rates to be paid to you (55% of normal billing rates). The remaining 45% will be paid to HLB in CLI common stock at \$1.25 per share. Prior to the delivery of any of such shares, you will be required to execute documentation relating to the issuance of these securities, all of which shall be consistent with the documentation required of any similarly situated accredited investor. As part of this documentation, you will be asked to acknowledge receipt, review and understanding of information to be contained in Form 10-K covering the year ending September 30, 1996.

As indicated in our conversation earlier today, and as a completely separate subject, we have an urgent need to deliver a "breadbox" alpha prototype to Oxford University not later than December 31, 1996. This prototype, incorporating the MIT technology in a CLI microwave hyperthermia system but lacking the LORAD table, will be used initially to conduct preclinical trials on healthy pigs. These large animal tests must be completed in advance of the clinicals to be performed at Hammersmith.

The CLI prototype will then be attached to a LORAD table, and the complete system for treating cancer in intact human breasts delivered to Hammersmith by April 1, 1997. CLI will supply HLB with one Microfocus 1000 System and one LORAD table or equivalent. HLB's task would be limited to upgrading the software, designing the "marriage" of the LORAD and CLI subunits, and completing the construction of the "animal" and "human" configurations. Stuart Fuchs, assisted by Alan Fenn, will be our project manager. We are currently reviewing a Statement of Work prepared by Alan Fenn to make sure it conforms to this revised plan.

Upon reviewing your rates and the Statement of Work mentioned above, we estimate that this separate year-end project would run to approximately \$50,000 and have budgeted this amount, including the enclosed check for an advance of five thousand dollars (\$5,000), as discussed between Verle and Walter. If you feel we are correct in our estimate and are in agreement with the spirit and intent expressed in this letter, please execute a copy of this letter in the space provided and return it for our files. If you have additional comments, questions or remarks, please call me. We want to work with you.

Sincerely,

Accepted:

/s/ \_\_\_\_\_  
Augustine Y. Cheung

/s/ \_\_\_\_\_  
Lorin M. Spak

STEARNS MANAGEMENT COMPANY  
[LETTERHEAD]

May 28, 1996

Cheung Laboratories, Inc.  
10220-1 Old Columbia Road  
Columbia, MD 21046-1705

Attention: Messrs: Augustine Cheung, President  
Charles C. Shelton, Executive Vice President

Letter of Agreement

Dear Messrs. Cheung and Shelton:

We have held meetings held at the offices of Cheung Laboratories, Inc. (the "Company") on May 24th and have participated in several phone conversations between May 25th and today's date to get acquainted with you and with the Company and to discuss various alternative strategies by which the Company can finance the implementation of its business plans. Pursuant to our verbal agreement for us to undertake a consulting engagement for the Company reached during our meetings and confirmed by Mr. Shelton's letter of today's date, you have forwarded substantial additional information which we have reviewed in detail.

Accordingly, this Letter Agreement is to confirm and document the prior agreements reached whereby the Company, a Maryland corporation, seeks to secure the advice and services of Stearns Management Company, an Illinois corporation, ("Stearns") to render financial advisory services to it regarding its near and long-term business strategy particularly with regard to its need to secure outside capital to sustain its anticipated growth. Stearns has agreed to render such advice and services on the terms and conditions set forth below.

1. The Company hereby engages Stearns to render consulting advice to the Company, on an exclusive basis, with regard to all matters involving the solicitation of outside capital, restructuring the Company in a manner most conducive to solicitation and acceptance of such capital, and other matters relative thereto including, but not limited to, the matters outlined in paragraph hereof.
2. Stearns will consult with the Company's management at their request to study the Company's business plans and to provide specific recommendations concerning financial and related matters, including, but not limited to, the following:
  - A Changes in the capitalization of the Company;
  - B Changes in the Company's corporate structure;
  - C Redistribution of shareholdings of the Company's stock;
  - D Obtaining working capital financing for the Company initially and on an on-going basis;
  - E Offerings of securities in private transactions;
  - F Offerings of securities in public transactions including selection of financial public relations alternatives, budgeting and implementation of follow-on strategy;
  - G Selection of professionals as special consultants in connection with such offerings;
  - H Alternative uses of corporate assets;
  - I Alternative marketing approaches for expansion;
  - J Selection of advisory personnel and/or additional directors;
  - K Sale of stock by insiders pursuant to Rule 144 or otherwise.
3. Stearns will recommend and, upon request of the Company, use its best efforts to implement a plan(s) which will provide capital to the Company from outside sources on a timely basis, both privately and publicly, utilizing its knowledge and contacts within the financial and investment banking communities.
4. As part of its duties hereunder and material to its recommendations to the Company, Stearns will undertake an analysis of:
  - (a) The current valuation of similarly situated public companies in an effort to assure the Company of fair valuation upon marketing of its securities.
  - (b) The Company's short term sales and manufacturing plans in order to determine the need for interim capital and to assist the Company in selecting its best strategy for maximizing the intrinsic worth of its shares.



5. Upon request of the Company, Stearns will undertake consulting assignments on such other matters as the Company may deem appropriate.
6. In order to induce Stearns to enter into this relationship with the Company and to discount its normal fees for services, the Company shall:

(a) Grant to such assignees as Stearns shall designate to the Company a transferable Common Stock Purchase Warrant (the "Warrant"), in the form attached hereto as Exhibit 1, entitling such assignees to purchase, for a five year period commencing on the date hereof and renewable for an additional five year period, the number of shares which, when added to the existing common shares and any securities convertible into or exercisable for the purchase of (options, warrants and the like) common shares, would represent, in aggregate, a five percent (5%) interest in the equity of the Company as of the completion of the next registered public offering of common shares of the Company. Said Warrant, when reduced to certificate form, shall allow said assignees of Stearns, in aggregate, to invest a total sum of money to be derived by multiplying \$0.41 per share by that number of shares which shall constitute said five percent (5%) interest (on a fully diluted basis as is more fully covered in the Warrant) and the Warrant shall contain certain anti-dilution features (see form of Warrant attached as Exhibit 1) which shall protect all assignees of Stearns from percentage or price dilution until the Company's next public offering (a defined term in the Warrant) shall have been completed, whereupon, in subsequent issues of equity, assignees of Stearns shall accept dilution of their interest pro-rata with other holders of common shares or securities convertible or exercisable into same.

The warrants issuable upon execution of this Agreement shall be fully vested in the hands of their holders and shall not be cancelable regardless of the termination, for any reason or for

any cause, of this Agreement. Within three (3) months from the date hereof, any and all Warrants issued in accordance with this Agreement, shall be converted into Warrants bearing the actual number of shares into which each such Warrant certificate is exercisable instead of the percentage of shares currently defined in the Warrant to be issued concurrently with the execution of this Agreement.

(b) Make the representation and warranties contained in paragraphs and hereof. When made to Stearns herein, all such representations, warranties and indemnifications shall apply equally to Stearns officers, directors, affiliates, heirs, successors and assigns.

7. In consideration for the services rendered to the Company by Stearns, Stearns shall charge the Company for services rendered, commencing with the date of this Agreement, by its personnel at the following per diem rates which represent a substantial reduction from its normal charges:

An initial fee of \$34,000 as additional inducement, together with the issuance of a warrant to purchase 168,292 shares of CLI Common Stocks on the same terms and conditions as may hereafter be issued to investors in the contemplated Bridge Financing undertaken shortly, and covering investigatory efforts by Stearns to the date hereof.

The following fees and expense rates shall apply hereafter:

	Per Diem
Warren C. Stearns	\$1500*
Others	Cost plus 20%
Expenses	Cost plus 20%

- \* Or \$190.00/hr for partial days (primarily Chicago area). Per diem rates shall apply regardless of the length of the working day (providing the working day shall have been at least eight (8) hours) and no charges

shall be made for travel time unless same is during normal working hours during the normal Monday-Friday work week.

Payment of fees and expenses may be delayed by the Company pending first receipt of proceeds from outside financing; thereafter, fees and expenses shall be billed monthly in arrears and payable net, 10 days.

Statements from Stearns shall be submitted monthly to the Company accompanied by receipts or other documentation as the Company shall reasonably request.

8. Stearns shall have the right to rely on verbal instructions or approvals of the Chief Executive, other designated officer, or General Counsel to the Company with respect to initiating or continuing to incur fees or expenses.

Similarly, the parties hereto have agreed that most of the communication between the Company and Stearns shall be verbal so as to minimize the amount of time actually billable by Stearns to the Company. However, Stearns stands ready at any time to communicate its reports, recommendations, or comments on any matter in writing if requested to do so by the Company.

9. The Company acknowledges that all of the compensation due Stearns as a result of its performance hereunder and all of the inducements granted by the Company to Stearns to enter into the relationship created hereby are accepted by Stearns based on its continued reliance on the Company's representations and warranties contained in this paragraph and, upon execution of this Agreement, delivered hereby to Stearns.

The Company represents that it has agreed in principle to engage in one or more private securities offerings (more or less, immediately) and to seek a next public offering of its common stock at an early date (expected to be not later than the end of 1997) to raise needed capital and, also, to aid in liquefying existing investment. The Company also represents and warrants to Stearns that:

Except as already disclosed to Stearns, it is a corporation in good standing, has correctly and timely filed all reports and notices and has done all such other things as it is required to do and to be so filed by all the various state and federal laws, rules, regulations and statutes to which the Company is subject, is not in litigation or subjected to threatened litigation, has good title to all of its assets including but not limited to its patents (whether owned or licensed), and is in compliance with each and every contract or agreement which is binding upon it.

It will engage competent securities counsel reasonably acceptable to Stearns to prepare offering material for each offering contemplated by this agreement.

It will begin to substantially revise its Business Plan, in an expeditious manner, along the lines and in accordance with the suggestions made by Stearns concurrent with the execution of this Agreement. As well, it will furnish Stearns with adequate copies of same as well as such further documentation as Stearns may, from time to time, reasonably request.

It will prepare or cause to be prepared or cause to be prepared a written, taped, and verbal "technical presentation" and will use its best efforts to attend meetings with security analysts to expose a variety of financial institutions of its technical achievements.

It will engage the services of an experienced businessman to act as interim CEO who will be competent to attend to the coordination of all contemplated activities particularly attendant to the preparation of the Company to financial institutions and investment bankers.

It will engage an accounting firm reasonably acceptable to Stearns to prepare audited financial statements reflecting the Company's financial history for the last three (3) fiscal years. Said statements shall be prepared in accordance with generally

accepted accounting principles but shall capitalize, to the extent possible, the Company's investment in its patents, prototypes, research and development.

That there are no existing agreements with any party which would act to mitigate or prohibit the Company from performance of all actions contemplated by this Agreement and that it has full authority to enter into this Agreement. Additionally, that the Company is unaware of any potential claim or payment for services in the nature of a finder's fee or any other arrangements, agreements, payments, issuances or understandings that would operate to affect Stearns' compensation (including the issuance of the Warrant) hereunder.

It does, hereby, indemnify Stearns against any liability whatsoever (including legal fees and expenses) arising from claims made by others based upon misstatements or omissions of material fact whether in offering material prepared by the Company or in statements made or alleged to be made by employees, agents, or consultants to the Company (other than Stearns). In this connection, Stearns shall rely upon the Company's assurance, made herein, that, upon notice, the Company shall promptly engage competent counsel to defend Stearns or failing to do so for a period of thirty (30) days after receipt of notice, shall, immediately upon receipt, reimburse Stearns for any fees or expenses Stearns, in its sole discretion, deems necessary for its defense.

It shall cooperate fully with Stearns in its efforts to secure outside capital for the Company and shall not unreasonably delay approval or delivery of information or documentation (including executed documentation) necessary to conclude financing originated by Stearns and approved by the Company.

It recognizes and confirms that, in advising the Company and in fulfilling its engagement hereunder, Stearns will use and rely on data, material and other information furnished to Stearns by the

Company. The Company acknowledges and agrees that in performing its services under this Agreement, Stearns may rely upon the data, material and other information supplied by the Company without in each and every case being obligated to independently verify the accuracy, completeness or veracity of same.

In the event of any dispute between the parties hereto, at the sole option of Stearns, the Company will submit same to arbitration in accordance with the rules of the American Arbitration Association and that the prevailing party in any such arbitration or litigation, as the case may be, shall be paid its reasonably attorneys' fees and expenses arising from such proceeding by the other party.

10. The term of this Agreement is for a period of one (1) year from the date hereof or for a period ending on the date on which a Registration Statement covering a public offering of the Company's securities is declared effective by the Securities and Exchange Commission, whichever date lasts occurs. Notwithstanding anything to the contrary in this paragraph, this Agreement may be terminated by either party to this Agreement at any time in its discretion, upon ten (10) days written notice to the other party.

In the event that this Agreement is terminated by the Company for any reason prior to the termination date provided in the first sentence of this paragraph, the rights under the Warrant or Warrants, of even date herewith, by and between the Company and assignees of Stearns shall continue in full force and effect according to its terms. Additionally, in the event the Company terminates this Agreement prior to the termination date set forth in the first sentence of this paragraph, the Company shall, immediately upon submission of a final statement by Stearns, pay all the fees and expenses accrued to Stearns through the date of termination.

In the event that this Agreement is terminated by Stearns, it shall be terminated only by Stearns' declaration of a breach on the Company's

party of this Agreement (particularly pursuant to the provisions of paragraph hereof) or because the Company has elected to materially delay or change its financing strategy in such a fashion that the financing(s) contemplated herein are no longer feasible within the term frame originally contemplated. In such event, the Company and Stearns agree to work out some mutually agreeable means by which the Company's obligations to Stearns may be paid without undue burden on either party.

11. Stearns will execute and agrees hereby to abide by (to the extent its provisions are not in conflict with the performance of duties expected of Stearns to this Agreement) an "Agreement For The Protection Of Confidential Information" with the Company.

If the foregoing correctly documents the understandings and agreements reached between us, please execute this letter agreement in the space provided below and return a copy of it for our files.

Very truly yours,

Read, Understood and Agree:

Stearns Management Company

Cheung Laboratories, Inc.

By: /s/ \_\_\_\_\_  
Warren C. Stearns  
President

By: /s/ \_\_\_\_\_  
Augustine Y. Cheung  
President

CONSULTING AGREEMENT

This CONSULTING AGREEMENT, dated as of August 1, 1996, with an effective date of June 1, 1996 (the "Effective Date"), is between Cheung Laboratories, Inc., a Maryland corporation (the "Company"), and NACE Resources, Inc., a Delaware corporation (the "Consulting Firm").

WITNESSETH

WHEREAS, since the Effective Date, the Consulting Firm has provided consulting services to the Company with respect to the development and application of the Company's products and proprietary technology (the "Prior Consulting Services");

WHEREAS, the Company desires to compensate the Consulting Firm for the Prior Consulting Services and to engage the Consulting Firm to provide consulting services in the future in accordance with the terms of this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements contained herein, the Company and the Consulting Firm hereby agree as follows:

1. Term.

The Company hereby engages the Consulting Firm, and the Consulting Firm hereby agrees to perform services for the Company, in accordance with this Agreement, for an initial term of one (1) year commencing on the Effective Date (the "Initial Term"), unless terminated earlier in accordance with Section 5 hereof. The term of this Agreement shall be automatically extended for an unlimited number of one year renewal terms (each, a "Renewal Term"), unless terminated in accordance with Section 5 hereof or by either party upon written notice given thirty (30) days prior to the end of the Initial Term or any Renewal Term.

2. Duties of the Consulting Firm.

(a) The Consulting Firm hereby agrees to cause Stuart Fuchs (the "Designated Consultant") to provide such advisory and consulting services to the Company and its Affiliates as may be requested from time to time by the Board of Directors or the President of the Company with respect to the development and application of the Company's products and proprietary technology. In addition, to the extent requested from time to time by the Board of Directors or President of the Company, the Consulting Firm will coordinate the activities of an advisory committee of scientific and medical professionals to assist in the development of and application of the Company's products and

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proprietary technology. The Consulting Firm shall not change, substitute or replace the Designated Consultant without the express written consent of the Company. As used in this Agreement, the term "Affiliate" means any corporation or other business organization that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Company.

(b) The Consulting Firm shall cause the Designated Consultant to devote such time as shall be necessary to the performance of the Consulting Firm's duties and responsibilities hereunder, but in no event less than 32 hours in each of 48 weeks per year during the term of this Agreement. Commencing January 1, 1997, Designated Consultant shall provide to the Company a monthly report detailing the time spent working on behalf of the Company during the previous month.

(c) Nothing contained herein shall constitute the Designated Consultant an employee or agent of the Company or any of its Affiliates but the relationship of the Consulting Firm to the Company shall be one of an independent contractor. Any other provision of this Agreement to the contrary notwithstanding, neither the Consulting Firm nor the Designated Consultant shall not have the authority to enter into any agreement on behalf of, or otherwise bind, the Company or any of its Affiliates, without the prior written consent of the Company.

3. Compensation.

(a) For the Prior Consulting Services, the Company shall pay to the Consulting Firm an aggregate of \$75,000, all of which has been paid by the Company to the Consulting Firm on or prior to the date of this Agreement.

(b) For its services under Section , the Company shall pay the Consulting Firm compensation in an amount equal to \$20,000 per month (the "Current Compensation"), commencing August 1, 1996, of which \$5,000 per month (the "Deferred Compensation") shall be deferred until the completion after the date of this Agreement of any debt or equity financings providing in the aggregate gross proceeds to the Company of at least \$5,000,000, whereupon the aggregate Deferred Compensation shall be immediately payable to the Consulting Firm in full. The Current Compensation shall be payable in arrears on the first business day of each calendar month during the term of this Agreement.

(c) The Company shall pay the Consulting Firm eight percent (8%) of any direct or indirect cash contributions or cash payments to the company, resulting from the Consulting Firm or the Designated Consultant introducing the Company and the contributor, and that are deductible by the contributor or payor under 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Contingent Compensation"), payable

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promptly upon the direct or indirect receipt by the Company of such cash contributions or cash payments.

4. Reimbursement of Expenses.

The Company shall pay the Consulting Firm for its reasonable out-of-pocket expenses incurred in the performance of the Consulting Firm's duties hereunder, upon submission of an adequate accounting for such expenses in accordance with the Company's policies from time to time in effect.

5. Termination.

This Agreement shall terminate upon the first to occur of the following:

(a) Commencing June 1, 1997, either party may terminate this Agreement, without cause or penalty, by delivering to other party written notice of the termination thirty (30) days prior to the termination.

(b) The Designated Consultant's death or, at the Company's election, the Designated Consultant's disability. For purposes of this Agreement, the Designated Consultant shall be deemed to be "disabled" if (1) for medical (including psychological) reasons he has been unable to perform his duties hereunder for 30 consecutive days or 60 days in any 12 month period and (2) it shall have been certified to the Company, by a medical doctor or other expert approved by the Company in writing, that the disability will substantially impair the Designated Consultant's abilities to perform his duties as contemplated hereby for the remainder of the term of this Agreement. The Company, in its sole discretion, shall be entitled to require the Designated Consultant to submit to an examination by a medical doctor or expert to determine disability. Failure of the Designated Consultant to submit to such an examination shall constitute a default hereunder.

(c) Termination of this Agreement "for cause" by the Board of Directors of the Company. Termination "for cause" shall be limited solely to termination by action of the Board of Directors of the Company because of: (i) the negligence, willful misconduct or malfeasance of the Consulting Firm in the performance of its obligations under this Agreement; (ii) breach of the Agreement; (iii) the perpetration by the Consulting Firm or the Designated Consultant of a fraud against the Company or any of its Affiliates; (iv) the filing of a bankruptcy petition or assignment for the benefit of creditors by the Consulting Firm or the Designated Consultant; or (v) the conviction of the Consulting Firm or the Designated Consultant for any felony. Termination for cause shall occur upon delivery to the consulting firm of a notice of such action by the Board of Directors of the company, which notice shall specify the grounds for such termination.

(d) Upon any termination under Section 5(a), the Company's obligation to make payments under Section 3 shall terminate 30 days after such notice is given and the Company thereupon shall have no further obligations to Consulting Firm whatsoever, other than reimbursement of expenses under Section 4 for expenses incurred prior to such termination and payment of any accrued and payable Current Compensation, Deferred Compensation and Contingent Compensation. Upon any termination under Section 5(b), the Company's obligation to make payments under Section 3 shall terminate upon the death or disability of the Designated Consultant and the Company thereupon shall have no further obligations to Consulting Firm whatsoever, other than reimbursement of expenses under Section 4 for expenses incurred prior to such termination and payment of any accrued and payable Current Compensation, Deferred Compensation and Contingent Compensation. Upon any termination under Section 5(c), the Company's obligation to make payments under Section 3 shall terminate immediately upon giving notice to Consulting Firm and the Company thereupon shall have no further obligations to Consulting Firm whatsoever, other than reimbursement of expenses under Section 4 for expenses incurred prior to such termination and payment of any accrued and payable Current Compensation, Deferred Compensation and Contingent Compensation.

6. Withholding of Taxes.

Payment of all taxes on compensation paid under this Agreement shall be the sole liability and responsibility of the Consulting Firm, provided, however, if any tax or other laws or regulations require the Company to withhold any amounts from compensation paid under this Agreement to the Consulting firm, or its assignee, such amounts may be so withheld.

7. Records and Reports.

The Consulting Firm hereby agrees to render to the Company such reports of the activities undertaken by it or conducted under its direction during the term of this Agreement as the Company may reasonably request.

8. Covenant Not to Compete.

(a) The Consulting Firm covenants and agrees that during the term of this Agreement it will not, directly or indirectly, whether as principal, agent, officer, director, partner, employee, independent contractor, consultant, stockholder, licensor or otherwise, alone or in association with any other person, firm, corporation or other business organization, carry on, or be engaged, concerned or take part in, or render services or advice to, or own, share in the earnings of or invest in the stock, bonds or other securities of any person, firm, corporation or other business organization engaged in the United States of America in the business of designing, assembling and marketing hyperthermia treatment systems for cancer, other tumors, and prostate disorders, except

for any joint venture partner of the Company; provided, however, that each of the Consulting Firm and the Designated Consultant may invest in stocks, bonds or other securities of any business organization which is in competition with the Company or any of its Affiliate (but without otherwise participating in such business) if (i) such investment would not in any way limit the transaction of business by the Company or any of its Affiliates by virtue of any law, regulation, or administrative practice and (ii) such stock, bonds or other securities are listed on a national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934 and such investment in any class of such securities does not exceed 1% of the outstanding shares of such class or 1% of the aggregate principal amount of such class outstanding, as the case may be.

(b) The Consulting Firm hereby agrees that the covenants contained in Section are reasonable and valid. If for any reason any court of competent jurisdiction shall have deemed the provisions of Section unreasonable in duration or in geographic scope or otherwise unenforceable, the prohibitions herein contained shall be restricted to such time and geographic areas or shall otherwise be reformed in such manner as the court determines to be reasonable.

9. Confidential Information.

The Consulting Firm and the Designated Consultant agree to execute and be bound by a confidentiality agreement substantially similar to that executed by employees of the Company.

10. Ownership of Trade Secrets.

If, during the term of this Agreement, the Consulting Firm or any of its employees conceives, devises or develops any trade secret, invention, improvement, formula, design, process, patent, patent application or writing, or any program, system, or novel technique based upon technology or information derived from the Company (whether or not capable of being trademarked, copyrights or patented) ("Proprietary Information"), such Proprietary Information shall be and remain the property of the Company. Provided, however, Proprietary Information shall not include U.S. Patent Application Serial No. 08/703648 and any other proprietary information developed by Consulting Firm or Designated Consultant with Vladislav Oleynik and/or Vladimir Popov, so long as on or before December 31, 1997, the parties achieve a satisfactory resolution of the Company's \$40,000 investment in the patent and related technology.

11. Compliance with other Agreements.

The Consulting Firm hereby represents and warrants to the Company that the execution and delivery of this Agreement by the Consulting Firm and the performance of its obligations hereunder will not, with or without the giving of notice

or the passage of time, (a) violate any judgment, writ, injunction or order of any court, arbitrator or governmental agency applicable to the Consulting Firm or (b) conflict with, result in the breach of any provision of, or the termination of, or constitute a default under, any agreement to which the Consulting Firm is a party or by which the Consulting Firm is or may be bound.

12. Remedies.

In the event that any action shall be brought by the Company or the Consulting Firm to restrain any breach or threatened breach of any provision of this Agreement, the Company and the Consulting Firm hereby agree that the prevailing party shall be reimbursed by the non-prevailing party for all costs and expenses, including reasonable lawyers' fees, incurred by the prevailing party by reason of such breach or threatened breach.

13. Binding Effect; Assignment.

This Agreement shall inure to the benefit of, and shall be binding upon, the Company and the Consulting Firm and their respective successors, assigns, heirs and legal representatives, including any firm, corporation or other business organization with which the Company or the Consulting Firm may merge or consolidate or to which it may transfer substantially all of its assets.

14. Severability.

The provisions of this Agreement are severable and if any provision of this Agreement shall be invalid or unenforceable to any extent or in any application, then the remainder of such provision and this Agreement, except to such extent or in such application, shall not be affected thereby, and each and every provision of this Agreement shall be valid and enforceable to the fullest extent and in the broadest application permitted by law.

15. Amendments and Waivers.

This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the party against whom enforcement of any such modification or amendment is sought. Either the Company or the Consulting Firm may, by an instrument in writing, waive compliance by the other party with any term or provision of this Agreement on the part of such other party hereto to be performed or complied with. The waiver by any party hereto of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach.

16. Notice.

Any notice, demand, approval or other communication which may be or is required to be given under this Agreement shall be in writing and shall be deemed to have been given on the earlier of the day actually received or on the close of business

on the fifth business day next following the day when deposited in the United States mail, postage prepaid, registered or certified, addressed to the Company or the Consulting Firm at their respective address set forth below or such other address as such party may specify by notice given pursuant to this Section :

If to the Consulting Firm:  
NACE Resources, Inc.  
2323 Sheridan Road  
Highland Park, IL 60035  
Attn: Stuart Fuchs

with a copy (which shall not constitute notice)  
to:

Alzheimer & Gray  
10 South Wacker Drive  
Chicago, IL 60606  
Attn: Norman M. Gold

If to the Company:

Cheung Laboratories, Inc.  
10220-1 Old Columbia Road  
Columbia, MD 21046-1705  
Attn: Dr. Augustine Cheung

with a copy (which shall not constitute notice)  
to:

Ballard Spahr Andrews & Ingersoll  
201 S. Main Suite 1200  
Salt Lake City, UT 84111  
Attn: Richard Beard

17. Section and Other Headings.

The section and other headings contained in this Agreement are for reference purposes only and shall not be deemed to be a part of this Agreement or to affect the meaning or interpretation of this Agreement.

18. Entire Agreement.

This Agreement contains the entire agreement between the Company and the Consulting Firm pertaining to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, between the Company and the Consulting Firm with respect to the subject matter hereof.

19. Governing Law.

This Agreement shall be construed and governed in accordance with the law of the State of Illinois, without giving effect to the conflict of laws principles thereof.

20. Counterparts.

This Agreement may be executed in counterparts.

IN WITNESS WHEREOF, the Company and the Consulting Firm have executed this Agreement as of the date first above written.

CHEUNG LABORATORIES, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

DESIGNATED CONSULTANT

NACE RESOURCES, INC.

By: \_\_\_\_\_  
Stuart Fuchs

By: \_\_\_\_\_  
Stuart Fuchs, President

SETTLEMENT AGREEMENT

This Settlement Agreement, containing payment terms, is entered into this 28th day of October, 1996 by and between William O. Cave, an individual residing in New York ("WOC"), and Cheung Laboratories, Inc., a Maryland corporation ("CLI").

WHEREAS, after much discussion, the parties hereto agree that WOC is owed the total sum of \$224,825 by CLI; and

WHEREAS, CLI is unable to promptly pay this sum as of the date hereof but wishes to establish the total amount owed and is willing to make every good faith effort to retire the balance in the shortest possible time; and

WHEREAS, the parties hereto have also reached an agreement that CLI will issue 56,340 Common Stock Purchase warrants entitling the holder to purchase common shares of CLI for a price of \$.50 per share, for a period of two years from the date hereof; and

WHEREAS, the parties desire to bring the relationship between them to a mutually satisfactory settlement regarding all previous agreements and relationships and fully and finally settle all claims which the parties now have, will have, or could have, arising from or related in any way to any previous dealing between the parties;

NOW, THEREFORE, in consideration of the premises and mutual promises herein contained, it is agreed as follows:

1. Concurrent with the execution of this Agreement, CLI will deliver a check to WOC in the amount of \$30,000 as an initial payment, thereby reducing the total amount owed by CLI to WOC to the sum of \$194,825.

2. CLI shall also issue to WOC a certificate, of even date with this Agreement, evidencing WOC's ownership of 56,340 warrants to purchase common shares of CLI upon the terms and for the period first mentioned above. This certificate shall be prepared by counsel to CLI and will be issued to WOC within thirty days of the date hereof.

3. CLI shall use its best efforts to pay the remaining balance at an early date. It is anticipated by both parties that this will occur not later than the end of February, 1997. Unpaid balances shall accrue interest at the annual rate of 15%.

4. In order to induce CLI to pay the initial payment and to issue the warrants, WOC, individually and on behalf of his heirs, successors and assigns, represents and warrants to CLI that the sums mentioned herein are accurate as of the date hereof, and grants to CLI his unconditional and total release from all claims of whatever description that he, his heirs, successors or assigns might otherwise assert against CLI for additional amounts.

5. As further consideration, WOC, individually and on behalf of his heirs, successors and assigns, hereby releases all officers, directors, employees, agents or representatives of CLI, past, present or future from any and all claims which might arise from any past relationship, agreement, representation or warranty that any of them might have had with WOC or might be alleged to have had with WOC.

6. This Settlement Agreement sets forth the entire agreement between the parties hereto, and fully supersedes any and all prior agreements and understandings between the parties.

IN WITNESS WHEREOF, and including to be legally bound hereby, the parties have executed this Agreement.

CHEUNG LABORATORIES, INC.

WILLIAM O. CAVE

LETTER OF INTENT

This Letter of Intent is made this 27th day of May, 1996 in Columbia, Maryland between Mr. Sun Shou Yi ("Mr. Sun"), representative of Mr. Gao Yu Wen ("Mr. Gao") and Cheung Laboratories, Inc., a public company incorporated in Maryland ("CLI").

RECITALS

WHEREAS, in February 1995, Mr. Gao subscribed to purchase 20,000,000 shares of the common stock of CLI, 4,000,000 shares for \$2,000,000 US cash (the "Cash Shares") and 16,000,000 shares for a 9.6% interest in Aester Fine Chemical Company (the "Aester Shares") and has purchased both the Cash Shares and the Aester Shares;

WHEREAS, the purpose of the transaction with Mr. Gao was to utilize the facilities to Aester to create a cosmetic business in China with joint venture partners that would be beneficial to CLI and Mr. Gao;

WHEREAS on May 10, 1995, CLI deposited \$700,000 US cash with Mr. Gao in an investment account for Mr. Gao to manage and return an annual interest rate of 17% and \$190,000 US of the account has been returned to CLI, leaving a balance owing of \$510,000 plus interest;

WHEREAS, despite significant efforts by Mr. Gao and CLI, the cosmetic business objectives are unlikely to be achieved due to the impaired health of Mr. Gao;

WHEREAS, Mr. Gao has incurred expenses in operating an Hong Kong office to pursue the cosmetic business objectives and other business for CLI and has not been reimbursed for such expenses;

WHEREAS, Mr. Sun has taken over, as a principal, the Aester Shares from Mr. Gao, and represents Mr. Gao with regard to the Cash Shares and the investment account; and

WHEREAS, Mr. Gao is not in a position to pursue the cosmetic business plan due to his impaired health and CLI is not in a position to pursue the cosmetic business plan, as it will utilize its resources to pursue its hyperthermia business:

NOW, THEREFORE, in consideration of furthering their respective business interests, Mr. Sun, as the representative of Mr. Gao, and CLI do hereby agree as follows, with the intention that this Letter of Intent will be binding and be implemented under the terms of a definitive contract to be prepared in Hong Kong and executed by the parties on or before June 8, 1996, which shall serve to provide the details for closing the transaction, but shall not vary the terms of this Letter of Intent.

1. The above recitals are hereby incorporated in and made a part of this Agreement.

2. CLI agrees to purchase all of the Cash Shares and pay Mr. Gao or his designated recipient on or before November 30, 1996, a sum total of US \$2,200,000 (four million shares at \$0.55/share).

3. Upon signing of the definitive contract on or before June 8, 1996, the transactions pertinent to the Aester Shares and Cash Shares are considered rescinded. Mr. Gao (or his representative) will deposit both the CLI Cash Shares and the Aester Shares in an escrow account held by a mutually agreeable third party. The Aester Shares and Cash Shares are held in escrow as collateral for full payment of the \$2,200,000 mentioned in paragraph above. The Cash Shares and the Aester Shares shall be returned immediately to CLI once the full payment of \$2,200,000 has been made.

4. The closing of the transaction contemplated by paragraphs and shall occur on or before November 30 in Hong Kong under the procedures agreed to in the definitive contract. At closing, Mr. Gao (or his representative) shall deliver the Cash Shares and the Aester Shares free and clear of any liens or encumbrances and CLI will deliver a cash sum total of US \$2,200,000.

5. Mr. Gao will provide an expense accounting promptly to CLI for the expenses incurred in work on the cosmetic business and other businesses of CLI and, following review of the accounting by CLI, will be reimbursed from the investment account for the expenses approved by CLI. CLI is to exercise its reasonable business judgment. This expenses accounting shall be completed by both parties by June 15, 1996 and the investment account balance fully resolved by such date.

6. This the full agreement of the parties concerning the subject matter and is to be implemented by the definitive contract described above. This Letter of Intent shall be interpreted and enforced under the internal law of Maryland

the English version of this Letter of Intent shall control its terms. The terms and conditions defined in the definitive contract to be signed on or before June 8, 1996 shall govern.

IN WITNESS WHEREOF, intending to be bound, the parties do hereby execute this Letter of Intent.

CHEUNG LABORATORIES, INC.

By:/s/\_\_\_\_\_

MR. GAO'S REPRESENTATIVE

By:/s/\_\_\_\_\_

## REDEMPTION AGREEMENT

THIS REDEMPTION AGREEMENT (the "Agreement") is made this 6th day of June, 1996 in Hong Kong between Mr. Sun Shou Yi ("Mr. Sun"), representative of Mr. Gao Yu Wen ("Mr. Gao") and Cheung Laboratories, Inc., a public company incorporated in Maryland, USA ("CLI" and/or the "Company").

### RECITALS

WHEREAS, on the 27th day of May, 1996, the parties entered into a binding Letter of Intent for CLI to redeem 20,000,000 shares of the common stock of CLI from Mr. Gao under the terms and conditions set forth in the Letter of Intent, such terms and conditions to be fully implemented by this Redemption Agreement.

NOW, THEREFORE, in consideration of furthering their respective business interests, Mr. Sun, as the representative of Mr. Gao, and CLI do hereby agree as follows:

1. The Letter of Intent dated May 27, 1996, is hereby incorporated in and made a part of this Agreement.

2. Mr. Sun and CLI do hereby jointly appoint Leung To Kwan Pauline, solicitor, as the escrow agent ("Escrow Agent") to carry forth those responsibilities set forth in this Agreement to be executed by the Escrow Agent. The attached Escrow Agreement shall be executed by Mr. Sun, CLI and the Escrow Agent.

3. CLI does hereby rescind and renounce the 9.6% interest it has held in Aester Fine Chemical Incorporated Limited, a corporation incorporated under the laws of China ("Aester") and Mr. Sun does hereby rescind and renounce the 20,000,000 share interest which Mr. Gao has held in CLI. The books and records of CLI shall show that the 20,000,000 CLI shares previously held by Mr. Gao have been rescinded and the books and records of Aester shall reflect that the 9.6% interest previously held by CLI has been rescinded, all as of the date that CLI delivers US \$2,200,000 to Mr. Sun as described in this Agreement.

4. Mr. Sun shall deliver to the Escrow Agent, within ten (10) days of execution of this Agreement, the 20,000,000 CLI shares previously held by Mr. Gao and such shares shall serve as security for the obligations of CLI to be performed under this Agreement (as described in paragraph below). If CLI shall

fail to perform its obligations under this Agreement by November 30, 1996 (as set forth in paragraph below), a penalty of 3/4% per month shall be added to the amount payable by CLI, it being the intention of the parties that the payment be made and the CLI stock be released to CLI. If CLI fails to perform its obligations after three months past November 30, 1996, the Escrow Agent will return the 20,000,000 shares to Mr. Sun for his disposition.

5. Within ten (10) days of the execution of this Agreement, CLI shall deliver to the Escrow Agent all evidence of CLI's 9.6% interest in Aester previously held by CLI. The Escrow Agent shall mark such documentation as rescinded and cancelled under this Agreement and transmit such documentation to Mr. Sun.

6. On or before the close of business on November 29, 1996 in Columbia, Maryland, USA, CLI shall wire transfer \$2.2 million (US) pursuant to instructions provided by Mr. Sun. Upon confirmation by CLI's bank that such wire transfer has been initiated by the bank, CLI shall have fully performed its obligations under this Agreement. CLI's bank shall send by facsimile transmission to the Escrow Agent evidence of having initiated such wire transfer. Upon receipt by such notice, the Escrow Agent shall release the 20,000,000 shares of CLI stock to CLI.

7. Mr. Gao has given notice to the Company that he will not be able to serve on the Board of Directors and CLI shall accept this notice as Mr. Gao's resignation from the Board of Directors of CLI, effective the date of this Agreement. Mr. Gao will provide an expense accounting promptly to CLI for the expenses incurred in work on the cosmetic business and other businesses of CLI and, following review of the accounting by CLI, will be reimbursed from the investment account for the expenses approved by CLI. CLI is to exercise its reasonable business judgment. This expenses accounting shall be completed by both parties by June 15, 1996, and the investment account balance fully resolved by such date. After signing this Agreement, Mr. Gao will transfer the voting power of his shares to Dr. A. Cheung, the representative of CLI. It is further acknowledged that upon signing this Agreement, Mr. Gao and his representative will no longer be financially and legally responsible to the operation of CLI business.

This Agreement reflects the full understanding of the parties and shall be interpreted and enforced under the internal laws of the State of Maryland, USA, and the English version of this Agreement shall control its terms.

IN WITNESS WHEREOF, the parties, intending to be bound, do hereby execute this Agreement as of the date above written.

WITNESS

CHEUNG LABORATORIES, INC.

/s/ \_\_\_\_\_

By: /s/ \_\_\_\_\_

MR. SUN SHOU YI, AS  
REPRESENTATIVE OF MR. GAO  
YU WEN

/s/ \_\_\_\_\_

By: /s/ \_\_\_\_\_  
Mr. Sun Shou Yi

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## AMENDMENT

This Amendment ("Amendment") dated October 23, 1996 by and among Mr. Sun Shou Yi ("Sun"), Mr. Ou Yang An ("Ou"), Mr. Gao Yu Wen ("Gao") (collectively the "Gao Group") and Cheung Laboratories, Inc., a Maryland corporation ("CLI"), amends that certain Redemption Agreement dated June 6, 1996 between Sun as Gao's representative and CLI (the "Redemption Agreement"); that certain Letter of Intent dated May 27, 1996 between Sun as Gao's representative and CLI (the "Letter"); that certain Escrow Agreement dated June \_\_, 1996 by and among Sun as Gao's representative, CLI and Ms. Leung To Kwan, Solicitor, S.H. Leung & Company ("Leung") (the "Escrow"); that certain Agreement to Settle Investment Account dated June 8, 1996 between Ou and CLI ("Agreement to Settle"); and that Irrevocable Proxy dated June 6, 1996 from Gao ("Proxy"). The Redemption Agreement, the Letter, the Escrow, the Agreement to Settle and the Proxy are collectively referred to as the "Settlement Agreements."

Witnesseth:

Whereas, various members of the Gao Group entered into the Settlement Agreements with CLI; and

Whereas, CLI and the Gao Group desire to clarify that all parties in the Gao Group agree to the terms and conditions of the Settlement Agreements and this Amendment; and

Whereas, the parties desire to amend the Settlement Agreements as set forth below.

Now Therefore, in exchange for ten dollars (\$10) and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged the Gao Group and CLI agree as follows:

1. Contemporaneous with the execution of this Amendment, Leung as the Escrow Agent pursuant to this Amendment is instructed to deliver certificates representing 16,000,000 shares of CLI ("Amended Shares") to Verle Blaha, President of CLI without any restrictions, liens or encumbrances. The Gao Group represents and warrants to CLI that the Amended Shares are free and clear of all encumbrances and restrictions.

2. The Proxy is amended to cover only the 4,000,000 shares of CLI remaining in escrow ("Common Shares") and the period of the Proxy is extended to the time at which the Common Shares are released to CLI or March 31, 1997 whichever event occurs first.

3. The amount payable to the Gao Group for the Common Shares is reduced from \$2,200,000 to \$2,160,000 which reflects the agreed on credit for

funds remaining in the Agreement to Settle ("Cash Amount"). Notwithstanding the Settlement Agreements, the period of time to pay the Cash Amount is extended to December 31, 1996 and may be extended for an additional 3 month period upon the payment of 3/4% per month interest for the period January 1, 1997 through March 31, 1997.

4. The Cash Amount shall be wired or hand delivered to Leung's trust account. The Escrow Agent shall release such Cash Amount to Ou as the Gao Group's representative contemporaneous with sending the Common Shares to CLI by hand delivery or DHL as follows:

Verle Blaha  
Cheung Laboratories, Inc.  
10220-I Old Columbia Road  
Columbia, Maryland 21046-1705

5. Other than the Settlement Agreements as modified by this Amendment, all agreements (whether written or oral), understandings and covenants between the parties are null and void. Other than as modified in this Amendment all of the terms and conditions of the Settlement Agreements shall remain in full force and effect.

6. This Amendment is not and shall not in any way be construed as an admission by any party, or any of their respective affiliates, subsidiaries, shareholders, directors, partners, agents, officers, employees, representatives, or attorneys of any illegal acts whatsoever, but constitutes the good faith settlement of all potential claims against the parties, or their respective affiliates, subsidiaries, successors, shareholders, directors, partners, agents, officers, employees, representatives or attorneys. The parties have entered into this Amendment in order to bring the relationship between CLI and the Gao Group to a final conclusion, to resolve all potential claims which might be brought by any of the respective affiliates, subsidiaries, successors, shareholders, directors, partners, agents, officers, employees, representatives or attorneys, and in order to avoid the burden, expense, delay, and uncertainties of litigation.

7. The Gao Group irrevocably and unconditionally remises,

releases and forever discharges CLI and each of its past, present, and future affiliates, subsidiaries, shareholders, partners, agents, directors, officers, employees, representatives, attorneys, successors, heirs, executors, administrators, and assigns, and all persons acting by, through, under or in concert with any of them (collectively "Assigns"), or any of them, of and from any and all actions, causes of actions, suits, charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, demands, damages, judgments, and expenses (including attorney's fees and costs actually incurred) and all other liabilities of any nature whatsoever, in law or equity, which either party ever had, now has or their respective heirs, executors,

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administrators, successors, or assigns hereafter may have, particularly, against each or any of the Assigns, arising from or related in any way to any dealings the parties have had through the date of this Amendment and each party does hereby covenant not to file a lawsuit to assert any such claims.

8. CLI irrevocably and unconditionally remises, releases, and forever discharges the Gao Group and each of their respective heirs, executors and administrators (collectively "Assigns"), or any of them, of and from any and all actions, causes of actions, suits, charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, demands, damages, judgments, and expenses (including attorney's fees and costs actually incurred) and all other liabilities of any nature whatsoever, in law or equity, which either party ever had, now has or their respective heirs, executors, administrators, successors, or assigns hereafter may have, particularly, against each or any of the Assigns, arising from or related in any way to any dealings the parties have had through the date of this Amendment and each party does hereby covenant not to file a lawsuit to assert any such claims.

9. The parties expressly acknowledge that this Amendment is intended to include in its effect, without limitation, all claims which have arisen and of which the parties know or do not know, should have known, had reason to know or suspect to exist in their respective favor at the time of execution hereof, and that this Amendment contemplates the extinguishment of any such claim or claims.

10. The parties represent and certify that each is voluntarily entering into this Amendment; that the other parties and their respective agents, representatives, and attorneys have made no representations concerning the terms or effects of this Amendment other than those contained herein; and they have reviewed the Amendment with legal counsel of choice.

11. The parties represent and certify that they have not assigned or otherwise conveyed any rights or obligations that they have in connection with transactions contemplated by or within the scope of the Settlement Agreements or this Amendment.

12. Notwithstanding the releases set forth above, each party agrees that it will cooperate fully with all reasonable requests by the other party, or any of their respective successors, subsidiaries or affiliates, to participate in the preparation for, responses to, or prosecution or defense of any pending or threatened litigation or governmental proceeding or investigation by or against or involving CLI, or any of their successors, subsidiaries, or affiliates, relating to any events which occurred during or as a result of the relationship of the parties. Furthermore, in the event governmental or third parties assert claims against CLI which involve any relationship between CLI and the Gao Group, CLI may assert cross claims and other claims against the Gao Group. In the event such claims are successful, the Gao Group agrees to indemnify and hold harmless CLI and its affiliates.

13. This Amendment is made and entered into in the State of Maryland, and shall in all respects be interpreted, enforced and governed under the laws of said State. The federal district court of Baltimore, Maryland shall have jurisdiction over the parties. The language of all parts of this Amendment shall in all cases be construed as a whole, according to its fair meaning.

14. The parties acknowledge the termination of all previous agreements other than the Settlement Agreements and this Amendment between them by their mutual consent.

15. Should any provision of this Amendment be declared or determined by a court of competent jurisdiction to be illegal or invalid, the validity of the remaining parts, terms and provisions shall not be affected thereby, and said illegal or invalid part, term, or provision shall be deemed not to be a part of the Settlement Agreements and this Amendment.

16. The Settlement Agreements and this Amendment set forth the entire agreement between the parties hereto, and fully supersedes any and all prior agreements or understandings between the parties hereto pertaining to the subject matter hereof.

17. CLI shall file its Form 10-K for the period ended September 30, 1996 with the United States Securities and Exchange Commission disclosing this Amendment and the release of any interest in the Aestar shares.

18. CLI covenants that it will utilize a portion of these proceeds on a first priority basis from a public or private offering to be conducted for the purpose of purchasing the Common Shares or in the alternative will assign its right to repurchase the Common Shares to private investors to purchase such shares directly from the Gao Group.

IN WITNESS WHEREOF, and intending to be legally bound hereby, the Gao Group and CLI have executed the foregoing Amendment.

CHEUNG LABORATORIES, INC.

By: \_\_\_\_\_  
Name:  
Title:

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Gao Yu Wen, by and through his attorney  
in fact, Ou Yang An

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Sun Shou Yi, in his  
individual capacity and as  
representative of Gao Yu  
Wen by and through his  
attorney in fact, Ou Yang  
An

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Ou Yang An, in his individual capacity  
and as representative of Gao Yu Wen

August 2, 1996

Dr. Augustine Y. Cheung, President  
Cheung Laboratories, Inc.  
10220 Old Columbia Road, Suite I  
Columbia, MD 21046-1705

RE: Binding Letter of Intent  
Rescission of Cheung Laboratories, Inc. Investment In Ardex Equipment,  
LLC

Dear Dr. Cheung:

This letter will serve to set forth the background and confirm our discussions to proceed in the following manner to rescind the transaction in which Cheung Laboratories, Inc. ("CLI") invested \$450,000 in Ardex Equipment, LLC ("Ardex") stock (\$400,000 purchased from Ardex and \$50,000 from the principals of Ardex), \$50,000 of which has been repaid from Ardex and \$400,000 of which remains as an investment in Ardex in the form of 17.1111% of the present equity of Ardex.

1. CLI contracted to acquire a controlling interest in Ardex and provide substantial funding to Ardex as part of implementing a business plan for CLI's Industrial Division, which business plan involved a significant investment in CLI by Mr. Gao Yu Wen. Mr. Gao has become seriously ill, the Industrial Division is being closed and CLI has entered into an agreement to redeem Mr. Gao's investment in CLI.
2. CLI desires to rescind the remaining \$350,000 transaction with Ardex and the \$50,000 transaction with the principals as part of its general restructuring pertaining to closing its Industrial Division. CLI desires to cancel its contract to acquire a controlling interest in and provide substantial funding to Ardex and be repaid its investment in Ardex, all without prejudice to the business or opportunities of Ardex.

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3. \$350,000 of the equity interest of CLI will be converted to a 5-year negotiable promissory note payable by Ardex under the following terms and conditions:
  - a. Interest to be paid at the rate of 8%.
  - b. The note is payable on an interest-only basis until principal becomes due.
  - c. Principal becomes due and payable upon the first to occur of any of the following:
    - (i) Public or private offerings successfully completed by Ardex of \$1.5 million in the aggregate or more;
    - (ii) Ninety (90) days following a year end of Ardex in which sales for the year have been \$3,000,000 or more;
    - (iii) Ardex having a cash balance of \$800,000 or more from operations; or
    - (iv) A date 5 years from the date of the promissory note.
  - d. The promissory note to be the subject of a limited guaranty by the three principals of Ardex in which each principal provides a limited guaranty of one-third of the principal balance of the note, the limited guaranty to be secured solely by the interest each principal has in Ardex and the interest each principal has in options to purchase CLI stock.
  - e. The principals will provide promissory notes of \$50,000 in the aggregate on the same terms and conditions as the Ardex promissory notes, \$22,500 payable by Joseph Colino (representing the interest of Joseph Colino and Daniel Alfieri), \$12,500 payable by John Kohlman, and \$15,000 payable by Charles Shelton.
4. This transaction is to be implemented on or before August 31, 1996 by the execution of detailed documents containing standard terms and conditions and appropriate detailed terms and conditions to implement this binding letter of intent.

Very truly yours,

/s/ \_\_\_\_\_  
Joseph M. Colino  
President

cc: Charles C. Shelton  
John J. Kohlman

The above terms and conditions are agreed this 2nd day of August, 1996.  
CHEUNG LABORATORIES, INC.

By: /s/ \_\_\_\_\_  
Dr. Augustine Y. Cheung, President



NEW OPPORTUNITIES, LTD.  
[LETTERHEAD]

August 15, 1996

Cheung Laboratories, Inc.  
10220-1 Old Columbia Road  
Columbia, MD 21046-1705

Attention: Board of Directors

Dr. Augustine Cheung had requested (he asked nicely) if I would provide him assistance in restructuring Cheung Laboratories, Inc. In a meeting on July 8, 9, and 10, 1996 it became very clear from the "Financial Advisor, Mr. Warren Stearns, that the "assistance" Warren had in mind was that of a full time CEO and President. Further, that the individual selected must be "an experienced businessman, competent to attend to the coordination of all contemplated activities particularly attendant to the preparation of the Company to financial institutions and investment bankers." After interviewing with Mr. Stearns, I believe I have his full recommendation and support.

The past two weeks, starting on July 27, I have had the opportunity to work with Dr. Cheung and all other employees, review extensive correspondence files, and meet with recommended special attorneys, a marketing consultant, our financial advisor, and the leader of our technical advisory board. My conclusion, with no reservations, is: we now have the greatest opportunity for success that this Company has ever had.

With that said, and if the Board of Directors approves, I would accept the full responsibility of CEO and President of Cheung Laboratories, Inc. The "By Laws" of CLI requires that the President be a member of the Board of Directors. Therefore, I would accept that responsibility also.

I propose that the agreement and compensation be through my consulting company, New Opportunities, Ltd (NOL). I would agree to suspend most of my current activities with NOL and Trans Pacific Alliance of America (TPA). I do have a consulting commitment to Maytag at a fee of U.S. \$300 per hour that I must honor. This should require only about one week of my time. In addition, I have a "religious holiday" the first week of October and the first week of November that I also must honor.

I propose the following agreement:

5. That the agreement be a consulting contract between CLI and NOL for the specific services of Blaha.

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As an inducement for me to suspend my third retirement, reduce my participation in the activities of NOL and TPA, and to reduce my consulting fee from U.S. \$300 per hour, I propose the following compensation schedule:

6. Payment of an initial fee of U.S. \$25,000 upon the Board of Directors approval of Blaha as the CEO and President. This fee to cover costs and expenses of reducing activity in NOL and TPA.

7. Payment of a consulting fee of U.S. \$175 per hour. Maximum charge of 8 hours per day and 40 hours per week regardless of the length of the day or week.

8. Reimbursement of all normal business expenses while conducting CLI business. The Company shall provide a suitable residence including all utilities in Columbia, Maryland at no charge.

9. Grant a fully vested, transferable and divisible Warrant to purchase 400,000 shares of CLI common stock at a strike price of U.S. \$0.41 at any time after August 14, 1996 and eight years thereafter.

10. CLI shall fully indemnify NOL and Blaha against any liability whatsoever (including legal fees and expenses) arising from claims in connection with conducting CLI business.

11. The term of this agreement shall be for six months starting and effective as of July 27, 1996 and ending on January 27, 1997.

12. This agreement is written in casual business language and if the Board of Directors so desires it may be translated into a formal legal language by CLI council.

By: /s/ \_\_\_\_\_

New Opportunities, Ltd.

By: /s/ \_\_\_\_\_ President

Director

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director



PROMISSORY NOTE

FOR VALUE RECEIVED, Cheung Laboratories, Inc. (the "Company") hereby ratifies and confirms its promise of June 30, 1994 to pay to the order of Augustine Y. Cheung, the sum of Forty-Two Thousand Six Hundred Sixty-Nine And 00/100 (\$42,669.00) Dollars, together with interest thereon at the rate of 10% per annum on the unpaid balance.

Said principal and interest shall be due and payable December 31, 1999.

The Company may prepay this note without penalty. In the event any payment due hereunder is not paid when due, the entire balance shall be immediately due upon demand of any holder. Upon default, the company shall pay all reasonable attorney fees and costs necessary for the collection of this note.

Signed this 9th day of December, 1996.

For the Company:

/s/Verle D. Blaha  
Verle D. Blaha, President  
Cheung Laboratories, Inc.

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PROMISSORY NOTE

FOR VALUE RECEIVED, Cheung Laboratories, Inc. (the "Company") hereby ratifies and confirms its promise of January 26, 1987 to pay to the order of of Augustine Y. Cheung, the sum of Seventy-Eight Thousand Seven Hundred and Fifty And 00/100 (\$78,750.00) Dollars, together with interest thereon at the rate of 10% per annum on the unpaid balance.

Said principal and interest shall be due and payable December 31, 1999.

The Company may prepay this note without penalty. In the event any payment due hereunder is not paid when due, the entire balance shall be immediately due upon demand of any holder. Upon default, the company shall pay all reasonable attorney fees and costs necessary for the collection of this note.

Signed this 9th day of December, 1996.

For the Company:

/s/ A.Y. Cheung  
A.Y. Cheung, President  
Cheung Laboratories, Inc.

DEMAND NOTE

FOR VALUE RECEIVED, Cheung Laboratories, Inc. (the "Borrower") hereby ratifies and confirms its promise of October 2, 1990 to pay to the order of Ada Lam (the "Holder") the sum of TWENTY-EIGHT THOUSAND FIVE HUNDRED AND TWO DOLLARS (\$3,000.00), together with interest thereon at the rate of 12% per annum on the unpaid balance, on demand.

In the event of default, the Borrower shall pay all reasonable attorney's fees and costs necessary for the collection of this obligation.

The effective date of this Demand Note is October 2, 1990.

IN WITNESS WHEREOF, the undersigned has ratified the above-described obligation on this 9th day of December, 1996.

CHEUNG LABORATORIES, INC.

By: \_\_\_\_\_  
Verle D. Blaha, President

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER THE SECURITIES LAW OF ANY STATE AND MAY NOT BE SOLD OR TRANSFERRED UNLESS REGISTERED UNDER THAT ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

CHEUNG LABORATORIES, INC.  
8% SENIOR SECURED CONVERTIBLE NOTE

Baltimore, Maryland

July \_\_, 1996

FOR VALUE RECEIVED, CHEUNG LABORATORIES, INC., a Maryland corporation (the "Corporation") promises to pay to \_\_\_\_\_, or registered assigns, (the "Holder") the principal amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) (the "Principal Amount") on or before December 31, 1997, with accrued interest as provided below, all subject to the following terms and conditions.

Interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid Principal Amount shall accrue at the rate of 8% per annum from the date hereof.

All payments of principal of and interest on this 8% Senior Secured Convertible Note (the "Note") are secured pursuant to a Loan Agreement, and a Pledge Agreement, both dated July 1, 1996 which apply to this series of bridge financing notes (the "Notes"), and shall be made in currency of the United States of America as at the time of payment shall be legal tender for payment of public and private debts. Should an Event of Default occur under the Loan Agreement, this Note shall be accelerated and be immediately due and payable

This Note and the Notes shall be senior indebtedness of CLI and have a priority over payment of any other indebtedness of CLI, such other indebtedness of CLI to be repaid only after the full repayment of the Principal Amount, and accrued interest, due hereunder and under the other Notes. This Note shall mature and the entire Principal Amount thereof and all accrued interest thereon shall become due and payable on December 31, 1997; provided that, at the option of the Holder this Note may be paid by the Holder electing:

A. To be repaid from the proceeds of a private offering by the Corporation, or a series of private offerings, which aggregate \$8,000,000.00 (U.S.) or more prior to December 31, 1997, and involve the sale of the Corporation's common stock, preferred stock, long-term debt, convertible debt (other than this Note), or other similar security or financial instrument (the "Private Offering"); or

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B. On the date of maturity to convert the Principal Amount and any unpaid accrued interest into common stock of the Corporation. If the Holder shall elect to so convert the Note, the number of shares of common stock to be received by the Holder shall be the greater of:

- (i) the number of shares determined by pricing the common stock of the Corporation at \$.41 per share (representing the closing price of the common stock of the Corporation as quoted on NASDAQ (Bulletin Board) on May 31, 1996); or
- (ii) the lowest price per share in the Corporation's Private Offering on the same terms as other participants in such Private Offering (on a common stock equivalency basis if the Private Offering is other than common stock).

If any payment of interest is not made on the date when due for any reason, or the Principal Amount shall not be paid when payable, whether at maturity or by acceleration or otherwise, interest shall accrue on any amount overdue more than 30 days at a rate equal to 18% per annum (computed based on a 360-day year applied to twelve 30-day months) until such overdue amount is paid in full.

This Note shall be governed by and construed in accordance with the internal laws of the State of Maryland.

IN WITNESS WHEREOF, Cheung Laboratories, Inc. has executed this Note under seal as of the date and year first above written.

CHEUNG LABORATORIES, INC.

By: \_\_\_\_\_  
Dr. Augustine Y. Cheung, President

[CORPORATE SEAL]

Attest

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Secretary:  
c:\wpwin\bridgcli\convnot.8%

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## REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the "Agreement") is made by Cheung Laboratories, Inc., a Maryland corporation (the "Company"), for the benefit of the undersigned investor ("Investor", collectively, the "Investors"). This Agreement shall become effective upon acceptance and closing in respect of the related subscription for the Senior Secured Convertible Promissory Notes ("Notes") and the shares of common stock underlying the Notes, and the associated warrants to purchase common stock of the Company ("Warrants"). The Notes and the Warrants are collectively referred to herein as the "Securities." The common stock of the Company into which the Notes are convertible and the common stock issuable upon exercise of the Warrants shall be referred to herein collectively as the "Underlying Stock."

### R E C I T A L S

A. The Investors desire to purchase from the Company, and the Company desires to issue and sell to the Investors, up to an aggregate of \$1,200,000 in face amount of Notes and associated Warrants as described in the Confidential Offering Memorandum dated July 1, 1996 and all of the Exhibits thereto (the "Offering Memorandum").

B. As further inducement for the Investors to purchase the Notes and Warrants from the Company, the Company desires to undertake to register under the Securities Act of 1933, as amended, and the rules and regulations thereunder (collectively, the "Securities Act"), the Underlying Stock six months after the Company effects a registration, on any applicable form, of newly issued common stock at any time while the Investor holds the Notes, the Warrants, some or all of the Underlying Stock. This Agreement sets forth the terms and conditions of such undertaking.

The Company and the Investor agree as follows:

1. Definitions. For purposes of this Agreement:

(a) The terms "register," "registered" and "registration" refer to a registration effected by preparing and filing a registration statement or statements or similar documents in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("Rule 415"), and the declaration or ordering of effectiveness of such registration statement or document by the Securities and Exchange Commission (the "SEC");

(b) The term "Registerable Securities" means (i) the Underlying Stock, and (ii) any common stock of the Company issued as (or issuable upon the conversion or exercise of any convertible security, warrant, right or other security which is issued as) a dividend or

other distribution with respect to, or in exchange for or in replacement of any Note, warrant, or any Underlying Stock, excluding in all cases, however, any Registerable Securities sold by a holder of such Registerable Securities in a transaction in which its registration rights under this Agreement are not assigned.

(c) The Investors and assignees with registration rights assigned to them pursuant to Section 8 of this Agreement may be referred to herein collectively as "Holders" of Registerable Securities and each may be referred to herein as a "Holder" of Registerable Securities.

2. Registration.

(a) Automatic Registration Right - (i) Subject to the provisions of Section 3(a), below, not earlier than six months after the final closing date (the "Closing Date") of a registered offering of the common stock of the Company to the general public covered by a registration statement under the Securities Act, the Company shall use its best efforts to effect the registration under the Securities Act of all Registerable Securities; provided, however, that a Holder of Registerable Securities may inform the Company in writing that it wishes to exclude all or a portion of its Registerable Securities from such registration and upon such notice, such Registerable Securities shall be excluded from such registration.

(i) The holders of a majority in interest of the Registerable Securities shall have the right to select the managing underwriters, if any, and to approve the terms of the underwriting agreement in respect of such registration, subject to the approval of the Company, which shall not be unreasonably withheld.

(iii) The Company is obligated to use its best efforts to effect only one such registration pursuant to this Section 2(a) of this Agreement.

(b) Piggyback Registration - (i) On an unlimited number of occasions, and subject to the terms of this Agreement, in the event the Company decides to register any of its common stock (either for its own account or the account of a security holder or holders, other than in connection with a registration being effected pursuant to Section 2(a) above) on an SEC form (other than S-4 or S-8) that would be suitable for a registration involving Registerable Securities, the Company will: (x) promptly give each Holder of Registerable Securities written notice thereof (which shall include a list of jurisdictions in which the Company intends to qualify such securities under the applicable Blue Sky or other state securities laws) and (y) include in such registration (and in any related qualification under the Blue Sky laws or other state securities laws), and in any underwriting involved therein, all the Registerable Securities specified in a written request delivered to the Company by any Holder of Registerable Securities within 20 days after delivery of such written notice from

the Company. Nothing contained in this Section 2(b) shall limit the ability of the Company to withdraw a Registration Statement it has filed either before or after effectiveness.

(ii) If the registration of which the Company gives notice pursuant to Section 2(b)(i) is for a registered public offering involving an underwriting, the Company shall so advise the Holders of Registerable Securities as a part of the written notice given pursuant to Section 2(b)(i). In such event the right of any Holder of Registerable Securities to registration shall be conditioned upon such underwriting and the inclusion of such Holders' Registerable Securities in such underwriting to the extent provided in this Section 2(b). All Holders of Registerable Securities proposing to distribute their securities through such an underwriting shall (together with the Company and the other holders distributing their securities through such underwriting) enter into an underwriting agreement with the Underwriter's representative for such offering; provided that such holders shall have no right to participate in the selection of the underwriters for an offering pursuant to this Section 2(b).

(iii) In the event the Underwriters' representative advises the Holders of Registerable Securities seeking registration of Registerable Securities pursuant to this Section 2(b) in writing that market factors (including, without limitation, the aggregate number of shares of common stock requested to be registered, the general condition of the market, and the status of the persons proposing to sell securities pursuant to this registration) require a limitation of the number of shares to be underwritten, the Underwriter's representative may exclude some or all Registerable Securities from such registration and underwriting. In such event, the Underwriters' representative shall so advise all Holders of Registerable Securities of the number of shares of Registerable Securities that may be included in such registration and underwriting (if any), and the number of shares of Registerable Securities that may be included in such registration and underwriting (if any) shall be allocated among all holders seeking registration in proportion, as nearly as practicable, to the number of shares proposed to be included in the registration by the Holder. The number of shares of Registerable Securities to be included in such underwriting shall not be reduced unless all other securities (other than those sold by the Company) are similarly limited from the underwriting. No Registerable Securities or other securities excluded from the underwriting by reason of this Section 2(b) shall be included in such Registration Statement.

(iv) If any Holder of Registerable Securities, or a holder of other securities entitled (upon request) to be included in such registration, disapproves of the terms of any underwriting, such Holder may elect to withdraw therefrom by written notice to the Company delivered at least 20 days prior to the effective date of the Registration Statement.

3. Obligations of the Company. When required under this Agreement to effect the registration of the Registerable Securities, the Company shall, as expeditiously as reasonably possible, use its best efforts to:

(a) Prepare and file with the SEC a registration statement or statements or similar documents (the "Registration Statement") with respect to all Registerable Securities, other than any Registerable Securities excluded by Holders of Registerable Securities pursuant to Section 2(a), cause the Registration Statement to become effective not later than six months after the closing date of the Company's Next Public Offering of common stock and keep the Registration Statement effective pursuant to Rule 415 at all times until the earlier of (i) the third anniversary of the final closing date of the Company's offering of Notes and Warrants to the Investors, or (ii) the date on which all Investors can sell any of the Registerable Securities pursuant to Rule 144 of the Securities Act without restriction under Rule 144(e) thereof; provided, however, that if a public offering of common stock by the Company is closed on a date that is more than two years following the first date each Holder of Registerable Securities held such Registerable Securities, the Company shall have no obligation to file a Registration Statement in respect of such registerable securities pursuant to this Agreement, except pursuant to Section 2(b).

(b) Prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement and the Prospectus used in connection with the Registration Statement as may be necessary to keep the Registration Statement effective at all times until the earlier of (i) the third anniversary of the final closing date of the Company's offering of the Notes and Warrants, or (ii) the date on which all Investors can sell their respective shares of Registerable Securities pursuant to Rule 144 of the Securities Act without restriction under Rule 144(e) thereof, and to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by the Registration Statement.

(c) Furnish promptly to the Holders of Registerable Securities such numbers of copies of a prospectus, including a preliminary prospectus, and all amendments and supplements thereto, in conformity with the requirements of the Securities Act, and such other documents as the Holders of Registerable Securities may reasonably request in order to facilitate the disposition of Registerable Securities.

(d) Register and qualify the securities covered by the Registration Statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Investors and prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements and to take such other actions as may be necessary to maintain such registration and qualification in effect at all times until the earlier of (i) the third anniversary of the final closing date of the Company offering of the Notes and Warrants, or (ii) the date on which all Investors can sell their respective shares of Registerable Securities pursuant to Rule 144 of the Securities Act without restriction under Rule 144(e) thereof, and to take all other actions necessary or advisable to enable the disposition of such securities in such jurisdictions, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do

business or to file a general consent to service of process in any such states or jurisdictions or to provide any undertaking or make any change in its charter or bylaws which the Board of Directors determines to be contrary to the best interest of the Company and its stockholders.

(e) In the event the holders of a majority in interest of the Registerable Securities select underwriters for the offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the managing underwriter of such offering. The Investors shall also enter into and perform their customary obligations under any such agreement including, without limitation, customary indemnification and contribution obligations.

(f) Notify the Holders of Registerable Securities, at any time when a prospectus relating to Registerable Securities covered by the Registration Statement is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing. The Company shall promptly amend or supplement the Registration Statement to correct any such untrue statement or omission.

(g) Notify the Holders of Registerable Securities of the issuance by the SEC of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for the purposes. The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible time.

(h) Permit a single firm of counsel designated as selling stockholders' counsel by the holders of a majority in interest of the Registerable Securities commencing at a reasonable period of time prior to their filing, to review the Registration Statement and all amendments and supplements thereto and shall not file any document in a form to which such counsel reasonably objects.

(i) Make generally available to its security holders as soon as practicable, but not later than 90 days after the close of the period covered thereby, an earnings statement (in form complying with the provisions of Rule 158 under the Securities Act) covering a 12- month period beginning not later than the first day of the Company's fiscal quarter next following the effective date of the Registration Statement.

(j) At the request of the Holders of Registerable Securities, furnish to the underwriters on the date that Registerable Securities are delivered to the underwriters for sale

in connection with a registration pursuant to this Agreement (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, and (ii) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters.

(k) Make available for inspection by the Holders of Registerable Securities, any underwriters participating in the offering pursuant to the registration and the counsel, accountants or other agents retained by the Investors, all pertinent financial and other records, corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by the Investors in connection with the registration.

(l) If the Common Stock is then listed on a national securities exchange, cause the Registerable Securities to be listed on such exchange. If the Common Stock is not then listed on a national securities exchange, facilitate the reporting of the Common Stock on NASDAQ.

(m) Provide a transfer agent and registrar, which may be a single entity, for the Registerable Securities not later than the effective date of the Registration Statement.

(n) Take all actions necessary to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legend) representing the Registerable Securities to be sold pursuant to the Registration Statement and to enable such certificates to be in such denominations and registered in such names as the Holders of such Registerable Securities or any underwriters may reasonably request.

(o) Take all other reasonable actions necessary to expedite and facilitate disposition by the Investors of the Registerable Securities pursuant to the Registration Statement.

4. **Furnish Information.** It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Agreement with respect to each Investor that such Investor shall furnish to the Company such information regarding itself, the Registerable Securities held by it, and the intended method of disposition of such securities as shall be reasonably required to effect the registration of the Registerable Securities and shall execute such documents in connection with such registration as the Company may reasonably request.

5. **Expenses of Registration.** All expenses incurred in connection with registration, filings or qualifications pursuant to Sections 2 and 3, including without

limitation, all registration, listing, filing and qualification fees, printers and accounting fees, the fees and disbursements of counsel for the Company and the reasonable fees and disbursements of one form of counsel for the Investors shall be borne by the Company (except in the case of the automatic registration pursuant to Section 2(a) for which underwriter discounts and commissions shall not be borne by the Company).

6. Indemnification. In the event any Registerable Securities are included in a Registration Statement:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Investor, the directors, employees, agents and the officers of the Company, each person who signs the Registration Statement, and each person, if any, who controls any of them, any underwriter (as defined in the Securities Act) for such Holders of Registerable Securities and each person, if any, who controls any such underwriter within the meaning of the Securities Act or the Securities Exchange Act of 1934, as amended (the "1934 Act"), against any losses, claims, damages, expenses or liabilities (or actions or proceedings, whether commenced or threatened, in respect thereof) arising out of or based upon any of the following statements, omissions or violations (collectively, a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the 1934 Act, any state securities laws or any rule or regulation promulgated under the Securities Act, the 1934 Act or any state securities laws; and the Company will reimburse the Investors and each such underwriter or controlling person, promptly as such expenses are incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; provided, however, that the indemnity agreement contained in this Section 6(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by the Investors or any such underwriter or controlling person, as the case may be. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Investors or any such underwriter or controlling person and shall survive the transfer of the Registerable Securities by the Holders of Registerable Securities.

(b) To the extent permitted by law, each Holder of Registerable Securities, severally and not jointly, will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the Registration Statement, each person, if any, who controls the Company within the meaning of the Securities Act or the 1934 Act, any underwriter and any other stockholder selling securities pursuant to the Registration Statement of any of its directors or officers or any person who controls such holder or underwriter, against any losses, claims, damages or liabilities (joint or several) to which any of them may become subject, under the Securities Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder of Registerable Securities expressly for use in connection with such registration; and such Holder of Registerable Securities will reimburse any legal or other expenses reasonably incurred by any of them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 6(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such Holder of Registerable Securities, which consent shall not be unreasonably withheld; and provided, further, that the Investor shall be liable under this paragraph for only that amount of losses, claims, damages and liabilities as does not exceed the proceeds to such Investor as a result of the sale of Registerable Securities pursuant to such registration.

(c) Promptly after receipt by an indemnified party under this Section 6 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel for the indemnifying party, representation of such indemnified party by the counsel retained by the indemnifying party, would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of any liability to the indemnified party under this Section 6 only to the extent prejudicial to its ability to defend such action, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 6. The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during

the course of the investigation or defense, promptly as such expense, loss, damage or liability is incurred.

(d) To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under this Section 6 to the extent permitted by law, provided that (i) no contribution shall be made under circumstances where the maker would not have been liable for indemnification under the fault standards set forth in this Section 6, (ii) no seller of Registerable Securities guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any seller of Registerable Securities who was not guilty of such fraudulent misrepresentation, and (iii) contribution by any seller of Registerable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registerable Securities.

7. Reports Under Securities Exchange Act of 1934. With a view to making available to the Holders of Registerable Securities the benefits of SEC Rule 144 promulgated under the Securities Act and any other rule or regulation of the SEC that may at any time permit the Investors to sell securities of the Company to the public without registration, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the 1934 Act; and

(c) furnish to each Holder of Registerable Securities, so long as such Holder of Registerable Securities owns any Registerable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144, the Securities Act and the 1934 Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing the Investors of any rule or regulation of the SEC which permits the selling of any such securities without registration.

8. Assignment of Registration Rights. The rights to have the Company register Registerable Securities pursuant to this Agreement may be assigned by the Holders of Registerable Securities, subject to the Holders of such Registerable Securities and such assignment being in compliance with the terms of this Agreement and any agreements incorporated herein, and subject to such assignment being in conformity with federal and state securities law, rules and regulations, unless exempt therefrom; to transferees or

assignees, of such securities provided such transferee or assignee within a reasonable time after such transfer, furnishes the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; provided, further, that such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Securities Act. The term "Investor" as used in this Agreement shall include permitted assignees.

9. Miscellaneous.

(a) Notices required or permitted to be given hereunder shall be in writing and shall be deemed to be sufficiently given when personally delivered or sent by registered mail, return-receipt request, addressed (i) if to the Company at Cheung Laboratories, Inc. c/o Augustine Cheung, PhD., Chairman of the Board and Chief Executive Office at 10220-I Old Columbia Road, Columbia, Maryland 21046-1705, and (ii) if to an Investor, at the address set forth under his name in the Subscription Agreement, or at such other address as each such party shall furnish by notice given in accordance with this Section 9(a).

(b) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right to remedy, will not operate as a waiver thereof. No waiver will be effective unless and until it is in writing and signed by the party giving the waiver.

(c) The Agreement shall be enforced, governed and construed in all respects in accordance with the laws of the State of Maryland, as such laws are applied by Maryland courts to agreements entered into and to be performed in Maryland by and between residents of Maryland. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

(d) The Company will not, after the date of this Agreement, enter into any agreement with respect to its securities which is inconsistent with the rights granted to the Holders of Registerable Securities in this Agreement or otherwise conflicts with the provisions hereof.

(e) The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of holders of at least a majority of shares of the Registerable Securities.

Notwithstanding the foregoing, a waiver or consent to departure from the provisions hereof with respect to a matter which relates exclusively to the rights of Holders of Registerable Securities whose securities are being sold pursuant to a Registration Statement and which does not directly or indirectly affect the rights of other Holders of Registerable Securities may be given by the holders of a majority of the shares of the Registerable Securities being sold by such holders, provided that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(f) Subject to Section 8 hereof, this Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties, including without limitation and without the need for an express assignment, subsequent holders of Registerable Securities.

(g) This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts and by facsimile signatures, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(h) This Agreement is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein with respect to the registration rights granted by the Company with respect to the securities sold in connection with the Offering. This Agreement supersedes all prior agreements and understanding between the parties with respect to such subject matters.

Dated this \_\_\_\_ day of July, 1996.

INVESTOR: CHEUNG LABORATORIES, INC.

\_\_\_\_\_  
Signature By: \_\_\_\_\_

\_\_\_\_\_  
Printed Name Title: \_\_\_\_\_

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS WHICH, IN THE OPINION OF COUNSEL FOR THE HOLDER, WHICH COUNSEL AND OPINION ARE REASONABLY SATISFACTORY TO COUNSEL FOR THIS CORPORATION, IS AVAILABLE.

July \_\_, 1996

WARRANT TO PURCHASE SHARES OF COMMON  
STOCK OF CHEUNG LABORATORIES, INC.

This certifies that \_\_\_\_\_ (the "Holder"), for a value received, is entitled, subject to the adjustment and to the other terms set forth below, to purchase from Cheung Laboratories, Inc., a Maryland corporation (the "Company"), at the Stock Purchase Price (as defined below) that number of fully paid and nonassessable shares of the Company's \$0.01 par value Common Stock (the "Stock") as equals \$\_\_\_\_\_ divided by the Stock Purchase Price, which shall be the common stock equivalent price of the private placement to be sold by the Company in the Fall of 1996 in an aggregate offering of not less than \$8,000,000 (anticipated to be at the price of \$4.00 to \$5.00 per share of common stock equivalent and hereinafter referred to as the "Private Offering"). This Warrant shall be exercisable at any time on and after six months from the date of the next public stock offering ("Next Public Offering") of the Company (the "Commencement Date") but not later than 5:00 P.M. (New York Time) on the Expiration Date (as defined below), upon surrender to the Company at its principle office at 10220-I Old Columbia Road, Columbia, Maryland 21046-1705, Attention: Dr. Augustine Cheung, Chairman of the Board of Directors and Chief Executive Officer (or at such other location as the Company may advise Holder in writing) of this Warrant properly endorsed with the form of Subscription Agreement attached hereto duly filled in and signed and upon payment in cash or cashier's check of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised determined in accordance with the provisions hereof. The Stock Purchase Price and, in some cases, the number of shares purchasable hereunder are subject to adjustment as provided in Section 3 of this Warrant. This Warrant and all rights hereunder, to the extent not exercised in the manner set forth herein shall terminate and become null and void on the Expiration Date. "Expiration Date" means 5:00 P.M. (New York Time) on the fifth anniversary of the

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Commencement Date. In the event that the Holder does not exercise this Warrant pursuant to the terms of this Warrant, then this Warrant shall expire, be cancelled, and be null and void. This Warrant is issued pursuant to the subscription agreement dated the same date as this Warrant and executed by the Holder, for the Purchase of a secured convertible promissory note in the principal amount of \$\_\_\_\_\_.

This Warrant is subject to the Following terms and conditions:

1. Exercise: Issuance of Certificates; Payment for Shares; Conversion Right.

1.1 Duration of Exercise of Warrant. This Warrant is exercisable at the option of the Holder at any time or from time to time but not earlier than on the Commencement Date or later than 5:00 P.M. (New York Time) on the Expiration Date for all or a portion of the shares of Stock which may be purchased hereunder. The Company agrees that the shares of Stock purchased under this Warrant shall be and are deemed to be issued to Holder as the record owner of such shares at the close of business on the date on which this Warrant shall have been surrendered and payment made for such shares. Subject to the provisions of Section 2, certificates for the shares of Stock so purchased, together with any other securities or property to which Holder is entitled upon such exercise, shall be delivered to Holder by the Company or its transfer agent at the Company's expense within a reasonable time after the rights represented by this Warrant have been exercised. Each stock certificate so delivered shall be in such denominations of Stock as may be requested by Holder and shall be registered in the name of Holder or such other name as shall be designated by Holder. If, upon exercise of this Warrant, fewer than all of the shares of Stock evidenced by this Warrant are purchased prior to the Expiration Date of this Warrant, one or more new warrants substantially in the form of, and on the terms in, this Warrant will be issued for the remaining number of shares of Stock not purchased upon exercise of this Warrant.

2. Shares to Be Fully Paid: Reservation of Shares. The Company covenants and agrees that all shares of Stock which may be issued upon the exercise of this Warrant (the "Warrant Shares") shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of any stockholder and free of all taxes, liens, and charges with respect to the issuance thereof. The Company believes it has sufficient shares both at the date

of this Warrant and following the Private Offering to provide for the exercise of this Warrant, but shall take such action as may be required following the Private Offering and the redemption of Stock for Mr. Gao to reserve and keep available a sufficient number of shares of its authorized but unissued Stock for such exercise. The Company will take all such reasonable actions as may be necessary to assure that such shares of Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange or automated quotation system upon which the Stock may be listed.

3. Adjustment of Stock Purchase Price and Number of Shares. The Stock Purchase Price and, in some cases, the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 3.

3.1 Split or Combination of Stock and Stock Dividend: In case the Company shall at any time subdivide its outstanding shares of Stock into a greater number of shares or declare a dividend upon its Stock payable solely in shares of Stock, the Stock Purchase Price in effect immediately prior to such subdivision or declaration shall be proportionally reduced, and the number of shares issuable upon exercise of the Warrant shall be proportionately increased. Conversely, in case the outstanding shares of Stock of the Company shall be combined into a smaller number of shares (such as a reverse stock split, but not to include the anticipated redemption of 20,000,000 shares of stock from Mr. Gao pursuant to a Redemption Agreement now in effect with Mr. Gao) the Stock Purchase Price in effect immediately prior to such combination shall be proportionately increased, and the number of shares issuable upon exercise of the Warrant shall be proportionately reduced.

3.2 Dilutive Issuances. If prior to completion of the Company's Next Public Offering, the Company shall sell or issue at any time after the date of this Warrant and prior to its termination shares of Stock (other than Excluded Stock, as defined in Section 3.2.5) at a consideration per share less than the Stock Exercise Price in effect immediately prior to the time of such issue or sale, then, upon such sale or issuance, the Stock Purchase Price shall be reduced to the lower of the prices (calculated to the nearest cent) determined as follows: by dividing (i) the sum of (A) the total number of shares of Stock Outstanding (as defined in Section 3.2.1) below and subject to adjustment in the manner set forth in Section 3.1) immediately prior to such issuance or sale multiplied by the then-existing Stock Purchase Price, plus (B) the aggregate of the amount of all consideration, if any, received by the Company upon such issuance or sale, by (ii) the total number of shares of Stock Outstanding immediately after such issuance or sale.

3.2.1 Definitions. For purposes of this Section 3.2, the following definitions shall apply:

(a) "Convertible Securities" shall mean any indebtedness or equity securities convertible into or exchangeable for Stock.

(b) "Options" shall mean any rights, warrants or options to subscribe for or purchase Stock or Convertible Securities.

(c) "Stock Outstanding" shall mean the aggregate of all Stock of the Company outstanding and all Stock issuable upon exercise of all outstanding Options and conversion of all outstanding Convertible Securities.

(d) "Market Price" shall mean: (i) if there is a ready public market of registered stock, the Market Price shall be the "Stock Price" (as defined in this Section 3.2.1) obtained by taking the average over a period of 30 days consecutive trading days ending on the second trading day prior to the date of determination; and (ii) if there is no ready public market, Market price shall be the highest of the last bona fide sale made by the Company and the fair market value of the Stock as determined by the Board of Directors in its good faith judgment.

(e) "Stock Price" shall mean (i) the mean, on each such trading day, between the high and low sale price of a share of Stock, or if no such sale takes place on any such trading day, the mean of the highest closing bid and lowest closing asked prices therefor on any such trading day, in each case as officially reported on all national securities exchanges on which the Stock is then listed or admitted to trading, or (ii) if the Stock is not then listed or admitted to trading on any national securities exchange, the closing price of the Stock on such date, or (iii) if no closing price is available on any such trading date, the mean between the highest closing bid and the lowest closing asked prices thereof on any such trading date, in the over-the-counter market as reported by The National Association of Securities Dealers Automated Quotation System, or (iv) if the Stock is not then quoted in such system, the mean between the highest closing bid and lowest closing asked prices reported by market makers and dealers for the Stock listed as such with the National Quotation Bureau, Incorporated, or any similar successor organization, or (v) if there is no ready public market, then the Stock Price shall be the Market Price.

3.2.2 For the purposes of this Section 3.2, the following provisions shall also be applicable:

3.2.2.1 Cash Consideration. In the case of the issuance or sale of additional Stock for cash, the consideration received by the Company therefor shall be deemed to be the amount of cash received by the Company for such shares (or, if such shares are offered by the Company for subscription, the subscription price, or, if such shares are sold to underwriters or dealers for public offering without a subscription offering, the public offering price), without deducting therefrom any compensation or discount paid or allowed to underwriters or dealers or others performing similar services or for any expenses incurred in connection therewith.

3.2.2.2 Non-Cash Consideration. In case of the issuance (other than upon conversion or exchange of Convertible Securities) or sale of additional Stock, Options or Convertible Securities for a consideration other than cash or a consideration a part of which shall be other than cash, the fair market value of such consideration as determined by the Board of Directors of the Company in the good faith exercise of its business judgment, irrespective of the accounting treatment thereof, shall be deemed to be the value, for purposes of this Section 3, of the consideration other than cash received by the Company for such securities.

3.2.2.3 Options and Convertible Securities. In case the Company shall in any manner issue or grant any Options or any Convertible Securities, the total maximum number of shares of Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable shall (as of the date of issue or grant of such Options or, in the case of the issue or sale of Convertible Securities other than where the same are issuable upon the exercise of Options, as of the date of such issue or sale) be deemed to be issued and to be outstanding for the purpose of this Section 3.2 and to have been issued for the sum of the amount (if any) paid for such Options or Convertible Securities plus the amount (if any) payable upon the exercise of such Options or upon conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable; provided that, subject to the provisions of Section 3.2.3, no further adjustment of the Stock Purchase Price shall be made upon the actual issuance of any such Stock or Convertible Securities or upon the conversion or exchange of any such Convertible Securities.

3.2.3 Change in Option Price or Conversion. In the event that the purchase price provided for in any Option referred to in subsection 3.2.2.3, or the rate at which any Convertible Securities referred to in subsection 3.2.2.3 are convertible into or exchangeable for shares of Stock shall change at any time or any additional consideration shall be payable in connection with the exercise of any Option or the conversion or exchange of any Convertible Security (other than under or by reason of provisions designed to protect against dilution upon the occurrence of events of the type described in this Section 3), then, for purposes of any adjustment required by Section 3.2, the Stock Purchase Price in effect at the time of such event shall forthwith be readjusted to the Stock Purchase Price that would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, conversion rate or additional consideration, as the case may be, at the time initially granted, issued or sold, provided that if such readjustment is an increase in the Stock Purchase Price, such readjustment shall not exceed the amount (as adjusted by Sections 3.2 and 3.2) by which the Stock Purchase Price was decreased pursuant to Section 3.2 upon the issuance of the Option or Convertible Security.

3.2.4 Termination of Option or Conversion Rights. In the event of the termination or expiration of any right to purchase Stock under any Option granted after the date of this Warrant or of any right to convert or exchange Convertible Securities issued after the date of this Warrant, the Stock Purchase Price shall, upon such termination, be readjusted after the Stock Purchase Price that would have been in effect at the time of such expiration or termination had such Option or Convertible Security, to the extent outstanding immediately prior to such expiration or termination, never been issued, and the shares of

Stock issuable thereunder shall not longer be deemed to be Stock Outstanding, provided that if such readjustment is an increase in the Stock Purchase Price, such readjustment shall not exceed the amount (as adjusted by Sections 3.1 and 3.2) by which the Stock Purchase Price was decreased pursuant to Section 3.2 upon the issuance of the Option or Convertible Security. The termination or expiration of any right to purchase Stock under any Option granted prior to the date of this Warrant or of any right to convert or exchange Convertible Securities issued prior to the date of this Warrant shall not trigger any adjustment to the Stock Purchase Price, but the shares of Stock issuable under such Options or Convertible Securities shall not longer be counted in determining the number of shares of Stock Outstanding on the date of issuance of this Warrant for purposes of subsequent calculations under this Section 3.2

3.2.5 Excluded Stock. Notwithstanding anything herein to the contrary, the Stock Purchase Price shall not be adjusted pursuant to this Section 3.2 by virtue of the issuance and/or sale of Excluded Stock, which shall mean the following: (a) Stock, Options or Convertible Securities representing up to 2,000,000 shares of Stock (or such greater number of shares of Stock as authorized by the Board of Directors) in the aggregate to be issued and/or sold to employees, advisors, directors or officers of, or consultants to, the Company or any of its subsidiaries pursuant to a stock grant, stock option plan, restricted stock agreements, stock purchase plan, pension or profit sharing plan or other stock agreement or arrangement approved by the Company's Board of Directors, (b) the issuance of shares of Stock, Options and/or Convertible Securities pursuant to Options and/or Convertible Securities outstanding as of the date of this Warrant; (c) issuance of shares of Stock and/or Convertible Securities to the Placement Agent in respect of the transaction represented by the subscription agreement related to the issuance of this Warrant; and (d) the issuance of shares of Stock, Options or Convertible Securities as a stock dividend or upon any split or combination of shares of Stock or Convertible Securities. For all purposes of this Section 3.2, all shares of Excluded Stock shall be deemed to have been issued for an amount of consideration per share equal to the initial Stock Purchase Price (subject to adjustment in the manner set forth in Section 3.1).

3.3 Notice of Adjustment. Promptly after adjustment of the Stock Purchase Price or any increase or decrease in the number of shares purchasable upon the exercise of this Warrant, the Company shall give written notice thereof, by first-class mail, postage prepaid, addressed to the registered Holder of this Warrant at the address of such Holder as shown on the books of the Company. The notice shall be signed by the Company's President or Chief Executive Officer and shall state the effective date of the adjustment and the Stock Purchase Price resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable at such price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

3.4 Notices. If at any time:

- (a) the Company shall declare any cash dividend upon its Stock;
- (b) the Company shall declare any dividend upon its Stock payable in stock (other than a dividend payable solely in shares of Stock) or make any special dividend or other distribution to the Holder of its Stock;
- (c) there shall be any consolidation or merger of the Company with another corporation, or a sale of all or substantially all of the Company's assets to another corporation; or
- (d) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company

then, in any one or more of said cases, the Company shall give, by certified or registered mail, postage prepaid, addressed to the registered Holder of this Warrant at the address of such Holder as shown on the books of the Company, (i) at least 30 days prior written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such dissolution, liquidation or winding-up; (ii) at least 10 days prior written notice of the date on which the books of the Company shall close or a record shall be taken for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger or sale, and (iii) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, at least 30 days written notice of the date when the same shall take place. Any notice given in accordance with clause (i) above shall also specify, in the case of any such dividend, distribution or option rights, the date on which the Holder of Stock shall be entitled thereto. Any notice given in accordance with clause (iii) above shall also specify the date on which the Holder(s) of Stock shall be entitled to exchange their Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. If the Holder of the Warrant does not exercise this Warrant prior to the occurrence of an event described above, except as provided in Sections 3.1 and 3.5, the Holder shall not be entitled to receive the benefits accruing to existing holders of the Stock in such event. Notwithstanding anything herein to the contrary, if and to the extent the Holder chooses to exercise this Warrant within the 10- day period following receipt of the notice specified in clause (ii) above, the Holder may elect to pay the aggregate Stock Purchase Price by delivering to the Company cash or a cashier's check in the amount of the aggregate par value of the shares of Stock to be purchased and the Holder's full recourse Promissory Note in the amount of the balance of the aggregate Stock Purchase Price, which Note shall be payable to the order of the Company in a single sum on the 30th day following the date of receipt of such notice and shall bear interest at the lowest applicable federal short-term rate (using monthly compounding) as established pursuant to Section 1274(d) of the Internal Revenue Code of 1986, as amended, or any successor provision; provided, however, that if the Holder elects to deliver such a

Promissory Note to the Company, the Holder will pledge to the Company all Stock issued in connection with the exercise of this Warrant, and the Company shall retain possession of the certificates evidencing such Stock, until such time as the Note is paid in full.

3.5 Changes in Stock. In case at any time following the Commencement Date hereof, the Company shall be a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all of the Company's assets or recapitalization of the Stock) in which the previously outstanding Stock shall be changed into or exchanged for different securities of the Company or common stock or other securities of another corporation or interests in a noncorporate entity or other property (including cash) or any combination of any of the foregoing (each such transaction being herein called the "Transaction" and the date of consummation of the Transaction being herein called the "Consummation Date"), then as a condition of the consummation of the Transaction, lawful and adequate provisions shall be made so that each Holder, upon the exercise hereof on or before the Consummation Date, shall be entitled to receive, and this Warrant shall thereafter represent the right to receive, in lieu of the Stock issuable upon such exercise prior to the Consummation Date, the highest amount of securities or other property to which such Holder would actually have been entitled as a stockholder upon the consummation of the Transaction if such Holder had exercised such Warrant immediately prior thereto. The provisions of this Section 3.5 shall similarly apply to successive Transactions.

3.6 Termination of Dilutive Protection. Immediately following the Next Public Offering all antidilution provisions of this Section 3 shall become null, void and of no further force or effect.

4. Issue Tax. The issuance of certificates for shares of Stock upon the exercise of the Warrant shall be made without charge to the Holder of the Warrant for any issue tax in respect thereof, provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificates in a name other than that of the then Holder of the Warrant being exercised.

5. No Voting or Dividend Rights; Limitation of Liability. Nothing contained in this Warrant shall be construed as conferring upon the Holder hereof the right to vote or to consent or to receive notice as a stockholder in respect of meetings of stockholders for the election of directors of the Company or any other matters or any rights whatsoever as a stockholder of the Company. Except for the adjustment to the Stock Purchase Price pursuant to Section 3.1 in the event of a dividend on the Stock payable in shares of Stock, no dividends or interest shall be payable or accrued in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until, and only to the extent that, this Warrant shall have been exercised. No provisions hereof, in the absence of affirmative action by the Holder to purchase shares of Stock, and no mere enumeration herein of the rights or privileges of the Holder hereof, shall give rise to any liability of such Holder for

the Stock Purchase Price or as a stockholder of the Company whether such liability is asserted by the Company or by its creditors.

6. Restrictions on Transferability of Securities; Compliance with Securities Act.

6.1 Restrictions on Transferability. This Warrant and the Warrant Shares (the "Securities") shall not be transferable in the absence of Registration under the Act (as defined below) or an exemption therefrom under said Act.

6.2 Restrictive Legend. Each certificate representing the Securities or any other securities issued in respect of the Securities upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall be stamped or otherwise imprinted with a legend substantially in the following form (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS WHICH, IN THE OPINION OF COUNSEL FOR THE HOLDER, WHICH COUNSEL AND OPINION ARE REASONABLY SATISFACTORY TO COUNSEL FOR THIS COMPANY, IS AVAILABLE.

7. Registration Rights. The Common Stock underlying this Warrant is subject to a Registration Rights Agreement entered into by Holder of even date herewith and which is incorporated herein by reference and attached hereto as Exhibit A.

8. Modification and Waiver. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought,

9. Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder hereof or the Company shall be delivered or shall be sent by certified or registered mail, postage prepaid, to each such Holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant.

10. Description Headings and Governing Law. The descriptive headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the internal laws of the State of Maryland.

11. Lost Warrants or Stock Certificates. The Company represents and warrants to Holder the upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Warrant or stock certificate and, in the case of any such loss, theft or destruction, and if requested, upon receipt of an indemnity bond reasonably satisfactory to the Company, or in the case of any such mutilation, upon surrender and cancellation of such Warrant or stock certificate, the Company at its expense will make and deliver a new Warrant or stock certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant or stock certificate.

12. Fractional Shares. No fractional shares shall be issued upon exercise of this Warrant. The Company shall, in lieu of issuing any fractional share pay the Holder entitled to such fraction a sum in cash equal to the fair market value of any such fractional interest as it shall appear on the public market, or if there is no public market for such shares, then as shall be reasonably determined by the Company.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer, thereunto duly authorized as of this \_\_\_\_ day of July, 1996.

CHEUNG LABORATORIES, INC.

By: \_\_\_\_\_  
Signature

By: \_\_\_\_\_  
Print Name

Title: \_\_\_\_\_

FORM OF SUBSCRIPTION AGREEMENT

(To be signed and delivered upon exercise of Warrant)

[DATE]

Attention: \_\_\_\_\_  
Cheung Laboratories, Inc.  
10220-I Old Columbia Road  
Columbia, Maryland 21046-1705

Dear \_\_\_\_\_:

The undersigned, the Holder of the within Warrant, hereby irrevocably elects to exercise the purchase rights represented by such Warrant for, and to purchase thereunder, \_\_\_\_\_ shares of Common Stock, par value \$0.01 per share (the "Common Stock") of Cheung Laboratories, Inc. (the "Company") and subject to the following paragraph, herewith makes payment of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) therefor and requests that the certificates for such shares be issued in the name of, and delivered to, \_\_\_\_\_ whose address is

If the shares issuable upon the exercise of this Warrant are not covered by a registration statement effective under the Securities Act of 1933, as amended, (the "Securities Act"), the undersigned represents as of the date hereof that:

(i) the undersigned is acquiring such Common Stock for investment for his own account, not as nominee or agent, and not with a view to the distribution thereof and the undersigned has not signed or otherwise arranged for the selling, granting any participation in, or otherwise distributing the same,

(ii) the undersigned has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of the undersigned's investment in the Common Stock,

(iii) the undersigned has received all of the information the undersigned has requested from the Company and considers necessary or appropriate for deciding whether to purchase the shares of Common Stock,

(iv) the undersigned has the ability to bear the economic risk of his prospective investment,

(v) the undersigned is able, without materially impairing his financial condition, to hold the shares of Common Stock for an indefinite period of time and to suffer complete loss on his investment,

(vi) the undersigned understands and agrees that (A) he may be unable to readily liquidate his investment in the shares of Common Stock and that the shares must be held indefinitely unless a subsequent disposition thereof is registered or qualified under the Securities Act and applicable state securities or Blue Sky laws or is exempt from such registration or qualification, and that the Company is not required to register the same or to take any action or make such an exemption available except to the extent provided in the within Warrant, and (B) the exemption from registration under the Securities Act afforded by Rule 144 promulgated by the Securities and Exchange Commission ("Rule 144") depends upon the satisfaction of various conditions by the undersigned and the Company and that, if applicable, Rule 144 affords the basis for sales under certain circumstances in limited amounts, and that if such exemption is utilized by the undersigned, such conditions must be fully complied with by the undersigned and the Company, as required by Rule 144,

(vii) the undersigned is (A) familiar with the definition of and the undersigned is an "accredited investor" within the meaning of such term under Rule 501 of Regulation D promulgated under the Securities Act, or (B) is providing representations and warranties reasonably satisfactory to the Company and its counsel, to the effect that the sale and issuance of Common Stock upon exercise of such Warrant may be made without registration under the Securities Act or any applicable state securities and Blue Sky laws, and

(viii) the address set forth below is the true and correct address of the undersigned's residence.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature

Signature must conform in all respects to the name of Holder as specified on the face of the Warrant)

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Void after 5:00 p.m., Chicago Time, on May 31, 2001 (unless extended as provided below)

Warrant to Purchase certain  
Shares of Common Stock,  
dated June 1, 1996.

CERTIFICATE OF  
WARRANT TO PURCHASE COMMON STOCK  
OF  
CHEUNG LABORATORIES, INC.

This Is To Certify That, FOR CASH AND OTHER VALUE RECEIVED, NACE RESOURCES, INC., a Delaware corporation ("NACE"), its nominees, or assigns (hereinafter, the "Holder(s)") are entitled to purchase, subject to the provisions of this Warrant (its successors, divisions or additions), from Cheung Laboratories, Inc., a corporation duly organized, in good standing within its domicile, and whose offices as of the date hereof are at 10220-1 Old Columbia Road, Columbia, MD 21046 (hereinafter, the "Company"), restricted and legended shares of common stock of the Company ("Common Stock") at a purchase price equal to Forty One Cents (\$00.41 U.S.) per share in such amounts and at such times as are provided herein.

The number of shares of Common Stock to be received upon the exercise of this Warrant and the price to be paid for a share of Common Stock may be adjusted from time to time as hereinafter set forth.

Supplementing, notwithstanding, and in support of the foregoing, the Company and the original Holder hereof ("Nace"), intend that the number of shares issuable hereunder shall be 396,719, which represents 1.875% of the issued and outstanding Common Stock. In the event the Company fails to redeem an additional 4,000,000 shares of the Common Stock from Gao Yu Wen on or before June 30, 1997, the original Holder hereof shall be entitled to a warrant on identical terms to purchase an additional 75,000 shares.

The shares of Common Stock deliverable upon such exercise, and as adjusted from time to time, are hereinafter referred to as "Warrant Stock" and the exercise price for a share of Common Stock in effect at any time and as adjusted from time to time is hereinafter sometimes referred to as the "Exercise Price".

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The term "Warrant" used above and throughout this Certificate shall mean this Warrant or successor Warrants issued in exchange for it for any reason pursuant to the terms and condition contained herein.

(i) Exercise of Warrant. Subject to the provisions of paragraphs 6 and 7 hereof, this Warrant may be exercised in whole or in part at any time or from time to time on or after June 1, 1996 but not later than 5:00 p.m., Chicago Time, on June 1, 2001 or if June 1, 2001 is a day on which U.S. banking institutions are authorized by law to close, then on the next succeeding day which shall not be such a day, by presentation and surrender hereof to the Company or at the office of its stock transfer agent, if any, with a copy of the Purchase Form attached hereto duly executed and accompanied by payment of the Exercise Price for the number of shares specified in such form, together with all federal and state taxes applicable upon such exercise, if any, and the Company shall promptly issue and deliver stock certificates for the number of shares purchased to the Holder hereof within two (2) business days in conformity with industry practice. The Company may unilaterally extend the time within which this Warrant may be exercised but is not obligated to do so.

If this Warrant should be exercised in part only or all or a portion of it renewed as provided for in paragraph 7 hereof or otherwise, the Company shall, upon surrender of this Warrant for cancellation, execute and deliver a new Warrant, containing terms and conditions identical to this Warrant except as provided for herein, evidencing the right of the Holder(s) to purchase the balance of the shares purchasable hereunder.

Upon receipt of this Warrant, the executed Purchase Form and the Exercise Price by the Company or, if then applicable, by its stock transfer agent, the Holder(s) shall be deemed to be the holder(s) of record of the shares of Common Stock issuable upon such exercise, notwithstanding that the stock transfer books of the Company shall then be closed or that certificates representing such shares of Common Stock shall not then be actually delivered to the Holder(s), their agents or designees. The Company shall keep detailed records of the disposition of this, successor Warrants, and any Warrant issuable hereunder, each bearing a serial number, and shall make such records available to Holder(s) or their agents upon request.

(ii) Reservation of Shares. The Company hereby represents and warrants that at all times subsequent hereto there shall be reserved for issuance and/or delivery upon exercise of this Warrant such number of shares of its Common Stock as shall be required for issuance or delivery upon exercise of this Warrant or any Warrant issuable hereunder.

(iii) Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon exercise of this Warrant. With respect to any fraction of a share called for upon any exercises hereof, the Company shall pay to the Holder(s) an amount in cash

equal to such fraction multiplied by the current market value of such fractional share, determined as follows:

(a) If the Common Stock is listed on a national securities exchange or admitted to unlisted trading privileges on such exchange, the current value shall be the last reported sale price of the Common Stock on such exchange on the last business day prior to the date of exercise of this Warrant or if no such sale is made on such day on such exchange; or

(b) If the Common Stock is not so listed or admitted to unlisted trading privileges, the current value shall be the mean of the last reported bid and asked prices reported by the National Association of Securities Dealers Automated Quotation System (or, if not so quoted on NASDQ), by the National Quotation Bureau, Inc.) on the last business day prior to the day of the exercise of this Warrant; or

(c) If the Common Stock is not so listed or admitted to unlisted trading privileges and bid and asked prices are not so reported, the current fair market value shall be an amount, not less than book value or the last known price paid by a purchaser for said Common Stock, determined in a reasonable manner as may be prescribed by the Board of Directors of the Company.

(iv) Exchange, Assignment or Loss of Warrant. Subject to applicable securities laws and the terms of the legend set forth in paragraph 11(b) hereof, this Warrant certificate is fully exchangeable and (by definition) assignable, without expense, at the option of the Holder(s), upon presentation and surrender hereof to the Company or at the office of its stock transfer agent, if any, for other Warrant certificates of different denominations entitling the Holder(s) hereof to purchase in the aggregate the same number of shares of Common Stock purchasable hereunder.

Any assignment hereof shall be made by surrender of this Warrant to the Company or at the office of its stock transfer agent, if any, with a written, executed assignment, instructions and funds sufficient to pay transfer tax (if any); whereupon the Company shall, without charge, execute and deliver a new Warrant certificate in the name of the assignee(s) named in such instrument of assignment and this Warrant certificate shall promptly be cancelled. This Warrant may be divided upon presentation hereof at the office of the Company or at the office of its stock transfer agent, if any, together with a written notice, specifying the names and denominations in which new Warrants are to be issued, and signed by the Holder hereof. The terms "Warrant" and "Warrants" as used herein include any Warrants issued in substitution for or replacement of this Warrant, or into which this Warrant may be divided or exchanged.

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of reasonably satisfactory indemnification, and upon surrender and cancellation of this Warrant, if mutilated, the Company will execute and deliver a new Warrant of like tenure and date. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not this Warrant so lost, stolen, destroyed or mutilated shall be at any time enforceable by anyone. Nevertheless, neither the Company or the Holder(s) anticipate that this Warrant or any successor Warrant shall itself be registered (rather than the underlying shares shall be registered), the Company shall not impose unreasonable burdens on the Holder(s) with respect to indemnification if same becomes necessary.

(v) Rights of the Holders. The Holder(s) shall not, by virtue hereof, be entitled to any rights of a shareholder in the Company, either at law or equity, and the rights of the Holder(s) are limited to those expressed in the Warrant and are not enforceable against the Company except to the extent set forth herein, PROVIDED HOWEVER, that the Company shall, in a timely manner, provide Holder(s) with a copy of each and every press release, mailing to shareholders and periodic filing with the U.S. Securities and Exchange Commission made by the Company, and provided that the Company shall be, at all times during the tenure of this Warrant or its successors, in compliance with all of its contractual obligations to Riker and its affiliates.

(vi) Adjustments to Exercise Price and Number of Shares.

(a) The Company shall not be required to give effect to any adjustment in the Exercise Price unless and until the net effect of one or more adjustments, determined as above provided, shall have required a change of the Exercise Price by at least one cent, (\$00.01 U.S.) but when the cumulative net effect of more than one adjustment so determined shall be to change the actual Exercise Price by at least one cent, such change in the Exercise Price shall thereupon be given effect.

Notwithstanding anything else in this paragraph which might be interpreted to the contrary, should at any time subsequent to the issuance of this Warrant but during the tenure of this Warrant and any renewals or extensions as are provided for herein, any person or entity shall be issued an option or warrant exercisable to purchase stock of the Company or stock of the Company is sold to such person or entity at a price per share less than the then relevant Exercise Price as determined as provided herein, an immediate adjustment in the Exercise Price for this Warrant (and successor Warrants to this Warrant) shall be made. The effect of this adjustment shall be to make the Exercise Price under this Warrant equal to the lesser exercise, option or sale price referenced above. However, this adjustment shall not have the effect of increasing the number of shares purchasable hereunder. Rather it shall reduce the aggregate amount paid, assuming full exercise of this Warrant, to an amount equal to the

number of shares otherwise then purchasable hereunder multiplied by the newly adjusted Exercise Price pursuant to this adjustment.

(b) The 396,719 shares issuable hereunder shall be adjusted so that number of shares issuable hereunder shall be equal, at all times after issuance of this Warrant, to 1.875% of the total issued and outstanding Common Stock of the Company until the Company completes its next public offering of securities.

(c) Whenever reference is made in this paragraph 6 to the issue or sale of shares of Common Stock, the term "Common Stock" shall mean the Common Stock of the Company of the class authorized as of the date hereof and any other classes of stock ranking on a parity with or convertible into such Common Stock providing, as is contemplated, it is the Common Stock of the Company which is to be offered and sold at the next public offering of registered Common Shares of the Company. However, as of the date of grant and sale of this Warrant and subject to the provisions of paragraph 10 hereof, shares issuable upon exercise hereof shall include only shares of the class designated as Common Stock of the Company as of the date hereof.

(vii) Renewal of Exercise Rights. If, while this Warrant or any portion of it remains in effect, Holder(s) wish to extend their rights to exercise all or a portion of this Warrant which would otherwise expire and be lost to them, they may do so by paying to the Company, a sum equal to five percent (5%) of the then relevant Exercise Price pertaining to that portion of the Warrant which would otherwise expire (the "Renewal Fee") and the Company shall extend that portion of the Warrant for a further period of five (5) years from the date of receipt of the Renewal Fee but, in no case, beyond 5:00 p.m., Chicago Time, on June 1, 2006, and shall issue a new Warrant, identical in every respect to this Warrant, except that such new Warrant shall reflect the fact that Holder(s) shall have an additional five (5) years to exercise their rights to purchase that portion of the Warrant Stock for which they have paid a Renewal Fee. This provision extends to this Warrant and all successor Warrants issuable hereunder.

This provision is included partially to permit Holder(s) to coordinate their exercise of this Warrant and sale of Warrant Stock so as to minimize the Costs and Expenses and time of the Company's management in complying with the provisions of this Warrant. Payment of the Renewal Fee will confirm no new rights upon the Holder(s) except to extend and renew the time period during which Holder(s) may exercise existing rights under this Warrant.

(viii) Officer's Certificate. Whenever the Exercise Price shall be adjusted as required by the provisions of paragraph 6 hereof, the Company shall forthwith file in the custody of its Secretary or an Assistant Secretary at its principal office, and with its stock transfer agent, if any, an officer's certificate showing the adjusted Exercise Price determined as herein provided and setting forth in reasonable detail the facts requiring such adjustment.

Each such officer's certificate shall be made available at all reasonable times for inspection by the Holder(s) and the Company shall, forthwith after each such adjustment, deliver a copy of such certificate to the Holder(s) and each of them. Unless disputed in writing by the Holder hereof within thirty (30) days, such certificate shall be conclusive as to the correctness of such adjustment.

(ix) General Notices to Warrant Holders. So long as any portion of this Warrant (or any successor Warrant) shall be outstanding and unexercised (a) if the Company shall pay any dividend or make any distribution upon the Common Stock or (b) if the Company shall offer to the holders of Common Stock for subscription or purchase by them any shares of stock of any class or any other rights or (c) if any capital reorganization of the Company, reclassification of the capital stock of the Company, consolidation or merger of the Company with or into another corporation, sale, lease or transfer of all or substantially all of the property and assets of the Company to another corporation or engage in voluntary or involuntary dissolution, liquidation or winding up of the company, then the Company shall cause to be delivered to the Holder(s), at least thirty (30) days prior to the relevant date, a notice containing a brief description of the proposed action and stating the date of which a record is to be taken for the purpose of such dividend, distribution of rights, or such reclassification, reorganization, consolidation, merger, conveyance, lease, dissolution, liquidation or winding up is to take place and the date, if any, is to be fixed as of which the holders of Common Stock of record shall be entitled to exchange their shares of Common Stock of record for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, conveyance, dissolution, liquidation or winding up.

(x) Reclassification, Reorganization or Merger. In case of any reclassification, capital reorganization or other change of outstanding shares of Common Stock of the Company (other than a change in par value, or from par value to no par value, or from no par value to par value) or as a result of an issuance of Common Stock by way of dividend or other distribution or of a subdivision or combination, or in case of any consolidation or merger of the Company with or into another corporation (other than a merger with a subsidiary in which merger the Company is the continuing corporation and which does not result in any reclassification, capital reorganization or other change of outstanding shares of Common Stock of the class issuable upon exercise of this Warrant) or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety (collectively, a "Triggering Event"), the Company shall use good faith efforts to cause effective provision to be made so that the Holder(s) shall have the right thereafter (and shall have said right for the same period of time remaining on any unexercised portion of this Warrant), without immediately exercising this Warrant, to purchase the kind and amount of shares of stock and other securities and property receivable upon such reclassification, capital reorganization or other change, consolidation, merger, sale or conveyance.

Any such provision shall include provision for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Warrant. However, in the event that the Company, using its good faith efforts, is unable to negotiate with the acquiring entity the assumption of the Warrants as provided in the preceding portion of this paragraph, then and in such event this Warrant shall terminate, to the extent not previously exercised, as of the record date for such transaction upon and only upon payment of a "Retirement Fee" to the Holder(s) hereof.

This Retirement Fee shall consist of the same kind of property (including cash, if any) to be received by the Company's stockholders pursuant to the Triggering Event (and, at parity with holders of Common Stock, treated in accordance with all the other terms and conditions, including timing and manner of payment for the purchase) and the Company herein agrees that said Retirement Fee may be arrived at by private negotiation between the Company and the Holder(s) or may be arbitrated in accordance with the provisions herein provided.

However, the Company now and specifically agrees that, in the event of such private negotiation, it shall accept an amount to be paid to the Holder(s) (as a senior obligation of the company in any such transaction) in arbitration or negotiation which is not less than the lowest sum per Warrant which shall result from application of any then applicable Warrant Valuation Techniques (such as the Black-Scholes Model) which may be applied to publicly traded warrants covering publicly traded common stock, it being intended by the Company and the Holder(s) that the Retirement Fee should reflect: (a) the difference between the purchase and exercise price per share plus (b) a warrant premium factor commonly determinable by the aforementioned models. Said Retirement Fee shall be a senior obligation of the Company and shall be paid to Holder(s) from first proceeds of any sale or merger in cash unless otherwise negotiated between the Company and Nace (the original Holder).

All subsequent Holders shall agree, by acceptance of assignment of any portion of the Warrant covered by this certificate, to be bound by this provision. All costs and expenses directly attributable to the determination of the Retirement Fee (including but not limited to the costs of outside appraisal(s)) shall be at the expense of the Company.

The foregoing provisions of this section 10 shall similarly apply to successive reclassification, consolidations, mergers, sales, or conveyances. In the event that in any such capital reorganization or reclassification, consolidation, merger, sale or conveyance, additional shares of Common Stock shall be issued in exchange, conversion, substitution or payment, in whole or in part, for or of a security of the Company other than Common Stock, any such issue shall be treated as an issue of Common Stock covered by the provisions of paragraphs 3, 6, and 9 hereof, with the amount of the consideration received upon the issue thereof being determined by the Board of Directors of the Company in consultation with the Company's auditors, such determination to be final and binding on the Holder(s).

(xi) Transfer to Comply with the Securities Act of 1933.

(a) This Warrant or the Warrant Stock or any other security issued or issuable upon exercise of this Warrant may not be sold, transferred or otherwise disposed of except to a person who, in the opinion of counsel reasonably satisfactory to the Company, is a person to whom this Warrant or such Warrant Stock may legally be transferred pursuant to paragraph 4 hereof without registration and without the delivery of a current prospectus under the Securities Act with respect thereto; and then only against receipt by the Company of an agreement from such person to comply with the provisions of this paragraph 11 with respect to any resale or other disposition of such securities.

(b) The Company may cause the following legend to be set forth on each certificate representing Warrant Stock or any other security issued or issuable upon exercise of this Warrant not theretofore distributed to the public pursuant to paragraphs 12, 13, or 14 hereof, unless counsel for the Company is of the opinion as to any such certificate that such legend is unnecessary.

"The securities represented by this certificate may not be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement under the Securities Act of 1933 (the "Act"), or pursuant to an exemption from registration under the Act."

(xii) Demand Registration. If at any time, after the next public offering of registered Common Shares of the Company (as previously covered and defined herein) Nace shall decide to sell or otherwise dispose of Warrant Stock then owned or to be owned upon intended exercise of this Warrant by Nace, then Nace and only Nace may give written notice to the Company of the proposed disposition, specifying the number of shares of Warrant Stock to be sold or disposed of and requesting that the Company prepare and file a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), covering such Warrant Stock.

The Company shall within 10 days thereafter give written notice to the other Holders of Warrants or Warrant Stock of such request and each of the other Holders shall have the option for a period of 30 days after receipt by it (them) of notice from the Company to include its (their) Warrant Stock in such registration statement. The Company shall use its best efforts to cause an appropriate registration statement (the "Registration Statement") covering such Warrant Stock to be filed with the Securities and Exchange Commission (the "Commission") and to become effective as soon as reasonably practicable and to remain effective until the completion of the distribution of the Warrant Stock to be offered or sold; provided, however, that not more than once in any twelve month period the Company shall have the right to postpone for a period of up to 60 days any demand made pursuant to this

Warrant if the underwriters for such offering advise the Company in writing that market conditions make such a postponement advisable to the Company.

The Holder(s) whose Warrant Stock is (are) included in a Registration Statement is (are) hereinafter referred to as the "Selling Shareholder(s)".

Each notice delivered by a Selling Shareholder(s) to the Company pursuant to this paragraph 12 shall specify the Warrant Stock intended to be offered and sold by such Selling Shareholder(s), express such Selling Shareholder(s) present intent to offer such Common Shares for distribution, and contain the undertaking of such Selling Shareholder(s) to provide all information and materials and to take all action as may be required in order to permit the Company to comply with all applicable requirements of the Securities Act, and any rules and regulations promulgated thereunder, and to obtain acceleration of the effective date of such Registration Statement.

The Company shall not be obligated to file more than three Registration Statements pursuant to the foregoing provisions of this paragraph 12. The Company shall bear all of the Costs and Expenses (as hereinafter defined in paragraph 20 hereof) of the first such registration. The Selling Shareholder(s) shall bear the costs and expenses of all further registrations pursuant to this paragraph 12. A demand for registration under this paragraph 12 will not count as such until the Registration Statement has become effective.

(xiii) Shelf Registration By Original Holder. At any time and from time to time during the term of this Warrant or its successors (including renewals and extensions as provided for herein) Nace Resources, Inc. and only Nace Resources, Inc. (as the original Holder hereof), may demand (and actually expects) that the Company will file a Registration Statement with the Commission for the registration of underlying shares issuable upon exercise of this Warrant or any part thereof, whether or not said Warrant has, in the interim been assigned or re-assigned to other parties.

In this event, the Company shall pay all of the Costs and Expenses of said Registration for each such demand except that the Holder shall be responsible, if such demand is made by the Holder during a period in which the Company is unable or unqualified to file a "short form" S-3 Statement (or its then relevant equivalent) for paying all of the Costs and Expenses of said Registration which are estimated to exceed costs for a similar Registration assuming the Company had been, as of the date of the demand, a reporting Company for three (3) years and could file a "short form" statement. In this case, the costs payable by the Holder shall be determinable by securities counsel to the Company and both the Company and the Holder are entitled to rely on such an estimate.

Once filed, the Company shall be obligated to continue this "shelf registration" for the maximum time allowable under the then relevant regulations, at its sole expense.

(xiv) Procedure for Demand Registration. In connection with the filing of a Registration Statement pursuant to paragraph 12 hereof, and in supplementation and not in limitation of the provisions thereof, the Company shall:

(a) Notify the Selling Shareholder(s) as to the filing of the Registration Statement and of all amendments or supplements thereto filed thirty (30) days prior to the effective date of said Registration Statement;

(b) Notify the Selling Shareholder(s), promptly after the Company shall receive notice thereof, of the time when said Registration Statement became effective or when any amendment or supplement to any prospectus forming a part of said Registration Statement has been filed;

(c) Notify the Selling Shareholder(s) promptly of any request by the Commission for the amending or supplementing of such Registration Statement or prospectus or for additional information;

(d) Prepare and promptly file with the Commission, and promptly notify the Selling Shareholder(s) of the filing of, and amendments or supplements to such Registration Statement or prospectus as may be necessary to correct any statements or omissions if, at any time when a prospectus relating to the Warrant Stock is required to be delivered under the Securities Act, any event with respect to the Company shall have occurred as a result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading; and, in prepare and file with the Commission, promptly upon the Selling Shareholder(s)' written request, any amendments or supplements to such Registration Statement or prospectus which may be reasonably necessary or advisable in connection with the distribution of the Warrant Stock;

(e) Prepare promptly upon request of the Selling Shareholder(s) or any underwriters for the Selling Shareholder(s) such amendment or amendments to such Registration Statement and such prospectus or prospectuses as may be reasonably necessary to permit compliance with the requirements of Section 10 (a) (3) of the Securities Act;

(f) Advise the Selling Shareholders promptly after the Company shall receive notice or obtain knowledge of the issuance of any stop order by the Commission suspending the effectiveness of any such Registration Statement or amendment thereto or of the initiation or threatening of any proceeding for that purpose, and promptly use its best efforts to prevent the issuance of any stop order or obtain its withdrawal promptly if such stop order would be issued;

(g) Use its best efforts to qualify as soon as reasonably practicable the Warrant Stock for sale under the securities or blue-sky laws of such states and jurisdictions within the United States as shall be reasonably requested by the Selling Shareholder(s); provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business, to become subject to taxation or to file a consent to service of process generally in any of the aforesaid states or jurisdiction;

(h) Furnish the Selling Shareholder(s), as soon as available, copies of any Registration Statement and each preliminary or final prospectus, or supplement or amendment required to be prepared pursuant thereto, all in such quantities as the Selling Shareholder(s) may from time to time reasonably request, and;

(i) If requested by the Selling Shareholder(s), enter into an agreement with the underwriters of the Warrant Stock being registered containing customary provisions and reflecting the foregoing.

(xv) Incidental Registration. Other than as covering in paragraph 13 hereof, if at any time the Company subsequent to the next public offering of registered Common Shares of the Company, shall propose the filing of a Registration Statement on an appropriate form under the Securities Act for the registration of any securities of the Company, other than a registration statement on Form S-4 or S-8 or any equivalent form of registration statement then in effect, then the Company shall give the Holder(s) notice of such proposed registration and shall include in any Registration Statement relating to such securities all or a portion of the Warrant Stock then owned or to be owned by such Holder(s), which such Holder(s) shall request (such Holder(s) to be considered "Selling Shareholder(s)"), by notice given by such Selling Shareholder(s) to the Company within 15 business days after the giving of such notice by the Company, within 15 business days after the giving of such notice by the Company, to be so included. In the event of the inclusion of Warrant Stock pursuant to this paragraph 15, the Company shall bear the Costs and Expenses of such registration; provided, however that the Selling Shareholder(s) shall pay the fees and disbursements of their own counsel and, pro-rata based upon the number of shares of Warrant Stock included therein as these relate to the total number of Common Shares to be offered or sold, the Securities Act registration fees and underwriters discounts and compensation attributable to the inclusion of such Warrant Stock; and, provided further, however, that amounts to which any person or entity shall become entitled pursuant to this sentence shall not include amounts which may become payable pursuant to paragraphs 16 or 17 hereof. Nothing in this paragraph 15 shall require the registration of Warrant Stock in a Registration Statement relating solely to (a) securities to be issued by the Company in connection with the acquisition of the stock or the assets of another corporation, or the merger or consolidation of any other corporation by or with the Company or any of its subsidiaries, or an exchange offer with any corporation, (b) securities to be offered to the then existing security holders of the Company, or (c) securities to be offered to employees of the Company. In the event the

distribution of securities of the Company covered by a Registration Statement referred to in this paragraph 15 is to be underwritten, then the Company's obligation to include Warrant Stock in such a Registration Statement shall be subject, at the option of the Company, to the following further conditions:

(a) The distribution for the account of the Selling Shareholders shall be underwritten by the same underwriters who are underwriting the distribution of the securities for the account of the Company and/or any other persons whose securities are covered by such Registration Statement and the Selling Shareholder(s) shall enter into an agreement with such underwriters containing customary provisions.

(b) If the Selling Shareholders are included in the Registration Statement and if the underwriting agreement entered into with the aforesaid underwriters contains restrictions upon the sale of securities of the Company, other than the securities which are to be included in the proposed distribution, for a period not exceeding 90 days from the effective date of the Registration Statement, then such restrictions shall be binding upon the Selling Shareholder(s) with respect to any Warrant Stock not covered by the Registration Statement and, if requested by the underwriter, the Selling Shareholder(s) shall enter into a written agreement to that effect.

(c) If the underwriters shall state in writing that they are unwilling to include any or all of the Selling Shareholder(s) Warrant Stock in the proposed underwriting because such inclusion would materially interfere with the orderly sale and distribution of the securities being offered by the Company, then the number of the Selling Shareholder(s)' shares of Warrant Stock to be included shall be reduced pro rata on the basis of the number of shares of Warrant Stock originally requested to be included by such Selling Shareholder(s), or there shall be no inclusion of the shares of the Selling Shareholder(s) in the Registration Statement not proposed distribution, in accordance with such statement by the underwriters.

However, if in such an event, the Holder(s) hereof shall not be able to include at least fifty percent (50%) of the Warrant Stock originally requested to be included, then the Company shall agree to pay all of the Costs and Expenses of a Shelf Registration to be filed at a later date.

(xvi) Indemnification by the Company. The Company shall indemnify and hold harmless each Selling Shareholder, any underwriter (as defined in the Securities Act) for the Selling Shareholder, and each person, if any, who controls the Selling Shareholder or such underwriter within the meaning of the Securities Act (but, in the case of an underwriter or a controlling person, only if such underwriter or controlling person indemnifies the persons mentioned in paragraph 17(b) hereof in the manner set forth therein) against any losses, claims, damages or liabilities, joint or several, to which the Selling Shareholder or any such

underwriter or controlling person becomes subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) are caused by any untrue statement or alleged untrue statement of any material fact contained in any preliminary prospectus (if used prior to the effective date of the Registration Statement), or contained, on the effective date thereof, in any Registration Statement under which the Selling Shareholder(s)' shares of Warrant Stock were registered under the Securities Act, the prospectus contained therein, or any amendment or supplement thereto, arising out of or based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; the Company shall reimburse the Selling Shareholder, or any such underwriter or controlling person, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company shall not be liable to any such person in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with information furnished in writing to the Company by such person expressly for inclusion in any of the foregoing documents.

(xvii) Indemnification by Selling Shareholders. Each individual Selling Shareholder shall:

(a) Furnish to the Company in writing all information concerning it and its holdings of securities of the Company as shall be required in connection with the preparation and filing of any Registration Statement covering any Shares of Warrant Stock.

(b) Indemnify and hold harmless the Company, each of its directors, each of its officers who has signed a Registration Statement, each person, if any, who controls the Company within the meaning of the Securities Act and any underwriter (as defined in the Securities Act) for the Company, against any losses, claims, damages or liabilities to which any such director, officer, controlling person or underwriter may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages, or liabilities (or actions in respect therefor) are caused by any untrue statement of any material fact contained in any preliminary prospectus (if used prior to the effective date of the Registration Statement) or contained, on the effective date thereof, in any Registration Statement under which the Selling Shareholder's securities were registered under the Securities Act, the prospectus contained therein, or any amendment or supplement thereto, or arising out of or based upon the omission to state therein a material fact required to be stated therein or necessary to make the statement therein not misleading; in each case to the extent, but only to the extent, that such untrue statement or omission was made in reliance upon and in conformity with information furnished to the Company in writing by the Selling Shareholder expressly for inclusion in any of the foregoing documents, and the Selling Shareholder shall reimburse the Company and any such director, officer, controlling person or underwriter for any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling

person or underwriter in connection with investigating or defending any such loss, claim, damage, liability or action.

(xviii) Notification by Selling Shareholders. The Selling Shareholder(s) and each other person indemnified pursuant to paragraph 16 hereof shall, in the event it receives notice of the commencement of any action against it which is based upon an alleged act or omission which, if proven, would result in the Company having to indemnify it pursuant to paragraph 16 hereof, promptly notify the Company, in writing, of the commencement of such action and permit the Company, if the Company so notifies the Selling Shareholder(s) within 10 days after receipt by the Company of notice of the commencement of the action, to participate in and to assume the defense of such action with counsel reasonably satisfactory to the Selling Shareholder(s) or such other indemnified person, as the case may be. The omission to notify the Company promptly of the commencement of any such action shall not relieve the Company of any liability to indemnify the Selling Shareholder(s) or such other indemnified person, as the case may be, under paragraph 16 hereof, except to the extent that the Company shall suffer any loss by reason of such failure to give notice which it may have pursuant to the rights conveyed to the Holders) in this Warrant.

(xix) Notification by the Company to Selling Shareholders. The Company agrees that, in the event it receives notice of the commencement of any action against it which is based upon an alleged act or omission which, if proven, would result in a Selling Shareholder having to indemnify the Company pursuant to paragraph 17(b) hereof, the Company will promptly notify the Selling Shareholder in writing of the commencement of such action and permit the Selling Shareholder, if the Selling Shareholder so notifies the Company within 10 days after receipt by the Selling Shareholder of notice of the commencement of the action, to participate in and assume the defense of such action with counsel reasonably satisfactory to the Company. The omission to notify the Selling Shareholder promptly of the commencement of any such action shall not relieve the Selling Shareholder of liability to indemnify the Company under paragraph 17(b) hereof, except to the extent that the Selling Shareholder shall suffer any loss by reason of such failure to give notice, and shall not relieve the Selling Shareholder of any other liabilities which it may have under this or any other agreement then in effect between the Company and the Selling Shareholder.

(xx) Costs and Expenses. As used in this Warrant, "Costs and Expenses" shall include all of the costs and expenses relating to the respective Registration Statement(s) involved, including but not limited to, registration fees, filing and qualification fees, blue-sky expenses, printing and mailing expenses, fees and expenses of Company's counsel and, if/when appropriate, fees and expenses of counsel designated by the Selling Shareholder(s) (provided, however, that no more than one such counsel for the Selling Shareholder(s) shall be designated on any occasion).

(xxi) Addresses. All notices, certificates, waiver and other communications required or permitted to be given hereunder to any of the parties by any other party shall be in writing and shall be delivered personally or sent by next day delivery service or registered or certified mail, postage prepaid, as follows:

(a) If to the Company, addressed to:

Cheung Laboratories, Inc.  
10220-I Old Columbia Road  
Columbia, MD 21046-1705  
Attention: Mr. John Mon, General Manager

(b) If to a Holder, addressed to the address of each such Holder as shall, from time to time, appear on the records of the Company or those of the Company's transfer agent as may be the case.

Any notice delivered personally or sent by next day delivery service shall be deemed to have been given on the date so delivered, and any notice delivered by registered or certified mail shall be deemed to have been given on the date it is received. Any party may change the address to which notices hereunder are to be sent by giving written notice of such change of address in the manner provided for giving notice.

(xxii) Waiver. No waiver by a Holder of any right hereunder shall be effective unless it is in writing which specifically refers to the provision hereof under which such right arises, and no such waiver shall operate or be construed as a waiver of any subsequent breach, whether of a similar or dissimilar nature.

(xxiii) Entire Warrant. This Warrant may be amended, supplemented or modified only by a written instrument executed by the Company and the Holder(s). While separate executed letters proposing and/or accepting amendment(s) sent to the Company by the Holder(s) or to the Holder(s) by the Company shall, for the purposes of this paragraph 23, constitute a valid agreement as to the relationship then created by and between the Company and the individual Holder in question, only Nace (as the original Holder) may, by agreement with the Company, bind all subsequent Holders to one single written instrument which shall serve to amend the terms and conditions hereof, and to which by their acceptance of any portion of this Warrant, they implicitly agree to be bound by.

(xxiv) Applicable Law. This Warrant and the legal relations among the parties hereto shall be governed by and construed in accordance with the substantive laws of the State of Illinois applicable to contracts made and to be performed therein without giving effect to the principles of conflict of laws thereof.

(xxv) Appraisal Rights. In the event that the Company's board of directors has not approved and the Company has not executed the next public offering of the Company's Common Stock prior to the second anniversary of the issuance of this Warrant, a majority in interest of the Holder(s) may, in their sole discretion and at any time thereafter, give notice to the Company that they wish to avail themselves of Appraisal Rights rather than force the Company into filing a Registration Statement against its will by demanding registration hereunder.

Should this event occur, the Company and the Holder(s) shall meet together to appraise the value of the Warrant(s) and shall proceed to do so in the same fashion and spirit as is provided for in the first paragraph of section 10 hereof in determining a Retirement Fee to be paid the Holders upon termination of the Warrant(s).

(xxvi) Binding Effect. The provisions contained in this Warrant shall be binding upon and inure to the benefit of the Company and the Holders and their respective successors, permitted assigns, heirs and legal representatives. Any person to whom all or a part of a Holder's rights and obligations hereunder are assigned shall fulfill such of the assigning Holder's obligations hereunder as have been assigned, and shall be entitled to all of the rights and benefits hereunder to the extent that such person has assumed such Holder's obligations. The rights and powers of each successive Holder hereunder are granted to such Holder as an owner of Warrants or Warrant Stock as the case may be. Any subsequent Holder whether becoming such by transfer, assignment, operation of law or otherwise, shall have the same rights and powers which a Holder owning the same number of Warrants and/or Warrant Stock has hereunder, and shall be entitled to exercise such rights and powers until such Holder or subsequent Holder no longer owns any Warrants or Warrant Stock. Except as provided in this paragraph 26, this Warrant does not create, and shall not be construed as creating, any rights enforceable by any person not a Holder.

(xxvii) Validity. If any term, provision, covenant or restriction of this Warrant is held by a court of competent jurisdiction to be invalid, void or unenforceable, the Company agrees that such term, provision, covenant or restriction shall be reformed to the extent possible consistent with such judicial holding to reflect the intent of the Company and the original Holder as stated herein and the remainder of the terms, provisions, covenants and restrictions of this Warrant shall remain in full force and effect and shall in no way be affected, impaired or invalidated. It is hereby stipulated and declared to be the intention of the Company that it would have executed this Warrant including the remaining terms, provisions, covenants and restrictions without including any of such provision of term which may be hereafter declared invalid, void or unenforceable.

This Warrant (Serial Number: 0300) is granted and sold on this 1st day of June, 1996.

Cheung Laboratories, Inc.

By: \_\_\_\_\_  
Augustine Cheung, President

PURCHASE FORM

Dated: \_\_\_\_\_

Cheung Laboratories, Inc.  
10220-1 Old Columbia Road  
Columbia, MD 21046-1705

Attention: Mr. John Mon, General Manager

Attached herewith is Cheung Laboratories, Inc.'s Common Stock Purchase Warrant, Serial Number: \_\_\_\_\_, giving the Holder the right to purchase \_\_\_\_\_ shares.

I/We hereby notify you that I/we are exercising my/our right to purchase \_\_\_\_\_ shares and have enclosed herewith my/our check in the amount of \$\_\_\_\_\_, representing the aggregate exercise price of said shares. If transfer taxes (federal or state) are applicable to this transaction, I/we understand that you will be billing me/us for said taxes, which I/we agree will be promptly remitted to you within ten (10) days of my/our receipt of notification.

I/We hereby state that the shares being purchased are to be held by me/us for investment purposes and not with a view to sale, except pursuant to an effective registration statement or an exemption therefrom.

Please cancel the enclosed Warrant and, if applicable, send me/us a Warrant, in partial substitution on identical terms, for the remaining shares not being purchased pursuant to this notification.

Yours very truly,

Holder of Warrant, Serial Number \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Serial Number 0100

Void after 5:00 p.m., Chicago Time, on June 1, 2001 (unless extended as provided below).

Warrant to Purchase  
certain Shares of  
Common Stock, dated  
June 1, 1996.

CERTIFICATE OF  
WARRANT TO PURCHASE COMMON STOCK  
OF  
CHEUNG LABORATORIES, INC.

This Is To Certify That, FOR CASH AND OTHER VALUE RECEIVED, ANTHONY RIKER, LTD., an Illinois corporation ("ARL" or "Riker"), its nominees, or assigns (hereinafter, the "Holder(s)") are entitled to purchase, subject to the provisions of this Warrant (its successors, divisions or additions), from Cheung Laboratories, Inc., a corporation duly organized, in good standing within its domicile, and whose offices as of the date hereof are at 10220-I Old Columbia Road, Columbia, MD 21046 (hereinafter, the "Company"), at any time on or after June 1, 1996, and not later than 5:00 p.m., Chicago Time, on June 1, 2001, unless extended or renewed as provided in paragraphs 1 and 7 below, restricted and legended shares of common stock of the Company ("Common Stock") at a purchase price equal to Forty One Cents (\$0.41 U.S.) per share which is the current bid price as is publicly quoted on NASDAQ Bulletin Board as of the date hereof (and as further adjusted by subsequent events between the preparation and execution of this Warrant Certificate).

The number of shares of Common Stock to be received upon the exercise of this Warrant and the price to be paid for a share of Common Stock may be adjusted from time to time as hereinafter set forth.

Supplementing, notwithstanding, and in support of the foregoing, the Company and the original Holder hereof ("Riker"), intend that the number of shares issuable hereunder shall be 92,318.

The shares of Common Stock deliverable upon such exercise, and as adjusted from time to time, are hereinafter referred to as "Warrant Stock" and the exercise price for a share of Common Stock in effect at any time and as adjusted from time to time is hereinafter sometimes referred to as the "Exercise Price".

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The term "Warrant" used above and throughout this Certificate shall mean this Warrant or successor Warrants issued in exchange for it for any reason pursuant to the terms and conditions contained herein.

13. Exercise of Warrant. Subject to the provisions of paragraphs 6 and 7 hereof, this Warrant may be exercised in whole or in part at any time or from time to time on or after June 1, 1996 but not later than 5:00 p.m., Chicago Time, on June 1, 2001 or if June 1, 2001 is a day on which U.S. banking institutions are authorized by law to close, then on the next succeeding day which shall not be such a day, by presentation and surrender hereof to the Company or at the office of its stock transfer agent, if any, with a copy of the Purchase Form attached hereto duly executed and accompanied by payment of the Exercise Price for the number of shares specified in such form, together with all federal and state taxes applicable upon such exercise, if any, and the Company shall promptly issue and deliver stock certificates for the number of shares purchased to the Holder hereof within two (2) business days in conformity with industry practice. The Company may unilaterally extend the time within which this Warrant may be exercised but is not obligated to do so.

If this Warrant should be exercised in part only or all or a portion of it renewed as provided for in paragraph 7 hereof or otherwise, the Company shall, upon surrender of this Warrant for cancellation, execute and deliver a new Warrant, containing terms and conditions identical to this Warrant except as provided for herein, evidencing the right of the Holder(s) to purchase the balance of the shares purchasable hereunder.

Upon receipt of this Warrant, the executed Purchase Form and the Exercise Price by the Company or, if then applicable, by its stock transfer agent, the Holder(s) shall be deemed to be the holder(s) of record of the shares of Common Stock issuable upon such exercise, notwithstanding that the stock transfer books of the Company shall then be closed or that certificates representing such shares of Common Stock shall not then be actually delivered to the Holder(s), their agents or designees. The Company shall keep detailed records of the disposition of this, successor Warrants, and any Warrant issuable hereunder, each bearing a serial number, and shall make such records available to Holder(s) or their agents upon request.

14. Reservation of Shares. The Company hereby represents and warrants that at all times subsequent hereto there shall be reserved for issuance and/or

delivery upon exercise of this Warrant such number of shares of its Common Stock as shall be required for issuance or delivery upon exercise of this Warrant or any Warrant issuable hereunder.

15. Fractional Shares. No fractional shares or scrip representing fractional share shall be issued upon exercise of this Warrant. With respect to any fraction of a share called for upon any exercises hereof, the Company shall pay to the Holder(s) an amount in cash equal to such fraction multiplied by the current market value of such fractional share, determined as follows:

(a) If the Common Stock is listed on a national securities exchange or admitted to unlisted trading privileges on such exchange, the current value shall be the last reported sale price of the Common Stock on such exchange on the last business day prior to the date of exercise of this Warrant or if no such sale is made on such day on such exchange; or

(b) If the Common Stock is not so listed or admitted to unlisted trading privileges, the current value shall be the mean of the last reported bid and asked prices reported by the National Association of Securities Dealers Automated Quotation System (or, if not so quoted on NASDAQ, by the National Quotation Bureau, Inc.) on the last business day prior to the day of the exercise of this Warrant; or

(c) If the Common Stock is not so listed or admitted to unlisted trading privileges and bid and asked prices are not so reported, the current fair market value shall be an amount, not less than book value or the last known price paid by a purchaser for said Common Stock, determined in a reasonable manner as may be prescribed by the Board of Directors of the Company.

16. Exchange, Assignment of Loss of Warrant. Subject to applicable securities laws and the terms of the legend set forth in paragraph 11(b) hereof, this Warrant certificate is fully exchangeable and (by definition) assignable, without expense, at the option of the Holder(s), upon presentation and surrender hereof to the Company or at the office of its stock transfer agent, if any, for other Warrant certificates of different denominations entitling the Holder(s) thereof to purchase in the aggregate the same number of shares of Common Stock purchasable hereunder.

Any assignment hereof shall be made by surrender of this Warrant to the Company or at the office of its stock transfer agent, if any, with a written, executed assignment, instructions and funds sufficient to pay transfer tax (if any); whereupon the Company shall, without charge, execute and deliver a new Warrant certificate in the name of the assignee(s) named in such instrument of assignment and this Warrant certificate shall promptly be canceled. This Warrant may be divided upon presentation hereof at the office of the Company or at the office of its stock transfer agent, if any, together with a written notice, specifying the names and denominations in which new Warrants are to be issued, and signed by the Holder thereof. The terms "Warrant" and "Warrants" as used herein include any Warrants issued in substitution for or replacement of this Warrant, or into which this Warrant may be divided or exchanged.

Upon receipt of the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of reasonably satisfactory indemnification, and upon surrender and cancellation of this Warrant, if mutilated, the Company will execute and deliver a new Warrant of like tenure and date. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not this Warrant so lost, stolen, destroyed or mutilated

shall be at any time enforceable by anyone. Nevertheless, neither the Company or the Holder(s) anticipate that this Warrant or any successor Warrant shall itself be registered (rather than the underlying shares shall be registered), the Company shall not impose unreasonable burdens on the Holder(s) with respect to indemnification if same becomes necessary.

17. Rights of the Holders. The Holder(s) shall not, by virtue hereof, be entitled to any rights of a shareholder in the Company, either at law or equity, and the rights of the Holder(s) are limited to those expressed in the Warrant and are not enforceable against the Company except to the extent set forth herein, PROVIDED HOWEVER, that the Company shall, in a timely manner, provide Holder(s) with a copy of each and every press release, mailing to shareholders and periodic filing with the U.S. Securities and Exchange Commission made by the Company, and provided that the Company shall be, at all times during the tenure of this Warrant or its successors, in compliance with all its contractual obligations to Riker and its affiliates.

18. Adjustments to Exercise Price and Number of Shares.

(a) In the case of a dividend or other distribution on any stock of the Company or subdivision or combination of the outstanding shares of Common Stock, the exercise price and the number of shares issuable hereunder shall be adjusted as follows: the Exercise Price shall be proportionately decreased in the case of each such issuance (on the day following the date fixed for determining shareholders entitled to receive such dividend or distribution) or proportionately decreased in the case of each such subdivision or proportionally increased in the case of each such combination (on the date that such subdivision or combination shall become effective). Notwithstanding anything in this document to the contrary, it is the intention of the Company and the Holder hereof that the number of shares of the Warrant Stock granted hereunder are based upon the assumption that the Company will redeem from Mr. Gao Yu Wen 20,000,000 shares of Common Stock and retire these shares of Common Stock from the books of the Company. In the event that less than all 20,000,000 shares of Common Stock are redeemed from Mr. Gao, then the number of shares granted hereunder shall be adjusted proportionately.

Upon any adjustment of the Exercise Price, the Holder(s) of this Warrant shall thereafter (until another such adjustment) be entitled to purchase, at the new Exercise Price, the number of shares, calculated to the nearest full share, obtained by multiplying the number of shares of Common Stock initially issuable upon exercise of this Warrant by the Exercise Price in effect on the date hereof and dividing the product so obtained by the new Exercise Price.

(b) Anything in this paragraph 6 to the contrary notwithstanding, the Company shall not be required to give effect to any adjustment in the Exercise Price unless and until the net effect of one or more adjustments, determined as above provided, shall have required a change of the Exercise Price by at least one cent, (\$0.01 U.S.) but when the cumulative net

effect of more than one adjustment so determined shall be to change the actual Exercise Price by at least one cent, such change in the Exercise Price shall thereupon be given effect.

(c) Anything in this paragraph 6 to the contrary notwithstanding, if, subsequent to the grant and sale of this Warrant and for a period ending the day after the date that the Company's next public offering is completed [a public offering being defined as one in which the Company is in receipt of funds of not less than Five Million Dollars (\$5,000,000.00 U.S.) raised by an underwriter pursuant to a Registration Statement (the Form of which shall then be applicable) declared effective by the Securities and Exchange Commission (the "SEC"), and funds received in full by the Company], covering the issuance and sale of said shares to the public, the Company shall issue Common Stock or securities convertible or exercisable into Common Stock by way of sale for cash or cash equivalent proceeds or by grant of options to retain management, consultants, employees, or for services or value of any kind, then; immediately upon consummation of such sale, issuance, or grant, an adjustment shall be made in the Exercise Price and the number of shares issuable under this Warrant such that the Holder(s) hereof, after such sale, issuance, or grant, shall be entitled to purchase shares sufficient so that Holder(s) shall maintain the right to acquire the same percentage of the Company's outstanding shares (on a fully diluted basis), for the same total investment upon complete exercise of this Warrant prior to such issuance or grant, the same percentage of the Company's Common Stock as the Holder(s) were entitled to purchase prior to such sale, issuance, or grant (the "Anti-Dilution Feature").

Further, such adjustment to the Exercise Price and number of shares of Common Stock issuable hereunder shall be determined by assuming that all convertible or exercisable securities issued during the period in which this Anti-Dilution Feature is operative (defined above) have been converted or exercised upon issuance whether or not such securities shall actually have been converted or exercised as of the date at which the adjustment is made (date of issuance).

Notwithstanding anything else in this paragraph which might be interpreted to the contrary, should at any time subsequent to the issuance of this Warrant but during the tenure of this Warrant and any renewals or extensions as are provided for herein, any person or entity shall be issued an option or warrant exercisable to purchase stock of the Company or stock of the Company is sold to such person or entity at a price per share less than the then relevant Exercise Price as determined as provided herein, an immediate adjustment in the Exercise Price for this Warrant (and successor Warrants to this Warrant) shall be made. The effect of this adjustment shall be to make the Exercise Price under this Warrant equal to the lesser exercise option or sale price referenced above. However, this adjustment shall not have the effect of increasing the number of shares purchasable hereunder. Rather it shall reduce the aggregate amount paid, assuming full exercise of this Warrant, to an amount equal to the number of shares otherwise then purchasable hereunder multiplied by the newly adjusted Exercise Price pursuant to this adjustment.

(d) Whenever reference is made in this paragraph 6 to the issue or sale of shares of Common Stock, the term "Common Stock" shall mean the Common Stock of the Company of the class authorized as of the date hereof and any other classes of stock ranking on a parity with or convertible into such Common Stock providing, as is contemplated, it is the Common Stock of the Company which is to be offered and sold at the next public offering of registered Common Shares of the Company. However, as of the date of grant and sale of this Warrant and subject to the provisions of paragraph 10 hereof, shares issuable upon exercise hereof shall include only shares of the class designated as Common Stock of the Company as of the date hereof.

19. Renewal of Exercise Rights. If, while this Warrant or any portion of it remains in effect, Holder(s) wish to extend their rights to exercise all or a portion of this Warrant which would otherwise expire and be lost to them, they may do so by paying to the Company, a sum equal to five percent (5%) of the then relevant Exercise Price pertaining to that portion of the Warrant which would otherwise expire (the "Renewal Fee") and the Company shall extend that portion of the Warrant for a further period of five (5) years from the date of receipt of the Renewal Fee but, in no case, beyond 5:00 p.m., Chicago Time, on June 1, 2006, and shall issue a new Warrant, identical in every respect to this Warrant, except that such new Warrant shall reflect the fact that Holder(s) shall have an additional five (5) years to exercise their rights to purchase that portion of the Warrant Stock for which they have paid a Renewal Fee. This provision extends to this Warrant and all successor Warrants issuable hereunder.

This provision is included partially to permit Holder(s) to coordinate their exercise of this Warrant and sale of Warrant Stock so as to minimize the Costs and Expenses and time of the Company's management in complying with the provisions of this Warrant. Payment of the Renewal Fee will confirm no new rights upon the Holder(s) except to extend and renew the time period during which Holder(s) may exercise existing rights under this Warrant.

20. Officer's Certificate. Whenever the Exercise Price shall be adjusted as required by the provisions of paragraph 6 hereof, the Company shall forthwith file in the custody of its Secretary or an Assistant Secretary at its principal office, and with its stock transfer agent, if any, an officer's certificate showing the adjusted Exercise Price determined as herein provided and setting forth in reasonable detail the facts requiring such adjustment. Each such officer's certificate shall be made available at all reasonable times for inspection by the Holder(s) and the Company shall, forthwith after each such adjustment, deliver a copy of such certificate to the Holder(s) and each of them. Unless disputed in writing by the Holder hereof within thirty (30) days, such certificate shall be conclusive as to the correctness of such adjustment.

21. General Notices to Warrant Holders. So long as any portion of this Warrant (or any successor Warrant) shall be outstanding and unexercised (a) if the Company shall pay any dividend or make any distribution upon the Common Stock or (b) if the Company shall offer to the holders of Common Stock for subscription or purchase by them any shares of stock of any

class or any other rights or (c) if any capital reorganization of the Company, reclassification of the capital stock of the Company, consolidation or merger of the Company with or into another corporation, sale, lease or transfer of all or substantially all of the property and assets of the Company to another corporation or engage in voluntary or involuntary dissolution, liquidation or winding up of the company, then the Company shall cause to be delivered to the Holder(s), at least thirty (30) days prior to the relevant date, a notice containing a brief description of the proposed action and stating the date of which a record is to be taken for the purpose of such dividend, distribution of rights, or such reclassification, reorganization, consolidation, merger, conveyance, lease, dissolution, liquidation or winding up is to take place and the date, if any, is to be fixed as of which the holders of Common Stock of record shall be entitled to exchange their shares of Common Stock of record for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, conveyance, dissolution, liquidation or winding up.

22. Reclassification, Reorganization or Merger. In case of any reclassification, capital reorganization or other change of outstanding shares of Common Stock of the Company (other than a change in par value, or from par value to no par value, or from no par value to par value) or as a result of an issuance of Common Stock by way of dividend or other distribution or of a subdivision or combination, or in case of any consolidation or merger of the Company with or into another corporation (other than a merger with a subsidiary in which merger the Company is the continuing corporation and which does not result in any reclassification, capital reorganization or other change of outstanding shares of Common Stock of the class issuable upon exercise of this Warrant) or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety (collectively, a "Triggering Event"), the Company shall use good faith efforts to cause effective provision to be made so that the Holder(s) shall have the right thereafter (and shall have said right for the same period of time remaining on any unexercised portion of this Warrant), without immediately exercising this Warrant, to purchase the kind and amount of shares of stock and other securities and property receivable upon such reclassification, capital reorganization or other change, consolidation, merger, sale or conveyance.

Any such provision shall include provision for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Warrant. However, in the event that the Company, using its good faith efforts, is unable to negotiate with the acquiring entity the assumption of the Warrants as provided in the preceding portion of this paragraph, then and in such event this Warrant shall terminate, to the extent not previously exercised, as of the record date for such transaction upon and only upon payment of a "Retirement Fee" to the Holder(s) hereof.

This Retirement Fee shall consist of the same kind of property (including cash, if any) to be received by the Company's stockholders pursuant to the Triggering Event (and, at parity with holders of Common Stock, treated in accordance with all the other terms and conditions,

including timing and manner of payment for the purchase) and the Company herein agrees that said Retirement Fee may be arrived at by private negotiation between the Company and the Holder(s) or may be arbitrated in accordance with the provisions herein provided.

However, the Company now and specifically agrees that, in the event of such private negotiation, it shall accept an amount to be paid to the Holder(s) (as a senior obligation of the company in any such transaction) in arbitration or negotiation which is not less than the lowest sum per Warrant which shall result from application of any then applicable Warrant Valuation Techniques (such as the Black-Scholes Model) which may be applied to publicly traded warrants covering publicly traded common stock, it being intended by the Company and the Holder(s) that the Retirement Fee should reflect: (a) the difference between the purchase and exercise price per share plus (b) a warrant premium factor commonly determinable by the aforementioned models. Said Retirement Fee shall be a senior obligation of the Company and shall be paid to Holder(s) from first proceeds of any sale or merger in cash unless otherwise negotiated between the Company and Riker (the original Holder).

All subsequent Holders shall agree, by acceptance of assignment of any portion of the Warrant covered by this certificate, to be bound by this provision. All costs and expenses directly attributable to the determination of the Retirement Fee (including but not limited to the costs of outside appraisal(s)) shall be at the expense of the Company.

The foregoing provisions of this section 10 shall similarly apply to successive reclassification, consolidations, mergers, sales, or conveyances. In the event that in any such capital reorganization or reclassification, consolidation, merger, sale or conveyance, additional shares of Common Stock shall be issued in exchange, conversion, substitution or payment, in whole or in part, for or of a security of the Company other than Common Stock, any such issue shall be treated as an issue of Common Stock covered by the provisions of paragraphs 3, 6, and 9 hereof, with the amount of the consideration received upon the issue thereof being determined by the Board of Directors of the Company in consultation with the Company's auditors, such determination to be final and binding on the Holder(s).

23. Transfer to Comply with the Securities Act of 1933.

(a) This Warrant or the Warrant Stock or any other security issued or issuable upon exercise of this Warrant may not be sold, transferred or otherwise disposed of except to a person who, in the opinion of counsel reasonably satisfactory to the Company, is a person to whom this Warrant or such Warrant Stock may legally be transferred pursuant to paragraph 4 hereof without registration and without the delivery of a current prospectus under the Securities Act with respect thereto; and then only against receipt by the Company of an agreement from such person to comply with the provisions of this paragraph 11 with respect to any resale or other disposition of such securities.

(b) The Company may cause the following legend to be set forth on each certificate representing Warrant Stock or any other security issued or issuable upon exercise of this Warrant not theretofore distributed to the public pursuant to paragraphs 12, 13, or 14 hereof, unless counsel for the Company is of the opinion as to any such certificate that such legend is unnecessary.

"The securities represented by this certificate may not be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement under the Securities Act of 1933 (the "Act"), or pursuant to an exemption from registration under the Act."

24. Demand Registration. If at any time, after the next public offering of registered Common Shares of the Company (as previously covered and defined herein) the Holder(s), or any of them, shall decide to sell or otherwise dispose of Warrant Stock then owned or to be owned upon intended exercise of this Warrant by such Holder(s), such Holder(s) may give written notice to the Company of the proposed disposition (but, if other than Riker, must simultaneously notice Riker), specifying the number of shares of Warrant Stock to be sold or disposed of and requesting that the Company prepare and file a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), covering such Warrant Stock.

The Company shall within 10 days thereafter give written notice to the other Holders of Warrants or Warrant Stock of such request and each of the other Holders shall have the option for a period of 30 days after receipt by it (them) of notice from the Company to include its (their) Warrant Stock in such registration statement. The Company shall use its best efforts to cause an appropriate registration statement (the "Registration Statement") covering such Warrant Stock to be filed with the Securities and Exchange Commission (the "Commission") and to become effective as soon as reasonably practicable and to remain effective until the completion of the distribution of the Warrant Stock to be offered or sold; provided, however, that not more than once in any twelve month period the Company shall have the right to postpone for a period of up to 60 days any demand made pursuant to this Warrant if the underwriters for such offering advise the Company in writing that market conditions make such a postponement advisable to the Company.

The Holder(s) whose Warrant Stock is (are) included in a Registration Statement is (are) hereinafter referred to as the "Selling Shareholder(s)".

Each notice delivered by a Selling Shareholder(s) to the Company pursuant to this paragraph 12 shall specify the Warrant Stock intended to be offered and sold by such Selling Shareholder(s), express such Selling Shareholder(s) present intent to offer such Common Shares for distribution, and contain the undertaking of such Selling Shareholder(s) to provide all information and materials and to take all action as may be required in order to permit the

Company to comply with all applicable requirements of the Securities Act, and any rules and regulations promulgated thereunder, and to obtain acceleration of the effective date of such Registration Statement.

The Company shall not be obligated to file more than three Registration Statements pursuant to the foregoing provisions of this paragraph 12. The Company shall bear all of the Costs and Expenses (as hereinafter defined in paragraph 20 hereof) of the first such registration. The Selling Shareholder(s) shall bear the costs and expenses of all further registrations pursuant to this paragraph 12. A demand for registration under this paragraph 12 will not count as such until the Registration Statement has become effective.

25. Shelf Registration By Original Holder. At any time and from time to time during the term of this Warrant or its successors (including renewals and extensions as provided for herein) Anthony Riker, Ltd. and only Anthony Riker, Ltd. (as the original Holder hereof), may demand (and actually expects) that the Company will file a Registration Statement with the Commission for the registration of underlying shares issuable upon exercise of this Warrant or any part thereof, whether or not said Warrant has, in the interim been assigned or re-assigned to other parties. In this event, the Company shall pay all of the Costs and Expenses of said Registration for each such demand.

Once filed, the Company shall be obligated to continue this "shelf registration" for the maximum time allowable under the then relevant regulations, at its sole expense.

26. Procedure for Demand Registration. In connection with the filing of a Registration Statement pursuant to paragraph 12 hereof, and in supplementation and not in limitation of the provisions thereof, the Company shall:

(a) Notify the Selling Shareholder(s) as to the filing of the Registration Statement and of all amendments or supplements thereto filed thirty (30) days prior to the effective date of said Registration Statement;

(b) Notify the Selling Shareholder(s), promptly after the Company shall receive notice thereof, of the time when said Registration Statement became effective or when any amendment or supplement to any prospectus forming a part of said Registration Statement has been filed;

(c) Notify the Selling Shareholder(s) promptly of any request by the Commission for the amending or supplementing of such Registration Statement or prospectus or for additional information;

(d) Prepare and promptly file with the Commission, and promptly notify the Selling Shareholder(s) of the filing of, and amendments or supplements to such Registration

Statement or prospectus as may be necessary to correct any statements or omissions if, at any time when a prospectus relating to the Warrant Stock is required to be delivered under the Securities Act, any event with respect to the Company shall have occurred as a result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading; and, in prepare and file with the Commission, promptly upon the Selling Shareholder(s)' written request, any amendments or supplements to such Registration Statement or prospectus which may be reasonably necessary or advisable in connection with the distribution of the Warrant Stock;

(e) Prepare promptly upon request of the Selling Shareholder(s) or any underwriters for the Selling Shareholder(s) such amendment or amendments to such Registration Statement and such prospectus or prospectuses as may be reasonably necessary to permit compliance with the requirements of Section 10 (a) (3) of the Securities Act;

(f) Advise the Selling Shareholders promptly after the Company shall receive notice or obtain knowledge of the issuance of any stop order by the Commission suspending the effectiveness of any such Registration Statement or amendment thereto or of the initiation or threatening of any proceeding for that purpose, and promptly use its best efforts to prevent the issuance of any stop order or obtain its withdrawal promptly if such stop order would be issued;

(g) Use its best efforts to qualify as soon as reasonably practicable the Warrant Stock for sale under the securities or blue-sky laws of such states and jurisdictions within the United States as shall be reasonably requested by the Selling Shareholder(s); provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business, to become subject to taxation or to file a consent to service of process generally in any of the aforesaid states or jurisdiction;

(h) Furnish the Selling Shareholder(s), as soon as available, copies of any Registration Statement and each preliminary or final prospectus, or supplement or amendment required to be prepared pursuant thereto, all in such quantities as the Selling Shareholder(s) may from time to time reasonably request, and;

(i) If requested by the Selling Shareholder(s), enter into an agreement with the underwriters of the Warrant Stock being registered containing customary provisions and reflecting the foregoing.

27. Incidental Registration. Other than as covering in paragraph 13 hereof, if at any time the Company subsequent to the next public offering of registered Common Shares of the Company, shall propose the filing of a Registration Statement on an appropriate form under the Securities Act for the registration of any securities of the Company, other than a registration statement on Form S-4 or S-8 or any equivalent form of registration statement then in effect,

then the Company shall give the Holder(s) notice of such proposed registration and shall include in any Registration Statement relating to such securities all or a portion of the Warrant Stock then owned or to be owned by such Holder(s), which such Holder(s) shall request (such Holder(s) to be considered "Selling Shareholder(s)"), by notice given by such Selling Shareholder(s) to the Company within 15 business days after the giving of such notice by the Company, within 15 business days after the giving of such notice by the Company, to be so included. In the event of the inclusion of Warrant Stock pursuant to this paragraph 15, the Company shall bear the Costs and Expenses of such registration; provided, however that the Selling Shareholder(s) shall pay the fees and disbursements of their own counsel and, pro-rata based upon the number of shares of Warrant Stock included therein as these relate to the total number of Common Shares to be offered or sold, the Securities Act registration fees and underwriters discounts and compensation attributable to the inclusion of such Warrant Stock; and, provided further, however, that amounts to which any person or entity shall become entitled pursuant to this sentence shall not include amounts which may become payable pursuant to paragraphs 16 or 17 hereof. Nothing in this paragraph 15 shall require the registration of Warrant Stock in a Registration Statement relating solely to (a) securities to be issued by the Company in connection with the acquisition of the stock or the assets of another corporation, or the merger or consolidation of any other corporation by or with the Company or any of its subsidiaries, or an exchange offer with any corporation, (b) securities to be offered to the then existing security holders of the Company, or (c) securities to be offered to employees of the Company. In the event the distribution of securities of the Company covered by a Registration Statement referred to in this paragraph 15 is to be underwritten, then the Company's obligation to include Warrant Stock in such a Registration Statement shall be subject, at the option of the Company, to the following further conditions:

(a) The distribution for the account of the Selling Shareholders shall be underwritten by the same underwriters who are underwriting the distribution of the securities for the account of the Company and/or any other persons whose securities are covered by such Registration Statement and the Selling Shareholder(s) shall enter into an agreement with such underwriters containing customary provisions.

(b) If the Selling Shareholders are included in the Registration Statement and if the underwriting agreement entered into with the aforesaid underwriters contains restrictions upon the sale of securities of the Company, other than the securities which are to be included in the proposed distribution, for a period not exceeding 90 days from the effective date of the Registration Statement, then such restrictions shall be binding upon the Selling Shareholder(s) with respect to any Warrant Stock not covered by the Registration Statement and, if requested by the underwriter, the Selling Shareholder(s) shall enter into a written agreement to that effect.

(c) If the underwriters shall state in writing that they are unwilling to include any or all of the Selling Shareholder(s) Warrant Stock in the proposed underwriting because such inclusion would materially interfere with the orderly sale and distribution of the securities being

offered by the Company, then the number of the Selling Shareholder(s)' shares of Warrant Stock to be included shall be reduced pro rata on the basis of the number of shares of Warrant Stock originally requested to be included by such Selling Shareholder(s), or there shall be no inclusion of the shares of the Selling Shareholder(s) in the Registration Statement not proposed distribution, in accordance with such statement by the underwriters.

However, if in such an event, the Holder(s) hereof shall not be able to include at least fifty percent (50%) of the Warrant Stock originally requested to be included, then the Company shall agree to pay all of the Costs and Expenses of a Shelf Registration to be filed at a later date.

28. Indemnification by the Company. The Company shall indemnify and hold harmless each Selling Shareholder, any underwriter (as defined in the Securities Act) for the Selling Shareholder, and each person, if any, who controls the Selling Shareholder or such underwriter within the meaning of the Securities Act (but, in the case of an underwriter or a controlling person, only if such underwriter or controlling person indemnifies the persons mentioned in paragraph 17(b) hereof in the manner set forth therein) against any losses, claims, damages or liabilities, joint or several, to which the Selling Shareholder or any such underwriter or controlling person becomes subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) are caused by any untrue statement or alleged untrue statement of any material fact contained in any preliminary prospectus (if used prior to the effective date of the Registration Statement), or contained, on the effective date thereof, in any Registration Statement under which the Selling Shareholder(s)' shares of Warrant Stock were registered under the Securities Act, the prospectus contained therein, or any amendment or supplement thereto, arising out of or based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; the Company shall reimburse the Selling Shareholder, or any such underwriter or controlling person, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company shall not be liable to any such person in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with information furnished in writing to the Company by such person expressly for inclusion in any of the foregoing documents.

29. Indemnification by Selling Shareholders. Each individual Selling Shareholder shall:

(a) Furnish to the Company in writing all information concerning it and its holdings of securities of the Company as shall be required in connection with the preparation and filing of any Registration Statement covering any Shares of Warrant Stock.

(b) Indemnify and hold harmless the Company, each of its directors, each of its officers who has signed a Registration Statement, each person, if any, who controls the Company within the meaning of the Securities Act and any underwriter (as defined in the Securities Act) for the Company, against any losses, claims, damages or liabilities to which any such director, officer, controlling person or underwriter may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages, or liabilities (or actions in respect therefor) are caused by any untrue statement of any material fact contained in any preliminary prospectus (if used prior to the effective date of the Registration Statement) or contained, on the effective date thereof, in any Registration Statement under which the Selling Shareholder's securities were registered under the Securities Act, the prospectus contained therein, or any amendment or supplement thereto, or arising out of or based upon the omission to state therein a material fact required to be stated therein or necessary to make the statement therein not misleading; in each case to the extent, but only to the extent, that such untrue statement or omission was made in reliance upon and in conformity with information furnished to the Company in writing by the Selling Shareholder expressly for inclusion in any of the foregoing documents, and the Selling Shareholder shall reimburse the Company and any such director, officer, controlling person or underwriter for any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person or underwriter in connection with investigating or defending any such loss, claim, damage, liability or action.

30. Notification by Selling Shareholders. The Selling Shareholder(s) and each other person indemnified pursuant to paragraph 16 hereof shall, in the event it receives notice of the commencement of any action against it which is based upon an alleged act or omission which, if proven, would result in the Company having to indemnify it pursuant to paragraph 16 hereof, promptly notify the Company, in writing, of the commencement of such action and permit the Company, if the Company so notifies the Selling Shareholder(s) within 10 days after receipt by the Company of notice of the commencement of the action, to participate in and to assume the defense of such action with counsel reasonably satisfactory to the Selling Shareholder(s) or such other indemnified person, as the case may be. The omission to notify the Company promptly of the commencement of any such action shall not relieve the Company of any liability to indemnify the Selling Shareholder(s) or such other indemnified person, as the case may be, under paragraph 16 hereof, except to the extent that the Company shall suffer any loss by reason of such failure to give notice which it may have pursuant to the rights conveyed to the Holders) in this Warrant.

31. Notification by the Company to Selling Shareholders. The Company agrees that, in the event it receives notice of the commencement of any action against it which is based upon an alleged act or omission which, if proven, would result in a Selling Shareholder having to indemnify the Company pursuant to paragraph 17(b) hereof, the Company will promptly notify the Selling Shareholder in writing of the commencement of such action and permit the Selling Shareholder, if the Selling Shareholder so notifies the Company within 10 days after receipt by the Selling Shareholder of notice of the commencement of the action, to participate

in and assume the defense of such action with counsel reasonably satisfactory to the Company. The omission to notify the Selling Shareholder promptly of the commencement of any such action shall not relieve the Selling Shareholder of liability to indemnify the Company under paragraph 17(b) hereof, except to the extent that the Selling Shareholder shall suffer any loss by reason of such failure to give notice, and shall not relieve the Selling Shareholder of any other liabilities which it may have under this or any other agreement then in effect between the Company and the Selling Shareholder.

32. Costs and Expenses. As used in this Warrant, "Costs and Expenses" shall include all of the costs and expenses relating to the respective Registration Statement(s) involved, including but not limited to, registration fees, filing and qualification fees, blue-sky expenses, printing and mailing expenses, fees and expenses of Company's counsel and, if/when appropriate, fees and expenses of counsel designated by the Selling Shareholder(s) (provided, however, that no more than one such counsel for the Selling Shareholder(s) shall be designated on any occasion).

33. Addresses. All notices, certificates, waiver and other communications required or permitted to be given hereunder to any of the parties by any other party shall be in writing and shall be delivered personally or sent by next day delivery service or registered or certified mail, postage prepaid, as follows:

- (a) If to the Company, addressed to:  
  
Cheung Laboratories, Inc.  
10220-I Old Columbia Road  
Columbia, MD 21046-1705  
Attention: Mr. John Mon, General Manager
  
- (b) If to a Holder, addressed to the address of each such Holder as shall, from time to time, appear on the records of the Company or those of the Company's transfer agent as may be the case.

Any notice delivered personally or sent by next day delivery service shall be deemed to have been given on the date so delivered, and any notice delivered by registered or certified mail shall be deemed to have been given on the date it is received. Any party may change the address to which notices hereunder are to be sent by giving written notice of such change of address in the manner provided for giving notice.

34. Waiver. No waiver by a Holder of any right hereunder shall be effective unless it is in writing which specifically refers to the provision hereof under which such right arises, and no such waiver shall operate or be construed as a waiver of any subsequent breach, whether of a similar or dissimilar nature.

35. Entire Warrant. This Warrant may be amended, supplemented or modified only by a written instrument executed by the Company and the Holder(s). While separate executed letters proposing and/or accepting amendment(s) sent to the Company by the Holder(s) or to the Holder(s) by the Company shall, for the purposes of this paragraph 23, constitute a valid agreement as to the relationship then created by and between the Company and the individual Holder in question, only Anthony Riker, Ltd. (as the original Holder) may, by agreement with the Company, bind all subsequent Holders to one single written instrument which shall serve to amend the terms and conditions hereof, and to which by their acceptance of an assignment of any portion of this Warrant, they implicitly agree to be bound by.

36. Applicable Law. This Warrant and the legal relations among the parties hereto shall be governed by and construed in accordance with the substantive laws of the State of Illinois applicable to contracts made and to be performed therein without giving effect to the principles of conflict of laws thereof.

37. Appraisal Rights. In the event that the Company's board of directors has not approved and the Company has not executed the next public offering of the Company's Common Stock prior to the second anniversary of the issuance of this Warrant, a majority in interest of the Holder(s) may, in their sole discretion and at any time thereafter, give notice to the Company that they wish to avail themselves of Appraisal Rights rather than force the Company into filing a Registration Statement against its will by demanding registration hereunder.

Should this event occur, the Company and the Holder(s) shall meet together to appraise the value of the Warrant(s) and shall proceed to do so in the same fashion and spirit as is provided for in the first paragraph of section 10 hereof in determining a Retirement Fee to be paid the Holders upon termination of the Warrant(s).

38. Binding Effect. The provisions contained in this Warrant shall be binding upon and inure to the benefit of the Company and the Holders and their respective successors, permitted assigns, heirs and legal representatives. Any person to whom all or a part of a Holder's rights and obligations hereunder are assigned shall fulfill such of the assigning Holder's obligations hereunder as have been assigned, and shall be entitled to all of the rights and benefits hereunder to the extent that such person has assumed such Holder's obligations. The rights and powers of each successive Holder hereunder are granted to such Holder as an owner of Warrants or Warrant Stock as the case may be. Any subsequent Holder whether becoming such by transfer, assignment, operation of law or otherwise, shall have the same rights and powers which a Holder owning the same number of Warrants and/or Warrant Stock has hereunder, and shall be entitled to exercise such rights and powers until such Holder or subsequent Holder no longer owns any Warrants or Warrant Stock. Except as provided in this paragraph 26, this Warrant does not create, and shall not be construed as creating, any rights enforceable by any person not a Holder.

39. Validity. If any term, provision, covenant or restriction of this Warrant is held by a court of competent jurisdiction to be invalid, void or unenforceable, the Company agrees that such term, provision, covenant or restriction shall be reformed to the extent possible consistent with such judicial holding to reflect the intent of the Company and the original Holder as stated herein and the remainder of the terms, provisions, covenants and restrictions of this Warrant shall remain in full force and effect and shall in no way be affected, impaired or invalidated. It is hereby stipulated and declared to be the intention of the Company that it would have executed this Warrant including the remaining terms, provisions, covenants and restrictions without including any of such provision of term which may be hereafter declared invalid, void or unenforceable. This Warrant (Serial Number: 0100) is granted and sold on this 1st day of June, 1996.

Cheung Laboratories, Inc.

By: \_\_\_\_\_  
Augustine Cheung, President

PURCHASE FORM

Dated: \_\_\_\_\_

Cheung Laboratories, Inc.  
10220-1 Old Columbia Road  
Columbia, MD 21046-1705

Attention: Mr. John Mon, General Manager

Attached herewith is Cheung Laboratories, Inc.'s Common Stock Purchase Warrant, Serial Number: \_\_\_\_\_, giving the Holder the right to purchase \_\_\_\_\_ shares.

I/We hereby notify you that I/we are exercising my/our right to purchase \_\_\_\_\_ shares and have enclosed herewith my/our check in the amount of \$\_\_\_\_\_, representing the aggregate exercise price of said shares. If transfer taxes (federal or state) are applicable to this transaction, I/we understand that you will be billing me/us for said taxes, which I/we agree will be promptly remitted to you within ten (10) days of my/our receipt of notification.

I/We hereby state that the shares being purchased are to be held by me/us for investment purposes and not with a view to sale, except pursuant to an effective registration statement or an exemption therefrom.

Please cancel the enclosed Warrant and, if applicable, send me/us a Warrant, in partial substitution on identical terms, for the remaining shares not being purchased pursuant to this notification.

Yours very truly,

Holder of Warrant, Serial Number \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Microfocus Medical Technologies Canada Inc., formed pursuant to the Ontario Business Corporations Act June 16, 1993.

Cheung Laboratories International, Ltd., was formed under the laws of Hong Kong in 1985.

We hereby consent to the inclusion in Form 10-K for fiscal year ended September 30, 1996 of our report dated November 1, 1996 relating to the financial statements of Cheung Laboratories, Inc.

STEGMAN & COMPANY

December 9, 1996  
Towson, Maryland

YEAR

	SEP-30-1996	
	OCT-30-1996	
	SEP-30-1996	246931
		0
	175105	
	20770	
	270952	
	705957	238769
	205766	
	9321600	
1352726		0
		0
		0
	412063	
	6343811	
9321600		
		74006
	74006	
		64406
	64406	
	1432382	
	0	
	85506	
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		0
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	(0.049)	
	(0.049)	