

Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

SANGUI BIOTECH INTERNATIONAL INC  
Form 10QSB  
March 08, 2005

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For Quarterly period Ended: December 31, 2004; or  
-----

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

For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-21271  
-----

SANGUI BIOTECH INTERNATIONAL, INC.  
-----

(Exact name of registrant as specified in its charter)

COLORADO  
-----

(State or other Jurisdiction of  
Incorporation or Organization)

84-1330732  
-----

(I.R.S. Employer  
Identification No.)

Alfred-Herrhausen-Str. 44, 58455 Witten, Germany  
-----

(Address of principal executive offices) (Zip Code)

011-49-2302-915-204  
-----

(Registrant's telephone number, including area code)

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 a registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

The number of shares outstanding of the registrant's common stock, \$0.001 par value, as of January 31, 2005, was 43,655,363.

Transitional Small Business Disclosure Format. Yes  No

SANGUI BIOTECH INTERNATIONAL, INC.

Report on Form 10-QSB

# Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

For the Quarter Ended December 31, 2004

## INDEX

-----

	Page
Part I. Financial Information	
Item 1. Financial Statements (unaudited).....	2
Consolidated Balance Sheet .....	3
Consolidated Statements of Operations and Comprehensive Loss	4
Consolidated Statements of Cash Flows.....	5
Notes to the Financial Statements .....	6
Item 2. Management's Discussion and Analysis or Plan of Operation .	10
Item 3. Controls and Procedures .....	13
Part II. Other Information	
Item 1. Legal Proceedings .....	13
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	14
Item 3. Defaults Upon Senior Securities .....	14
Item 4. Submission of Matters to a Vote of Security Holders .....	14
Item 5. Other Information .....	14
Item 6. Exhibits .....	14

1

## PART I - FINANCIAL INFORMATION

-----

### Item 1 - Financial Statements

-----

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-QSB pursuant to the rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a complete presentation of our financial position, results of operations, cash flows, and stockholders' deficit in conformity with generally accepted accounting principles in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Our unaudited balance sheet as of December 31, 2004 and our unaudited statements of operations for the three and six month periods ended December 31, 2004 and 2003, and the unaudited statement of cash flows for the six month periods ended December 31, 2004 and 2003, are attached hereto and incorporated herein by this reference.

SANGUI BIOTECH INTERNATIONAL, INC.  
 CONSOLIDATED BALANCE SHEET

ASSETS  
 -----

	December 2004 (Unaudited)
	-----
Current assets	
Cash and cash equivalents	\$
Taxes receivable	
Prepaid expenses and other assets	
	-----
Total current assets	
Property and equipment-net	
Patents and licenses-net	
Deposits	
	-----
Total assets	\$ =====

LIABILITIES & STOCKHOLDERS' EQUITY  
 -----

Current liabilities	
Accounts payable and accrued expenses	\$
Commitments and contingencies	
Stockholders' equity	
Preferred stock, no par value, 5,000,000 shares	
authorized, no shares issued and outstanding	
Common stock, no par value, 50,000,000 shares	
authorized, 43,655,363 shares issued and outstanding	18
Additional paid-in capital	2
Treasury stock	
Accumulated other comprehensive income	
Accumulated deficit	(20)
	-----
Total stockholders' equity	
	-----
Total liabilities and stockholders' equity	\$ =====

Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

See accompanying notes to these consolidated financial statements

3

SANGUI BIOTECH INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the three months ended December 31, (Unaudited)		For the
	2004	2003	2004
Revenues	\$ 5,177	\$ -	\$ 1
Cost of goods sold	3,726	-	
Gross profit	1,451	-	
Operating expenses			
Research and development	138,549	232,332	32
General and administrative	147,412	157,839	28
Depreciation and amortization	16,133	26,024	3
Total operating expenses	302,094	416,195	64
Loss before other income	(300,643)	(416,195)	(63)
Other income			
Interest income	-	6,744	
Other income	56,498	17,316	5
Total other income	56,498	24,060	5
Net Loss	(244,145)	(392,135)	(58)
Other comprehensive income			
Foreign currency translation adjustments	100,117	52,233	10
Unrealized gain on marketable securities	-	67,447	
Comprehensive loss	\$ (144,028)	\$ (272,455)	\$ (47)
Net loss available to common shareholder per common share:	\$ (0.01)	\$ (0.01)	\$

Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

Basic and diluted weighted average number of common shares outstanding	43,191,613	40,655,363	42,01
	=====	=====	=====

See accompanying notes to these consolidated financial statements

4

SANGUI BIOTECH INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended December 31, (Unaudited)	
	2004	
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$ (581,099)	\$
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	33,205	
Stock compensation	82,625	
Changes in operating asset and liabilities:		
Accounts receivable	27,346	
Taxes receivable	87,601	
Prepaid expenses and other assets	13,388	
Deposits	(17,338)	
Accounts payable and accrued expenses	23,000	
	-----	-----
Net cash used in operating activities	(331,272)	
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Collection on notes receivable	-	
Purchase of property and equipment	-	
	-----	-----
Net cash provided by investing activities	-	
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	100,000	
Purchase of treasury stock	(126,916)	
	-----	-----
Net cash used in financing activities	(26,916)	
	-----	-----

## Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

Effect of exchange rate changes	85,628	
Net decrease in cash and cash equivalents	(272,560)	
Cash and cash equivalents, beginning of period	310,959	
Cash and cash equivalents, ending of period	\$ 38,399	\$
Supplemental disclosures:		
Cash paid during the period for:		
Interest	\$ -	\$
Income taxes	\$ -	\$

See accompanying notes to these consolidated financial statements

5

SANGUI BIOTECH INTERNATIONAL, INC.  
Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 - BASIS OF PRESENTATION

-----

The accompanying consolidated financial statements have been prepared without audit in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 301 of Regulation S-B. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The unaudited consolidated financial statements and notes should, therefore, be read in conjunction with the consolidated financial statements and notes thereto in the Company's Form 10-KSB for the year ended June 30, 2004. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation, have been included. The results of operations for the three and six-month periods ended December 31, 2004 are not indicative of the results that may be expected for the full fiscal year ending June 30, 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

-----

Sangui BioTech International, Inc., incorporated in Colorado in 1995, and its subsidiary (collectively, the "Company") have been engaged in the research, development, manufacture, and sales of medical products.

Prior to June 30, 2003, the company had two German subsidiaries, SanguiBioTech AG and GlukoMediTech AG. On June 30, 2003, GlukoMediTech AG was merged into Sangui BioTech AG. Effective November 4, 2003, Sangui AG was converted into SanguiBioTech GmbH (Sangui GmbH). After completion of the restructuring, Sangui GmbH, which is headquartered in Witten, Germany, is engaged in the development

## Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

of artificial oxygen carriers (external applications of haemoglobin, blood substitutes and blood additives), the development of wound care products as well as in the development of glucose implant sensors. Sangui GmbH is a wholly-owned subsidiary of Sangui BioTech International, Inc..

The operations of Sangui BioTech, Inc. and Sangui BioTech PTE Ltd Singapore, two former wholly-owned subsidiaries, were discontinued and dissolved during 2002.

### Consolidation

-----

The consolidated financial statements include the accounts of Sangui BioTech International, Inc. and its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in the three and six months ended December 31, 2003 have been reclassified to conform to the three and six months ended December 31, 2004 presentation. These reclassifications have no effect on previously reported net loss.

### Use of Estimates

-----

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 respective reporting period. Actual results could differ from those estimates. Significant estimates made by management are, among others, the realization of taxes receivable, long-lived assets, and valuation allowance on deferred tax assets.

6

### Risk and Uncertainties

-----

The Company's line of future pharmaceutical products (artificial oxygen carriers or blood substitute and additives) and in vivo biosensors (glucose implant sensor) being developed by Sangui GmbH, are deemed as medical devices or biologics, and as such are governed by the Federal Food and Drug and Cosmetics Act and by the regulations of state agencies and various foreign government agencies. The pharmaceutical and biosensor products, under development in Germany, will be subject to more stringent regulatory requirements, because they are in vivo products for humans. The Company and its subsidiaries have no experience in obtaining regulatory clearance on these types of products. Therefore, the Company will be subject to the risks of delays in obtaining or failing to obtain regulatory clearance.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. The Company has accumulated deficit of \$20,909,873 as of December 31, 2004 and has been significantly reducing its working capital since June 30, 2004. The Company incurred a net loss applicable to common stockholders of \$581,099 and used cash in operating activities of \$331,272 for the six months ended December 31, 2004. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company expects to continue to incur significant capital expenses in pursuing its business plan to market its products and expand its product line, while obtaining additional

## Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

financing through stock offerings or other feasible financing alternatives. In order for the Company to continue its operations at its existing levels, the Company will require significant additional funds over the next twelve months. Therefore, the Company is dependent on funds raised through equity or debt offerings. Additional financing may not be available on terms favorable to the Company, or at all. If these funds are not available the Company may not be able to execute its business plan or take advantage of business opportunities. The ability of the Company to obtain such additional financing and to achieve its operating goals is uncertain. In the event that the Company does not obtain additional capital or is not able to increase cash flow through the increase of sales, there is a substantial doubt of its being able to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Foreign Currency Translation

-----

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at period-end exchange rates. Net exchange gains or losses resulting from such translation are excluded from net loss but are included in comprehensive income (loss) and accumulated in a separate component of stockholders' equity. Income and expenses are translated at weighted average exchange rates for the period.

### Cash and Cash Equivalents

-----

The Company maintains its cash in bank accounts in Germany. The Company has not experienced any losses in its uninsured bank accounts.

### Marketable Securities

-----

Marketable securities are classified as available-for-sale. Unrealized gains and losses are excluded from net loss and are reported as a separate component of other comprehensive loss in stockholders' equity. Realized gains and losses are included in other income and are determined based on the specific identification of the securities bought and sold.

### Revenue Recognition

-----

Revenues from product sales are recognized at the time of shipment.

7

### Research and Development

-----

Research and development costs are charged to operations as they are incurred. Legal fees and other direct costs incurred in obtaining and protecting patents are expensed as incurred.

### Basic and Diluted Earnings (Loss) Per Common Share

-----

Basic earnings (loss) per common share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period of computation. Diluted earnings (loss) per share gives effect to all potential dilutive common shares outstanding during the



## Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

period of compensation. The computation of diluted earnings (loss) per share does not assume conversion, exercise or contingent exercise of securities that would have an antidilutive effect on earnings. As of December 31, 2004 and 2003, the Company had no potentially dilutive securities that would effect the loss per share if they were to be dilutive.

### Comprehensive Income (Loss)

-----

Total comprehensive income (loss) represents the net change in stockholders' equity during a period from sources other than transactions with stockholders and as such, includes net earnings (loss). For the Company, the components of other comprehensive income (loss) are the changes in the cumulative foreign currency translation adjustments and unrealized gains (losses) on marketable securities and are recorded as components of stockholders' equity.

### Segments of an Enterprise and Related Information

-----

The Company applies Statement of Financial Accounting Standards ("SFAS") No. 131, Disclosures about Segments of an Enterprise and Related Information. SFAS No. 131 establishes standards for the way public companies report information about segments of their business in their annual financial statements and requires them to report selected segment information in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers.

### NOTE 3 - STOCKHOLDERS' EQUITY

-----

As of December 31, 2004, the Company held shares of its common stock valued at historical cost of approximately \$155,000, which is reflected in the stockholders' equity as treasury stock in the accompanying consolidated balance sheet. Included in this are 620,000 shares of common stock transferred to Sangui GmbH in November, 2004 as a result of an out of court settlement. This transaction is being accounted for as a purchase of treasury stock, valued at a total cost of approximately \$127,000. The Company's management intends to sell these shares in the near future.

In July 2004, the Company issued 217,500 shares of common stock under the 2004 Employee Stock Incentive Plan (the Plan) to Sangui GmbH employees. In connection with this transaction, the Company recorded \$43,500 as compensation expense and additional paid-in capital in the stockholders' equity (deficiency) section of accompanying financial statements

In October 2004, the Company issued 782,500 shares of common stock under the 2004 Employee Stock Incentive Plan (the Plan) to a Sangui GmbH employee. In connection with this transaction, the Company recorded \$39,125 as compensation expense and additional paid-in capital in the stockholders' equity (deficiency) section of accompanying financial statements

In November and December 2004, the company issued 2,000,000 shares of common stock to two German investors for \$100,000.

### NOTE 4 - COMMITMENTS AND CONTINGENCIES

-----

## Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

### Litigation

-----

The Company may, from time to time, be involved in various litigation resulting from the ordinary course of operating its business. Management is currently not able to predict the outcome of any such cases. However, management believes that the amount of ultimate liability, if any, with respect to such actions will not have a material effect on the Company's financial position or results of operations.

### Indemnities and Guarantees

-----

During the normal course of business, the Company has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities include certain agreements with the Company's officers, under which the Company may be required to indemnify such person for liabilities arising out of their employment relationship. The duration of these indemnities and guarantees varies and, in certain cases, is indefinite. The majority of these indemnities and guarantees do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying consolidated balance sheet.

### NOTE 5 - BUSINESS SEGMENTS

-----

The Company reports its business segments based on geographic regions, which are as follows:

	For the three months ended December 31, (Unaudited)			For the
	2004	2003		2004
Net sales:				
Sangui GmbH	\$ 5,177	\$ -		\$ 1
Sangui Biotech International, Inc.	-	-		
	\$ 5,177	\$ -		\$ 1
	=====	=====		=====
Net income (loss):				
Sangui GmbH	\$ (204,813)	\$ (320,785)		\$ (49
Sangui Biotech International, Inc.	(39,332)	(71,350)		(8
	\$ (244,145)	\$ (392,135)		\$ (58
	=====	=====		=====
Depreciation and amortization				
Sangui GmbH	\$ 16,133	\$ 26,024		\$ 3
Sangui Biotech International, Inc.	-	-		
	\$ 16,133	\$ 26,024		\$ 3
	=====	=====		=====

Identifiable assets		
Sangui GmbH	\$	187,586
Sangui Biotech International, Inc.		20,000
		-----
	\$	207,586
		=====

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

Forward-looking Statements  
 -----

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this quarterly report. Some of the information in this quarterly report contains forward-looking statements, including statements related to anticipated operating results, margins, growth, financial resources, capital requirements, adequacy of the Company's financial resources, trends in spending on research and development, the development of new markets, the development, regulatory approval, manufacture, distribution, and commercial acceptance of new products, and future product development efforts. Investors are cautioned that forward-looking statements involve risks and uncertainties, which may affect our business and prospects, including but not limited to, the Company's expected need for additional funding and the uncertainty of receiving the additional funding, changes in economic and market conditions, acceptance of our products by the health care and reimbursement communities, new development of competitive products and treatments, administrative and regulatory approval and related considerations, health care legislation and regulation, and other factors discussed in our filings with the Securities and Exchange Commission.

GENERAL  
 -----

The Company is primarily involved in the development of artificial oxygen carriers, skin care and wound management products and glucose sensors.

The Company's clinical development projects are primarily in the preliminary stages. The Company is diligently developing several applications for its clinical development projects, but does not anticipate beginning any government protocols or clinical trials in the near term. In the course of the ongoing cost containment efforts, these projects were halted during fiscal year 2002/2003, after having achieved the planned milestones. The Company decided to reduce further expenditures in the blood substitute, blood additive and glucose sensor projects to the amount necessary to find financing, industrial or distribution partners for further development and marketing of the resulting products. The Company has adopted a program aimed at cost reductions and at refocusing the Company's funds to accelerate time to market its most promising and mature products.

By the end of the 2004 fiscal year, the company had agreed to enter into an Agreement with a medium sized German pharmaceuticals company, regarding the

## Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

authorization and subsequent distribution of its Hemospray product. The contract included a significant upfront payment. A letter of intent to this effect had been signed by both parties, the contracts had been negotiated. As of August 24, 2004, said pharmaceuticals company cancelled the letter of intent and any further cooperation without giving any valid reasons for this act.

Contacts to new potential marketing and distribution partners regarding the Hemospray product have been established in Germany and abroad. Talks have been facilitated by the results of an official meeting with the German Drug Registration Authority (BfArM) on November 16, 2004. BfArM declared that it will regard Hemospray as a medical product and not as a pharmaceutical. This means that the authorization process will be easier and less time consuming. Among the companies interested in marketing the product is Karl Beese GmbH.

10

In July, 2004, Sangui GmbH signed a marketing and distribution contract with cosmetics vendor Mercatura Biocosmetics AG, Achim, Germany ("Mercatura"). Under the terms of the contract, Mercatura has obtained from Sangui the exclusive right to manufacture, market und distribute the Sangui formulation for skin regeneration and anti-aging. The company has sold to Mercatura a quantity of 60 kg of the preparation to be used in test sales, which started in September 2004. Mercatura will pay Sangui per unit licensing fees for each product package sold. The licensing fees refer to the ex-works price for the product and will be between 5.5 % and 8 %, depending on the total revenue amount.

Initially, the contract covers the German speaking areas only. Mercatura is obliged to submit on completion of its quarterly accounting its sales reports for the preceding quarter confirmed by an independent auditor. These reports will be the basis for the calculation of the royalties due to Sangui. The parties have agreed to extend the reach of this agreement to target markets world wide, if Sangui's formulation will be included in the proposed cooperation between Mercatura and Wolfgang Joop GmbH. Mercatura is contractually obliged to confirm by February 28, 2005, whether or not Wolfgang Joop GmbH is willing to include the Anti-Aging formulation in their "Wunderkind" marketing program. Global distribution rights outside the German speaking countries will be returned to Sangui if Wolfgang Joop GmbH refrains from using the product.

The company is currently in the final phase of the CE certification of "Chitoskin" wound pads authorizing the distribution of these medical products in the European markets. It is expected that the CE certification will be granted in the course of the third quarter of Sangui's fiscal year 2004/2005. The "CHITOSKIN" trademark has been granted to the company for the European countries effective November 1, 2004. In the German market the wound pads will be distributed by Karl Beese GmbH, Norderstedt, Germany, a leading medical products distributor. A contract to this effect is currently being negotiated and will be entered into after the CE certification. Joint pre-marketing activities have started. Negotiations with distributors in other regions including Spain, Turkey, the Arab countries and China are under way.

### Cost Savings

-----

As of August 31, 2004, contracts with most employees were cancelled. As of December 1, 2004, the company employs 2 fulltime employees and has consulting arrangements with 5 persons.

In total, management has been able to reduce the Company's operating expenses by 25% to approximately \$640,000 in the first six months of fiscal 2005, compared to approximately \$842,000 in the respective period of last fiscal

## Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

year. General and administrative expenses have been reduced by 23% in the first six months of fiscal 2005 as compared to the respective period of last fiscal year. This effort is also reflected in the net cash used in operating activities which decreased 52% to approximately \$331,000 compared to approximately \$785,000 net cash used in operating activities in the respective period of last fiscal year.

### FINANCIAL POSITION

-----

The company resolved to use the existing authorized capital to offer shares to certain investors. In November and December 2004, the company sold 2,000,000 shares of common stock to two German investors yielding cash proceeds of \$100,000.

In the course of the third quarter of its fiscal year 2005 the company sold 4,500,000 shares to six investors yielding a cash contribution of \$275,000. The Directors and Management believe that this will be viable as a bridge financing until the company will be in the position to generate sufficient sales to maintain a basic level of activities.

The Company's current assets decreased approximately \$400,000, or 82%, from June 30, 2004 to approximately \$86,000 at December 31, 2004. The decrease is primarily attributable to a decrease in cash and cash equivalents of approximately \$273,000 and decrease in taxes receivable of approximately \$87,000. The decrease in cash and cash equivalents results primarily from funding the current year's operations of the Company with minimal revenues in the three- and six-month periods ended December 31, 2004.

11

The Company's net property and equipment decreased approximately \$19,000, or 19% from June 30, 2004 to approximately \$82,000 at December 31, 2004. The decrease is primarily attributable to current year depreciation of approximately \$33,000.

The Company funded its operations primarily through its existing cash reserves and the issuance of shares to certain investors. The Company's stockholders' equity decreased approximately \$418,000. The decrease is primarily caused by the Company's current period net loss of approximately \$581,000, an increase in accumulated other comprehensive income of approximately \$107,000 due to foreign currency translation adjustments, and an increase in common stock of \$100,000 from the proceeds of stock issue in the current year.

### RESULTS OF OPERATIONS

-----

Three months ended December 31, 2004 and 2003:

Sangui GmbH

-----

RESEARCH AND DEVELOPMENT. Research and development expenses decreased 40% to approximately \$139,000 in 2004 from approximately \$232,000 in 2003. The decrease is mainly attributed to the ongoing refocusing program.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 24% to approximately \$108,000 in 2004 from approximately \$87,000 in 2003. This increase is mainly attributed to expanded marketing and restructuring program.

## Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

DEPRECIATION. Depreciation decreased 38% to approximately \$16,000 in 2004 from approximately \$26,000 in 2003. This decrease is mainly attributed to the restructuring of Sangui GmbH.

Sangui BioTech International, Inc.  
-----

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 95% to approximately \$39,000 in 2004 from approximately \$20,000 in 2003. The increase is due to increased stock compensation expense.

Consolidated  
-----

NET LOSS. As a result of the above factors, the Company's consolidated net loss was approximately \$244,000, or \$0.01 per common share, in 2004, compared to approximately \$392,000, or \$0.01 per common share, in 2003.

Three and six months ended December 31, 2004 and 2003:

Sangui GmbH  
-----

RESEARCH AND DEVELOPMENT. Research and development expenses decreased 22% to approximately \$324,000 in 2004 from approximately \$416,000 in 2003. The decrease is mainly attributed to the ongoing refocusing program.

GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased 19% to approximately \$201,000 in 2004 from approximately \$248,000 in 2003. This decrease is mainly attributed to the ongoing refocusing program.

DEPRECIATION. Depreciation decreased 42% to approximately \$33,000 in 2004 from approximately \$57,000 in 2003. This decrease is mainly attributed to the restructuring of Sangui GmbH.

Sangui BioTech International, Inc.  
-----

GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased 31% to approximately \$83,000 in 2004 from approximately \$121,000 in 2003. The decrease is due to decreased consulting and legal fees and an increase in stock compensation expense.

12

Consolidated  
-----

NET LOSS. As a result of the above factors, the Company's consolidated net loss was approximately \$581,000, or \$0.01 per common share, in 2004, compared to approximately \$806,000, or \$0.02 per common share, in 2003.

LIQUIDITY AND CAPITAL RESOURCES  
-----

For the six months ended December 31, 2004, net cash used in operating activities decreased to approximately \$332,000 from approximately \$785,000 in the corresponding period in 2003, primarily related to a decrease in the Company's consolidated net loss as a result of the ongoing refocusing program.

## Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

For the six months ended December 31, 2004, net cash provided by investing activities decreased to zero from approximately \$12,000 net cash provided by investing activities in the corresponding period in 2003. The decrease is due to the decrease in collections on notes receivable and decrease in purchases of property and equipment during the six months ended December 31, 2004, compared to the corresponding period in 2003.

For the six months ended December 31, 2004, net cash provided by financing activities decreased approximately \$27,000 compared to the corresponding period in 2003. The decrease is due to the purchase of treasury stock of approximately \$127,000 combined with proceeds received from the issuance of common stock of \$100,000.

Working capital deficit was approximately (\$23,000) at December 31, 2004, a decrease of approximately \$424,000 from June 30, 2004 due primarily to the Company's net loss for the six-month period.

At December 31, 2004, the Company had cash of approximately \$38,000. The Company will need substantial additional funding to fulfil its business plan and the Company intends to explore financing sources for its future development activities. No assurance can be given that these efforts will be successful.

### ITEM 3 - CONTROLS AND PROCEDURES

-----

(a) Evaluation of disclosure controls and procedures. Our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Exchange Act), as of a date within 90 days of the filing date of this Quarterly Report on Form 10-QSB. Based on such evaluation, they have concluded that as of such date, our disclosure controls and procedures are effective and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms.

(b) Changes in internal controls. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of evaluation by our principal executive officer and principal financial officer.

### PART II - OTHER INFORMATION

-----

#### ITEM 1 - LEGAL PROCEEDINGS

-----

On August 4, 2003, SanguBioTech AG filed a lawsuit against a former director of SGBI, claiming that some payments incurred by the defendant were unjustified under German law (Landgericht Munich I Court, Case No. 34 O 14027/03). The defendant denied that the claim was justified and brought forward the opinion that he can claim additional fees. The plaintiff has rejected the defendant's opinion. The litigation was still pending as of December 31, 2004. Subsequent to the period covered by this report, by order of the Court, on February 10, 2005, the lawsuit was settled. All claims and counterclaims between the parties were irrevocably dismissed.

## Edgar Filing: SANGUI BIOTECH INTERNATIONAL INC - Form 10QSB

described above, which may have a material adverse impact on the Company's financial position or results of operations.

### ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

-----

On April 28, 2004, the Company adopted the 2004 Employee Stock Incentive Plan (the Plan). Under the terms of the plan the Board was authorized to issue up to 1,000,000 shares of common stock to certain eligible employees of the company or its subsidiaries. In July, 2004, the Company issued 1,000,000 shares to Sangui GmbH employees. Sangui GmbH is a subsidiary of the Company. No underwriters were used. The securities were registered under Securities Act of 1933 on Form S-8, which became effective on May 24, 2004

Subsequent to the period covered by this report, in November and December 2004, the company sold 2,000,000 shares of its common stock to two German investors at a price of \$.05 per share, for a total cash contribution of US \$100,000. No underwriters were used. The offer and sale of the shares occurred outside the United States and the shares were sold to two individuals who reside outside the United States, pursuant to an exemption from registration under Rule 901, Regulation S of the Securities Act of 1933, as amended.

Subsequent to the period covered by this report, in February 2005, the company sold 4,500,000 shares of common stock to six German and Suisse investors yielding a cash contribution of US \$275,000. No underwriters were used. The offer and sale of the shares occurred outside the United States and the shares were sold to six individuals who reside outside the United States, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933.

Subsequent to the period covered by this report, in February 2005, the Company issued 200,000 restricted shares in consideration of consulting services valued at \$17,500 to Joachim Fleing, a Director of the Company. No underwriters were used. The shares were issued to this individual, who resides outside the United States, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933.

### ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

-----

None.

### ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

-----

None.

### ITEM 5 - OTHER INFORMATION

-----

None.

### ITEM 6 - EXHIBITS

-----

31.1 Certification Pursuant to Rule 13a-14(a) and 15d-14(a), filed herewith.

32. Certification Pursuant to Section 1350 of Title 18 of the United States Code, filed herewith.



SIGNATURES

-----

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SANGUI BIOTECH INTERNATIONAL, INC.

Date: March 7 , 2005

/s/ Wolfgang Barnikol

-----  
Wolfgang Barnikol  
President, Chief Executive Officer and  
Chief Financial Officer

Date: March 7 , 2005

/s/ Joachim Fleing

-----  
Joachim Fleing  
Chief Accounting Officer