SANGUI BIOTECH INTERNATIONAL INC
Form 10KSB
September 30, 2002

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

FORM 10-KSB

(X) Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the annual period ended JUNE 30, 2002

( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _____ TO _____

For the fiscal year ended June 30, 2002
Commission file number 0-21271

SANGUI BIOTECH INTERNATIONAL, INC.
(Exact name of small business issuer as specified in its charter)

Colorado	84-1330732
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
1508 Brookhollow Drive, Suite 354 Santa Ana, CA 92705	92705 (Zip Code)
(Address of principal executive offices)	

Issuer's telephone number, including area code (714) 429-7807

Common Stock, no par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 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 [ ]

Check whether there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B in this Form, and will not be contained, to the best of Registrant's incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [x]

The issuer's revenue for the fiscal year ended June 30, 2002 was $571,742.

The market value of the voting stock held by non-affiliates of the issuer as of September 13, 2002 was approximately $7,531,000.

The number of shares of the common stock outstanding as of September 13, 2002 was 40,655,363.

Documents incorporated by reference: None.

Transitional Small Business Disclosure Format (check one) Yes [ ] No [X]

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PART 1

FORWARD LOOKING STATEMENT

This Annual Report contains forward-looking statements concerning, among other things, the Company's prospects affecting our potential and our business strategies.

These forward looking statements involve risks and uncertainties. Actual results may differ materially from those predicted by the forward-looking statements because of various factors and possible events, including those discussed under Risk Factors. Because these forward looking statements involve risks and uncertainties, actual results may differ significantly from those predicted in these forward looking statements. These statements may be accompanied by words such as believe, estimate, project, expect, anticipate, or predict that conveys the uncertainty of future events or outcomes. These statements are based on assumptions that the Company believes are reasonable; however, many factors could cause the Company's actual results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by, or on behalf of, the Company. Important factors which could cause actual results to differ materially from those in forward-looking statements include, among others, the ability to obtain additional financing, which is not assured; rapid technological developments and changes; problems in developments of the Company's products; price and product competition by competitors; general economic conditions; and factors discussed in the Company's SEC filings.

ITEM 1. DESCRIPTION OF BUSINESS

HISTORY

Sangui BioTech, Inc. (SBT) was incorporated in Delaware on August 2, 1996, and began operations in October 1996. In August 1997, Citadel Investment System, Inc. (Citadel), a publicly held company, acquired one hundred percent (100%) of the outstanding common shares of SBT; as a result, SBT became a wholly owned subsidiary of Citadel. Thereafter, Citadel changed its name to Sangui BioTech International, Inc. (the Company or SGBI). The Company's business operations are conducted through four subsidiaries: SBT, SanguiBioTech AG (Sangui AG), GlukoMediTech AG (Gluko AG), and Sangui Biotech Singapore Pte Ltd. (Sangui Singapore).

SBT has been principally engaged in the development and manufacturing of immunodiagnostic kits, which were sold by SBT in niche markets in the United States and Europe. SBT is located in Santa Ana, California. The California laboratory facility, approximately 3,360 square feet, has been devoted to immunodiagnostic research, development, manufacturing, and marketing, as well as the Company's administrative functions. Subsequent to the June 30, 2002 fiscal year-end SBT sold the assets, and commenced the wind-down, of the U.S. business operation.

Sangui AG was established and organized under the laws of Germany in Mainz, Germany, on November 25, 1995. Sangui AG is in the business of developing

haemoglobin-based artificial oxygen carriers as blood additive and blood volume substitutes and products thereof. Sangui AG is also developing an anti-aging cosmetic based on the artificial oxygen carrier. The officer of Sangui AG is Professor Wolfgang Barnikol, M.D., Ph.D. The members of Sangui AG's supervisory board are Professor Joachim Lutz, M.D., Dora Malek, attorney-at-law, Oswald Burkhard, M.D., Ph.D., Edgar Fritschi, Ph.D. and Doris Barnikol-Keuten, Ph.D.

Gluko AG was established and organized under the laws of Germany in Mainz, Germany, on July 15, 1996. Gluko AG is developing a long-term implantable glucose sensor, by-products thereof, and sensors. The officer of Gluko AG is Professor Wolfgang Barnikol, M.D., Ph.D. The members of Gluko AG's supervisory board are Dora Malek, attorney-at-law, Oswald Burkhard, M.D., Ph.D., Professor Joachim Lutz, M.D., Edgar Fritschi, Ph.D. and Doris Barnikol-Keuten, Ph.D.

Since April 1998, the facilities of Sangui AG and Gluko AG, about 800 square meters, are located on the premises of the Forschungs- und Entwickungszentrum of the University of Witten/Herdecke, Witten, Germany.

Sangui Singapore was incorporated in Singapore on May 15, 1999. Sangui Singapore is the Asia regional office for the Company and is engaged in the business of carrying out research and development projects as well as animal experiments in conjunction with the German subsidiaries. The premises of Sangui Singapore, about 350 square meters, are located in the Science Park II, Gemini Building, Singapore.

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On March 30, 2000, the Company acquired all the outstanding common stock of Felnam Investments, Inc. (Felnam). The transaction was funded through the issuance of 100,000 shares of the Company's stock valued at $0 per share due to the Company treating the transaction as a recapitalization of the Company. In conjunction with the transaction, the Company incurred approximately $ 180,000 of transaction costs which were charged to operations.

To date, neither SGBI nor any of its subsidiaries has had profitable operations. The Company has never been profitable and, through June 30, 2002, the Company's accumulated deficit exceeded $ 16.1 million. The Company expects to continue to incur substantial and increasing losses over at least the next several years as it expands its research and development efforts, testing activities and manufacturing operations. All of the Company's potential products are in development. The Company will need to obtain substantial additional capital to fulfil its business plan.

The Company has adopted a program aimed at cost reductions and at refocusing the Company's funds to accelerate time to market for its most promising and mature products. No assurance can be given that the Company's program will be successful.

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BUSINESS OF THE COMPANY

The Company's mission is the development of novel proprietary products. The Company aims at marketing and selling all or some of these products through partnerships with industry partners.

The special focus of Sangui AG is on developing oxygen carriers capable of support of oxygen transport in humans in cases of acute and chronic lack of

oxygen due to arterial occlusion, anemia or blood loss due to surgery, accident, or other causes. The Company is engaged in the development and commercialization of such artificial oxygen carriers by reproducibly synthesizing polymers out of native haemoglobin of defined molecular sizes. The Company also develops oxygen carriers for external application in the medical and cosmetic fields in the form of jellies and emulsions for the regeneration of the skin.

The second important project pertains to Gluko AG's long term implantable glucose sensor for day and night monitoring of a patient's glucose level. The project is designed to obviate the need for persistent blood sampling and to provide required information on a continuous basis, which could minimize the harmful effects of peaks and troughs in the patient's blood sugar level. A short term insertable glucose sensor is also in development.

SBT has completed the development of nine in vitro diagnostics kits. Five products have been cleared for marketing by the United States Food and Drug Administration ("FDA"). The other four kits were sold overseas with Certificate of Exportability from the FDA. In December 2000, Axis/Shields ASA, a Norway corporation (Axis), filed a lawsuit against Sangui USA alleging that Sangui USA's Carbohydrate-Deficient Transferrin ("CDT") test kit, which is used to detect chronic alcohol abuse, constituted an infringement of patent rights owned by Axis. In March 2001, a settlement was reached and Sangui USA agreed to cease manufacture and sale of the CDT test kit. Sangui USA subsequently designed a new test kit which was then manufactured and sold. In December 2001, Axis filed another lawsuit in the U.S. District Court for the Central District of California against Sangui USA alleging that the new test kit also infringed on Axis' patent rights. Sangui USA filed an answer denying the claims of Axis and counterclaimed against Axis for a declaratory judgment of invalidity of the patent of Axis and for antitrust violations. Because of the substantial funds required to defend itself against the lawsuit filed by Axis, despite of a high probability of not being found infringing the patent held by Axis, the Company decided to offer its CDT business for sale to Axis. In July, 2002, an agreement was entered with Axis and the Company, according to which the Company agreed to cease to sell CDT kits among other intangible information for a consideration of U.S. $100,000 paid by Axis to the Company. As a result of this settlement, Axis caused a dismissal with prejudice of all its claims, and the Company caused a dismissal with prejudice of the Company's counterclaim. In summary, this lawsuit from Axis has been resolved. Further, with the loss of sales from its CDT business, which was expected to negatively impact its immunodiagnostics business, Sangui also decided to discontinue its small in vitro immunodiagnostic operations in the United States by the end of September 2002, so that it can focus its resources on the product development projects in Germany.

ARTIFICIAL OXYGEN CARRIER

Sangui develops several products based on polymers of purified natural porcine haemoglobin with oxygen carrying abilities similar to native haemoglobin. These are (1) oxygen carrying blood additives and (2) oxygen carrying blood volume substitutes.

In December 1997 the Company decided that porcine haemoglobin should be used as basic material for its artificial oxygen carriers. In March 1999 the Company came to the fundamental decision as to which haemoglobin hyperpolymer will go into preclinical investigation and that glutaraldehyde will be taken as cross linker and the polymer haemoglobin is chemically masked to prevent protein interaction in blood plasma. The fine adjustment of the formula of the artificial oxygen carriers - optimized for laboratory scale production - was finalized in Summer 2000.

The experiments completed in the Company's laboratories demonstrated that it is possible to polymerize haemoglobins isolated from porcine blood resulting in

huge soluble molecules, so-called hyperpolymers. In August 2000 the Company finalized its work on the pharmaceutical formulation of the oxygen carrier for laboratory scale. In February 2001 a pilot production in a laboratory scale was carried out in the Company's clean room. At present the Company is working on the upscale process for preparation of a large amount of oxygen carrier for preclinical and clinical trials.

OXYGEN CARRYING BLOOD ADDITIVE AND BLOOD VOLUME SUBSTITUTE

The need for oxygen carrying blood volume substitutes is growing because of: (i) reduced willingness of the population to give blood; and (ii) contamination of donors with HIV and hepatitis viruses. The worldwide market for stored blood is estimated to total about US $ 5 billion per year.

In cases where the native blood oxygen carrier system does not deliver enough oxygen to tissues of the heart, brain, extremities, kidneys and other organs or to cancer tumors, a critical clinical situation arises requiring another oxygen carrier strategy. In these cases, the patients do not have a blood volume deficiency, but suffer from an oxygen deficiency. To compensate for this oxygen deficiency, an artificial oxygen carrier must be added to the circulatory system. Such an additive must not have any influence on the oncotic pressure, i.e., it must have a negligible oncotic pressure as compared to plasma, which is about 35hPa. Sangui AG has polymerized various hyperpolymers in small quantities, as described above, with characteristics such as sufficiently low viscosity and a negligible oncotic pressure at the desired concentration in blood plasma.

The management of Sangui AG believes that the additive feature of the oxygen carrier under development, could potentially address a market possibly equal or even larger than that of blood volume substitutes. It has been reported that the oxygenation of solid tumors makes them more sensitive to radio and chemo therapy. Management believes that its blood additive technologies, for which there are no known competitive products, could be very attractive in the medical field.
According to regulatory requirements, all drugs have to pass through preclinical and clinical trials before approval (e.g. FDA approval: Federal drug administration) and launching to the market. Management of the Company believes that the European and FDA approval process will take at least several years.

OXYGEN CARRIERS FOR REGENERATION OF THE SKIN

The healthy skin is supplied with oxygen, both through the supply from inside and also through diffusion from outside. Lack of oxygen will cause degenerative alterations of various extent, ranging from premature aging to surface damage and open wounds. The cause for the lack of oxygen may be the normal aging process, but also burns or radiation. Impairment of the blood flow, for example caused by diabetes mellitus, can also lead to insufficient oxygen supply and resulting skin damage.

The new haemoglobin-based preparations under development by Sangui AG have been designed to contribute to supporting the regeneration of the skin by improving its oxygen supply. In addition to the therapy, these preparations are also intended for purposes of prevention, among others for the improved oxygen supply of the skin in the course of a radiation therapy or in the course of an acne treatment. The key product the Company currently focuses on is an anti-aging

application for the cosmetics market.

The Company had, in fiscal year 2002, finalized the development of an external, cosmetic application of its oxygen carrier. The Company has established contact with a German cosmetics vendor and is planning and preparing to jointly introduce this application as a cosmetic anti-aging product in the German market in fiscal year 2003.

GLUCOSE SENSOR

Over 5% of the inhabitants of the industrialized countries suffer from diabetes. About one tenth of these patients are afflicted with diabetes mellitus Type 1, which means they are dependent for life on the parenteral application of insulin. In addition, about 10 % of the Type II diabetics also get insulin dependent during the course of their illness. Type II diabetics are patients, where the body either fails to produce sufficient insulin or the cells do not respond to insulin.

The central problem of the diabetic is to properly and constantly measure the blood glucose level, ideally 24 hours a day, and thereby to know how to adjust, quantitatively, the glucose level in the tissues by administering insulin, for example, in order to stabilize the blood sugar level at its normal value of 1 g/L.

A glucose level which remains too low over long periods of time results in damage to organs with high metabolism, such as the brain. Brain cells which die cannot be replaced. If a glucose level remains too high, the typical long term sequelae of Type I diabetes occur, such as peripheral circulatory deficiencies resulting in the need for amputation of extremities and detachment of the retina resulting in blindness.

Accordingly, it should be of substantial advantage to be able to constantly and automatically monitor the blood sugar level of the patient. To do so, the glucose monitor must stay at or in the patient for a long period of time making the procedure cost effective and efficacious. Problems of infection, comfort, and the risk of detachment should all favor a permanently implantable sensor.

The glucose sensor being developed by the Company is based on physical methods for the determination of the diabetic's glucose level. Three physical measurement systems have been developed for the glucose detection system: a polarimetric, an infrared system, and a refractometric system. Two of these measuring systems are going to be used in the glucose sensor jointly, but independently to increase the specificity and accuracy of the glucose determination. The sensor communicates via radio signals with a control panel/modem outside the body and supplies the patient with the necessary information. In combination with a dosage pump for insulin (internal or external) an artificial beta-cell for insulin dependent diabetics could be realized. Until now, an implantable glucose sensor has been the missing link in the development of a beta cell for the automatic dispensation of insulin.

Gluko AG presented a first model of a long-term implantable glucose sensor at the Duesseldorf MEDICA Show in November 1998. The Company demonstrated an improved model comprised of a miniaturized optical system (which includes a light source, diodes, light detectors and an integrated sensor electronics which has not been finally miniaturized yet) at the Duesseldorf MEDICA Show in November 1999. In August 2000, the Company stated a further development of its concept for the long term implantable glucose sensor which offers the Company an additional possibility to also develop an insertable sensor for the initial clinical adjustment of diabetics. In fiscal year 2002 Gluko AG had STEAG

Microparts GmbH of Dortmund, Germany, carried out a development project aimed at miniaturizing the sensor in silicon hybrid technology and prove the possibility of creating and producing such devices in industrial quantities. Phase 1 of this project was successfully accomplished in April, 2002.

German insurance companies have estimated the possible savings for a patient with Type I diabetes to range from between approximately $6,000 to $8,000 per annum. Based on a unit price of about $7,000, the market potential for the developed countries could amount to several billion dollars per year.

According to regulatory requirements, all medical devices have to pass through clinical trials before approval (e.g. FDA approval) and launching to the market. Unlike the Company's oxygen carriers that are classified under pharmaceutical products, glucose sensors are classified as medical devices and have a different approval process. The clinical trials for the glucose sensor do not have different phases and entails doing studies immediately with diabetic patients.

Management of the Company believes that European and FDA approval process will take at least several years for the implantable glucose sensor.

PUBLIC GRANTS

Sangui AG and Gluko AG have received grants from the government of the German state of Northrhine-Westphalia supporting their respective development projects. These grants are designed to cover 40% of ongoing development costs and require the Company's economic ability to cover 60% of the project costs on its own. The grant for Sangui AG originally amounted to $2.1 million and the grant for Gluko AG originally amounted to $2.3 million.

Based on research and development expenditures and capital expenditures through June 30, 2000, the Company had qualified for approximately $818,000 of the grants. In fiscal 2001, the Company recorded approximately $348,000 and $76,000 of research and development expenditures and capital expenditures, respectively. In fiscal 2002, the Company recorded approximately $379,000 and $62,000 of research and development expenditures and capital expenditures, respectively. The grants received are primarily recorded as a reduction of research and development costs, with a smaller amount recorded as reduction of the historical cost of certain property and equipment.

An additional condition of the grant is that if the product is developed before 2003, it must be produced in the German state of Northrhine-Westphalia.

PATENTS AND PROPRIETARY RIGHTS

The Company has the policy of seeking patents covering its research and development and all modifications and improvements thereto. The German subsidiaries Sangui AG and Gluko AG have been granted 18 patents 12 of which cover Germany, 3 the USA and one each Germany plus the USA, Germany plus Singapore, and several European countries, respectively. Furthermore, the subsidiaries have applied for 24 patents most of which have been filed in Germany, the USA and as an international patent application with the European Patent Office, respectively. Four patent applications are related to progress made in the final development stages of the external application of the artificial oxygen carriers.

MARKETING AND DISTRIBUTION

Other than the immunodiagnostic products, the Company has not yet manufactured any of its products in commercial quantities.

The Company has limited experience in sales and marketing of products. It is, therefore, dependent on attracting industrial, marketing and distribution partners in order to succeed in selling its products in the respective markets.

GOVERNMENT REGULATION

SGBI and its subsidiaries are, and will continue to be, subject to governmental regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, and other similar laws of general application, as to all of which SGBI believes it and its subsidiaries are in material compliance.

Because of the nature of the operations of SGBI and its subsidiaries and the use of hazardous substances and their ongoing research and development and manufacturing activities, SGBI and its subsidiaries are subject to stringent federal, state and local laws, rules, regulations and policies governing the use, generation, manufacturing, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. Although it is believed that SGBI and its subsidiaries are in material compliance with all applicable governmental and environmental laws, rules, regulations and policies, there can be no assurance that the business, financial condition, and results of operations of SGBI and its subsidiaries will not be materially adversely affected by current or future environmental laws, rules, regulations and policies, or by liability occurring because of any past or future releases or discharges of materials that could be hazardous.

Additionally, the clinical testing, manufacture, promotion and sale of a significant majority of the products and technologies of the subsidiaries, and to a much less extent of SGBI, if those products and technologies are to be offered and sold in the United States, are subject to extensive regulation by numerous governmental authorities in the United States, principally the FDA, and corresponding state regulatory agencies. Additionally, to the extent those products and technologies are to be offered and sold in markets other than the United States, the clinical testing, manufacture, promotion and sale of those products and technologies will be subject to similar regulation by corresponding foreign regulatory agencies. In general, the regulatory framework for biological health care products is more rigorous than for non-biological health care products. Generally, biological health care products must be shown to be safe, pure, potent and effective. There are numerous state and federal statutes and regulations that govern or influence the testing, manufacture, safety, effectiveness, labeling, storage, record keeping, approval, advertising, distribution and promotion of biological health care products. Non-compliance with applicable requirements can result in, among other things, fines, injunctions, seizures of products, total or partial suspension of product marketing, failure of the government to grant pre-market approval, withdrawal of marketing approvals, product recall and criminal prosecution.

COMPETITION

The market for the products and technologies of the Company is highly competitive, and SGBI expects competition to increase

OXYGEN CARRYING BLOOD ADDITIVE

In the business of blood additive, Sangui AG is not aware of any existing or potential competitors.

OXYGEN CARRYING BLOOD VOLUME SUBSTITUTE

In the business of blood volume substitute, there are at least six large companies that have obtained substantial capitalization either through equity funding or through acquisition by large corporations, such as Baxter International acquiring Somatogen. Other future competitors include Hemosol Inc. in Canada, Northfield, Alliance Pharmaceutical and Biopure Corporation. To be competitive, the Company is attempting to develop well-characterized and differentiated products in unique formulations which could capture some of the market as a new generation of oxygen carrier/additives to address the markets of artificial blood volume substitutes as well as the potential new market of therapeutics for oxygen deficiencies.

GLUCOSE SENSOR

The Company is not aware of any glucose sensing implants currently available. In the last few years different approaches have been chosen by companies to find alternative ways to determine the blood glucose level.

The sensor under development by Synthetic Blood International, Kettering, Ohio, USA is based on an enzymatic glucose determination. Cygnus Inc., Redwood City, California, USA, for example, has been developing a device which collects interstitial fluid at the diabetic's wrist by use of electrical energy. They have received FDA approval for this technology in 2001.

In 2001, Medtronic, Inc acquired MiniMed Inc. of Sylmar, Ca, and Medical Research Group, LLC. They have been merged to form Medtronic MiniMed in 2001. This company pursues the developments previously started by both predecessor companies. Their implantable long term glucose sensor has undergone clinical test for 14 months now and tests are underway as to whether it can be used jointly with the insulin pump developed by MiniMed. MedTronic Minimed's insertable glucose sensor is being used in clinics in the US and abroad already.

RISK FACTORS

An investment in SGBI involves significant risks associated with economic, business, market and financial factors and developments which may have adverse impacts on the Company's future performance, including significant risks not normally associated with investing in equity securities of United States companies including the following:

LIMITED OPERATING HISTORY OF THE COMPANY; LOSSES ARE EXPECTED TO CONTINUE

The Company is a relatively new entity with a limited operating history upon which a significant evaluation of the Company's prospects can be made. The prospects of SGBI must be considered keeping in mind the risks, expenses, and difficulties frequently encountered in the establishment of a new business in an ever changing industry and the research, development, manufacture, distribution, and commercialization of esoteric medical technology, procedures, and products and related technologies. There can be no assurance that unanticipated technical or other problems will not occur which would result in material delays in product commercialization or that the efforts of SGBI will result in successful product commercialization. SGBI has been operating at a loss and expects its costs to increase as its development efforts and testing activities accelerate. It is currently unknown when profitable operations might be achieved.

FUTURE CAPITAL NEEDS AND UNCERTAINTY OF ADDITIONAL FUNDING

Although management believes that the Company's cash position should be sufficient to cover its financing for at least another fiscal year, substantial funds will be required to effect the Company's development plans. The Company will require additional cash for: (i) payment of increased operating expenses; (ii) payment of development expenses; and (iii) further implementation of those business strategies. Such additional capital may be raised by additional public or private financing, as well as borrowings and other resources. To the extent that additional capital is received by SGBI by the sale of equity or equity-related securities, the issuance of such securities will result in dilution to the Company's shareholders. There can be no assurance that additional funding will be available on favorable terms, if at all. SGBI may also seek arrangements with collaborative partners in order to gain additional funding, marketing assistance or other contributions. However, such arrangements may require SGBI to relinquish rights or reduce its interests in certain of its the technologies or product candidates. The inability of the Company to access the capital markets or obtain acceptable financing could have a material adverse effect on the results of operations and financial condition of the Company. Moreover, if funds are not available from any sources, the Company may not be able to continue to operate.

DEPENDENCE ON KEY PERSONNEL

The future success of the Company will depend on the service of its key scientific personnel in its pharmaceutical, chemistry and biochemistry departments and, when appropriate, computer hardware and software engineering, electrical and mechanical engineering and management personnel and, additionally, its ability to identify, hire and retain additional qualified personnel. There is intense competition for qualified personnel in the areas of the activities of SGBI and there can be no assurance that SGBI will be able to attract and retain personnel necessary for the development of the business of SGBI. Because of the intense competition, there can be no assurance that SGBI will be successful in adding technical personnel if needed to satisfy its staffing requirements. Failure to attract and retain key personnel could have a material adverse effect on SGBI.

SGBI and its subsidiaries are dependent on the efforts and abilities of their senior management. The loss of various members from management could have a material adverse effect on the business and prospects of SGBI. In particular, SGBI will depend on the service of Professor Wolfgang Barnikol because he is instrumental in his expertise in the development of the oxygen carrier and glucose sensor products. There can be no assurance that upon the departure of key personnel from the service of SGBI or its subsidiaries that suitable replacement personnel will be available.

LICENSES AND CONSENTS

The utilization or other exploitation of the products and services developed by SGBI or its subsidiaries may require SGBI or its subsidiaries to obtain licenses or consents from the producers or other holders of copyrights or other similar rights relating to the products and technologies of SGBI or its subsidiaries. In the event SGBI or its subsidiaries are unable, if so required, to obtain any necessary license or consent on terms which the management of SGBI or its subsidiaries consider to be reasonable, SGBI or its subsidiaries may be required to cease developing, utilizing, or exploiting products or technologies affected by those copyrights or similar rights. In the event SGBI or its subsidiaries is

challenged by the holders of such copyrights or other similar rights, there can be no assurance that SGBI or its subsidiaries will have the financial or other resources to defend any resulting legal action, which could be significant.

TECHNOLOGICAL FACTORS

The market for the products and technology developed by SGBI is characterized by rapidly changing technology which could result in product obsolescence or short product life cycles. Similarly, the industry is characterized by continuous development and introduction of new products and technology to replace outdated products and technology. Accordingly, the ability of SGBI to compete will be dependent upon the ability of SGBI to provide new and innovative products and technology. There can be no assurance that competitors will not develop technologies or products that render the proposed products and technology of SGBI obsolete or less marketable. SGBI will be required to adapt to technological changes in the industry and develop products and technology to satisfy evolving industry or customer requirements, any of which could require the expenditure of significant funds and resources, and SGBI does not have a source or commitment for any such funds and resources. Development efforts relating to the technological aspects of the various products and technologies to be developed by SGBI are not substantially completed. Accordingly, SGBI will continue to refine and improve those products and technologies. Continued refinement and improvement efforts remain subject to the risks inherent in new product development, including unanticipated technical or other problems which could result in material delays in product commercialization or significantly increased costs. In addition, there can be no assurance that those products and technologies will prove to be sufficiently reliable or durable in wide spread commercial application. The products or technologies sought to be developed by SGBI will be the result of significant efforts which may result in errors that become apparent subsequent to widespread commercial utilization. In such event, SGBI would be required to modify such products or technologies and continue with additional research and development, which could delay the plans of SGBI and cause SGBI to incur additional cost.

EARLY STAGE OF PRODUCT DEVELOPMENT; LACK OF COMMERCIAL PRODUCTS; NO ASSURANCE OF SUCCESSFUL PRODUCT DEVELOPMENT

The Company's primary efforts are devoted to the development of proprietary products involving artificial oxygen carriers and glucose sensors.

The potential products of SGBI will require additional pre-clinical and clinical development, regulatory approval and additional investment prior to commercialization, either by SGBI independently or by others through collaborative arrangements. Potential products that appear to be promising at early stages of development may be ineffective or be shown to cause harmful side effects during pre-clinical testing or clinical trials, fail to receive necessary regulatory approvals, be difficult to manufacture, be uneconomical to produce, fail to achieve market acceptance or be precluded from commercialization by proprietary rights of others. There can be no assurance that any potential products will be successfully developed, prove to be safe and efficacious in clinical trials, satisfy applicable regulatory standards, be capable of being produced in commercial quantities at acceptable costs or achieve commercial acceptance.

All products and technologies under development by SGBI will require significant commitment of personnel and financial resources. Several products will require extensive evaluation and pre-marketing clearance by the FDA and comparable agencies in other countries prior to commercial sale. SGBI regularly

re-evaluates its product development efforts. On the basis of these re-evaluations, SGBI may abandon development efforts for particular products. No assurance can be given that any product or technology under development will result in the successful introduction of any new product. The failure to introduce new products into the market on a timely basis could have a material adverse effect on the business, financial conditions or results of operation of SGBI.

The technologies of SGBI have not yet been tested in humans and there can be no assurance that human testing of potential products based on such technologies will be permitted by regulatory authorities or, even if human testing is permitted, that products based on such technologies will be shown to be safe or efficacious. Potential products based on the technologies of SGBI are at an early stage of testing and there can be no assurance that such products will be shown to be safe or effective.

MARKET ACCEPTANCE

There can be no assurance that the products and technologies of SGBI will achieve a significant degree of market acceptance, and that acceptance, if achieved, will be sustained for any significant period or that product life cycles will be sufficient (or substitute products developed) to permit SGBI to achieve or sustain market acceptance which could have a material adverse effect on the business, financial condition, and results of operations of SGBI.

GOVERNMENT REGULATION; NO ASSURANCE OF PRODUCT APPROVAL

The clinical testing, manufacture, promotion, and sale of biotechnology and pharmaceutical products are subject to extensive regulation by numerous governmental authorities in the United States, principally the FDA, and corresponding state and foreign regulatory agencies prior to the introduction of those products. Management of SGBI believes that many of the potential products of SGBI will be regulated by the FDA under current regulations of the FDA. Other federal and state statutes and regulations may govern or influence the testing, manufacture, safety, effectiveness, labeling, storage, record-keeping, approval, advertising, distribution and promotion of certain products developed by SGBI. Noncompliance with applicable requirements can result in, among other things, fines, injunctions, seizure of products, suspensions of regulatory approvals, product recalls, operating restrictions, re-labeling costs, delays in sales, cessation of manufacture of products, the imposition of civil or criminal sanctions, total or partial suspension of product marketing, failure of the government to grant pre-market approval, withdrawal of marketing approvals and criminal prosecution.

The FDA's requirements include lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time-consuming procedures. In particular, human therapeutic products are subject to rigorous pre-clinical and clinical testing and other approval requirements by the FDA and agencies in Germany, Singapore and other countries. Although the time required for completing such testing and obtaining such approvals is uncertain, satisfaction of these requirements typically takes a number of years and varies substantially based on the type, complexity and novelty of each product. Neither SGBI nor its subsidiaries can accurately predict when product applications or submissions for FDA or other regulatory review may be submitted. Management of the Company has no experience in obtaining regulatory clearance on these types of products. The lengthy process of obtaining regulatory approval and ensuring compliance with applicable law requires the expenditure of substantial resources. Any delays or failure by SGBI or its subsidiaries to obtain regulatory approval and ensure compliance with appropriate standards could adversely affect the commercialization of such products, the ability of SGBI to earn product or royalty revenue, and its results of operations, liquidity and capital resources.

Pre-clinical testing is generally conducted in laboratory animals to evaluate the potential safety and effectiveness of a drug. The results of these studies are submitted to the FDA, which must be approved before clinical trials can begin. Typically, clinical evaluation involves a time consuming and costly three-phase process. In Phase I, clinical trials are conducted with a small number of subjects to determine the early safety profile, the pattern of drug distribution and metabolism. In Phase II, clinical trials are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety. In Phase III, large-scale, multi-center, comparative trials are conducted with patients afflicted with a target disease in order to provide enough data to demonstrate the efficacy and safety required by the FDA. The FDA closely monitors the progress of each of the three phases of clinical trials and may, at its discretion, re-evaluate, alter, suspend or terminate the testing based upon the data which have been accumulated to that point and its assessment of the risk/benefit ratio to the patient.

Clinical trials and the marketing and manufacturing of products are subject to the rigorous testing and approval processes of the FDA and foreign regulatory authorities. The process of obtaining FDA and other required regulatory approvals is lengthy and expensive. There can be no assurance that SGBI will be able to obtain the necessary approvals to conduct clinical trials for the manufacturing and marketing of products, that all necessary clearances will be granted to SGBI or their licensors for future products on a timely basis, or at all, or that FDA review or other actions will not involve delays adversely affecting the marketing and sale of the products or SGBI. In addition, the testing and approval process with respect to certain new products which SGBI may seek to introduce is likely to take a substantial number of years and involve the expenditure of substantial resources. There can be no assurance that pharmaceutical products currently in development will be cleared for marketing by the FDA. Failure to obtain any necessary approvals or failure to comply with applicable regulatory requirements could have a material adverse effect on the business, financial condition or results of operations of SGBI. Further, future government regulation could prevent or delay regulatory approval of the products of SGBI.

There can be no assurance as to the length of the clinical trial period or the number of patients the FDA will require to be enrolled in the clinical trials in order to establish the safety and effectiveness of the products of SGBI. SGBI may encounter significant delays or excessive costs in their efforts to secure necessary approvals, and regulatory requirements are evolving and uncertain. Future United States or foreign legislative or administrative acts could also prevent or delay regulatory approval of the products of SGBI. If commercial regulatory approvals are obtained, they may include significant limitations on the indicated uses for which a product may be marketed. In addition, a marketed product is subject to continual FDA review. Later discovery of previously unknown problems or the failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product, or even the removal of the product from the market, as well as possible civil or criminal sanctions. Failure of SGBI to obtain marketing approval for any of their products under development on a timely basis, or FDA withdrawal of marketing approval once obtained, could have a material adverse effect on the business, financial condition and results of operations of SGBI. Any party that manufactures therapeutic or pharmaceutical products is required to adhere to applicable standards for manufacturing practices and to engage in extensive record keeping and reporting. Any manufacturing facilities of SGBI are subject to periodic inspection by state and federal agencies, including the FDA and comparable agencies in foreign countries.

The effect of governmental regulation may be to delay the marketing of new

products for a considerable period of time, to impose costly requirements on the activities of SGBI or to provide a competitive advantage to other companies that compete with SGBI. There can be no assurance that FDA or other regulatory approval for any products developed by SGBI will be granted on a timely basis, if at all or, if granted, that compliance with regulatory standards will be maintained. Adverse clinical results by SGBI could have a negative impact on the regulatory process and timing. A delay in obtaining, or failure to obtain, regulatory approvals could preclude or adversely affect the marketing of products and the liquidity and capital resources of SGBI. The extent of potentially adverse governmental regulation that might result from future legislation or administrative action cannot be predicted.

SGBI will be subject to regulatory authorities in Germany and other countries governing clinical trials and product sales. Even if FDA approval is obtained, approval of a product by the comparable regulatory authorities of other countries must be obtained prior to the commencement of marketing the product in those countries. The approval process varies from country to country and the time required may be longer or shorter than that required for FDA approval. The foreign regulatory approval process includes all of the risks associated with obtaining FDA approval set forth above, and approval by the FDA does not ensure approval by the health authorities of any other country. There can be no assurance that any foreign regulatory agency will approve any product submitted for review by SGBI.

SGBI is subject to various federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances, including radioactive compounds and infectious disease agents, used in connection with its research work. The extent and character of governmental regulation that might result from future legislation or administrative action cannot be accurately predicted.

INTENSE COMPETITION

Competition in the biotechnology and pharmaceutical industries is intense and is expected to increase. SGBI and its subsidiaries compete directly with the research departments of biotechnology and pharmaceutical companies, chemical companies and, possibly, joint collaborations between chemical companies and research and academic institutions. Management of SGBI is aware that other companies and businesses have developed and are in the process of developing technologies and products which may be competitive with the products and technologies developed and offered by SGBI. The biotechnology and pharmaceutical industries continue to undergo rapid change. There can be no assurance that competitors have not or will not succeed in developing technologies and products that are more effective than any which have been or are being developed by SGBI or which would render the technology and products of SGBI obsolete. Many of the competitors of SGBI have substantially greater experience, financial and technical resources and production, marketing and development capabilities than SGBI. Accordingly, certain of those competitors may succeed in obtaining regulatory approval for products more rapidly or effectively than SGBI.

UNCERTAINTIES ASSOCIATED WITH PATENTS AND PROPRIETARY RIGHTS

The success of SGBI and its subsidiaries may depend in part on their ability to obtain patents for their technologies and products, if any, resulting from the application of such technologies, to defend patents once obtained and to maintain trade secrets, both in the United States and in foreign countries.

The success of SGBI will also depend upon avoiding the infringement of patents issued to competitors. There can be no assurance that SGBI will be able to obtain patent protection for products based upon the technology of SGBI. Moreover, there can be no assurance that any patents issued to SGBI or its subsidiaries will not be challenged, invalidated or circumvented or that the rights granted there under will provide competitive advantages to SGBI. Litigation, which could result in substantial cost to SGBI, may be necessary to enforce the patent and license rights of SGBI or to determine the scope and validity of its and others' proprietary rights.

Due to the length of time and expense associated with bringing new products through development and the length of time required for the governmental approval process, the biotechnology and pharmaceutical industries have traditionally placed considerable importance on obtaining and maintaining patent and trade secret protection for significant new technologies, products and processes. The enforceability of patents issued to biotechnology and pharmaceutical firms can be highly uncertain. Federal court decisions establishing legal standards for determining the validity and scope of patents in the field are in transition. In addition, there can be no assurance that patents will be issued or, if issued, any such patents will afford SGBI protection from infringing patents granted to others.

A number of biotechnology and pharmaceutical companies, and research and academic institutions, have developed technologies, filed patent applications or received patents on various technologies that may be related to the business of Sangui and its Subsidiaries. Some of these technologies, applications or patents may conflict with the technologies of SGBI. Such conflicts could also limit the scope of the patents, if any, that SGBI or its subsidiaries may be able to obtain or result in the denial of the patent applications of SGBI.

In December, 2001, the Company's only competitor in the CDT business, Axis/Shields, a Norwegian Company purchased by Shields Diagnostics of United Kingdom, filed a lawsuit against the Company for alleged patent infringement. The Company reached a settlement with Axis/Shields in which the Company sold the Company's CDT business to Axis/Shield.

Many of the competitors of SGBI have, or are affiliated with companies having, substantially greater resources than SGBI, and such competitors may be able to sustain the costs of complex patent litigation to a greater degree and for longer periods of time than SGBI. Uncertainties resulting from the initiation and continuation of any patent or related litigation could have a material adverse effect on the ability of SGBI to compete in the marketplace pending resolution of the disputed matters. Moreover, an adverse outcome could subject SGBI to significant liabilities to third parties and require SGBI to license disputed rights from third parties or cease using the technology. In the event that third parties have or obtain rights to intellectual property or technology used or needed by SGBI, there can be no assurance that any licenses would be available to SGBI or would be available on terms reasonably acceptable to SGBI.

SGBI may rely on certain proprietary technologies, trade secrets, and know-how that are not patentable. Although SGBI has taken steps to protect their unpatented trade secrets and technology, in part through the use of confidentiality agreements with their employees, consultants and certain of its contractors, there can be no assurance that: (i) these agreements will not be breached; (ii) SGBI would have adequate remedies for any breach; or (iii) the proprietary trade secrets and know-how of SGBI will not otherwise become known or be independently developed or discovered by competitors.

RISK OF PRODUCT LIABILITY; POTENTIAL UNAVAILABILITY OF INSURANCE

The business of SGBI will expose it to potential product liability risks that are inherent in the testing, manufacturing and marketing of human pharmaceutical and therapeutic products. SGBI does not currently have product liability insurance, and there can be no assurance that SGBI will be able to obtain or maintain such insurance on acceptable terms or, if obtained, that such insurance will be adequate to cover potential product liability claims or that a loss of insurance coverage or the assertion of a product liability claim or claims would not materially adversely affect the business, financial condition and results of operations of SGBI. SGBI faces an inherent business risk of exposure to product liability and other claims in the event that the development or use of its technology or products is alleged to have resulted in adverse effects. Such risk exists even with respect to those products that are manufactured in licensed and regulated facilities or that otherwise possess regulatory approval for commercial sale. There can be no assurance that SGBI will avoid significant product liability exposure. While SGBI has taken, and will continue to take, what it believes are appropriate precautions, there can be no assurance that it will avoid significant liability exposure. An inability to obtain product liability insurance at acceptable cost or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products developed by SGBI. A product liability claim could have a material adverse effect on the business, financial condition and results of operations of SGBI.

UNCERTAINTIES RELATING TO PRICING AND THIRD-PARTY REIMBURSEMENT

The operating results of SGBI may depend in part on the availability of adequate reimbursement for the products of SGBI from third-party payers, such as government entities, private health insurers and managed care organizations. Third-party payers are increasingly seeking to negotiate the pricing of medical services and products. In some cases, third-party payers will pay or reimburse a user or supplier of a product for only a portion of the purchase price of the product. In the case of the products of SGBI, payment or reimbursement by third-party payers of only a portion of the cost of such products could make such products less attractive, from a cost perspective, to users, suppliers and physicians. There can be no assurance that reimbursement, if available, will be adequate. Moreover, certain of the products of SGBI may not be of the type generally eligible for third-party reimbursement. If adequate reimbursement levels are not provided by government entities or other third-party payers for the products of SGBI, the business, financial condition and results of operations of SGBI would be materially adversely affected. A number of legislative and regulatory proposals aimed at changing the nation's health care system have been proposed in recent years. While SGBI cannot predict whether any such proposals will be adopted, or the effect that any such proposal may have on its business, such proposals, if enacted, could have a material adverse effect on the business, financial condition or results of operations of SGBI.

RISK OF PRODUCT RECALL; PRODUCT RETURNS

Product recalls may be issued at the discretion of SGBI, the FDA or other government agencies having regulatory authority for product sales and may occur due to disputed labeling claims, manufacturing issues, quality defects or other reasons. No assurance can be given that product recalls will not occur in the future. Any product recall could materially adversely affect the business, financial condition or results of operations of SGBI. There can be no assurance that future recalls or returns would not have a material adverse effect upon the business, financial condition and results of operations of SGBI.

RISKS OF INTERNATIONAL SALES AND OPERATIONS

SGBI's results of operations are subject to fluctuations in the value of the Euro against the U.S. Dollar due to SGBI's German subsidiaries. Although management of SGBI will monitor exposure to currency fluctuations, there can be no assurance that exchange rate fluctuations will not have a material adverse effect on the results of operations or financial condition of SGBI. In the future, SGBI could be required to sell its products in other currencies, which would make the management of currency fluctuations more difficult and expose SGBI to greater risks in this regard.

The products of SGBI will be subject to numerous foreign government standards and regulations that are continually being amended. Although SGBI will endeavor to satisfy foreign technical and regulatory standards, there can be no assurance that the products of SGBI will comply with foreign government standards and regulations, or changes thereto, or that it will be cost effective for SGBI to redesign its products to comply with such standards or regulations. The inability of SGBI to design or redesign products to comply with foreign

standards could have a material adverse effect on SGBI's business, financial condition and results of operations.

LACK OF COMMERCIAL MANUFACTURING AND MARKETING EXPERIENCE

SGBI has not yet manufactured its products, in commercial quantities. Its subsidiaries will be engaged in manufacturing pharmaceutical products which will be subject to stringent regulatory requirements. No assurance can be given that its subsidiaries, on a timely basis, will be able to make the transition from manufacturing clinical trial quantities to commercial production quantities successfully or be able to arrange for contract manufacturing. SGBI and its subsidiaries have no experience in the sales, marketing and distribution of products. There can be no assurance that SGBI will be able to establish sales, marketing and distribution capabilities or make arrangements with collaborators, licensees or others to perform such activities or that such efforts will be successful.

The manufacture of the products of SGBI involves a number of steps and requires compliance with stringent quality control specifications imposed by SGBI and by the FDA. Moreover, SGBI's products can only be manufactured in a facility that has undergone a satisfactory inspection by the FDA. For these reasons, SGBI would not be able to quickly replace its manufacturing capacity if it were unable to use its manufacturing facilities as a result of a fire, natural disaster (including an earthquake), equipment failure or other difficulty, or if such facilities are deemed not in compliance with the FDA's Good Manufacturing Practice ("GMP") requirements and the non-compliance could not be rapidly rectified. The inability or reduced capacity of SGBI to manufacture their products would have a material adverse effect on SGBI's business and results of operations.

SGBI may enter into arrangements with contract manufacturing companies to expand its production capacities in order to satisfy requirements for its products, or to attempt to improve manufacturing efficiency. If SGBI chooses to contract for manufacturing services and encounters delays or difficulties in establishing relationships with manufacturers to produce, package and distribute its finished products, clinical trials, market introduction and subsequent sales of such products would be adversely affected. Further, contract manufacturers must also operate in compliance with the FDA's GMP requirements; failure to do so could result in, among other things, the disruption of product supplies.

HAZARDOUS MATERIALS AND ENVIRONMENTAL MATTERS

The research and development processes of SGBI involves the controlled storage, use and disposal of hazardous materials and radioactive compounds. SGBI is subject to federal, state and local laws and regulations governing the use, generation, manufacturing, storage, handling, and disposal of such materials and certain waste products. Although SGBI does not currently manufacture commercial quantities of its product candidates, it produces limited quantities of such products for its clinical trials and SGBI intends to manufacture commercial quantities of its products. Although SGBI believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by such laws and regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, SGBI could be held liable for any damages that result, and any such liability could exceed the resources of SGBI. There can be no assurance that SGBI will not be required to incur significant costs to comply with current or future environmental laws and regulations nor that the operations, business or assets of SGBI will not be materially or adversely affected by current or future environmental laws or regulations.

DEPENDENCE ON MAJOR CUSTOMERS

Since the Company sold its CDT business to Axis/Shield in July, 2002, there is no longer a customer base.

HUMAN RESOURCES

The Company considers its relations with its employees to be favorable. As of June 30, 2002 the Company and its subsidiaries had 30 fulltime employees of which 22 were involved in research and development and 8 were responsible for administrative matters. The Company had consulting arrangements with 6 individuals as of that date. Contracts with three employees are due to expire during the first quarter of fiscal 2003.

ITEM 2. PROPERTIES

The Company's US laboratory facility consists of approximately 3,360 square feet located in Santa Ana, California. Rent expense for the fiscal year ended June 30, 2002 was approximately $51,000 with a lease to expire in December, 2002.

The German subsidiaries, approximately 800 square meters, are based in the Forschungs- und Entwicklungszentrum of the University Witten/Herdecke, Germany. Rent expense for the fiscal year ended June 30, 2002 was approximately $100,000.

The Singaporean subsidiary, approximately 350 square meters, is based in the Science Park II, Gemini Building. Rent expense for the fiscal year ended June 30, 2002 was approximately $59,000.

ITEM 3. LEGAL PROCEEDINGS

On July 26, 2001, the Company filed a lawsuit in the United States District Court for the District of Colorado against Helmut Kappes, a director of the Company. In the lawsuit, the Company alleges that Mr. Kappes is engaged in conduct related to the Company's affairs that is fraudulent, dishonest and a gross abuse of his authority or discretion as a director and that his removal from the Company's Board of Directors would be in the best interest of the Company. Among other things, the Company alleges that Mr. Kappes caused the Company to enter into a contract with Axel Kleinkorres without adequate disclosure of Mr. Kappes's conflicts of interest and that the remuneration paid

to Mr. Kleinkorres was excessive. The Company also alleges that Mr. Kappes is engaged in an improper exchange offer campaign involving the Company's shares. The Court issued a Temporary Restraining Order suspending Mr. Kappes from the Board of Directors of the Company and restraining Mr. Kappes from pursuing the exchange offer. The Temporary Restraining Order has expired. The Company has filed a Motion for Preliminary Injunction. The Company seeks the permanent removal of Mr. Kappes from the Company's Board of Directors, an injunction against Mr. Kappes and his affiliates from exchanging the Company's shares for shares of an entity in which Mr. Kappes has a financial interest, compensatory damages in an amount to be determined and costs of the action. Mr. Kappes has filed an answer denying the Company's claims.

In September 2002, Mr. Kappes' wife, Kerstin Kappes, and Petra Schwab-Kutscher, the wife of Axel Kutscher, who is a former director of the Company and an associate of Mr. Kappes, commenced an action in the United States District Court for the District of Colorado against the Company and its attorneys for alleged wrongful refusal to permit Mrs. Kappes and Mrs. Kutscher to transfer the Company's stock. Mrs. Kappes and Mrs. Schwabe-Kutscher have sworn under oath as of August 15, 2002, that they currently have a buyer in Switzerland, who is ready, willing and able to purchase all of their Company's stock. Mrs. Kappes and Mrs. Kutscher also complained that the actions involving the stock transfer entitle them to a judgment that the stock may be freely transferable without restriction as well as money damages estimated by them to be not less than $583,600, and punitive damages, costs and attorney's fees in unspecified amounts. The Company believes that the action is without merit and intends to vigorously defend against this action. The Company has been granted an extension of time to respond to the complaint.

On August 10, 2002, Sieglinde Borchert, a former director of Sangui AG and Gluko AG, filed a lawsuit against the two German Corporations alleging that she is still member of the Board of Management of these Companies. The Motion is pending. However, the Company believes that the lawsuit has and will have no material affect to the results and/or activities of the Company.

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

No matter was submitted to a vote of the Company's security holders during the fourth quarter covered by this Report.

PART II

ITEM 5. MARKET FOR SGBI'S SECURITIES

SGBI's common stock is presently traded on the OTC Bulletin Board operated by Nasdaq under the symbol SGBI as well as on the OTC markets of the Berlin, Frankfurt and Hamburg stock exchanges in Germany.

The following table sets forth the high and low closing prices for shares of SGBI common stock for the fiscal periods noted, as reported by the National Daily Quotation Service and the Over-The-Counter Bulletin Board. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions.

CLOSING PRICES

YEAR	PERIOD	HIGH	LOW
2002	First quarter	$0.59	$0.28
	Second quarter	$0.43	$0.28
	Third quarter	$0.38	$0.25
	Fourth quarter	$0.65	$0.31
2001	First quarter	$2.72	$1.75
	Second quarter	$2.38	$1.11
	Third quarter	$1.45	$0.94
	Fourth quarter	$0.93	$0.48

In addition to freely tradeable shares, SGBI has numerous shares of common stock outstanding which could be sold pursuant to Rule 144. In general, under Rule 144, subject to the satisfaction of certain other conditions, a person, including one of our affiliates, who has beneficially owned restricted shares of common stock for at least one year is entitled to sell, in certain brokerage transactions, within any three-month period, a number of shares that does not exceed the greater of 1% of the total number of outstanding shares of the same class, or the average weekly trading volume during the four calendar weeks immediately preceding the sale. A person who presently is not and who has not been an affiliate for at least three months immediately preceding the sale and who has beneficially owned the shares of common stock for at least two years is entitled to sell such shares under Rule 144 without regard to any of the volume limitations described above.

At June 30, 2002, the number of record holders of the Company's common stock was 1,515. The Company did not pay any cash dividends during the past three fiscal years and does not contemplate paying dividends in the foreseeable future.

RECENT SALES OF UNREGISTERED SECURITIES

During the fiscal year ended June 30, 2002, the Company issued 141,000 shares of common stock for consulting services, valued at $39,610, based on the closing price of the Company's common stock on the date of issuance. The issuance was an isolated transaction not involving a public offering pursuant to Section (4) 2 of the Securities Act of 1933.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Grants

The Company receives grants from the German government which are used to fund research and development activities and the acquisition of equipment. Revenue

from grants for the reimbursement of research and development expenses are offset against research and development expenses when the related expenses are incurred. Grants related to the acquisition of tangible property are recorded as a reduction of the property's historical cost.

The following discussion contains forward-looking statements that are subject to business and economic risks and uncertainties, and the Company's actual results could differ materially from these forward-looking statements. The following discussion regarding the financial statements of the Company should be read in conjunction with the financial statements and notes thereto.

FISCAL 2002 COMPARED TO FISCAL 2001

RESULTS OF OPERATIONS

SBT

SALES. Sales remained essentially flat, increasing 1% to approximately $572,000 in 2002 from approximately $567,000 in 2001.

COST OF SALES. Cost of sales decreased 8% to approximately $364,000 in 2002 from approximately $395,000 in 2001. This decrease of $31,000 is primarily related to additional costs incurred in 2001 for quality control purposes that were not incurred in 2002. As a result of the decreased cost of sales, the Company's gross margin increased to 36% in 2002 from 30% in 2001.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 20% to approximately $806,000 in 2002 from approximately $670,000 in 2001. This increase of $136,000 relates mainly to increased legal expenses from lawsuits as described in Item 3 (legal proceedings).

COMPENSATION EXPENSE RELATED TO STOCK OPTIONS. Compensation expense related to stock options was $1,000,000 in both 2002 and 2001, which represents the amortization of the fair value of stock options previously issued to the chairman of the Company. Effective June 30, 2002, these stock options were cancelled and such expense will not be recognized in the future.

AMORTIZATION OF PREPAID CONSULTING FEES. Amortization of prepaid consulting fees increased 49% to approximately $661,000 from approximately $444,000 in 2001, or an increase of $217,000. At June 30, 2002, management determined that no more benefit will be received in relation to the prepaid consulting fee and accordingly wrote off the unamortized balance of approximately $221,000.

Sangui AG

RESEARCH AND DEVELOPMENT. Research and development expenses decreased 18% to approximately $647,000 in 2002 from approximately $785,000 in 2001. This decrease of $138,000 is due to decreased research and development activities.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 21% to approximately $682,000 in 2002 from approximately $562,000 in 2001. This increase of $120,000 is attributed to increases in operating expenses.

Gluko AG

RESEARCH AND DEVELOPMENT. Research and development expenses increased 295% to approximately $640,000 in 2002 from approximately $162,000 in 2001. This increase of $478,000 is due to increased research and development activities.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 115% to approximately $348,000 in 2002 from approximately $162,000 in 2001. This

increase of $186,000 is attributed to increases in staffing and operating expenses.

Sangui Singapore

GENERAL AND ADIMISTRATIVE. General and administrative expenses increased 5% to approximately $192,000 in 2002 from approximately $183,000 in 2001. This increase of $9,000 relates to an increase in operating expenses.

SGBI

NET LOSS. The Company's net loss was approximately $4,798,000 or approximately twelve cents per common share, in 2002, compared to approximately $3,628,000, or

nine cents per common share, in 2001. This increase in net loss is a result primarily of increased research and development expenses, general and administrative expenses, and a decrease in investment income.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2002 the Company had cash and liquid marketable securities of approximately $3.4 million. The Company believes that its available cash will be sufficient to satisfy its requirements for at least the fiscal year ending June 30, 2003. However, the Company will need substantial additional funding to fulfill 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. Subsequent to June 30, 2002, the Company sold the assets of its U.S. based operations conducted by SBT in two separate transactions. In the first transaction, the Company has received $100,000 in July, 2002 from the sales of its CDT business as described in last paragraph under the heading Patent-Related Litigation, under NOTE 9 - COMMITMENTS AND CONTINGENCIES. The second transaction pertains to the sales of the Company's remaining diagnostic business to another diagnostic company, for $60,000, to be received in three equal annual payments beginning December 1, 2002.

ITEM 7. FINANCIAL STATEMENTS

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002 WITH

INDEPENDENT AUDITORS' REPORT THEREON

INDEPENDENT AUDITORS' REPORT

To the Stockholders of
Sangui Biotech International, Inc.

We have audited the accompanying consolidated balance sheet of Sangui BioTech International, Inc. and its subsidiaries (collectively, the "Company") as of June 30, 2002, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the years in the two-year period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sangui BioTech International, Inc. and its subsidiaries as of June 30, 2002, and the results of their operations and their cash flows for each of the years in the two-year period then ended in conformity with accounting principles generally accepted in the United States of America.

CORBIN & WERTZ

Irvine, California, U.S.A.
August 30, 2002

SANGUI BIOTECH INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET

ASSETS

	June 30, 2002

Current assets	
Cash and cash equivalents	$ 832,130
Available for sale securities	2,559,197
Accounts receivable	84,919
Inventories	51,712
Grant receivable	214,321
Prepaid expenses and other assets	334,372
Total current assets	4,076,651
Property and equipment-net	510,064
Patents and licenses-net	45,315
Total assets	$ 4,632,030

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable and accrued expenses	$ 567,231
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, 40,655,363 shares issued and outstanding	18,345,491
Additional paid-in capital	2,000,000
Accumulated other comprehensive income	162,942
Accumulated deficit	(16,443,634)
Total stockholders' equity	4,064,799
Total liabilities and stockholders' equity	$ 4,632,030

See independent auditors' report and accompanying notes to consolidated financial statements

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

	Year ended June 30,	
	2002	2001
Sales	$ 571,742	$ 567,007
Cost of sales	364,182	395,282

Gross profit	207,560	171,725
Operating expenses		
Research and development	1,287,193	946,959
General and administrative	2,028,355	1,577,315
Compensation expense related to stock options	1,000,000	1,000,000
Depreciation and amortization	194,581	147,191
Amortization of prepaid consulting fees	661,169	443,831
Total operating expenses	5,171,298	4,115,296
Loss from operations	(4,963,738)	(3,943,571)
Other income		
Interest income, net of interest expense of approximately $1,100 and $7,000, respectively	70,940	276,824
Other income	95,290	38,886
Total other income	166,230	315,710
Net loss	(4,797,508)	(3,627,861)
Other comprehensive income (loss)		
Foreign currency translation adjustments	468,218	(276,272)
Unrealized gain on marketable securities	51,094	30,716
Comprehensive loss	$ (4,278,196)	$ (3,873,417)
Net loss available to common shareholders per common share	($0.12)	($0.09)
Basic and diluted weighted average number of common shares outstanding	40,622,703	40,514,363

See independent auditors' report and accompanying notes to consolidated financial statements

SANGUI BIOTECH INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	Preferred Stock	Common Stock

	Shares	Amount	Shares	Amou
Balance at July 1, 2000	505,000	$ 5,050	40,514,363	$18,525
Receipt of stock subscriptions	-	-	-	
Write-off of stock subscriptions	-	-	-	(225
Cancellation of preferred stock	(505,000)	(5,050)	-	5
Compensation expense related to stock options	-	-	-	
Amortization of prepaid consulting fees	-	-	-	
Currency translation adjustments	-	-	-	
Unrealized gain on marketable securities	-	-	-	
Net loss	-	-	-	
Balance at June 30, 2001	-	-	40,514,363	18,305
Compensation expense related to stock options	-	-	-	
Amortization of prepaid consulting fees	-	-	-	
Issuance of common stock for consulting	-	-	141,000	39
Currency translation adjustments	-	-	-	
Unrealized gain on marketable securities	-	-	-	
Net loss	-	-	-	
Balance at June 30, 2002	-	$ -	40,655,363	$18,345

See independent auditors' report and accompanying notes to consolidated financial statements

	Stock Subscriptions	Prepaid Consulting Fees	Accumulated Other Comprehensive Income (Loss)

Balance at July 1, 2000.....	($546,367)	($1,105,000)	($110,814)
Receipt of stock subscriptions.....	321,367	-	-
Write-off of stock subscriptions.....	225,000	-	-
Cancellation of preferred stock.....	-	-	-
Compensation expense related to stock options..	-	-	-
Amortization of prepaid consulting fees.....	-	443,831	-
Currency translation adjustments.....	-	-	(276,272)
Unrealized gain on marketable securities.....	-	-	30,716
Net loss.....	-	-	-
Balance at June 30, 2001.....	-	(661,169)	(356,370)
Compensation expense related to stock options..	-	-	-
Amortization of prepaid consulting fees.....	-	661,169	-
Issuance of common stock for consulting.....	-	-	-
Currency translation adjustments.....	-	-	468,218
Unrealized gain on marketable securities.....	-	-	51,094
Net loss.....	-	-	-
Balance at June 30, 2002.....	$ -	$ -	$ 162,942

See independent auditors' report and accompanying notes to consolidated financial statements

SANGUI BIOTECH INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended
	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$(4,797,508)

Adjustments to reconcile net loss to net cash used in operating activities:	
Compensation expense related to stock options	1,000,000
Depreciation and amortization	194,581
Amortization of prepaid consulting fees	661,169
Realized gains on marketable securities	(61,000)
Foreign exchange transaction gains	(15,000)
Estimated fair market value of common stock issued for services rendered	39,610
Changes in operating assets and liabilities:	
Accounts receivable	44,009
Grant receivable	(208,138)
Inventories	18,309
Prepaid expenses and other assets	22,181
Accounts payable and accrued expenses	278,614
Net cash used in operating activities	(2,823,173)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Increase in marketable securities	(4,846,151)
Purchase of property and equipment, patents and licenses	(198,905)
Maturities of marketable securities	5,877,557
Net cash provided by (used in) investing activities	832,501
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:	
Collection of stock subscription receivable	-
Effect of exchange rate changes	468,218
Net decrease in cash and cash equivalents	(1,522,454)
Cash and cash equivalents, beginning of period	2,354,584
Cash and cash equivalents, ending of period	$ 832,130
Supplemental disclosures:	
Cash paid during the year for:	
Interest	$ 1,127
Income taxes	$ 800

See accompanying notes to accompanying consolidated financial statements for more information on non-cash investing and financing activities during the years ended June 30, 2002 and 2001.

See independent auditors' report and accompanying notes to consolidated financial statements

SANGUI BIO TECH INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

The Company's wholly owned subsidiary Sangui BioTech, Inc. ("Sangui USA"), incorporated in Delaware in 1996, is located in Santa Ana, California. Sangui USA manufactures in vitro immunodiagnostic blood test kits that are primarily sold in the United States and Europe. Subsequent to June 30, 2002, the Company agreed to sell its entire Sangui USA operation (see Note 11). The Company has three subsidiaries located outside the United States: Sangui-BioTech AG ("Sangui AG"), GlukoMediTech, AG ("Gluko AG"), and Sangui BioTech PTE Ltd. ("Sangui Singapore").

Sangui AG, incorporated in Mainz, Germany in 1995, is engaged in the development of artificial oxygen carriers (blood substitute and additives). Gluko AG, incorporated in Mainz, Germany in 1996, is engaged in the development of glucose implant sensors. Sangui Singapore, incorporated in Singapore in 1999, is a regional office for the Company and carries out research and development projects in conjunction with Sangui AG and Gluko AG.

Consolidation

The consolidated financial statements include the accounts of Sangui BioTech International, Inc. and its wholly owned domestic and foreign subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in fiscal 2001 have been reclassified to conform to the fiscal 2002 presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 receivable, inventories, and long-lived assets, and valuation allowance on deferred tax assets.

Risks 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 AG and Gluko AG, 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 Company's management believes, based on its current operating plan, its current cash and highly liquid marketable securities totaling approximately $3.4 million at June 30, 2002, are sufficient to fund the Company's operations and working capital requirements at least through June 30, 2003. The Company is also considering various debt or equity funding opportunities.

Concentration of Risk

Two customers accounted for 38% of accounts receivable as of June 30, 2002 and approximately 40% of sales for the year ended June 30, 2002. The two customers accounted for 51% of sales for the year ended June 30, 2001.

Financial Instruments

The Company has financial instruments whereby the fair market value of the financial instruments could be different than that recorded on a historical basis. The Company's financial instruments consist of its cash and cash equivalents, marketable securities, accounts receivable, and accounts payable and accrued expenses. The carrying amount of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their estimated fair values due to the short-term nature of these financial statements. Marketable securities are stated at fair value based upon quoted market prices and are classified as available-for-sale securities.

Foreign Currency Translation

Assets and liabilities of the Company's German and Singapore 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 expense are translated at weighted average exchange rates for the period. During fiscal 2002 and 2001, the Company had foreign exchange transaction gains included in other income of approximately $15,000 and $34,000, respectively.

Cash and Cash Equivalents

The Company maintains its cash in uninsured accounts and not in bank depository accounts insured by the Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses in these uninsured accounts. Cash and cash equivalents include time deposits for which the Company has no requirements for compensating balances. The Company also maintains bank accounts in Germany and Singapore.

Marketable Securities

Marketable securities are classified as available-for-sale, as defined by Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized gains and losses are excluded from net loss and are reported as a separate component of other comprehensive income in shareholders' equity. Realized gains and losses are included in other income and are determined based on the specific identification of the securities bought and sold (see Note 2).

Inventories

Inventories, which consist primarily of finished immunodiagnostic products and related materials, are stated at the lower of cost or market with cost determined on a first-in, first-out (FIFO) basis. The Company regularly monitors inventory for excess or obsolete items and makes any valuation corrections when such adjustments are needed.

Property and Equipment

Property and equipment are recorded at cost and are depreciated or amortized using the straight-line method over the expected useful lives, which range from three to five years. Depreciation expense for the years ended June 30, 2002 and 2001, was approximately $177,000 and $138,000, respectively. Expenditures for normal maintenance and repairs are charged to income, and significant improvements are capitalized. The cost and related accumulated depreciation of assets are removed from the accounts upon retirement or other disposition; any resulting gain or loss is reflected in the statement of operations.

Patents and Licenses

Patents and licenses are recorded at cost and are amortized using the straight-line method over their estimated useful lives, which range from four to eight years. Amortization expense for the years ended June 30, 2002 and 2001, was approximately $17,000 and $9,000, respectively.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles to be held and used by an entity are reviewed by the management of the Company for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. As of June 30, 2002, management of the Company believes

that no impairment has been indicated. There can be no assurances, however, that market conditions will not change or demand for the Company's products will continue which could result in impairment on long-lived assets in the future.

Revenue Recognition

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

Research and Development

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

expensed as incurred.

Grants

The Company receives grants from the German government which are used to fund research and development activities and the acquisition of equipment (see Note 9). Revenue from grants for the reimbursement of research and development expenses are offset against research and development expenses when the related expenses are incurred. Grants related to the acquisition of tangible property are recorded as a reduction of the property's historical cost.

Income Taxes

The Company accounts for deferred income taxes using the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that such assets will not be recovered.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation issued to employees using the intrinsic value based method as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), as amended. Under the intrinsic value based method, compensation is the excess, if any, of the fair value of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. Compensation, if any, is recognized over the applicable service period, which is usually the vesting period. The Financial Accounting Standards Board ("FASB") has issued SFAS No. 123, "Accounting for Stock-Based Compensation." This standard, if fully adopted, changes the method of accounting for all stock-based compensation to the fair value based method. For stock options and warrants, fair value is determined using an option pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option or warrant and the annual rate of quarterly dividends. Compensation expense, if any, is recognized over the applicable service period, which is usually the vesting period.
The adoption of the accounting methodology of SFAS No. 123 for employees is optional and the Company has elected to continue accounting for stock-based compensation issued to employees using APB 25; however, pro forma disclosures, as if the Company adopted the cost recognition requirements under SFAS No. 123, are required to be presented (see Note 5).

Basic and Diluted Earnings (Loss) Per Common Share

The Company computes net loss per common share using SFAS No. 128, "Earnings Per Share." Basic earnings (loss) per common share is computed based on the weighted average number of shares outstanding for the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average shares outstanding assuming all dilutive potential common shares were issued (at June 30, 2002, there were no potential common shares).

Comprehensive Income (Loss)

The Company adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130

establishes standards for reporting and display of comprehensive income (loss) and its components in a full set of general-purpose financial statements. 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. 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 cash equivalents and are recorded as components of stockholders' equity.

Segments of an Enterprise and Related Information

The Company adopted 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 (see Note 10).

New Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within these fiscal years, with early adoption encouraged. The adoption of SFAS No. 144 did not have a material impact on the Company's financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," to update, clarify and simplify existing accounting pronouncements. SFAS No. 4, which required all gains and losses from debt extinguishment to be aggregated and, if material, classified as an extraordinary item, net of related tax effect, was rescinded. Consequently, SFAS No. 64, which amended SFAS No.4, was rescinded because it was no longer necessary. The Company does not expect SFAS No. 145 to have a material effect on its financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 did not have a material effect on its financial statements.

NOTE 2 - AVAILABLE FOR SALE SECURITIES

Available for sale securities consist of the following at June 30, 2002:

	Cost	Fair Market Value	Unrealized

			Gain
Mutual Funds.....	$1,525,414	$1,568,117	$42,703
Corporate bonds due within one year..	991,080	991,080	-
	$2,516,494	$2,559,197	$42,703

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2002:

Technical and laboratory equipment.....	$845,767
Leasehold improvements.....	216,416
Office equipment.....	41,334
	1,103,517
Less accumulated depreciation and amortization	(593,453)
	$510,064

NOTE 4 - PATENTS AND LICENSES

At June 30, 2002, patents and licenses totaled $107,334 less accumulated amortization of $62,019.

NOTE 5 - STOCKHOLDERS' EQUITY

Common Stock

The Company is authorized to issue 50,000,000 shares of no par value common stock. The holders of the Company's common stock are entitled to one vote for each share held of record on all matters to be voted on by those stockholders.

In 1999, the Company issued 2,600,000 shares of its common stock to a consultant in exchange for a public relations/promotions contract covering the period January 1999 to December 2002, as amended in August 2000. The fair value of the services, $3,145,000, was being amortized ratably over the contract period. For the year ended June 30, 2001, the Company recognized approximately $444,000 of amortization expense. For the year ended June 30, 2002, the Company initially recognized $440,000 of amortization expense, leaving an unamortized balance of the prepaid asset of $221,169. At June 30, 2002, management determined that no more benefit will be received in relation to the prepaid consulting fee and accordingly wrote off the remaining balance of $221,169 to amortization of prepaid consulting fees expenses.

During fiscal 2000, the Company entered into a subscription with Euro-America GmbH valued at $7,712,000, of which the Company received $7,487,000. The balance, $225,000, was recorded as stock subscription receivable as of June 30, 2000. On June 30, 2001, the Company's Board of Directors authorized - because of

the deficiency in collection - the writing off of the $225,000 of stock subscription receivable which the Company recorded as a reduction of common stock in the accompanying statements of stockholders' equity.

During fiscal 2002, the Company issued 141,000 shares of restricted common stock valued at $39,610 as payment for consulting services.

Preferred Stock

The Company is authorized to issue 5,000,000 shares of non-voting no par value preferred stock. The Board of Directors has not designated any liquidation value or dividend rates. During the year ended June 30, 2001, the Company cancelled all 505,000 shares of its preferred stock that had been issued.

Stock Options

From time to time, the Company may issue stock options pursuant to various agreements and other contemporary agreements.

In November 1999, pursuant to an agreement with its chairman, the Company issued the chairman options to purchase 3,000,000 shares of common stock at an exercise price of $0.01 valued at $10,845,000 (under APB 25). The options can be exercised at the time the Company completes the development of the artificial oxygen carrier or the implantable sensor and receives regulatory approval from either Germany, the United States, or Singapore. The Company is amortizing the option value to compensation expense over the remaining estimated vesting period of the options since the Company is in the process of developing the artificial oxygen carrier and implantable sensor. The options were exercisable through June 30, 2009. As a result, the Company recognized compensation expense of $1,000,000 in fiscal 2002 and 2001, respectively, related to the vesting of the options. Effective June 30, 2002, these options were cancelled by mutual agreement of both parties. No further compensation expense will be recorded as a result of the cancellation.

Option activity for the years indicated below is as follows:

	Options	Weighted Average Price
Outstanding, June 30, 2001 and 2000.....	3,000,000	$0.01
Granted.....	-	-
Exercised.....	-	-
Cancelled/Forfeited.....	(3,000,000)	(0.01)
Outstanding, June 30, 2002	-	-
Exercisable, June 30,2002	-	-

SFAS 123 Pro Forma Information

The Company has adopted the disclosure-only provisions of SFAS No. 123. Pro forma information regarding net income (loss) is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee's stock options under the fair value method of SFAS No. 123. The fair value for these

options was estimated at the date of grant using the Black Scholes option pricing model with the following assumptions for the year ended June 30, 2000: risk free interest rate of 6.0%; expected dividend yield of 0% (for all years); volatility factor of 62.5%; and an expected term of three years.

For purpose of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option vesting period. Adjustments are made for options forfeited prior to vesting. The effect on compensation expense and net loss had compensation cost for the Company's stock option issuances been determined based on fair value on the date of grant consistent with the provisions of SFAS No. 123 is as follows for the years ended June 30:

	2002	2001
Net loss		
As reported	$(4,797,508)	$(3,627,861)
Pro forma	$(4,797,508)	$(3,627,861)
Net loss per share:		
As reported	$ (0.12)	$ (0.09)
Pro forma	$ (0.12)	$ (0.09)

NOTE 6 - INCOME TAX PROVISION

No current provision for income taxes for the years ended June 30, 2002 and 2001 is required, since the Company incurred net operating losses through June 30, 2002.

Income tax expense for the years ended June 30, 2002 and 2001 differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent for the following reasons:

	2002	2001
Income tax benefit at U.S. federal statutory rates	$ (1,631,000)	$ (1,233,000)
Net operating losses not benefited	1,631,800	1,233,800
State and local income taxes, net of federal income tax effect	(800)	(800)
	$ -	$ -

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at June 30, 2002 are presented below:

Deferred tax assets:	
Net operating losses	$ 4,375,000
Less valuation allowance	$ (4,375,000)
Net deferred tax assets	$ -

As of June 30, 2002, the Company had net operating loss carryforwards of approximately $4,560,000, $4,208,000 and $6,116,000 available to offset future taxable federal, state, and foreign income, respectively. The federal and state carryforward amounts expire in varying amounts between 2002 and 2012. The

foreign net operating loss carryforwards do not have an expiration period.

NOTE 7 - BASIC AND DILUTED LOSS PER COMMON SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted loss per common share computations for the years ended June 30, 2002 and 2001:

	2002	2001
Numerator for basic and diluted loss per common share - net loss	$ (4,797,508)	$ (3,627,861)
Denominator for basic and diluted loss per common share - weighted average shares	40,622,703	40,514,363
Basic and diluted loss per common share	$ (0.12)	$ (0.09)

NOTE 8 - RELATED PARTY TRANSACTIONS

As described in Note 5, the Company wrote-off $225,000 of stock subscription receivable due from Euro-American GmbH.

The Company has an agreement with Professor Barnikol, the Company's President and CEO, pursuant to which he is entitled to 3% royalties of gross revenues earned with any product based on his inventions. No royalties were paid or earned in fiscal 2002 and 2001.

Effective June 30, 2002, options to purchase 3,000,000 shares of common stock which were issued to the chairman of the Company in fiscal 2000 were cancelled (see Note 5).

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases its office and laboratory facilities in the United States, Germany, and Singapore under three operating leases which expire through December 2003, respectively.

Future minimum lease payments under these leases at June 30, 2002 are:

Years Ending June 30,	
2003	$178,000
2004	45,000
	$223,000

Rent expense was approximately $210,000 for each of the years ended June 30, 2002 and 2001.

Grants

In 1998 and 1999, Sangui AG and Gluko AG, respectively, received grants from the government of the German state of Northrhine-Westphalia supporting their respective development projects. These grants are designed to cover 40% of eligible research and development costs and capital expenditures subject to the Company's ability to cover the remaining 60% of the costs. The grants originally totalled approximately $1.8 million and $2.2 million for Sangui AG and Gluko AG, respectively. An additional condition of the grant is that if the product is developed before 2003, it must be produced in the German state of Northrhine-Westphalia.

Based on research and development expenditures and capital expenditures through June 30, 2000, the Company had recorded for approximately $818,000 of the grants. In fiscal 2001, the Company recorded approximately $348,000 and $76,000 of research and development expenditures and capital expenditures, respectively. In fiscal 2002, the Company recorded approximately $379,000 and $62,000 of research and development expenditures and capital expenditures, respectively. The grants are recorded as a reduction of research and development costs and as a reduction of the historical cost of certain property and equipment.

Patent-Related Litigation

In December 2000, Axis/Shields ASA, a Norway corporation ("Axis"), filed a lawsuit against Sangui USA alleging that Sangui USA's Carbohydrate-Deficient Transferrin ("CDT") test kit, which is used to detect chronic alcohol abuse, constituted an infringement of patent rights owned by Axis. In March 2001, a settlement was reached and Sangui USA agreed to cease manufacture and sale of the CDT test kit. Sangui USA subsequently designed a new test kit which it is currently manufacturing and selling. Sangui USA designed its current product specifically to avoid infringement of the Axis patent. In December 2001, Axis filed another lawsuit in the U.S. District Court for the Central District of California against Sangui USA alleging that the new test kit also infringed on Axis' patent rights. Sangui USA filed an answer denying the claims of Axis and has counterclaimed against Axis for a declaratory judgment of invalidity of the patent of Axis and for antitrust violations. On July 24, 2002, an agreement was entered into between Axis and the Company, where the Company agreed to cease to sell CDT kits and provided other intangible information in consideration of $100,000 paid by Axis to the Company. As a result of this settlement, Axis caused a dismissal with prejudice of all its claims to be filed in the legal action. Concurrently, the Company caused a dismissal with prejudice of the Company's counterclaim to be filed in the legal action.

Other Litigation

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

NOTE 10 - BUSINESS SEGMENTS

The Company reports it business segments based on geographic regions, which are as follows as of June 30, 2002 and for the years ended June 30, 2002 and 2001:

	2002	2001
Net sales:		
Sangui USA	$ 571,742	$ 567,007
Sangui BioTech AG	-	-
GlukoMediTech AG	-	-
Sangui BioTech PTE Ltd	-	-
	$ 571,742	$ 567,007
Net loss:		
Sangui USA	$ 2,256,071	$ 1,895,170
Sangui BioTech AG	1,365,525	1,102,167
GlukoMediTech AG	955,756	447,456
Sangui BioTech PTE Ltd	220,156	183,068
	$ 4,797,508	$ 3,627,861

Depreciation and amortization		
Sangui USA	$ 13,981	$ 14,570
Sangui BioTech AG	107,070	98,031
GlukoMediTech AG	41,192	34,590
Sangui BioTech PTE Ltd	32,338	-
	$ 194,581	$ 147,191
Identifiable assets		
Sangui USA	$ 705,414	
Sangui BioTech AG	1,517,076	
GlukoMediTech AG	2,261,128	
Sangui BioTech PTE Ltd	148,412	
	$ 4,632,030	

NOTE 11 - SUBSEQUENT EVENT

On September 15, 2002, the Company sold essentially all the remaining assets of Sangui USA to Biomerica, Inc., a Delaware company operating in the Orange County, California, for $60,000, to be received in three equal annual payments beginning December 1, 2002.

NOTE 12 - PRO FORMA CONDENSED FINANCIAL INFORMATION (UNAUDITED)

The pro forma information contained in this schedule is based on the historical financial statements of the Company and should be read in conjunction with these statements and related notes thereto. The purpose of presenting this unaudited

pro forma financial data is to show the effects on the historical financial information had the Company agreed to cease to sell CDT kits and sell the assets of Sangui USA (collectively, the "Sangui USA Operations") at June 30, 2002 for the proforma balance sheet and at July 1, 2001 for the proforma statement of operations. However, the pro froma condensed balance sheet and the pro forma condensed statement of operations are not necessarily indicative of the effects on the financial position and results of operations what would have been attained had the cessation of the Sangui USA Operations actually occurred earlier.

PRO FORMA CONDENSED BALANCE SHEET
JUNE 30, 2002
(IN THOUSANDS OF DOLLARS)
(See Note a)

ASSETS

	Historical	Pro Forma Adjustments	See Notes	Pro Forma excluding t Sangui US Operation
Cash and cash equivalents	$832	$60	b	$8
		(65)	c	
Available for sale securities	2,559	-		2,5
Accounts receivable and inventories	137	(137)	d	
Grant receivable, prepaid expenses and other assets	549	-		5
Total current assets	4,077	(142)		3,9
Property and equipment-net	510	(6)	d	5
Patents-net	45	-		
Total assets	$4,632	$(148)		$4,4

LIABILITIES & STOCKHOLDERS' EQUITY

Accounts payable and accrued expenses	$567	(65)	c	$5
Common stock	18,509	-		18,5
Additional paid-in capital	2,000	-		2,0
Accumulated deficit	(16,444)	60		(16,5
		(143)		
	$4,632	$(148)		$4,4

Notes to pro forma adjustments:

a) These pro forma adjustments have been computed assuming the cessation of sales of CDT kits and the sale of Sangui USA's assets was consummated at June 30, 2002. These amounts will differ from the actual results primarily due to the timing of the actual transaction.

To record the following:

b)	Sales price of assets	$60
c)	Payment of liabilities of from sales proceeds	65
d)	Cost of assets sold	143

PRO FORMA CONDENSED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2002
(IN THOUSANDS OF DOLLARS)
(See Note a)

	Historical	Pro Forma Adjustments	See Notes	Pro Forma excluding the Sangui USA Operations
Sales	$ 572	(572)	b	$ -
Cost of sales	364	(364)	b	-
Gross profit	208	(208)		-
Operating expenses:				
Research and development	1,287	-		1,287
General and administrative	2,028	(274)	b	1,754
Compensation expense related to stock options	1,000	-		1,000
Depreciation and amortization	195	-		195
Amortization of prepaid consulting fee	661	-		661
	5,171	(274)		4,897
Loss from operations	(4,963)	(66)		(4,897)
Other income	166	-		166
Net loss	$ (4,797)	$ (66)		$ (4,731)

Notes to pro forma adjustments:

a) These pro forma adjustments have been computed assuming the cessation of sales of CDT-kits and the sale of Sangui USA's assets was consummated at June 30, 2001. These amounts will differ from the actual results primarily due to the timing of the actual transaction. However, the pro forma statement only discloses income or losses from recurring operations and does not reflect any gain or loss from the sale of Sangui USA's assets. The pro forma adjustments give effect to events that are directly attributable to the sale and expected to have a continuing impact on the Company.

To record the following:

b) Eliminate income and loss items directly identified with Sangui USA's Operations.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the names and ages of the current directors and executive officers of Sangui BioTech International, Inc. (SGBI), their principal offices and positions and the date each such person became a director or executive officer. Our executive officers are elected annually by the Board of Directors. Our directors serve one year terms until their successors are elected. The executive officers serve terms of one year or until their death, resignation or removal by the Board of Directors. There are no family relationships between any of the directors and executive officers. In addition, there was no arrangement or understanding between any executive officer and any other person pursuant to which any person was selected as an executive officer.

The directors are as follows:

NAME	AGE	ADDRESS	RESIDENCE	CURRENT POS
Prof. Wolfgang Barnikol, M.D., Ph. D.	68	Arndtstrasse 8, D-58453 Witten, Germany	Germany	Chairman, Pres Chief Executiv Executive Dire
Oswald Burkhard, M.D., Ph. D.	51	Martinsgasse 1, D-67547 Worms, Germany	Germany	Non-Executive
Dr. Edgar Fritschi, Ph.D.	60	Rispenweg 9, D-50933 Koeln	Germany	Non-Executive
Dora Malek	45	Saturnstr. 19, D-85609	Germany	Non-Executive

		Aschheim, Germany	
Professor Joachim Lutz, M.D., Ph.D.	70	Thueringerstr. 24 D-97078 Wuerzberg, Germany	Germany	Non-Executive

None of the Directors are related to one another. None of the independent Directors has a business or professional relationship with SGBI and/or the other Directors and substantial shareholders of the Company.

The day-to-day operations of SGBI are entrusted to the Executive Directors of the Company who are assisted by a management team of key executive officers (Executive Officers). The particulars of the Executive Officers as per June 30, 2002 are set out below:

NAME	AGE	ADDRESS	RESIDENCE	CURRENT P
Prof. Wolfgang Barnikol, M.D., Ph. D.	68	Arndtstrasse 8, D-58453 Witten, Germany	Germany	President an Executive Of
Oswald Burkhard, M.D., Ph. D.	52	Martinsgasse 1, D-67547 Worms, Germany	Germany	Vice Preside
Patrick Onishi	48	2 Cambridge Irvine CA 92620	US	Secretary

The business and working experience of the Directors and key Executive Officers of the Company are set out below:

PROFESSOR WOLFGANG K. R. BARNIKOL, M.D., Ph.D., Chairman, President and Chief Executive Officer, and Executive Director of the Company, has studied chemistry, physics and medicine at the Universities of Munster, Aachen and Mainz, Germany. In 1961, he received a Diploma in chemistry from University of Mainz, Mainz, Germany. In 1964, he obtained the doctorate in physical chemistry (Dr. rer. nat.) and in 1973 the doctorate in medicine (Dr. med.) both from the University of Mainz, Mainz, Germany. In that same year, he also was appointed professor in medical physiology at University of Mainz, Mainz Germany. In 1996, Dr. Barnikol was awarded a specialist in medical physiology by the medical association of Rheinland-Pfalz Germany. His research interest in physical chemistry focused on the polymerization of styrene and the determination of molecular weights of polymers with the electron microscope. Dr. Barnikol's research areas in medicine are: (i) respiration; and (ii) blood and circulation. In the field of respiration, he works on the functional analysis of the bronchial system and gas exchange. Moreover, he is engaged in the development of respiratory and skin oxygen sensors. In the field of blood and circulation, he works on the development of artificial oxygen carriers for medical use, which are based on polymerised soluble haemoglobins. As a third sphere of work, Dr. Barnikol is

engaged in the development of an implantable glucose sensor. Dr. Barnikol has published more than 100 scientific articles, a textbook in physiology and a review on the situation of German universities.

OSWALD BURKHARD, M.D., PH.D., Vice President and Non-Executive Director of the Company, has more than 16 years of clinical experience in the diagnosis and treatment of hematological and oncological diseases. Since 1989, Dr. Burkhard has operated his own facilities in Worms, Germany, which specialize in hematology and oncology. His practice offers patients all diagnostic and therapeutic possibilities, necessary for internal oncology. From 1982 to 1989, Mr. Burkhard was trained in hematology and oncology at the University School of Medicine at Mainz, Mainz, Germany. During this time, he cared almost daily for patients with hematological or oncological problems. Additionally, he was trained in transfusion medicine. He became a specialist in internal medicine and hematology. He has significant experience in clinical trials. From 1975 to 1989, he worked at the Institute for Physiology at the University of Mainz, Mainz, Germany where he was involved in the physical chemistry of haemoglobin solutions and the measurement of oxygen by fluorescence quenching. In 1988, he obtained the Doctorate in Medicine from University of Mainz, Mainz, Germany. Dr. Burkhard received several patents for his scientific work. In 1989, he obtained the Tancre award of the University of Mainz, Mainz, Germany. Dr. Burkhard has studied chemistry, physics and medicine at the University of Mainz, Mainz, Germany. He received a diploma in Chemistry in 1973 from University of Mainz, Mainz, Germany. In 1976, he obtained the Doctorate in Physical Chemistry from University of Mainz, Mainz, Germany. During his thesis, Dr. Burkhard synthesized approximately 20 new compounds.

EDGAR FRITSCHI, M.D., studied Veterinary Medicine at the Universities of Gie(beta)en and Zurich gaining his Doctorate in Hannover. He had specialised in the fields of toxicology, pharmacology, and in the development of new human therapeutics in particular. Since 1969, Dr Fritschi has held leading positions in the research and development departments of renowned German pharmaceutical companies, including Godecke AG in Freiburg, L. Heumann & Co. in Nuremberg, and Schwarz Pharma AG in Monheim. Dr Fritschi is a Board Member of the North Rhine-Westphalia Venture Capital Forum and since 1999 has been Managing Director of TecTo Market GmbH, Cologne, specializing in offering consulting services to biotechnology companies.

DORA MALEK, Attorney-at-Law, Non-Executive Director, employed since 1990 in the finance department of an international insurance company in the area of group investments, and since 1994 as an independent attorney specializing in banking and stock exchange law, capital investment law and the law of partnerships and corporations. She will aid the company not only in all legal matters, but also in the development of financial and investment concepts.

PROFESSOR JOACHIM LUTZ, M.D., Non-Executive Director, professor and lecturer in medical physiology in the subject area of the vascular system and venous pressure at the Physiological Institute of the Bavarian-Julius-Maximilian University in W rzburg until his retirement in 1998. There he spent years evaluating artificial oxygen carriers in small animal models such as the magneto metric determination of the impairment of the body's own macrophages that are responsible for detoxification. He is a member of the International Advisory Committee on Blood Substitutes (ISABI) as well as the International Society on Oxygen Transport to Tissue (ISOTT). He will accelerate development work as well as the pre-clinical and clinical testing of blood with artificial oxygen carriers with his technical knowledge and experience.

PATRICK ONISHI, Secretary, joined SanguiBioTech, Inc. in 1997 and is responsible

for manufacturing, purchasing, packaging and shipping. He held various key technical management positions for 14 years at the Nichols Institute Diagnostics (now Quest Diagnostics, Inc.) such as Director of Manufacturing, and Manager of Technical Manufacturing. He worked as a laboratory technician after his graduation at San Diego State University in Biology.

Section 16(a) of the U.S. Securities Exchange Act of 1934 requires the officers and directors of the Company and those persons who beneficially own more than 10% of the outstanding stock of the Company to file reports of securities ownership and charges in such ownership with the SEC. Based solely upon a review of copies of the reports filed, the Company believes that during the year ended June 30, 2002, the filing requirements were complied with by its officers and directors, except that a former director of the Company, Mr. Helmut Kappes, did not comply with such reporting requirements.

ITEM 10. EXECUTIVE COMPENSATION AND OTHER INFORMATION

Summary Compensation Table

The following SGBI summary compensation table shows certain compensation information for services rendered in all capacities for the two fiscal years ended June 30, 2002 and 2001. No executive officer's salary and bonus exceeded $100,000 in any of the applicable years. The following information includes the dollar value of base salaries, bonus awards, the number of stock options granted and certain other compensation, if any, whether paid or deferred.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation		
					Awards		P
Name and Principal Position	Year	Salary ($)(2)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Awards ($)	Securities Underlying Options SARs (#)	L Pa (
Wolfgang Barnikol	2002	115,884	-0-	-0-	-0-	-0-	-
Chairman, CEO and President (1)	2001	105,922	-0-	-0-	-0-	-0-	-
	2000	111,681	-0-	-0-	-0-	3,000,000	-
Oswald Burkhard	2002	-0-	-0-	-0-	-0-	-0-	-
Vice President	2001	4,775	-0-	-0-	-0-	-0-	-
	2000	5,836	-0-	-0-	-0-	-0-	-
Seiglinde Borchert	2002	40,853	-0-	-0-	-0-	-0-	-
COO	2001	54,697	-0-	-0-	-0-	-0-	-
	2000	57,274	-0-	-0-	-0-	-0-	-
Detlev Frhr. von	2002	76,017	-0-	-0-	-0-	-0-	-
Linsingen	2001	6,512	-0-	-0-	-0-	-0-	-

CFO, Treasurer	2000	82,200	-0-	-0-	-0-	-0-	-
Harald Poetzschke	2002	46,972	-0-	-0-	-0-	-0-	-
CSO	2001	36,465	-0-	-0-	-0-	-0-	-
	2000	40,858	-0-	-0-	-0-	-0-	-
Patrick Onishi	2002	70,000	-0-	-0-	-0-	-0-	-
Secretary	2001	70,000	-0-	-0-	-0-	-0-	-
	2000	70,000	-0-	-0-	-0-	-0-	-

(1) These options were cancelled as of June 30, 2002. (2) All figures are expressed in United States Dollars ("USD") For the German management personnel, the EURO or DM was converted to USD as of the fiscal year end of each year.

Compensation of Directors

To date, Directors of the Company have not received any compensation for serving in such capacity.

Employment Agreements

The Company and its subsidiaries have employment agreements with each of its officers or key employees. Professor Barnikol has an agreement with the Company pursuant to which he is entitled to 3% royalties of gross revenues earned with any product based on his inventions.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of the common stock of SGBI as of the date of this report by:

* each person or entity known to own beneficially more than 5% of the common stock;
* each of SGBI's directors;

* each of SGBI's named executive officers;
and * all executive officers and directors of SGBI as a group.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	P C
Common Stock	Dr. Wolfgang Barnikol Arndtsr, 8, D-58453 Witten Germany	1,853,600(1)	4
Common Stock	Dr. Oswald Burkhard Martinsgasse 1, D-67547 Worms Germany	794,400	1
Common Sock	Dr. Edgar Fritschi Rispenweg 9	-0-	

	D-50544 Koeln Germany		
Common Stock	Dora Malek Saturnstr. 19 D-85609 Aschheim Germany	200	
Common Stock	Professor Joachim Lutz Thueringerstr. 24 D-97078 Wuerzburg Germany	-0-	
Common Stock	Patrick Onishi 2 Cambridge Irvine CA 92620, US	70,000	0
Common Stock	All Officers and Directors as a Group (8 persons)	2,718,200	6

(1) Excludes 3,000,000 options to purchase common stock of the Company that were cancelled as of June 30, 2002.
*Less than 0.1%

ITEM 12. CERTAIN TRANSACTIONS

Except as otherwise disclosed below, no Director, substantial shareholder or Executive Officer of the Company was or is interested in any transaction undertaken by SGBI within the last three years.

EURO-AMERICAN. Euro-American GmbH (EA) was a financial services corporation organized and established in Germany. Axel Kutscher, former Non-Executive Director of the Company, and Helmut Kappes, former Non-Executive Director of the Company, and substantial shareholders of the Company, are also directors and shareholders of EA. During 2000, the Company entered into a subscription with EA, a principal stockholder of the Company, valued at $7,712,000, of which the Company received $7,487,000. The balance, $225,000, was recorded as stock subscription receivable. On June 30, 2001, the Company's Board of Directors authorized the writing off of the $225,000 of stock subscription receivable.

STOCK OPTIONS GRANTED IN FAVOR OF PROFESSOR WOLFGANG BARNIKOL. The Company entered into a stock option agreement which took effect on September 24, 1999, with Professor Wolfgang Barnikol, Chairman, Chief Operating Officer, and Executive Director and a substantial shareholder of the Company. Professor Barnikol was granted a share option of 3 million Shares at an exercise price of US$0.01 per share, in consideration of the assignment of his patent rights to the Company. Professor Barnikol is entitled to exercise the option at the point the Company completes the development of the artificial oxygen carrier or the implantable sensor and receives regulatory approval from either Germany, Singapore or the United States. The option shall terminate and cease to be exercisable on June 30, 2009 unless terminated earlier in accordance with the stock option agreement. The stock option agreement is governed under the laws of the State of California. As of June 30, 2002 Prof. Barnikol waived his rights concerning the option and the option was cancelled.

ROYALTY ARRANGEMENT WITH PROFESSOR WOLFGANG BARNIKOL. On July 7, 1997, the Company entered into an agreement with Professor Barnikol pursuant to which

Professor Barnikol assigned certain patents to the Company's German subsidiaries in exchange for a 3% royalty on products on net revenues developed by SanguiBioTech AG or GlukoMeditech AG. The royalty expires in 20 years or upon expiration of the patents.

ITEM 13 EXHIBITS AND REPORTS ON FORM 8-K

(a) Index to Exhibits

Exhibit No.

2.1 (1) Exchange Agreement between MRC Legal Services LLC and SanguiBioTech International, Inc., dated of March 31, 2000 (1)

3.1 (1) Articles of Incorporation of the Company (1)

3.2 (1) Bylaws of the Company(1)

3.3 Articles of Association of GlukoMeditech Aktiengesellschaft (2)

3.4 Articles of Association of SanguiBiotech Aktiengesellschaft (2)

3.5 Memorandum and Articles of Association of Sangui Biotech Singapore Pte. Ltd. (3)

4.1 Stock Option Agreement between Professor Wolfgang Barnikol and Sangui Biotech International, Inc. dated October 12, 2000 (2)(cancelled as of June 30, 2002).

10.1 Office Lease between Brookhollow Office Park and Sangui Biotech International, Inc. dated September 4, 1996 and as amended 2000 (3)

10.2 Fee Agreement between GlukoMeditech AG and Dr. Sieglinde Borchert dated June 15, 1998 (2)

10.3 Fee Agreement between SanguiBiotech AG and Dr. Sieglinde Borchert dated June 15, 1998 (2)

10.4 Service Contract between GlukoMeditech AG and Dr. Wolfgang Barnikol dated June 30, 1998 (2)

10.5 Service Contract between SanguiBiotech AG and Dr. Wolfgang Barnikol dated June 30, 1998 (2)

10.6 Service Agreement between Axel Kleinkorres Promotionsagentur and Sangui Biotech International, Inc. dated April 26, 1999 (2)

10.7 Amendment to Service Agreement between Axel Kleinkorres Promotionsagentur and Sangui Biotech International, Inc. dated August 18, 2000(2)

10.8 Appropriation Notice from North-Rhine-Westphalia to GlukoMediTech AG dated November 30, 1998 (2)

10.9 Appropriation Notice from North-Rhine-Westphalia SanguiBiotech AG dated November 30, 1998 (2)

10.10 Lease Contract for Business Rooms between Research and Development Centre, Witten, Germany and GlukoMeditech AG dated June 6, 2000 (2)

10.11 Additional Agreement to Lease Contract between Research and Development

Centre, Witten, Germany and GlukoMeditech AG dated June 7, 2000 (2)

10.12 Additional Agreement to Lease Contract between Research and Development Centre, Witten, Germany and SanguiBiotech AG dated June 7, 2000 (2)

10.13 Assignment of Patents and Royalty Agreement with Dr. Wolfgang Barnikol (3)

10.14 Prolongation Letter for SanguiBiotech AG Grants (4)

21.1 Subsidiaries of the Company (2)

(1) Filed as an Exhibit to the Report on Form 8-K filed on or about April 4, 2000 and incorporated herein by reference.

(2) Filed as an Exhibit to the original Report on Form 10-KSB filed on October 13, 2000.

(3) Filed as an Exhibit to the amended Report on Form 10-KSB filed on November 20, 2000.

(4) Filed as an Exhibit to the Report on Form 10-KSB filed on September 28, 2001.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-KSB to be signed on its behalf by the undersigned hereunto duly authorized.

SANGUI BIOTECH INTERNATIONAL, INC.

/s/ Wolfgang Barnikol

Wolfgang Barnikol
President and Director

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

Signatures	Title	Date
/s/ Wolfgang Barnikol --- Wolfgang Barnikol, M.D., Ph.D	President, Chief Executive Officer and Director	September 27, 2002
/s/ Patrick Onishi	Secretary	September 27, 2002

Patrick Onishi

September 27, 2002

/s/ Oswald Berkhard Director

Oswald Berkhard, M.D., Ph.D

September 27, 2002

/s/ Dora Malek Director

Dora Malek

September 27, 2002

/s/ Joachim Ludz Director

Joachim Ludz, M.D.

September 27, 2002

/s/ Edgar Fritschi Director

Edgar Fritschi, Ph.D

CERTIFICATION PURSUANT TO
18 U.S.C.SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Sangui BioTech International, Inc. (the "Company") on Form 10-KSB for the period ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"),the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 27, 2002

/s/ Wolfgang Barnikol

Wolfgang Barnikol
President and Director

CERTIFICATION

The undersigned, Prof. Dr. W. Barnikol, Chief Executive Officer and Chief Financial Officer, certifies that:

1. I have reviewed this annual report on Form 10-KSB of Sangui BioTech International, Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for the periods presented in this annual report.

Date: September 27, 2002 By: /s/ W. Barnikol

Prof. Dr. W. Barnikol, Chief Executive Officer and Chief Financial Officer