SANGUI BIOTECH INTERNATIONAL INC
Form 10QSB
May 15, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-21271

SANGUI BIOTECH INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in its Charter)

COLORADO	84-1330732
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Alfred-Herrhausen-Str. 44
58455 Witten
Germany

(Address of Principal Executive Offices) (Zip Code)
Registrant's Telephone Number, Including Area Code: 011-49-2302-915-204

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

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date:

Title of each class of Common Stock	Outstanding at May 14, 2003
Common Stock, no par value	40,655,363

Transitional Small Business Disclosure Format (Check one);

Yes [ ] No [X]

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SANGUI BIOTECH INTERNATIONAL, INC.

PART I. FINANCIAL INFORMATION

SANGUI BIOTECH INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET

ASSETS

	March 31, 2003 (Unaudited)
Current assets	
Cash and cash equivalents	$ 132,014
Available for sale securities	1,715,125
Prepaid expenses and other assets	257,553
Total current assets	2,104,692
Property and equipment-net	217,878

Patents and licenses-net	34,383
Total assets	$ 2,356,953

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable and accrued expenses	$ 114,890
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	38,453
Accumulated deficit	(18,141,881)
Total stockholders' equity	2,242,063
Total liabilities and stockholders' equity	$ 2,356,953

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

	For The Three Months Ended March 31, (Unaudited)		For T Nine Month March (Unaudi
	2003	2002	2003
Revenues	$ -	$ -	$ -
Operating expenses:			
Research and development	307,852	305,462	712,181
General and administrative	262,153	178,043	778,843
Depreciation and amortization	129,935	38,445	221,432
Compensation expense related to stock options	-	250,000	-
Amortization of prepaid consulting fees	-	110,000	-
Total operating expenses	699,940	881,950	1,712,456
Other income:			

Interest income	14,423	6,495	53,859
Other income	23,235	11,878	99,347
Total other income	37,658	18,373	153,206
Loss from continuing operations	(662,282)	(863,577)	(1,559,250)
Loss from discontinued operations	-	(180,290)	(138,997)
Net loss	(662,282)	(1,043,867)	(1,698,247)
Other comprehensive income (loss):			
Foreign currency translation adjustments	113,370	(59,063)	(41,261)
Unrealized (loss) gain on marketable securities	(2,264)	30,835	(83,228)
Comprehensive loss	$ (551,176)	$(1,072,095)	$(1,822,736)
Net loss available to common shareholder per common share:			
Net loss from continuing operations	$ (0.02)	$ (0.02)	$ (0.04)
Net loss from discontinued operations	$ -	$ (0.01)	$ (0.00)
Net loss	$ (0.02)	$ (0.03)	$ (0.04)
Basic and diluted weighted average number of common shares outstanding	40,655,363	40,514,363	40,655,363

SANGUI BIOTECH INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Nine Months Ended March 31 (Unaudited)	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,698,247)	$ (3,388,951)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	221,432	127,179
Realized gains on marketable securities	(53,495)	-
Realized gain on sale of assets of discontinued operations	(16,980)	-
Loss on impairment of assets	106,927	-
Compensation expense related to stock options	-	750,000

Amortization of prepaid consulting fees	-	330,000
Changes in operating assets and liabilities:		
Accounts receivable	84,919	35,123
Grant receivable	214,321	-
Inventories	16,362	(19,067)
Prepaid expenses and other assets	116,819	43,321
Accounts payable and accrued expenses	(452,341)	(11,163)
Net cash used in operating activities	(1,460,283)	(2,133,558)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in marketable securities	(1,846,531)	(4,485,182)
Maturities of marketable securities	2,660,870	5,144,498
Payment on note receivable	20,000	-
Purchase of property and equipment	(32,911)	(45,272)
Net cash provided by investing activities	801,428	614,044
Effect of exchange rate changes	(41,261)	130,236
Net decrease in cash and cash equivalents	(700,116)	(1,389,278)
Cash and cash equivalents, beginning of period	832,130	2,354,584
Cash and cash equivalents, ending of period	$ 132,014	$ 965,306
Supplemental disclosures:		
Cash paid during the period for:		
Interest	$ -	$ -
Income taxes	$ 800	$ 800

During the nine months ended March 31, 2003, the Company recorded a note receivable for $60,000 from the sale of inventory and equipment related to its discontinued operations, which is recorded in prepaid expenses and other assets.

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared without audit in accordance with accounting principles generally accepted in the United

States of America for interim financial information and with the instructions to Form 10-QSB and Item 301 of Regulation S-B. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The unaudited consolidated financial statements and notes should, therefore, be read in conjunction with the consolidated financial statements and notes thereto in the Company's Form 10-KSB for the year ended June 30, 2002. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation, have been included. The results of operations for the three and nine month periods ended March 31, 2003 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2003.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

The operations of Sangui BioTech, Inc. ("Sangui USA"), a wholly owned subsidiary of the Company, were discontinued during 2002 upon the sale of its in vitro immunodiagnostics business and the subsequent merger of Sangui USA with and into the parent company, Sangui BioTech International, Inc., effective December 31, 2002 (see Note 5). The merger of the two German subsidiaries SanguiBioTech AG ("Sangui AG") and GlukoMediTech AG ("Gluko AG) has been signed and submitted to the court for registration. Registration is likely to occur during the fourth quarter of fiscal 2003.

After completion of this merger, Sangui AG will be engaged in the development of artificial oxygen carriers (external applications of hemoglobin, blood substitute and blood additives) as well as in the development of glucose implant sensors.

Sangui Singapore, incorporated in Singapore in 1999, was a regional office for the Company that carried out research and development projects in conjunction with Sangui AG and Gluko AG. The Company decided to discontinue the operations of Sangui Singapore in August 2002 (see Note 5). The Singapore office was closed effective December 31, 2002.

Consolidation

The consolidated financial statements include the accounts of Sangui BioTech International, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in the three and nine months ended March 31, 2002 have been reclassified to conform to the three and nine months ended March 31, 2003 presentation. These reclassifications have no effect on previously reported net loss.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of

the financial statements and the reported amounts of revenues and expenses during the respective reporting period. Actual results could differ from those

estimates. Significant estimates made by management are, among others, the realization of receivables, long-lived assets, and valuation allowance on deferred tax assets.

Risk and Uncertainties

The Company's line of future pharmaceutical products (artificial oxygen carriers or blood substitute and additives) and in vivo biosensors (glucose implant sensor) being developed by Sangui 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 $1.8 million at March 31, 2003, are sufficient to fund the Company's operations and working capital requirements at least through March 31, 2004. However, the Company will need substantial additional funding to fulfil its business plan and the Company intends to explore financing sources for its future development activities. No assurance can be given that these efforts will be successful.

Foreign Currency Translation

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

Cash and Cash Equivalents

The Company maintains its cash in bank accounts in Germany. Cash and cash equivalents include time deposits for which the Company has no requirements for compensating balances.

Marketable Securities

Marketable securities are classified as available-for-sale. Unrealized gains and losses are excluded from net loss and are reported as a separate component of other comprehensive loss in stockholders' equity. Realized gains and losses are included in other income and are determined based on the specific identification of the securities bought and sold (see Note 3).

Revenue Recognition

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

Research and Development

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

Stock 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 Statement of Financial Accounting Standards ("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 4).

In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", was issued. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148 are effective for financial statements for fiscal years ending after December 15, 2002.

The effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation is immaterial for the three and nine months ended March 31, 2002. There is no stock-based employee compensation expense under APB25 or pro forma adjustment under SFAS No. 123 for the three and nine months ended March 31, 2003, as the Company did not issue any stock-based compensation to employees since June 30, 2002 (see Note 4).

Basic and Diluted Earnings (Loss) Per Common 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 March 31, 2003, there were no potential common shares).

Comprehensive Income (Loss)

Total comprehensive income (loss) represents the net change in stockholders' equity during a period from sources other than transactions with stockholders and as such, includes net earnings. 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 securities and are recorded as components of stockholders' equity.

Segments of an Enterprise and Related Information

The Company applies 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 7).

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 effect 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 the Company's financial statements.

NOTE 3 - AVAILABLE FOR SALE SECURITIES

Available for sale securities consist of the following at March 31, 2003:

	Cost	Fair market value	Unrealized Gain (Loss)
Corporate bonds due within one year	$1,607,994	$1,504,223	$(103,771)
Corporate bonds due within five years	190,359	210,902	20,543
	$1,798,353	$1,715,125	$ (83,228)

NOTE 4 - COMPENSATION EXPENSE RELATED TO STOCK OPTIONS

Per APB No. 25, "Accounting for Stock Issued to Employees", the Company recognized compensation expense for previously issued options in the amount of $250,000 and $750,000 in the accompanying statements of operations for the three and nine months ended March 31, 2002, respectively. Effective June 30, 2002, these options were cancelled by mutual agreement between the Company and the option holder. As a result, no compensation expense related to stock options was recorded for the three and nine months ended March 31, 2003. Also, the Company did not issue any stock-based compensation to employees or non-employees since June 30, 2002.

NOTE 5 - DISCONTINUED OPERATIONS

Sangui USA manufactured in vitro immunodiagnostic blood test kits that have been primarily sold in the United States and Europe. The Company decided to discontinue the in vitro immunodiagnostics business in August 2002, sold Sangui USA's inventory and property and equipment to an unrelated party for $60,000, and closed the facility. The sale resulted in a gain of $16,980 which is included as part of loss from discontinued operations in the accompanying statements of operations for the nine months ended March 31, 2003. In July 2002, the Company received $100,000 as part of an agreement to cease manufacturing and selling certain blood test kits which is included in loss from discontinued operations in the accompanying statements of operations for the nine months ended March 31, 2003. The Company decided to discontinue the operations of Sangui Singapore in August 2002, recorded an impairment loss on property and equipment of $106,927, and closed the facility effective December 31, 2002.

Components of amounts reflected in the accompanying income statements for the three months ended March 31, 2003 and 2002 are presented below:

	2003			2002		
	Sangui USA	Sangui Singapore	Total	Sangui USA	Sangui Singapore	Total

Sales	$ -	$ -	$ -	$ 143,262	$ -	$ 143,262
Cost of sales	-	-	-	92,629	-	92,629
Operating expenses	-	-	-	184,282	46,641	230,923
Loss from discontinued operations	$ -	$ -	$ -	$(133,649)	$ (46,641)	$(180,290)

Components of amounts reflected in the accompanying income statements for the nine months ended March 31, 2003 and 2002 are presented below:

	2003			2002		
	Sangui USA	Sangui Singapore	Total	Sangui USA	Sangui Singapore	Total
Sales	$ 138,542	$ -	$ 138,542	$ 385,515	$ -	$ 385,515
Cost of sales	94,747	-	94,747	263,048	-	263,048
Operating expenses	88,564	107,644	196,208	433,050	173,230	606,280
Loss from operations	(44,769)	(107,644)	(152,413)	(310,583)	(173,230)	(483,813)
Other income	116,980	3,363	120,343	-	-	-
Impairment of assets	-	(106,927)	(106,927)	-	-	-
Income (loss) from discontinued operations	$ 72,211	$(211,208)	$(138,997)	$(310,583)	$(173,230)	$(483,813)

NOTE 6 - LITIGATION RELATED TO THE OPERATING BUSINESS

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

NOTE 7 - BUSINESS SEGMENTS

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

	Three months ended March 31,		Nine months ended March 31	
	2003	2002	2003	2002

Net sales:				
Sangui USA	$ -	$ -	$ 138,542	$ 385,51
Sangui BioTech International, Inc.	-	-	-	
Sangui BioTech AG	-	-	-	
GlukoMediTech, AG	-	-	-	
Sangui BioTech PTE Ltd, Singapore	-	-	-	
	$ -	$ -	$ 138,542	$ 385,51
Net income (loss):				
Sangui USA	$ -	$ (133,649)	$ 72,211	$ (310,58
Sangui BioTech International, Inc.	(8,037)	(372,977)	(117,663)	$ (1,487,80
Sangui BioTech AG	(412,454)	(281,547)	(879,492)	(796,58
GlukoMediTech, AG	(241,791)	(209,053)	(562,095)	(620,75
Sangui BioTech PTE Ltd, Singapore	-	(46,641)	(211,208)	(173,23
	$ (662,282)	$ (1,043,867)	$ (1,698,247)	$ (3,388,95
Depreciation and amortization				
Sangui USA	$ -	$ 3,500	$ -	$ 10,69
Sangui BioTech International, Inc.	-	-	-	
Sangui BioTech AG	117,423	28,278	184,520	78,38
GlukoMediTech, AG	12,512	10,167	36,912	30,05
Sangui BioTech PTE Ltd, Singapore	-	8,045	-	8,04
	$ 129,935	$ 49,990	$ 221,432	$ 127,17

Identifiable assets	
Sangui USA	$ -
Sangui BioTech International, Inc.	40,000
Sangui BioTech AG	567,250
GlukoMediTech,AG	1,749,703
Sangui BioTech PTE Ltd, Singapore	-
	$ 2,356,953

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

Forward-looking Statements

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this quarterly report. Some of the information in this quarterly report contains forward-looking statements, including statements related to anticipated operating results, margins, growth, financial resources, capital requirements, adequacy of the Company's financial

resources, trends in spending on research and development, the development of new markets, the development, regulatory approval, manufacture, distribution, and commercial acceptance of new products, and future product development efforts. Investors are cautioned that forward-looking statements involve risks and uncertainties, which may affect our business and prospects, including but not limited to, the Company's expected need for additional funding and the uncertainty of receiving the additional funding, changes in economic and market conditions, acceptance of our products by the health care and reimbursement communities, new development of competitive products and treatments, administrative and regulatory approval and related considerations, health care legislation and regulation, and other factors discussed in our filings with the Securities and Exchange Commission.

GENERAL

The Company is primarily involved in the development of artificial oxygen carriers and glucose sensors.

The Company's development projects are primarily in the preliminary stages. The Company is diligently developing several applications for its primary development projects, but does not anticipate beginning any government protocols or clinical trials in the near term.

In 2002, the Board of Directors analyzed progress and outlook for all units and current projects within the group and assessed the key cost factors. In order to improve the probability of successful market entry for its key projects in the hemoglobin area, the Board initiated a comprehensive refocusing program aimed at cost reduction and fast market entry.

Group Structure

In the pursuit of this program, the Company has begun to reduce the complexity of the group structure by closing the Singapore subsidiary, merging Sangui USA with the parent company Sangui BioTech International, Inc. and initiating the merger of the two German subsidiaries, GlukoMediTech AG and SanguiBioTech AG, into SanguiBioTech AG. The Company should benefit from the clearer focus of management attention and the decrease in consolidation efforts. Management expects to save approximately 50% of the group's total accounting and auditing expenses, which, in fiscal 2002, amounted to more than $180,000.

Sangui Singapore's operations used to encompass mainly a test laboratory serving the purpose of carrying out experiments on animals. The closing of the operations in Singapore is expected to result in annual savings of approximately $200,000 as the net loss of Sangui BioTech PTE Ltd. was approximately $220,000 and approximately $183,000 for the years ended June 30, 2002 and 2001, respectively.

After having sold the immunodiagnostic test kit business to Axis/Shield ASA and Biomerica, Inc. in the first quarter of fiscal year 2003, Sangui USA no longer had any significant operations within the group. Sangui USA, therefore, was merged with the parent company at the end of the second quarter of fiscal year 2003. In accordance with the Company's goals and plan of restructuring, Sangui Singapore and Sangui USA are presented as discontinued operations in the accompanying consolidated financial statements.

In the course of the merger of the two German subsidiaries it was resolved to reduce further expenditures in the blood substitute, blood additive and glucose sensor projects to the amount necessary to find financing, industrial or distribution partners for further development and marketing of the resulting products.

Cost Savings

As will be discussed below, the ongoing cost-cutting exercise has already contributed to reducing the operating expenditures of the Company. Management has begun to implement more efficient processes and shift to alternative suppliers and materials offering better price-performance ratios. Remaining staff has been shifted to work on the most promising projects, in particular on the external applications of oxygen carriers, while expenses for long-term development projects have been reduced. With regard to the long-term projects, management focuses on identifying strategic industry and financing partners. All costly external projects and orders have been terminated or delayed. In the course of this process, the number of employees was reduced by 57% to 13 fulltime employees at March 31, 2003 from 30 employees at June 30, 2002. Contracts with 6 employees are due to expire at the beginning of the fourth quarter of fiscal 2003.

On the other hand, consulting and legal fees related to the restructuring have resulted in non-recurring expenses of approximately $ 224,000 in the first nine months of fiscal 2003. Management believes, that additional opportunities for significant cost savings will be identified. Special attention is being paid to the pending lawsuits (see below). Management has requested its attorneys to take the steps necessary to dismiss the liability claim.

In total, management has been able to reduce the Company's operating expenses by 43% to approximately $1.7 million in the first nine months of fiscal 2003, compared to approximately $3.0 million in the respective period of last fiscal year. This is partially due to the elimination of amortization expense related to prepaid consulting fees which were written off at June 30, 2002, and to the cancellation of stock options at the end of fiscal 2002. Research and development expenses and general and administrative expenses have been reduced by 15 % and 24 %, respectively, in the first nine months of fiscal 2003 as compared to the respective period of last fiscal year. This effort is also reflected in the net cash used in operating activities which decreased 30% to approximately $1.5 million from last year's approximately $2.1 million. Management, therefore, assumes that the current planning is realistic and that the Company's funds and liquidity are sufficient to finance its activities at least through the period ending March 31, 2004.

FINANCIAL POSITION

The Company's current assets decreased approximately $2 million, or 48%, from June 30, 2002 to approximately $2.1 million at March 31, 2003. The decrease is primarily attributable to a decrease in cash and cash equivalents of approximately $700,000, a decrease in available for sale securities of approximately $844,000, a decrease in grant receivable of approximately $214,000, a decrease in accounts receivable of approximately $85,000, and a decrease in inventories of approximately $52,000. The decrease in cash and cash equivalents and available for sale securities results primarily from funding the current year's operations of the Company with little or no revenues in the three and nine month periods ended March 31, 2003.

The Company's net property and equipment decreased approximately $292,000, or 57%, from June 30, 2002 to approximately $218,000 at March 31, 2003. The decrease is primarily attributable to the Company's write-off of approximately $107,000 of leasehold improvements at Sangui Singapore and current year depreciation of approximately $221,000.

The Company funded its operations primarily through its existing cash reserves. The Company's stockholders' equity decreased approximately $1.8 million. The primary decrease is caused by the Company's current period net loss of approximately $1.7 million, and a decrease in accumulated other comprehensive income of approximately $125,000 due to foreign currency translation adjustments and unrealized losses on marketable securities.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2003 and 2002:

Sangui AG

RESEARCH AND DEVELOPMENT. Research and development expenses decreased 17% to approximately $135,000 in 2003 from approximately $162,000 in 2002. The decrease is due to the refocusing of research and development activities.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 76% to approximately $181,000 in 2003 from approximately $103,000 in 2002. This increase is mainly attributed to legal costs incurred for the execution of the ongoing refocusing program.

DEPRECIATION. Depreciation increased 318% to approximately $117,000 in 2003 from approximately $28,000 in 2002. This increase is mainly attributed to the ongoing restructuring of the German subsidiaries.

Gluko AG

RESEARCH AND DEVELOPMENT. Research and development expenses increased 21% to approximately $173,000 in 2003 from approximately $143,000 in 2002. The increase is due to compensation and payoffs in the course of the refocusing of research and development activities.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 22% to approximately $72,000 in 2003 from approximately $59,000 in 2002. This increase is mainly attributed to legal costs incurred for the execution of the ongoing refocusing program.

Sangui BioTech International, Inc.

GENERAL AND ADMINISTRATIVE. General and administrative expenses were approximately $9,000 in 2003 and approximately $16,000 in 2002.

COMPENSATION EXPENSE RELATED TO STOCK OPTIONS. Compensation expense related to stock options was $250,000 in 2002, which represented the amortization of the fair value of stock options previously issued to the chairman of the Company. Effective June 30, 2002, these options were cancelled and there is no compensation expense related to stock options in the three months ended March 31, 2003.

AMORTIZATION OF PREPAID CONSULTING FEES. Amortization of prepaid consulting fees was $110,000 in 2002. At June 30, 2002, management determined that no more benefit would be received in relation to the prepaid consulting fees and accordingly the unamortized balance was written off in fiscal 2002. Thus, there was no amortization in the three months ended March 31, 2003.

Consolidated

NET LOSS. As a result of the above factors and the loss from discontinued operations (see Note 5), the Company's consolidated net loss was approximately $662,000, or $0.02 per common share, in 2003, compared to approximately $1 million, or $0.03 per common share, in 2002.

RESULTS OF OPERATIONS

Nine months Ended March 31, 2003 and 2002:

Sangui AG

RESEARCH AND DEVELOPMENT. Research and development expenses decreased 25% to approximately $304,000 in 2003 from approximately $407,000 in 2002. The decrease is due to the refocusing of research and development activities.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 17% to approximately $460,000 in 2003 from approximately $393,000 in 2002. This increase is mainly attributed to the ongoing refocusing program.

DEPRECIATION. Depreciation increased 137% to approximately $185,000 in 2003 from approximately $78,000 in 2002. This increase is mainly attributed to the ongoing restructuring of the German subsidiaries.

Gluko AG

RESEARCH AND DEVELOPMENT. Research and development expenses decreased 6% to approximately $408,000 in 2003 from approximately $432,000 in 2002. The decrease is due to the refocusing of research and development activities.

GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased 3% to approximately $195,000 in 2003 from approximately $201,000 in 2002. This decrease is mainly attributed to the ongoing refocusing program.

Sangui BioTech International, Inc.

GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased 71% to approximately $124,000 in 2003 from approximately $425,000 in 2002. This decrease is related to legal costs incurred in 2002 by the Company in a lawsuit against a former director of the Company and a decrease in professional and consulting fees.

COMPENSATION EXPENSE RELATED TO STOCK OPTIONS. Compensation expense related to stock options was $750,000 in 2002, which represented the amortization of the fair value of stock options previously issued to the chairman of the Company. Effective June 30, 2002, these options were cancelled and there is no compensation expense related to stock options in the nine months ended March 31, 2003.

AMORTIZATION OF PREPAID CONSULTING FEES. Amortization of prepaid consulting fees was $330,000 in 2002. At June 30, 2002, management determined that no more benefit would be received in relation to the prepaid consulting fees and accordingly the unamortized balance was written off in fiscal 2002. Thus, there was no amortization in the nine months ended March 31, 2003.

Consolidated

NET LOSS. As a result of the above factors and the loss from discontinued

operations (see Note 5), the Company's consolidated net loss was approximately $1.7 million, or $0.04 per common share, in 2003, compared to approximately $3.4 million, or $0.08 per common share, in 2002.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended March 31, 2003, net cash used in operating activities decreased to approximately $1.5 million from approximately $2.1 million in the corresponding period in 2002, primarily related to a decrease in the Company's consolidated net loss as a result of the ongoing refocusing program.

For the nine months ended March 31, 2003, net cash provided by investing activities increased to approximately $801,000 from approximately $614,000 in the corresponding period in 2002. The principal increase in cash is due to the maturity of marketable securities and decrease in purchases of marketable securities.

Working capital was approximately $2.0 million at March 31, 2003, a decrease of approximately $1.5 million from June 30, 2002 due primarily to the Company's net loss for the nine month period. A substantial portion of the Company's total assets consists of cash and highly liquid marketable securities classified as available for sale securities. The highly liquid nature of these assets provides the Company with flexibility in financing and managing its business. For the nine-months ended March 31, 2003, realized gains on the Company's marketable securities were approximately $54,000, and unrealized net losses were approximately $83,000.

At March 31, 2003, the Company had cash and liquid marketable securities of approximately $1.8 million. The Company believes that its available cash will be sufficient to satisfy its requirements at least through the period ending March 31, 2004. However, the Company will need substantial additional funding to fulfil its business plan and the Company intends to explore financing sources for its future development activities. No assurance can be given that these efforts will be successful.

ITEM 3 - CONTROLS AND PROCEDURES

As of March 31, 2003, an evaluation was performed under the supervision and with the participation of the Company's management, including the CEO/CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including CEO/CFO, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2003. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2003.

ITEM 4 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has no derivative financial instruments. Exposure to foreign currency exchange rates is limited, as the Company has no operating business or staff outside Germany since December 31, 2002.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

On July 26, 2002, 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. 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. In October 2002, the Court granted the motion of counsel to Mr. Kappes to withdraw from representation of Mr. Kappes. Upon consideration by the Board of Directors of the legal costs to prosecute the claims against Mr. Kappes and the likelihood of being able to collect on any obtained judgment, the company has requested its attorneys to take the steps necessary to dismiss the liability claim.

In September 2002, Mr. Kappes' wife, Kerstin Kappes, and Petra Schwabe-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. In November 2002, the Company finalized a settlement agreement with Mr. and Mrs. Kappes and Mrs. Kutscher providing for the permitted transfer by them of their Company stock under certain conditions. No money will be paid by the Company in connection with the settlement. The legal action has been dismissed.

On August 10, 2002, Sieglinde Borchert, a former director of Sangui BioTechAG and Gluko Meditech AG, filed a lawsuit against the two German Corporations alleging that she is still member of the Board of Management of these Companies. The parties agreed on a settlement in January 2003, which was approved by the Court. The legal action has been dismissed.

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 into between Axis and the Company, according to which the Company agreed to cease to sell CDT kits among other intangible information for 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.

ITEM 2 - CHANGE IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

Not applicable

ITEM 5 - OTHER INFORMATION

As of October 29, 2002, Edgar Fritschi, VM.D., has resigned from his position as a Director of Sangui BioTech International, Inc. and from all other positions he previously held in the Company.

As of February 28, 2003, Oswald Burkhard, M.D., PhD. has resigned from his position as a Director of Sangui BioTech International, Inc.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

99.1 Certification of Chief Executive Officer/Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

SANGUI BIOTECH INTERNATIONAL, INC.

By: /s/ Wolfgang Barnikol

Wolfgang Barnikol
President, Chief Executive Officer and
Chief Financial Officer

Date: May 14, 2003

CERTIFICATION UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sangui BioTech International, Inc. (the "Company") on Form 10-QSB for the period ended March 31, 2003, 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 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-QSB of Sangui Biotech International, Inc. (the "Company");

2. Based on my knowledge, this quarterly 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 quarterly report;

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

4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

6. The Company's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

By: /s/ Wolfgang. Barnikol

Wolfgang Barnikol, Chief Executive Officer and Chief Financial Officer

Exhibit 99.1

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 Quarterly Report of Sangui BioTech International, Inc. (the "Company") on Form 10-QSB for the period ended March 31, 2003, 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: May 14, 2003

/s/ Wolfgang Barnikol

Wolfgang Barnikol
President, Chief Executive Officer and
Chief Financial Officer