SANGUI BIOTECH INTERNATIONAL INC
Form 10QSB
May 15, 2002

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, 2002

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OF 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.)

1508 BROOKHOLLOW DRIVE, SUITE 354
SANTA ANA, CALIFORNIA 92705
(Address of Principal Executive Offices) (Zip Code)
Registrant's Telephone Number, Including Area Code: (714) 429-7807

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 13, 2002
Common Stock, no par value	40,514,363

Transitional Small Business Disclosure Format
(Check one);

Yes [ ] No [X]

INDEX

SANGUI BIOTECH INTERNATIONAL, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheet at March 31, 2002 (Unaudited)

Consolidated Statements of Operations and Comprehensive Loss (Unaudited) Three and nine months ended March 31, 2002 and 2001.

Consolidated Statements of Cash Flows (Unaudited) Nine months ended March 31, 2002 and 2001.

Item 2. Management's Discussion and Analysis of Interim Financial Condition and Results of Operations

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities

Item 3. Defaults Upon Senior Securities

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

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SANGUI BIOTECH INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET

	MARCH 31 2002 (UNAUDITED)
ASSETS	
Current assets	
Cash and cash equivalents	$ 965,306
Available for sale securities	2,981,525
Accounts receivable	93,805
Inventories	89,088

Prepaid expenses and other assets	319,415
Total current assets	4,449,139
Property and equipment-net	422,355
Patents-net	46,793
Total assets	$ 4,918,287

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable and accrued expenses	$ 277,454
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, 40,514,363 shares issued and outstanding	18,305,881
Additional paid-in capital	1,750,000
Prepaid consulting fees	(331,169)
Accumulated other comprehensive loss	(48,802)
Accumulated deficit	(15,035,077)
Total stockholders' equity	4,640,833
Total liabilities and stockholders' equity	$ 4,918,287

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

	FOR THE THREE MONTHS ENDED MARCH 31 (UNAUDITED)		FOR TH NINE MONTHS MARCH 3 (UNAUDI
	2002	2001	2002
Sales	$ 143,262	$ 151,680	$ 385,515
Cost of sales	92,629	92,411	263,048

Gross profit	50,633	59,269	122,467
Operating expenses			
Research and development	305,462	232,879	841,653
General and administrative	397,421	191,073	1,606,346
Compensation expense related to stock options	250,000	250,000	750,000
Depreciation and amortization	49,990	37,312	127,179
Amortization of prepaid consulting fees	110,000	110,000	330,000
Total operating expenses	1,112,873	821,264	3,655,178
Loss from operations	(1,062,240)	(761,995)	(3,532,711)
Other income			
Interest income	6,495	67,178	66,591
Other income	11,878	--	77,169
Total income	18,373	67,178	143,760
Net loss	(1,043,867)	(694,817)	(3,388,951)
Other comprehensive income (loss)			
Foreign currency translation adjustments	(59,063)	(261,687)	130,236
Unrealized gain on marketable securities	30,835	--	177,332
Comprehensive loss	$ (1,072,095)	$ (956,504)	$ (3,081,383)
Net loss available to common shareholders per common share	$ (0.03)	$ (0.02)	$ (0.08)
Basic and diluted weighted average number of common shares outstanding	40,514,363	40,514,303	40,514,363

SANGUI BIOTECH INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The NINE MONTHS ENDE MARCH 31, (UNAUDITED)
	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	

Net loss	$ (3,388,951)	$ (2
Adjustments to reconcile net loss to cash used by operating activities		
Compensation expense related to stock options	750,000	
Depreciation and amortization	127,179	
Amortization of prepaid consulting fees	330,000	
Changes in operating assets and liabilities:		
Accounts receivable	35,123	
Grants receivable	--	
Inventories	(19,067)	
Prepaid expenses and other assets	43,321	
Accounts payable and accrued expenses	(11,163)	
Net cash used in operating activities	(2,133,558)	(1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in marketable securities	(4,485,182)	
Maturities of marketable securities	5,144,498	
Purchase of property and equipment and patents	(45,272)	
Net cash provided by (used in) investing activities	614,044	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collection of stock subscription receivable	--	
Effect of exchange rate changes	130,236	
Net decrease in cash and cash equivalents	(1,389,278)	(1
Cash and cash equivalents, beginning of period	2,354,584	7
Cash and cash equivalents, ending of period	$ 965,306	$ 6
Supplemental disclosures:		
Cash paid during the period for:		
Interest	$ --	$
Income taxes	800	

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 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 the financial statements prepared in accordance with accounting principles generally accepted in the United States 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 financial statements and notes thereto in the Company's Form 10-KSB for the year ended June 30, 2001. 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, 2002 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2002.

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") 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. 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 the Company and its wholly owned domestic and foreign subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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.

Risk and Uncertainties

The Company's line of in vitro immunodiagnostic products, as well as the future pharmaceutical (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. Currently, most of the Company's immunodiagnostic tests for use with humans have been cleared by the above regulatory agencies. There can be no assurance that the Company will maintain the regulatory approvals required to market its products elsewhere. 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 revenues from product sales derived from its immunodiagnostic blood test kits are small. However, management believes its current cash and highly liquid marketable securities totaling approximately $3.9 million at March 31, 2002, are sufficient to fund the Company's operations and working capital requirements at least through June 30, 2002.

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.

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 earnings and are reported as a separate component of other comprehensive loss in shareholders' equity. Realized gains and losses are included in 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"). 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.

The Company adopted FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB 25." FIN 44 clarifies the application of APB 25 for (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a

plan qualifies as a non-compensatory plan, (c) the accounting consequence for various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. The adoption of FIN 44 did not have a material effect on the financial statements.

Basic and Diluted Earnings (Loss) Per Common Share

The Company applies SFAS No. 128 "Earnings Per Share" which requires dual presentation of net income (loss): Basic and Diluted. Basic earnings (loss) per common share are 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. No shares were dilutive as of March 31, 2002 and 2001. Basic and diluted loss per share are the same as the effect of stock options on loss per share are anti-dilutive and thus not included in the diluted loss per share calculation.

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 earnings but are included in comprehensive income and accumulated in a separate component of stockholders' equity. Income and expenses are translated at weighted average exchange rates for the period.

Comprehensive Income

The Company applies SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Total comprehensive income 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 are the changes in the cumulative foreign currency translation adjustments and unrealized gains (losses) on securities classified as available-for-sale 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 requires companies to report information about operating 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.

New Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141, "Business Combinations", which is effective for business combinations initiated after June 30, 2001. SFAS No. 141 eliminates the pooling of interest method of accounting for business combinations and requires that all business combinations occurring on or after July 1, 2001 are accounted for under the purchase method. The adoption of SFAS No. 141 did not have a material impact on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", which is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 requires that goodwill no longer be amortized. Instead, goodwill will be tested for impairment and written down if its fair value declines below its carrying amount. Goodwill amortization ceases as of the date of the required adoption of this standard which is January 1, 2002. The Company does not expect SFAS No. 142 to have a material effect on its financial statements.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and is effective for fiscal years beginning after

June 15, 2002. The Company does not expect SFAS No. 143 to have a material impact on its financial statements.

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 Company does not expect SFAS No. 144 to have a material impact on its financial statements.

NOTE 3 - AVAILABLE FOR SALE SECURITIES

Available for sale securities consist of the following at March 31, 2002:

	Cost	Fair Market Value	Unreali Ga
Mutual Funds	$2,968,317	$2,981,525	$13,2

NOTE 4 - COMPENSATION EXPENSE RELATED TO STOCK OPTIONS

Per APB No. 25, "Accounting for Stock Issued to Employees", the Company has recognized compensation expense for previously issued options in the amount of $250,000 and $750,000 in the accompanying statement of operations for the three and nine months ended March 31, 2002, respectively.

NOTE 5 - 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. Trial in this matter has been set for May 6, 2003.

Since the resolution of this matter cannot be determined at this time, the Company has not recorded any entry in the March 31, 2002 financial statements.

NOTE 6 - 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,	
	2002	2001	2002	2001
Net sales:				
Sangui USA	$ 143,262	$ 151,680	$ 385,515	$ 414,662
Sangui AG	--	--	--	--
Gluko AG	--	--	--	--
Sangui Singapore	--	--	--	--
	$ 143,262	$ 151,680	$ 385,515	$ 414,662
Net loss:				
Sangui USA	$ 507,422	$ 344,975	$ 1,798,385	$ 1,475,895
Sangui AG	281,547	215,826	796,582	778,946
Gluko AG	209,053	97,305	620,754	299,642
Sangui Singapore	45,845	36,711	173,230	86,570
	$ 1,043,867	$ 694,817	$ 3,388,951	$ 2,641,053
Depreciation and amortization				
Sangui USA	$ 3,500	$ 7,019	$ 10,690	$ 11,154

Sangui AG	28,278	21,410	78,385	65,703
Gluko AG	10,167	8,883	30,059	25,156
Sangui Singapore	8,045	--	8,045	--
	$ 49,990	$ 37,312	$ 127,179	$ 102,013

Identifiable assets	
Sangui USA	$ 782,242
Sangui AG	1,710,612
Gluko AG	2,280,772
Sangui Singapore	144,661
	$ 4,918,287

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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, which are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. 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, and in the manufacturing, marketing and distribution of in vitro immunodiagnostic test kits.

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.

FINANCIAL POSITION

The Company's current assets decreased approximately $1.9 million, or 30%, from June 30, 2001 to approximately $4.4 million at March 31, 2002. The decrease is primarily attributable to a decrease in cash and cash equivalents of approximately $1.4 million and a decrease in available for sale securities of approximately $482,000. The decrease in cash and cash equivalents and available for sale securities results primarily from funding the current year's operations of the Company.

The Company's property and equipment decreased approximately $92,000, or 18%, from June 30, 2001 to approximately $422,000 at March 31, 2002 due primarily to approximately $127,000 of depreciation, offset by purchases of approximately $35,000.

The Company funded its operations primarily through its existing cash reserves. The Company's stockholders' equity decreased approximately $2.0 million. The primary decrease is caused by the Company's current period net loss of approximately $3.4 million. Increases include a reduction in prepaid consulting fees of $330,000 due to amortization, an increase in additional paid-in capital of $750,000 due to the amortization of the fair value of previously issued options, and an increase in accumulated other comprehensive income of approximately $307,000 due to foreign currency translation adjustments and unrealized gain on marketable securities.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 and 2001:

Sangui USA

SALES. Sales decreased 6% to approximately $143,000 in 2002 from approximately $152,000 in 2001. The decrease is attributed to a 5% price reduction to the German distributor to offset the decrease of the German distributor's local currency against the U.S. dollar.

COST OF SALES. Costs of sales were approximately $93,000 in 2002 and approximately $92,000 in 2001. The Company's gross margin decreased to 35% in 2002 from 39% in 2001 primarily due to decrease in economy of scale. Management believes that the gross margin should be improved if sales increase to previous quarters levels.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 408% to approximately $198,000 in 2002 from approximately $39,000 in 2001. This increase is related to legal costs incurred by the Company in a lawsuit against a former director of the Company and in patent related litigation.

COMPENSATION EXPENSE RELATED TO STOCK OPTIONS. Compensation expense related to stock options was $250,000 in 2002 and 2001, which represents the amortization of the fair value of stock options previously issued to the chairman of the Company.

AMORTIZATION OF PREPAID CONSULTING FEES. Amortization of prepaid consulting fees was $110,000 in 2002 and 2001.

Sangui AG

RESEARCH AND DEVELOPMENT. Research and development expenses increased 35% to approximately $162,000 in 2002 from approximately $120,000 in 2001, due to increased research and development activities.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 12% to approximately $103,000 in 2002 from approximately $92,000 in 2001. This increase is attributed to increases in operating expenses.

Gluko AG

RESEARCH AND DEVELOPMENT. Research and development expenses increased 46% to approximately $143,000 in 2002 from approximately $98,000 in 2001, due to increased research and development activities.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 156% to approximately $59,000 in 2002 from approximately $23,000 in 2001, due to increased operating expenses.

Sangui Singapore

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 3% to approximately $38,000 in 2002 from approximately $37,000 in 2001.

Sangui Biotech International, Inc.

NET LOSS. The Company's consolidated net loss was approximately $1.0 million, or approximately three cents per common share, in 2002, compared to approximately $695,000, or two cents per common share, in 2001. This increase in net loss is a result primarily of increased expenses and increased research and development expenses.

Nine months ended March 31, 2002 and 2001:

Sangui USA

SALES. Sales decreased 7% to approximately $386,000 in 2002 from approximately $415,000 in 2001. This decrease is attributed to the Company's German distributor making fewer purchases in 2002 and to a 5% price reduction to the German distributor to offset the decrease of the German distributor's local currency against the U.S. dollar.

COST OF SALES. Cost of sales decreased 1% to approximately $263,000 in 2002 from approximately $267,000 in 2001. This decrease is related to reduced costs associated with the decrease in sales. The

Company's gross margin decreased to 32% in 2002 from 36% in 2001 primarily due to decrease in economy of scale. Management believes that the gross margin should be improved as sales increase.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 53% to approximately $859,000 in 2002 from approximately $560,000 in 2001. This increase is related primarily to legal costs incurred by the Company in lawsuits against a former director of the Company and in patent related litigation.

COMPENSATION EXPENSE RELATED TO STOCK OPTIONS. Compensation expense related to stock options was $750,000 in 2002 and 2001, which represents the amortization

of the fair value of stock options previously issued to the chairman of the Company.

AMORTIZATION OF PREPAID CONSULTING FEES. Amortization of prepaid consulting fees was approximately $330,000 in 2002 and $334,000 in 2001.

Sangui AG

RESEARCH AND DEVELOPMENT. Research and development expenses decreased 1% to approximately $407,000 in 2002 from approximately $409,000 in 2001, due to the timing of projects currently in development.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 11% to approximately $393,000 in 2002 from approximately $353,000 in 2001. This increase is attributed to increases in operating expenses.

Gluko AG

RESEARCH AND DEVELOPMENT. Research and development expenses increased 53% to approximately $432,000 in 2002 from approximately $283,000 in 2001, due to increased research and development activities.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 114% to approximately $201,000 in 2002 from approximately $94,000 in 2001. This increase is attributed to increases in operating expenses.

Sangui Singapore

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 76% to approximately $153,000 in 2002 from approximately $87,000 in 2001 and are attributed to full time operations in the current fiscal year compared to start up operations in the prior fiscal year.

Sangui Biotech International, Inc.

NET LOSS. The Company's consolidated net loss was approximately $3.4 million, or approximately eight cents per common share, in 2002, compared to approximately $2.6 million, or seven cents per common share, in 2001. This increase in net loss is a result primarily of increased operating and legal expenses.

LIQUIDITY AND CAPITAL RESOURCES

For the nine-months ended March 31, 2002, net cash used in operating activities increased to approximately $2.1 million from approximately $1.6 million in the corresponding period in 2001, primarily related to an increase in the Company's consolidated net loss.

For the nine-months ended March 31, 2002, net cash provided by investing activities was approximately $614,000 compared to net cash used in investing activities of approximately $235,000 in the corresponding period in 2001. The principal increase in cash is due to the maturity of marketable securities and decrease in purchases of property and equipment and patents.

For the nine-months ended March 31, 2002, there was no cash provided by financing activities compared to approximately $321,000 of net cash provided by financing activities in the corresponding period in 2001 received from the collection of stock subscriptions receivable. There were no stock subscriptions receivable in 2002.

Working capital was approximately $4.2 million at March 31, 2002, a decrease of approximately $1.9 million from June 30, 2001. For the nine-month period ended March 31, 2002, cash and cash equivalents and available for sale securities declined approximately 33%, to approximately $3.9 million at March 31, 2002 from approximately $5.8 million at June 30, 2001.

A substantial portion of the Company's total assets consists of cash and highly liquid marketable securities classified as available for sale securities. Marketable securities at March 31, 2002 include approximately $3.0 million of investments in money market mutual funds which are convertible to cash daily. The highly liquid nature of these assets provides the Company with flexibility in financing and managing its business. For the three-months ended March 31, 2002, realized gains and losses on the Company's marketable securities were negligible, and unrealized net gains were approximately $31,000.

The Company intends to intensify its development efforts during the remaining quarter of the current fiscal year ending June 30, 2002. The Company believes that its available cash will be sufficient to satisfy its requirements through June 30, 2002. However, the Company will need substantial additional funding to fulfill its business plan and the Company is exploring financing sources for its future development activities. No assurance can be given that these efforts will be successful.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has no derivative financial instruments and no exposure to foreign currency exchange rates or interest rate risk.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

On July 26, 2001, the Company commenced a lawsuit in the United States District Court for the District of Colorado against Helmut Kappes. Mr. Kappes was serving as a director of the Company when the lawsuit was filed. In the lawsuit, the Company alleges that Mr. Kappes was engaged in conduct related to the Company's affairs that is fraudulent, dishonest and gross abuse of his authority or discretion as a director and that his removal and ban from re-election 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' 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 seeks the removal and ban from re-election of Mr. Kappes from the Company's Board of Directors, an injunction against from Mr. Kappes and his affiliates from exchanging the shares of the Company's common stock 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 a motion to dismiss the lawsuit in which he asserts that the Court in Colorado is an inconvenient forum for resolution of the disputes. The Company does not agree with the position of Mr. Kappes and has filed an opposition brief with the Court. A hearing has been scheduled for June 6, 2002, for argument of the motion to dismiss. In October 2001, Mr. Kappes resigned from the Company's Board of Directors.

In December 2000, Axis/Shields ASA, a Norway corporation (Axis), filed a lawsuit against Sangui USA alleging that Sangui USA's Carbohydrate-Deficient Transferring ("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. Trial on this matter has been set for May 6, 2003. Since the

resolution of this matter cannot be determined at this time, the Company has not recorded any entry in the March 31, 2002 financial statements.

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

Not applicable

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

Not applicable

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 and CEO

Date: May 10, 2002
