SANGUI BIOTECH INTERNATIONAL INC
Form 10QSB
May 18, 2001

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. 2001
[ ] 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 14, 2001
Common Stock, no par value	40,514,363

Transitional Small Business Disclosure Format (Check one);

Yes [ ] No [X]

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SANGUI BIOTECH INTERNATIONAL, INC.

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SANGUI BIOTECH INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET

ASSETS

	MARCH 31, 2001 (UNAUDITED)
CURRENT ASSETS	
Cash and cash equivalents	$ 6,214,401
Accounts receivable	106,074
Inventories	80,559
Prepaid expenses and other assets	426,266
Total Current Assets.	6,827,300
PROPERTY AND EQUIPMENT - NET.	558,124
PATENTS	38,109
TOTAL ASSETS.	$ 7,423,533

LIABILITIES & STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 191,674
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.	18,530,881
Additional paid-in capital.	750,000
Stock subscriptions receivable.	(225,000)
Prepaid consulting fees	(771,169)
Accumulated other comprehensive loss.	(393,535)
Accumulated deficit	(10,659,318)
Total stockholders' equity.	7,231,859
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.	$ 7,423,533

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

	FOR THE THREE MONTHS ENDED MARCH 31, (UNAUDITED)		
	2001	2000	
SALES.	$ 151,680	$ 115,329	$ 41
COST OF SALES.	92,411	68,753	26
GROSS PROFIT	59,269	46,576	14
OPERATING EXPENSES			
Research and development	232,879	219,273	72
General and administrative	191,073	338,596	1,09
Compensation expense related to stock options.	250,000	-	75
Depreciation and amortization.	37,312	35,507	10
Amortization of prepaid consulting fees.	110,000	393,125	33
Total Operating Expenses	821,264	986,501	3,00

LOSS FROM OPERATIONS	(761,995)	(939,925)	(2,85
OTHER INCOME			
Interest income.	67,178	14,155	21
Net loss	(694,817)	(925,770)	(2,64
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustments	(261,687)	(16,523)	(28
COMPREHENSIVE LOSS	$ (956,504)	$ (942,293)	$(2,92
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS PER COMMON SHARE			
Net loss	($0.02)	($0.03)	(
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES			
OUTSTANDING.	40,514,303	32,879,796	40,51

SANGUI BIOTECH INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FO NINE M M (U 2001
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Loss	$ (2,641,053)
Adjustments to reconcile net loss to cash used by operating activities	
Compensation expense related to vesting of previously issued stock options	750,000
Depreciation and amortization.	102,013
Amortization of prepaid consulting fees.	333,831
Changes in operating asset and liabilities:	
Accounts receivable.	(50,356)
Grant receivable	176,844
Inventories.	(869)
Prepaid expenses and other assets.	(210,756)
Accounts payable and accrued expenses.	(38,531)
Net cash used in operating activities.	(1,578,877)

CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of marketable securities.	-
Purchase of property and equipment	(234,626)
Net cash (used in) provided by investing activities.	(234,626)
CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of common stock	-
Collection of stock subscription receivable.	321,367
Net cash provided by investing activities.	321,367
Effect of exchange rate changes.	(282,721)
Net (decrease) increase in cash and cash equivalents	(1,774,857)
	-
Cash and cash equivalents, beginning of period	7,989,258
Cash and cash equivalents, ending of period.	$ 6,214,401
Supplemental disclosures:	
Cash paid during the period for:	
Interest	$ 1,049
Income taxes	$ 800

SANGUI BIOTECH INTERNATIONAL, INC.
Notes to Consolidated Financial Statements

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 ("GAAP") for interim information and with the instructions to Form 10-QSB and Item 301 of Regulation S-B. Accordingly, the accompanying consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements. The unaudited consolidated financial statements and notes should, therefore, be read in conjunction with the financial statements and notes thereto in Form 10-KSB for the year ended June 30, 2000. 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-month and nine-month periods ended March 31, 2001 are not necessarily indicative of the results that may be expected for the entire fiscal year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Sangui BioTech International, Inc. (the "Company") ("SGBI") was incorporated in Colorado on July 14, 1995. Since inception, the Company has primarily been engaged in the commercial development and manufacturing of immunodiagnostic kits, which are sold by the Company in niche markets in the United States and Europe, by of the Company's wholly owned subsidiary Sangui BioTech, Inc. ("Sangui USA"). Sangui USA's laboratory and headquarters are located in Santa Ana, California, and this facility is devoted to immunodiagnostic research, development, manufacturing and distributing, marketing, and administrative functions for the Company. Sangui USA was incorporated in Delaware on August 2, 1996. Sangui USA is the parent company to two wholly owned subsidiaries, SanguiBioTech AG ("Sangui AG") and GlukoMediTech, AG ("Gluko"). Sangui AG and Gluko were incorporated in Mainz, Germany on November 25, 1995 and July 15, 1996, respectively. Sangui AG and Gluko are engaged in the development of artificial oxygen carriers and glucose implant sensors, respectively.

On May 15, 1999, Sangui BioTech PTE Ltd. ("Sangui Singapore") was incorporated in Singapore. SBTS is expected to become a regional office for the Company and its subsidiaries and to be engaged in the business of carrying out research and development projects in conjunction with the German subsidiaries.

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.

Risk and Uncertainties

Both the Company's small 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 its German subsidiaries, 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 and Singapore (in the future), will be subject to 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 failure in obtaining regulatory clearance as well as the timely receipt of the clearances, if obtained.

The Company's revenues from product sales derived from its immunodiagnostic operations in the U.S. are small. However, management believes its current cash position is sufficient to fund the Company's operations and working capital requirements through June 30, 2001.

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.

Basic and Diluted Earnings (Loss) Per Common Share

The Company has adopted Statement of Financial Accounting Standards No. 128 (SFAS No. 128) "Earnings Per Share." SFAS No. 128 changes the methodology of calculating earnings per common share. The adoption of SFAS No. 128 has not materially impacted the Company's financial position or results of operations.

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. 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 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. The Company had foreign exchange transaction losses of $(261,687) and $(16,523) for the three months ended March 31, 2001 and 2000, and $(282,721) and $(43,932) for the nine months ended March 31, 2001 and 2000, respectively.

Comprehensive Income

The Company has adopted 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 marketable securities recorded as components of stockholders' equity.

Segments of an Enterprise and Related Information

The Company has adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 changes 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 6).

Web Site Development Costs

The Company has adopted the Emerging Issues Task Force Issue No. 00-2, "Accounting for Web Site Development Costs", ("EITF 00-2"). The consensus states that for specific web site development costs, the accounting for such costs should be accounted for under Statement on Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". The adoption of EITF 00-2 did not have a material effect on its financial statements.

Stock Compensation

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.

Accounting for Derivative Instruments and Hedging Activities

The Company has adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet at their fair value. The adoption of this standard did not have a material impact on the Company's results of operations, financial position or cash flows as it currently does not engage in any derivative or hedging activities.

New Accounting Pronouncements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 ("SAB 101"), "Revenue Recognition," which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the Securities and Exchange Commission. The effective date of this pronouncement is the fourth quarter of the fiscal year beginning after December 15, 1999. The Company believes that adopting SAB 101 will not have a material impact on its financial position and results of operations.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 3 - RETIREMENT OF PREFERRED STOCK

During the nine months ended March 31, 2001, the Company retired all the outstanding shares of its preferred stock. As a result, preferred stock decreased by $5,050 and common stock increased by $5,050.

NOTE 4 - PATENT RELATED LITIGATION SETTLEMENT

On December 20, 2000, Axis/Shields ASA, a Norway Corporation (Axis), filed a lawsuit in the United States District Court in the Southern California District, alleging that the manufacture or sale by Sangui USA of its Carbohydrate-Deficient Transferring ("CDT") test kit, which is used to detect chronic alcohol abuse, constituted an infringement of patent rights owned by Axis. On March 26, 2001, an agreement was reached with Axis to resolve this lawsuit. Sangui USA agreed to cease the manufacture or sale of its ChronAlco CDT test kit by June 26, 2001. Sangui USA has redesigned a new CDT kit and plans to introduce the new kit to current and potential new customers by May 31, 2001.

NOTE 5 - COMPENSATION EXPENSE RELATED TO STOCK OPTIONS

Per Accounting Principles Board Opinion 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, 2001, respectively.

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,	
	2001	2000	2001	2000
Net sales:				
Sangui USA.	$ 151,680	$115,329	$ 414,662	$ 330,786
Sangui BioTech AG	-	-	-	-
GlukoMediTech,AG.	-	-	-	-
Sangui BioTech PTE Ltd, Singapore	-	-	-	-
	$ 151,680	$115,329	$ 414,662	$ 330,786

Net loss:

Sangui USA.	$ 344,975	$638,052	$1,475,895	$1,478,691
Sangui BioTech AG	215,826	174,848	778,946	595,025
GlukoMediTech,AG.	97,305	112,870	299,642	299,918
Sangui BioTech Singapore PTE Ltd.	36,711	-	86,570	-
	$ 694,817	$925,770	$2,641,053	$2,373,634

Depreciation and amortization

Sangui USA.	$ 117,019	$402,946	$ 344,985	$1,200,310
Sangui BioTech AG	21,410	20,233	65,703	62,313
GlukoMediTech,AG.	8,883	5,453	25,156	14,259
Sangui BioTech Singapore PTE Ltd.	-	-	-	-
	$ 147,312	$428,632	$ 435,844	$1,276,882

Identifiable assets

Sangui USA.	$1,129,168
Sangui BioTech AG	2,846,320
GlukoMediTech,AG.	3,031,661
Sangui BioTech Singapore PTE Ltd.	416,384
	$7,423,533

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, 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.

In 1999, the Company established a subsidiary in Singapore. This subsidiary is expected to become the Company's Pacific Rim headquarters. In the near term, the Company expects to perform research and development activities in this facility. Future activities at this location are expected to include clinical trials as well as being the center of the Pacific Rim sales, marketing and distribution divisions.

The Company is actively building its management and support team. The Company has recently retained a chief scientific officer and biomedical scientist for its Singapore operation and a biomedical scientist and project coordinator for its German operations. The Company is currently looking to attract several key positions in its German, Singapore and United States operations. Management plans to fill these positions as qualified personnel are identified and retained.

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

Efforts to expand the distribution channels for the Company's diagnostic products have attracted interest both domestically and internationally. The Company has recently engaged an European consultant, who has over a decade of successful experience in marketing and distribution management with her former employer.

FINANCIAL POSITION

The current assets of the Company decreased approximately $1,690,000, or 20%, from June 30, 2000 to approximately $6,827,000 as of March 31, 2001. The decrease is primarily attributable to a decrease in cash of approximately $1,775,000, a decrease in grants receivable of approximately $177,000, an increase in accounts receivable of approximately $51,000, and an increase in prepaid and other assets of approximately $211,000. The decrease in cash and increase in accounts receivable and prepaid and other assets was caused by the normal day to day operations of the Company. The change in grants receivable was a result of the Company receiving a lower amount of grant payments from sponsoring governmental agencies.

The Company's property and equipment increased approximately $141,000, to approximately $558,000 as of March 31, 2001. Property and equipment increased approximately $235,000 from the purchase of certain property and equipment and decreased approximately $94,000 due to depreciation.

The Company funded its operations primarily through its existing cash reserves. The decrease in stockholders' equity and liabilities of approximately $1,557,000 is primarily caused by the Company's current period comprehensive loss of approximately $2,924,000, a reduction in stock subscription receivable of approximately $321,000 due to cash collected, a reduction in prepaid consulting fees of approximately $334,000 due to amortization of the prepaid, an increase in additional paid-in capital of $750,000 due to the value of options, and a

decrease in accounts payable of approximately $38,000.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2001 and 2000:

Sales for the three-months ended March 31, 2001 were approximately $152,000, compared to approximately $115,000 for the same period in the prior year. This is an increase of $37,000, or 32%. The increase is primarily attributable to increased marketing efforts of the Company's immunodiagnostic kits.

Cost of sales for the three-months ended March 31, 2001 were approximately $92,000, compared to approximately $69,000 for the same period in the prior year. This is an increase of $23,000, or 33%, and is directly related to the increase in the sales of the Company's immunodiagnostic test kits.

Research and development expenses for the three-months ended March 31, 2001 were approximately $233,000, compared to approximately $219,000 in the same period in the prior year. This increase of $14,000, or 6% is attributed to the Company maintaining both the number of developmental projects in process and the number of employees in the research and development area. The Company anticipates that the research and development costs of the Company will increase in the near term.

General and administrative expenses for the three-months ended March 31, 2001 were approximately $191,000, compared to approximately $339,000 for the same period in the prior year. This decrease of $148,000, or 44%, is attributed to a decrease in professional and consulting fees.

Compensation expense related to stock options for the three-months ended March 31, 2001 was $250,000, which represents the amortization of the fair value of stock options previously issued to the chairman of the Company. There was no compensation expense related to stock options for the same period in the prior year.

Amortization of prepaid consulting fee for the three-months ended March 31, 2001 was $110,000, compared to $393,125 in the same period in the prior year. The decrease of $283,125, or 72%, results from an extension in the consulting agreement for an additional 24 months effective at the beginning of July 2000.

Interest income for the three-months ended March 31, 2001 was approximately $67,000, compared to approximately $14,000 in the same period in the prior year. The increase in interest income of $53,000, or 379%, is caused by the Company investing the unused portion of the cash raised during previous fund raisings.

As a result, net loss for the three-months ended March 31, 2001 was $(694,817), or $(0.02) per share, compared to $(925,770), or $(0.03) per share for the three-months ended March 31, 2000.

Nine Months Ended March 31, 2001 and 2000:

Sales for the nine-months ended March 31, 2001 were approximately $415,000, compared to approximately $331,000 for the same period in the prior year. This is an increase of $84,000, or 25%. The increase is primarily attributable to increased marketing efforts of the Company's immunodiagnostic kits.

Cost of sales for the nine-months ended March 31, 2001 were approximately $267,000, compared to approximately $207,000 for the same period in the prior year. This is an increase of $60,000, or 29%, and is directly related to the increase in the sales of the Company's immunodiagnostic test kits.

Research and development expenses for the nine-months ended March 31, 2001 were approximately $723,000, compared to approximately $596,000 in the same period in the prior year. This increase of $127,000, or 21% is attributed to the Company maintaining both the number of developmental projects in process and the number of employees in the research and development area and a decrease of government grants to offset research and development expenses from approximately $177,000 in the prior year to no subsidies received in the current period. The Company anticipates that the research and development costs of the Company will increase in the near term.

General and administrative expenses for the nine-months ended March 31, 2001 were approximately $1,093,000, compared to approximately $675,000 for the same period in the prior year. This increase of $418,000, or 62%, is attributed to the expansion of the management team and an increase in professional and consulting fees.

Compensation expense related to stock options for the nine-months ended December 31, 2001 was $750,000, which represents the amortization of the fair value of stock options previously issued to the chairman of the Company. There was no compensation expense related to stock options for the same period in the prior year.

Amortization of prepaid consulting fee for the nine-months ended March 31, 2001 was $333,831, compared to $1,179,375 in the same period in the prior year. The decrease of $845,544, or 72%, results from an extension in the consulting agreement for an additional 24 months effective at the beginning of July 2000.

Interest income for the nine-months ended March 31, 2001 was approximately $213,000, compared to approximately $50,000 in the same period in the prior year. The increase in interest income of $163,000, or 326%, is caused by the Company investing the unused portion of the cash raised during previous fund raisings.

As a result, net loss for the nine-months ended March 31, 2001 was $(2,641,053), or $(0.07) per share, compared to $(2,373,634), or $(0.07) per share for the nine-months ended March 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, the Company had total stockholders' equity of approximately $7,232,000 as compared to approximately $8,750,000 at June 30, 2000. The decrease in stockholders equity in the nine months ended March 31, 2001 is primarily caused by the Company's comprehensive loss of approximately $2,924,000, offset by an increase in additional paid in capital of $750,000 related to the amortization of the fair value of stock options previously issued to the chairman of the Company, and a decrease in prepaid consulting fees due to amortization of the prepaid of approximately $334,000, and a decrease in stock subscriptions receivable due to cash collections of approximately $321,000.

For the nine-month period ended March 31, 2001, cash and cash equivalents declined approximately $1,775,000, or 22%, to approximately $6,214,000 at March 31, 2001 from approximately $7,989,000 at June 30, 2000. Cash flows used in operating activities were approximately $1,579,000. The principal source of

cash flow from operating activities was approximately $177,000 from the Company receiving grant payments from sponsoring governmental agencies. The principal uses of cash flow from operating activities was a net loss before depreciation, amortization, and compensation related to stock options, of approximately $1,455,000 primarily due to the Company financing all research and development projects through existing cash reserves and government grants, an increase in accounts receivable of approximately $51,000, an increase in prepaid expenses and other assets of approximately $211,000, and a decrease in accounts payable and accrued expenses of approximately $38,000. Cash flows used in investing activities totaled approximately $235,000, for the purchase of property and equipment. Cash flows provided by financing activities totaled approximately $321,000, from the receipt of stock subscriptions receivable.

The Company intends to intensify its development efforts during the remaining quarter of the current fiscal year ending June 30, 2001. The Company believes that its available cash will be sufficient to satisfy its requirements through June 30, 2001. 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 during the current year. 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 December 20, 2000, Axis/Shields ASA, a Norway Corporation (Axis), filed a lawsuit in the United States District Court in the Southern California District, alleging that the manufacture or sale by the Company's subsidiary, Sangui USA, of its Carbohydrate-Deficient Transferring ("CDT") test kit, which is used to detect chronic alcohol abuse, constituted an infringement of patent rights owned by Axis. On March 26, 2001, an agreement was reached with Axis to resolve this lawsuit. Sangui USA agreed to cease the manufacture or sale of l its ChronAlco CDT test kit by June 26, 2001. Sangui USA has redesigned a new CDT kit and plans to introduce the new kit to current and potential new customers by May 31, 2001.

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

None

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 & CEO

Dated: May 16 ,2001