



MFC BANCORP LTD.

2004 FINANCIAL REPORT

C O R P O R A T E P R O F I L E

MFC Bancorp Ltd. is an international merchant bank with offices in Shanghai, Hong Kong, Vienna and Berlin. Through MFC Merchant Bank S.A., a subsidiary based in Herisau, Switzerland, MFC Bancorp provides customized financial and consulting services to institutions and corporations. MFC Bancorp also invests for its own account by acquiring undervalued assets and restructuring them to realize their full potential, and by facilitating and financing international trade with a focus on commodities, emerging markets, and industrial and engineering services. MFC Bancorp invests actively in opportunities where its management, financial and trade expertise can unlock latent value. MFC Bancorp Ltd. common shares trade in the United States on the NASDAQ National Market (symbol: MXBIF) and in Europe on the Frankfurt Stock Exchange (symbol: MFC GR).

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Cover: Universally acclaimed as one of the most beautiful structures ever conceived, the Taj Mahal demonstrates the depth of India's cultural wealth and the creative genius of its people.

CORPORATE STRATEGY: FIRST, UNDERSTAND THE CONTEXT



In the 21st century, some of MFC Bancorp's greatest opportunities await in the two Asian giants that are swiftly becoming giant markets for merchant banking services: China and India. The explosive growth of Chinese manufacturing since the 1980s and its importance to the world economy is well known; but for the banking business, India's growth in services, construction and information technology may be equally important. India has a growing need for global financial expertise, yet a European merchant bank planning to supply that need must first understand the context of this Asian giant's awakening.

FINANCIAL HIGHLIGHTS

Year Ended December 31 (In Thousands, Except Per Share Amounts)	U.S. Dollars			
	2004	2003	2002	2001
Revenues	\$ 579,731	\$ 316,863	\$ 180,006	\$ 134,526
Net income	30,701	38,004	32,129	28,437
Earnings per share				
Basic	2.27	2.91	2.48	2.25
Diluted	2.24	2.78	2.35	2.10
Cash and cash equivalents	179,231	112,544	64,835	48,453
Short-term securities	17,542	6,509	29,274	39,486
Total assets	501,579	313,043	282,712	247,796
Long-term debt, less current portion	11,950	21,182	24,277	46,698
Shareholders' equity	223,849	169,024*	180,608	154,462

* after deduction of distribution payable

TO OUR SHAREHOLDERS

KHD Humboldt Wedag, which we acquired in 2004, has become an important asset that we operate in an integrated, synergistic fashion with our other commodity-related businesses. It is a long-established company that designs and builds production and handling facilities for cement and other commodities, serving customers worldwide. The nature of its business and the locations of its subsidiaries and sales offices (including Russia, the USA, South Africa, Australia, the Middle East, and substantial, established operations in China and India) are particularly complementary to MFC Bancorp group companies operating in the project finance, trade finance and commodity trading fields. Partly as a result of capitalizing on these synergies, its volume of business has nearly doubled in just the first year under MFC Bancorp's ownership: order intake was \$180 million in 2003, and grew to nearly \$325 million in 2004, an increase of 81%.

On Behalf of the Board,

A handwritten signature in brown ink, appearing to read "Michael J. Smith", is written over a light gray rectangular background.

Michael J. Smith

President and Chief Executive Officer

INDIA: THE OTHER ASIAN GIANT

When Europe Darkened, Asia Shone

Unlike China and the Middle Eastern cradles of European civilization, little is known of Indian history before about 1500 BCE, because the writing found in the ruins of cities like Harappa and Mohenjo-Daro remains undeciphered – one of archaeology’s great enduring mysteries. Following the Vedic Period when written Sanskrit appeared, India thrived whenever competent rulers provided the stability and good government that make economic progress possible. Under Ashoka (304?-232 BCE), considered one of the most enlightened monarchs in history, India benefited from both Buddhist teachings and the Greek learning brought to India by Alexander the Great in the mid-4th century BCE. Like China, India could not match Rome’s military and political genius in the early centuries CE, but surged ahead in wealth after the collapse of Roman power in the 5th century and the ensuing Dark Ages wrecked Europe’s economy.



Wealth That Dazzled European Explorers and Traders

By the 16th century when Portuguese explorers opened up direct trade, India was much wealthier than Europe, and grew richer still under Mogul rule. Akbar the Great (reigned 1556-1605), considered the empire’s real founder, greatly extended its territory but also introduced reforms that stimulated rapid economic growth. His policy of religious tolerance eased tensions and promoted a peaceful, relatively open trading economy that embraced all of India’s diverse communities.

A DISPLAY OF THE RICHES OF THE MOGUL EMPERORS



In a semi-annual ceremony established by Akbar the Great, the future Shah Jahan, builder of the Taj Mahal, is here shown being weighed in gold, which was then distributed to the poor. The trays in the foreground hold other riches to be similarly weighed and distributed.

Mogul India developed a large, skilled, and often wealthy business class, and advanced market and credit structures including its own merchant banks with extensive networks of agents and middlemen. These banks' bills of exchange were honored in every major city of Asia. A sense of India's wealth at the time is given by the annual revenue of the emperor Aurangzeb (1659-1707), calculated at more than ten times the revenue enjoyed by his richest European contemporary, Louis XIV of France. Though Aurangzeb was a cruel and uncultivated ruler who squandered much of his predecessors' legacy, during his reign India was still the world's principal manufacturing center, accounting for more than one fifth of the world's gross product and a quarter of its textile trade.

“John Company”

The British East India Company (known as “John Company”) was clearly and by far the most powerful commercial enterprise in history. Founded in 1600, it became the dominant military power in India following Robert Clive's victory at the Battle of Plassey in 1757, and waxed in power for another century. By a combination of business skill, military prowess and shrewd, unscrupulous statecraft (including liberal use of bribery, espionage and assassination), John Company gradually extended British sway over the entire subcontinent while reaping enormous profits. At its height, it effectively ruled a fifth of humanity and exceeded all but a handful of sovereign nations in military might.

Yet for all its achievements, John Company's dominion did not, on balance, benefit India. Even aside from its pre-modern attitudes on race, John Company embraced a Malthusian view of macroeconomics (Thomas Malthus was a professor of economics at its training college for



Shah Jahan's son Aurangzeb seized power in 1658, imprisoning his father and defeating his three brothers. Though he extended the empire in all directions, achieving its greatest power, his reign was marred by religious oppression (including the destruction of magnificent Hindu temples), unfair taxes and gratuitous cruelty.

most of his adult life) that regarded India's famines as the natural corrective for overpopulation. As a result, the company often refused to relieve famines, and they became even more frequent and destructive under British rule than they had been under previous conquerors.

Jewel in a Tarnished Crown

Although the British Crown dissolved John Company and assumed authority over India after crushing the Sepoy Rebellion in 1858, the company's culture – including acceptance of famine – still pervaded British India. However, Malthus's analysis did not account for famine's wholesale destruction not only of immense investments in human capital, but in livestock, buildings, production tools, land and soil improvements, business relationships, banking and credit structures, institutional trust and more.

Even leaving aside the tragic human dimension of such disasters, the dozens of famines that struck India under British rule were devastating economic blows from which it often took decades to recover. In 1830, India accounted for 17.6% of world industrial production and Britain 9.5%. But by 1900, Britain's share had increased to 18.6%, while India's had shrunk to a miserable 1.7% – and continued falling thereafter. India's desire for independence from Britain can therefore be considered entirely understandable.

The Failure of Central Planning

Independence, achieved in 1947, at least ended the famines (as Indian Nobel economist Amartya Sen has noted, no democracy has ever suffered a significant famine). Yet for over 40 years, India's

SEPOY REBELLION IN 1857



John Company's Indian recruits often made excellent soldiers, quickly mastering European weaponry and tactics; they were key to the gradual extension of British rule over the successor states following Aurangzeb's death in 1707. Rebelling against company rule in 1857, they were only defeated when Britain sent a large force to the company's aid.

economy continued to dramatically underperform its potential. Its share of world trade, an anemic 2.4% in 1947, had declined to a microscopic 0.4% by 1990. Real GDP growth barely outstripped population increase.

This economic stagnation may be attributed to the Nehru-Gandhi political dynasty and a circle of mostly British-educated officials who governed India almost continuously from 1947 to 1991. This group was enthralled with the central planning economics of Britain's Labour Party, Fabian socialism and the Soviet Union, and applied the theories in India. Central planning's record of unrelieved failure both in India and elsewhere, and especially the collapse of the Soviet Union and the exposure of its economic "success" as a Potemkin-village fraud finally shattered the planners' assumptions, allowing a more realistic, market-driven approach to emerge.

Return to a Golden Age?

Beginning in 1991, Prime Minister Narasimha Rao and Finance Minister Manmohan Singh initiated a series of economic liberalization policies that have rapidly revolutionized India's economy, setting it on the road to prosperity and even affluence. Trade barriers have fallen, foreign investment is now welcomed, and binding coils of red tape have been cut away. A vibrant commercial culture reminiscent of India's golden age has arisen.

There are parallels in this development with other major nations emerging from the shadow of central planning, such as Russia and especially China; but unlike them, India is genuinely democratic. Democracy implies a more predictable business environment, less official corruption to navigate, and more manageable political risks. These may become decisive economic advantages for India as Asia's two giants race to industrialize.



Even as India rapidly modernizes, opening up to world trade and investment at the dawn of the 21st century, it still overwhelms the visitor with the richness and variety of its land, its heritage and its peoples.

FINANCIAL RESULTS FOR 2004

(In US Dollars)

MFC Bancorp's revenues increased by more than 83% last year, to \$579.7 million from \$316.9 million in 2003, an increase of \$262.8 million. This increase was partly due to consolidation of results from the industrial and engineering services segment, but also represents strong growth in our traditional business activities. Total assets increased from \$313.0 million at the end of 2003 to \$501.6 million at the end of 2004, an increase of \$188.5 million, or 60%. Shareholders' equity increased from \$169.0 million at the end of 2003 to \$223.8 million at the end of 2004, an increase of \$54.8 million, or 32%.

Net earnings for 2004 decreased to \$30.7 million, or \$2.24 per share, from \$38.0 million, or \$2.78 per share in 2003, partly as a result of a lack of identifiable profit opportunities in the fourth quarter of 2004. In addition, as the company's operations have grown more extensive and complex, especially through expanded proprietary investment in major assets including the industrial and engineering services segment, profits may show greater year-on-year variation within their established upward trend due to strategic considerations of when and how it may be most advantageous to realize profits. MFC Bancorp's strategy will continue to emphasize flexible approaches to enhancing shareholder value, including tax-advantaged transactions, asset spin-offs, distributions to shareholders, and other innovatively structured financial arrangements.

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PLEASE SEE THE FORM 20-F ON THE SEC WEBSITE

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Dr. Stefan Feuerstein
Director since 2000

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