MC SHIPPING INC
Form 10-K
March 19, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended	Commission file number:
December 31, 2003	**1-10231**

MC SHIPPING INC.

(Exact name of the registrant as specified in its charter)

LIBERIA	**98-0101881**
State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Richmond House, 12 Par-la-ville Road, Hamilton HM CX, Bermuda
(Address of principal executive offices)

441-295-7933
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act :

COMMON STOCK $.01 PAR VALUE	**AMERICAN STOCK EXCHANGE**
(Title of class)	(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act : NONE

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 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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

x

The aggregate market value of the voting stock held by non-affiliates of the registrant computed by reference to the closing American Stock Exchange price on March 10, 2004 was: $10,989,031.

Excluded from this amount are the shares of Common Stock beneficially owned by Securitas Holding Corporation, Greysea Limited and by each officer and director of the Company in that such companies and persons may be deemed to be affiliates of the Company. The determination of affiliate status for this purpose is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of each of the registrant's classes of common stock as of March 10, 2004 was:

Common Stock, $.01 par value: 8,308,508

PART I

ITEM 1: BUSINESS - GENERAL

MC Shipping Inc. (the Company) was incorporated on March 17, 1989, in the Republic of Liberia.

Since its founding, the Company has been engaged in the business of investing in, owning and operating second-hand vessels. As of December 31, 2003, the Company's fleet included seven liquid petroleum gas (LPG) carriers, four containerships and two multipurpose seariver vessels. The Company sold four container vessels in July 2003 (please refer to "Significant Events" under Item 7). Each of the Company s vessels is owned by a separate wholly owned subsidiary of the Company.

An LPG carrier is designed to carry petroleum gases used primarily as low pollution fuels and as feedstock in the petrochemical and fertiliser industries. A containership is a vessel designed exclusively to carry containers. A multipurpose seariver vessel is a small vessel capable of carrying general cargo and/or bulk cargo both on rivers and at sea.

The Company generally employs its vessels on time charter, bareboat charter or spot charter. With time charters, the Company receives a fixed charterhire per on-hire day and is responsible for meeting all the operating expenses of the vessels, such as crew costs, voyage expenses, insurance, repairs and maintenance. In the case of bareboat charters, the Company receives a fixed charterhire per day for the vessel and the charterer is responsible for all the costs associated with the vessel's operation during the bareboat charter period. In the case of voyage charters, the vessel is contracted only for a voyage between two ports: the Company is paid for the tonnage transported and pays all voyage costs.

The level of the Company's revenues and expenses will vary from year to year depending on, amongst other things, the number of vessels controlled by the Company during each year.

SHIPPING INDUSTRY BACKGROUND

The shipping industry is subject to cyclical fluctuations in charter rates and vessel values based on changes in supply and demand. The industry has been experiencing volatility in profitability, vessel values and charter rates resulting from changes in the supply of, and demand for, shipping capacity. The demand for ships is influenced by, among other factors, global and regional economic conditions, developments in international trade, changes in seaborne and other transportation patterns, weather patterns, crop yields, armed conflicts, port congestion, canal closures, political developments, conflicts, embargoes and strikes. The demand for ships is also influenced by, among other things, the demand for consumer goods and perishable foodstuffs, dry bulk commodities, crude oil and oil products. Demand for such products is affected by, among other things, general economic conditions, commodity prices, environmental concerns, weather and competition from alternative fuels. The supply of shipping capacity is a function of the delivery of new vessels and the number of older vessels scrapped, converted to other uses, reactivated or lost. Such supply may be affected by regulation of maritime transportation practices by governmental and international authorities. All of these factors which affect the supply of and demand for vessel capacity are beyond the control of the Company. In addition, the nature, timing and degree of changes in the shipping markets, in which the Company operates, as well as future charter rates and values of its vessels, are not readily predictable.

During 2003, the market for small LPG carriers remained weak, while the large LPG vessels were able to fare somewhat better. The LPG market demonstrated slightly greater strength towards the very end of the year 2003. Management feels that increased import requirements in the Far East and the lack of new building orders for LPG carriers will help this trend to continue into 2004. Management is therefore cautiously optimistic for the year to come. The Company owns six small LPG carriers of the fully pressurised type. In addition, the Company owns a very large LPG carrier, which is fixed on a long-term charter ending in September 2006.

During that same period, the market for containerships enjoyed strong growth, buoyed by dynamism in Chinese trade, and the slowdown of new vessel deliveries. The Company is not taking advantage of this strong market, since its four container vessels are on fixed charters until September 2005 to Maersk Sealand.

Certain of the information contained in this Form 10-K may constitute forward-looking statements as that term is defined under United States federal securities laws. Forward-looking statements are subject to risks, uncertainties and other factors which could cause actual events to differ materially from those stated in such statements, including the identification of suitable vessels for purchase, the availability of additional financing for the Company, if needed, the cyclical nature of the shipping industry, competition, general economic conditions and other risk factors detailed elsewhere herein and in the Company s other filings with the SEC.

OPERATIONS

Shipowning activities entail three separate functions: (i) the overall strategic management function, which is that of an investment manager and includes the selection, purchase, financing and sale of vessels and overall supervision of both chartering and vessel technical management; (ii) the technical management function, which encompasses the day to day operation, physical maintenance and crewing of the vessels; and (iii) the commercial management function, which involves obtaining employment for the vessels and managing relations with the charterer.

Management exercises direct control over the Company's overall strategic management function. The technical management function is sub-contracted to V.Ships Inc. or its affiliates ("V.Ships"), a Company formerly affiliated with the Company, or to other technical managers. Other managers have been engaged to handle the Company s two multipurpose seariver vessels because of the specialised nature of the trade. Management exercises regular controls over the technical managers of the vessels to ensure that they are properly maintained. Management exercises direct control of the commercial management function but may, on a case-by-case basis, engage the services of V.Ships or independent brokers in order to obtain employment for the Company s vessels and to manage its relations with its charterers.

The Company, via its wholly owned subsidiaries, enters into management agreements with V.Ships and other technical managers for the technical operation of the Company's fleet. These agreements are cost-plus contracts under which the Company reimburses all costs incurred by V.Ships and other technical managers for the operation of the Company's vessels and V.Ships and other technical managers are paid a fixed management fee. For the rates of fees to V Ships, see COMPENSATION TO AFFILIATES . In addition, if the Company deems it necessary to employ the services of V.Ships and/or other technical managers in the chartering or commercial operation of any of the Company's vessels, V.Ships and/or other technical managers are entitled to a commercial chartering commission determined in the light of current industry practice. For the rates of fees payable to V.Ships, see COMPENSATION TO AFFILIATES .

The Company had 17 charters covering the year 2003, 11 of which were commenced in 2003, and four charterers provided revenues exceeding 10% of the Company's total revenues. The Company s multipurpose seariver vessels and some of the Company's LPG carriers were engaged on voyage charters in 2003 and are excluded from these statistics.

COMPENSATION TO AFFILIATES

Effective March 28, 2003, V.Ships ceased to be an affiliate of the Company following a change in the shareholding structure of V.Ships (see ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS). Therefore, the Company's disclosure with respect to payments to V.Ships covers the full years 2001 and 2002 and the period from January 1 through March 28 in 2003.

The Company, via its wholly owned subsidiaries, has entered into Management Agreements (the "Agreements") with V.Ships for the technical operation of all the Company's fleet, excluding the seariver vessels which are managed by another independent vessel manager because of the specialised nature of the trade and excluding the vessels which are on bareboat charter which are managed by the charterer.

The Agreements are cost-plus contracts under which the Company reimburses all costs incurred by V. Ships for the operation of the Company's vessels and V.Ships is paid a fixed management fee. For 2003, the management fees were fixed at the rate of $8,600 per vessel/per month for the container ships and the LPG carrier Laforge and at the rate of $8,500 per vessel/per month for the LPG carriers managed by V.Ships (in 2002, management fees were respectively $8,350 and $8,250 for such vessels). In 2003, up to March 28, $282,000 were paid by the Company to V.Ships for services provided to the Company pursuant to the Agreements (2002 - $1,233,510; 2001 - $1,516,059).

If the Company deems it necessary to employ the services of V.Ships in the chartering or commercial operation of any of the Company's vessels, V.Ships is entitled to a commercial chartering commission determined in the light of current industry practice. This commission can vary between 0.5% and 1.25% of such vessels gross charter revenue and demurrage. In 2003, up to March 28, commercial chartering commissions totalling $4,500 were paid by the Company to V.Ships (2002 - $81,714; 2001 - $300,573).

If the Company deems it necessary to employ the services of V.Ships in the acquisition or disposal of vessels, the Company will pay commissions and legal fees determined in light of current industry practice. In 2003, up to March 28, no commissions or legal fees were paid by the Company to affiliates of V.Ships (2002 - $35,493; 2001 - $84,716).

The Company leases office space from and reimburses telecommunication expenses to various affiliates of V.Ships. In 2003, up to March 28, the rental cost and telecommunications expenses paid to affiliates of V. Ships were approximately $29,316 (2002 - $88,365; 2001 - $154,328).

The Company outsources some bookkeeping functions to an affiliate of V.Ships. In 2003, up to March 28, the Company paid a total of approximately $7,750 for such accounting services (2002 $32,375; 2001 - $34,626). Starting in 2003, some bookkeeping functions are also outsourced to an affiliate of the Vlasov Group. In 2003, $5,700 was paid for such services.

In addition, on a case by case basis, as technical manager of the Company s fleet, V.Ships uses on behalf of the Company the services of other V.Ships affiliates for insurance, crew and staff travelling, port agency services, manning, safety and training services, and miscellaneous services described below.

The Company places part of its vessel hull and machinery insurance, increased value insurance and war risk insurance through a captive insurance Company, affiliated with V. Ships. In 2003, up to March 28, the Company was charged with insurance premiums of approximately $242,679 which were included in vessel operating expenses (2002 - $993,595; 2001 - $1,050,288).

The Company uses, for crew and staff travelling, the services of a Company affiliated with V.Ships. In 2003, up to March 28, such travelling expenses amounted to approximately $47,207 and were included in vessel operating expenses or in general and administrative expenses (2002 - $144,577; 2001 - $166,310).

The Company uses from time to time the port agency services of various companies affiliated with V.Ships. In 2003, up to March 28, the Company paid approximately $81,839 for these services, which were included in vessel operating expenses (2002 - $344,018; 2001 - $503,420).

The Company uses various companies affiliated with V.Ships for manning, safety and training. . In 2003, up to March 28, such expenses amounted to approximately $95,995 and were included in vessel operating expenses (2002 - $563,954; 2001 - $917,880).

At December 31, 2003, the Company had interCompany balances of trade accounts receivables of $76,094 due from affiliates ($80,518 in 2002).

INSURANCE AND CLASSIFICATION

The business of the Company is affected by the risks of mechanical failure of the Company's vessels, collisions, property losses to the vessels, cargo loss or damage, and business interruption due to political action in foreign countries and labour strikes. In addition, the operation of any ocean-going vessel entails an inherent risk of catastrophic marine disaster. The Company maintains Hull and Machinery Insurance, War Risk Insurance, Protection and Indemnity Insurance, Freight Demurrage and Defence Insurance and Loss of Earnings Insurance on its vessels consistent with industry practice. The Company maintains total or constructive total loss coverage for each of its vessels. The insurance underwriters may require that additional premiums be paid for Hull and Machinery and War Risk Insurance prior to any vessels entering certain geographical areas subject to unstable political or military conditions. Although the Company has had no difficulty in obtaining such insurance for its vessels, there can be no assurance that the Company will be able to continue to procure sufficient amounts of insurance to cover the repair and replacement cost of any vessel which is damaged or destroyed, loss of earnings on a vessel or the Company's liability in the event of a catastrophic marine or ecological disaster.

The Company's insurers require that the Company's vessels meet certain requirements set by maritime classification societies as a condition to obtaining insurance. The classification societies determine that the vessels are safe and seaworthy in accordance with the International Maritime Organisation and the Safety of Life at Sea Convention. All LPG carriers, containerships and multipurpose carriers are inspected by a surveyor of the classification society every year (Annual Survey), every two and one half years ("Intermediate Survey"), and every five years (Special Survey). The Company has purchased and intends to purchase only vessels, which are able to comply with such classification society requirements. It is expected that, under classification society rules, the Company's vessels will be required to undergo dry-docking at least once every three years. Normal dry-docking takes one to two weeks. The Company estimates that current dry-docking costs in the geographical areas where the Company anticipates having such work performed will vary between approximately $200,000 and $1,600,000 per vessel, depending upon the size and complexity of the vessel concerned. This estimate is based on a dry-docking cycle of two and one half to three years between each visit to a dry-dock facility and assumes regular but no extraordinary expenses for maintenance and repairs. In addition to dry-docking, the Company is required to purchase spare parts and perform repairs on its vessels from time to time. In the case of bareboat charter arrangements, the bareboat charterer undertakes, at its expense, to ensure that the vessel is regularly dry-docked and is properly maintained.

REGULATION

The Company's business is materially affected by government regulation in the form of international conventions, national, state or local laws and regulations, and laws and regulations of the flag nations of its vessels, including laws relating to the discharge of materials into the environment. Because such conventions, laws and regulations are often revised, the Company is unable to predict the ultimate costs of complying with such conventions, laws and regulations. Under certain regulations, a vessel owner may be liable for property and environmental damages and all of its assets could be subject to claim for such damages. Moreover, in certain jurisdictions, under the sister ship doctrine, all of the affiliates in a fleet of ships may be liable for damages caused by, or debts incurred with respect to, a ship owned by one affiliate, and the ships and other assets of all the affiliates may be subject to attachments.

In addition, the Company is required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to its operations. The Company believes that it will readily be able to obtain all such permits, licenses and certificates as may be required.

Some countries have laws or practices which restrict the carriage of cargoes depending upon the nationality of a vessel or its crew or the origin or destination of the vessel, as well as other considerations relating to particular national interests. The Company cannot predict the effect that such laws or practices may have on its ability to obtain cargoes. It is expected that the Company's vessels, all of which are non-United States flag vessels, will be permitted to enter the territorial waters of the United States, but will not be permitted, under the Merchant Marine Act, 1920 (the Jones Act), to transport cargoes between United States ports. Such restriction is not expected to have a material adverse impact on the Company's operations. One of the Company's vessels made one call to a United States port in 2003.

COMPETITION

Competition in the operation of containerships and LPG carriers is intense. Typically, each of the numerous owners of such vessels owns a relatively small number of vessels. However, a few large and experienced operators, with greater financial resources than those of the Company, dominate the LPG and containership sectors, particularly in the larger ship segments, and there is no assurance that the Company will be able to compete successfully with other shipping firms.

As shipping rates are not materially different among competitors, competition is based primarily upon the reputation of the vessel and its operators and the operator's relationship with charterers.

It is the opinion of Management that the most effective technique in dealing with competitive pressures is to maintain its vessels to a very high standard and to develop strong long-term relationships with charterers of high standing. Management believes that its reputation and extensive experience contributes to the Company's ability to compete effectively.

EMPLOYEES

In 2003, the Company employed four persons on a full-time basis, three of whom are officers of the Company.

The Company, through its vessel-owning subsidiaries, hires officers and crews for each of the Company's vessels. Seamen from India, Latvia, Russia, the Ukraine and the United Kingdom currently man the Company's vessels and a total of approximately two hundred and fifty seamen currently serve on the Company s vessels. These seamen are generally unionised and the Company believes its relationships with the seamen who serve on board its vessels are good.

ITEM 2: PROPERTIES

The Company, through its wholly owned subsidiary MC Shipping S.A.M., directly rents office space and procures administrative services in Monaco. In 2003, the Company leased office space at a cost of $76,078 (2002 - $75,889; 2001 - $67,769).Additionally, the Company has at its disposal office space and administrative services in Bermuda.

At December 31, 2003, the Company's wholly-owned fleet consisted of the following vessels:

Name	Type	Year Built	DWT
Deauville	LPG Carrier	1995	2,601
Auteuil	"	1995	2,588
Coniston	"	1991	4,833
Cheltenham	"	1990	4,318
Longchamp	"	1990	4,316
Malvern	"	1990	4,148
La Forge	"	1981	45,587
Maersk Belawan	Container Carrier	1983	37,212
Maersk Brisbane	"	1976	37,129

Maersk Barcelona	"	1976	37,115
Maersk Bahrain	"	1975	37,116
Bay Trader	Multipurpose Seariver Carrier	1980	1,579
Link Trader	"	1980	1,579

ITEM 3: LEGAL PROCEEDINGS

The Company has no material legal proceedings.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

None

PART II

ITEM 5: MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

Since May 31, 1989, the Company's Common Stock has traded on the American Stock Exchange. The ticker symbol for the Company's Common Stock is MCX .

The high and low sales prices for the Company's Common Stock for the last two fiscal years are set forth below:

Quarter ended	2003		2002	
	High	Low	High	Low
March 31	1.15	0.87	1.65	0.83
June 30	1.34	1.01	1.50	1.00
September 30	1.75	1.05	1.20	1.02
December 31	2.32	1.47	1.09	0.82

As of March 10, 2004, there were 70 record holders of Common Stock.

DIVIDENDS

In March 2002 and 2003, the Company s Board of Directors determined that no dividends would be paid out of the 2001 and 2002 results, respectively. Cash dividends are currently restricted under the Indenture pursuant to which the 11.25% Senior Notes due 2008 (the "Notes") were issued. In March 2004, the Company's Board of Directors decided to distribute a stock dividend of 1 share for every 20 shares owned, rounded down to the nearest multiple of 20.

The Company has been advised that distributions to shareholders who are not citizens or residents of Liberia will not be subject to tax by Liberia under its laws as currently in effect. There is no income tax treaty between Liberia and the United States.

SECURITIES AUTHORISED UNDER EQUITY COMPENSATION PLAN

As of December 31, 2003

Plan category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders	100,992	$0.622	244,723
Equity compensation plans not approved by security holders	-	-	-
Total	100,992	$0.622	244,723

ITEM 6: SELECTED FINANCIAL DATA

The following selected financial data for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 are derived from the Consolidated Financial Statements of the Company. The Company s books and records are maintained in U.S. dollars, which is the Company s functional currency. The data should be read in conjunction with the Consolidated Financial Statements, related notes and other information included herein.

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Consolidated Statements of Operations Data

	Years ended December 31				
	2003	**2002**	**2001**	**2000**	**1999**
Charterhire and Other Income	$ 35,797,522	$ 41,858,999	$ 44,823,301	$ 59,482,840	$ 54,822,284
Commission on Charterhire	(895,394)	(1,100,422)	(1,223,268)	(1,667,349)	(1,596,864)
Vessel Operating Expenses	(17,875,984)	(19,547,436)	(22,321,851)	(30,879,820)	(28,567,124)
Amortisation of Dry- docking Costs	(1,176,659)	(575,185)	(895,802)	(1,133,126)	(1,247,686)
Depreciation	(8,295,583)	(9,127,713)	(10,761,040)	(16,194,411)	(15,919,206)
General and Administrative Expenses	(1,419,368)	(1,382,587)	(1,652,622)	(1,558,510)	(1,624,465)
Operating Income	6,134,534	10,125,656	7,968,718	8,049,624	5,866,939
Interest Expense	(4,866,062)	(6,418,537)	(7,953,745)	(12,483,936)	(12,190,452)
Interest Income	110,603	127,559	373,589	664,718	971,098

Equity in (Loss) from Associated Companies	-	-	(296,378)	(90,314)	(101,585)
Impairment Loss	(2,693,650)	(1,687,370)	(10,712,007)	(17,876,067)	(52,649)
Gains /(Losses) on Disposals of vessels	1,785,253	-	2,084,283	(3,931,641)	-
Loss on termination of leases	-	-	-	-	(508,442)
Gains on debt extinguishment	2,620,477	94,598	11,388,757	-	6,079,702
Net Income / (Loss)	$ 3,091,155	$ 2,241,906	$ 2,853,217	$ (25,667,616)	$ 64,611
Basic and diluted Per Share Amounts:					
Net Income/(Loss)	$ 0.37	$ 0.27	$ 0.35	$ (3.15)	$ 0.01
Cash Dividends Declared and Paid	$ -	$ -	$ -	$ -	$ -

Consolidated Balance Sheet Data

	December 31				
	2003	2002	2001	2000	1999
Current Assets	$ 19,727,175	$ 18,787,275	$ 18,122,265	$ 21,918,730	$ 22,704,119
Current Liabilities	$ 11,005,741	$ 21,379,655	$ 16,802,533	$ 23,227,096	$ 28,889,506
Total Assets	$ 87,316,016	$ 112,629,237	$ 104,828,997	$ 148,695,530	$ 191,412,610
Long-term Debt	$ 47,081,690	$ 65,461,243	$ 64,209,859	$ 104,350,975	$ 115,738,029
Shareholders Equity	$ 29,228,585	$ 25,788,339	$ 23,816,605	$ 21,117,459	$ 46,785,075

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the selected consolidated financial data set forth above and the Consolidated Financial Statements included elsewhere in this Report.

OVERVIEW

Revenues and Expenses

Since its founding, the Company has been engaged in the business of investing in, owning and operating second-hand vessels. As of December 31, 2003, the Company's fleet included seven liquid petroleum gas (LPG) carriers, four containerships and two multipurpose seariver vessels. Each of the Company s vessels is owned by a separate wholly owned subsidiary of the Company.

The Company generally employs its vessels on time charter, bareboat charter or spot charter. With time charters, the Company receives a fixed charterhire per on-hire day and is responsible for meeting all the operating expenses of the vessels, such as crew costs, voyage expenses, insurance, repairs and maintenance. In the case of bareboat charters, the Company receives a fixed charterhire per day for the vessel and the charterer is responsible for all the costs associated with the vessel's operation during the bareboat charter period. In the case of voyage charters, the vessel is contracted only for a voyage between two ports: the Company is paid for the cargo transported and pays all voyage costs.

In all chartering arrangements, both shipowner and charterer will generally employ the services of one or more brokers, who are paid a commission on the total value of the daily charterhire or a lump sum payable under the charterparty or contract.

The level of the Company's revenues and expenses will vary from year to year depending on, inter alia, the number of vessels controlled by the Company during each year.

Shipping markets

During 2003, the market for small LPG carriers remained weak, while the large LPG vessels were able to fare somewhat better. The LPG market demonstrated slightly greater strength towards the very end of the year 2003. Management feels that increased import requirements in the Far East and the lack of new building orders for LPG carriers will help this trend to continue into 2004. Management is therefore cautiously optimistic for the year to come. The Company owns six small LPG carriers of the fully pressurised type. In addition, the Company owns a very large LPG carrier, which is fixed on a long-term charter ending in September 2006.

During that same period, the market for containerships enjoyed strong growth, buoyed by dynamism in Chinese trade, and the slowdown of new vessel deliveries. The Company is not taking advantage of this strong market, since its four container vessels are on fixed charters until September 2005 to Maersk Sealand.

Accumulated Deficit.

As of December 31, 2003, the Company's accumulated deficit was $21,905,096. This amount consisted of total accumulated losses (net of accumulated profits) of $13,209,252 since the Company's inception and dividends declared of $8,695,844 over the same period. An additional $5,477,561 of dividends were paid and accounted for as a reduction of paid-in capital over the same period. The majority of such dividends were paid prior to 1994 when the Company was a self-liquidating fund with a dividend policy based on cash flow generation.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002

Significant Events During 2003

In February 2003, the Company repurchased Notes having a total face value of $7,000,000 and recorded a gain of $2,620,477 on the transaction.

In July 2003, the Company sold four second-hand container vessels to a non-related third party for a total sale price of $21,200,000 and recorded a gain of $1,785,253.

Revenue

The Company had gross revenue from charterhire and other sources of $35,797,522 for the year ended December 31, 2003, a 14.5% decrease from gross revenue of $41,858,999 in 2002. The revenue decrease resulted mainly from the sale of four vessels in July and the fact that 145 days of hire were lost in 2003 as eight vessels underwent dry-docking.

Vessels on time charter

The average rate per day on hire (computed as total revenues divided by total number of days on-hire for the vessels on time charter) was $7,437 in 2003 ($7,633 in 2002). The reduction is mainly due to the reduction in charterhire of the four remaining containerships in October 2003.

In 2003, the Company's on-hire performance of the vessels on time charter was 95.1% on a potential 4,015 days (97.6% on a potential 4,517 days in 2002). The decrease in on-hire performance was mainly due to the large number of dry-docks in 2003.

In 2003, the vessels on time charter experienced off-hire time for the following reasons: (i) 0.72% of the total available days were lost due to technical reasons (operating off-hire); (ii) 3.61% of the total available days were lost due to dry-docking and planned repair time; and (iii) 0.54% of the total available days represented time spent in positioning for subsequent employment.

Vessels on bareboat charter

The average rate per day on hire for the vessels on bareboat charter was $6,000 per day in 2003 (2002: $6,000). Bareboat charter rates are generally lower than time charter rates since the vessel operating expenses are paid by the charterer (See Item 1 Business General). The on-hire performance was 100%. The vessels on bareboat charter were sold in July 2003.

Costs and Expenses

Commission on charterhire was $895,394 in 2003, an 18.6% decrease from the $1,100,422 incurred during 2002. This decrease is a direct result of decreased revenues.

Vessel operating expenses plus amortisation of dry-docking costs totalled $19,052,643 for the year ended December 31, 2003, representing a decrease of 5.3% from 2002 vessel operating expenses plus amortisation of dry-docking which amounted to $20,122,621. Vessel operating expenses comprise vessel running costs, direct costs (such as fuel costs, port charges and canal dues incurred directly while vessels are unemployed or are employed on voyage charters) and management fees. As a percentage of revenue, vessel operating expenses plus amortisation of dry-docking costs were equal to 53.2% in 2003 compared to 48.1% in 2002. The increase in vessel operating expenses as a percentage of revenues in 2003 is due to the sale of vessels operated on a bareboat basis which do not have any operating expenses (see Item 7. Overview).

Depreciation was $8,295,583 for the year ended December 31, 2003, compared to $9,127,713 in 2002. The decrease resulted from the reduced fleet size.

General and administrative expenses were $1,419,368 for the year ended December 31, 2003, compared to $1,382,587 in 2002. This represented 4.0% of revenue in 2003 as compared to 3.3% of revenue in 2002. The increase in percentage is due to the fact that these expenses are rather stable and revenues were down.

Other Income and Expenses

Interest expense amounted to $4,866,062 for the year ended December 31, 2003 as compared to $6,418,537 in 2002, and represented 13.6% of revenue as compared with 15.3% in 2002. The decrease in interest expense resulted from a reduction in interest expense on the Notes due to the repurchases and to lower interest rates in 2003 on the Company's existing credit facility with Fortis Bank and Banque Nationale de Paris "BNP .

Interest income totalled $110,603 in 2003, a decrease from interest income of $127,559 in 2002. The decrease in interest earnings was due to the reduction in the general level of interest rates and lower cash balances.

In 2003, the Company repurchased Notes having a total face value of $7,000,000 and recorded a gain of $2,620,477 on the transaction. In 2002, the Company repurchased Notes having a total face value of $180,000 and recorded a gain of $94,598 on the transactions. The repurchased Notes have been retired.

The Company recognised a $1,785,253 gain on the sale of four container vessels in July 2003.

Impairment Loss

In 2002, a provision for estimated impairment loss of $1,687,370 was recorded as the values of two vessels earmarked for sale in December 2001 were adjusted to market value. These vessels were reclassified from "held for sale" to "held and used" at the end of 2002. They were reinstated at the carrying amount, before they were classified as held for sale, adjusted for any depreciation expense that would have been recognised had the vessels been continuously classified as held and used, which amount was lower than fair value at year end.

In March 2003, the Board approved the sale of two other vessels. The vessels were written down to the lower of book value or fair market value less costs to sell. Since these vessels could not be sold, they were reclassified from "held for sale" to "held and used" at the end of 2003. The provision for estimated impairment loss recorded in 2003 was $2,693,650. As of December 31, 2003, the Company had no vessels earmarked for sale.

In January 2004, the Company received appraisals for its fleet from leading independent shipbrokers. The appraised value of the Company s fleet was approximately $61.8 million. This indicated that the aggregate market value of the vessels was approximately equal to the carrying values. The aggregate market value of the container carriers were approximately $10.6 million above their carrying values while the aggregate market value of the gas carriers were $11 million below their carrying values.

The Company s estimates of undiscounted cash flows indicated at that time that such carrying values were expected to be recovered. Evaluating recoverability requires Management to make estimates and assumptions regarding future cash flows (see Critical Accounting Estimates). Actual results could differ from those estimates, which could have a material effect on the recoverability of vessels. Management regularly obtains valuations of its vessels and will continue to monitor such valuations in order to determine if any permanent impairment in asset values occurs, and whether any write-downs in asset values are necessary.

Net Income

The net income for the year ended December 31, 2003 was $3,091,155 as compared to a net income of $2,241,906, for the year ended December 31, 2002.

Impact of Inflation

Management believes that inflation did not have a material impact upon the Company s business during the year ended December 31, 2003.

Subsequent events

In March 2004, the Company repurchased Notes having a total face value of $3,500,000 and recorded a net gain of $423,595 on the transactions. The repurchased Notes will be retired.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

Significant Events During 2002

In April 2002, the Company purchased four second-hand container vessels from a non-affiliated third party, each with a two-and-a-half year bareboat charter back. The total purchase price was $25,000,000.

In August and September 2002, the Company sold two LPG carriers to a non-affiliated party for cash. The total sale price was $6,800,000.

Revenue

The Company had gross revenue from charterhire and other sources of $41,858,999 for the year ended December 31, 2002, a 6.6% decrease from gross revenue of $44,823,301 in 2001. The revenue decrease resulted from the following factors: (1) the reduced size of the Company's fleet, (2) a general reduction in time charter rates and (3) the fact that the vessels acquired in 2002 were placed on bareboat charter.

Vessels on time charter

The average rate per day on hire (computed as total revenues divided by total number of days on-hire for the vessels on time charter) was $7,633 in 2002 ($9,089 in 2001). The reduction reflects a general decrease in time charter rates arising from poor market conditions in the LPG sector.

In 2002, the Company's on-hire performance of the vessels on time charter was 97.6% on a potential 4,517 days (91.8% on a potential 5,180 days in 2001). The increase in on-hire performance was mainly due to the sale in 2001 of less efficient vessels.

In 2002, the vessels on time charter experienced off-hire time for the following reasons: (i) 1.11% of the total available days were lost due to technical reasons (operating off-hire); (ii) 0.43% of the total available days were lost due to dry-docking and planned repair time; (iii) 0.19% of the total available days were lost waiting for employment; and (iv) 0.67% of the total available days represented time spent in positioning for subsequent employment.

Vessels on bareboat charter

The average rate per day on hire for the vessels on bareboat charter was $6,000 per day in 2002 (2001: N/A). Bareboat charter rates are generally lower than time charter rates since the vessel operating expenses are paid by the charterer (See Item 1 Business General). The on-hire performance was 100%.

Costs and Expenses

Commission on charterhire was $1,100,422 in 2002, a 10% decrease from the $1,223,268 incurred during 2001. This decrease is a direct result of decreased revenues.

Vessel operating expenses plus amortisation of dry-docking costs totalled $20,122,621 for the year ended December 31, 2002, representing a decrease of 13% from 2001 vessel operating expenses plus amortisation of dry-docking which amounted to $23,217,653. Vessel operating expenses comprise vessel running costs, direct costs (such as fuel costs, port charges and canal dues incurred directly while vessels are unemployed or are employed on voyage charters) and management fees. As a percentage of revenue, vessel operating expenses plus amortisation of dry-docking costs were equal to 48.1% in 2002 compared to 52.0% in 2001. The decrease in vessel operating expenses as a percentage of revenues in 2002 is due to the fact that the vessels operated on a bareboat basis do not have any operating expenses (see Item 7. Overview). Daily operating expenses per vessel averaged $4,017 in 2002 compared to $4,012 in 2001.

Depreciation was $9,127,713 for the year ended December 31, 2002, compared to $10,761,040 in 2001. The decrease resulted from the reduced fleet size.

General and administrative expenses were $1,382,587 for the year ended December 31, 2002, compared to $1,652,622 in 2001. This represented 3.3% of revenue in 2002 as compared to 3.7% of revenue in 2001. The decrease is due to a reduced bonus distributed to management in 2002 (see Item 11. Executive compensation).

Other Income and Expenses

Interest expense amounted to $6,418,537 for the year ended December 31, 2002 as compared to $7,953,745 in 2001, and represented 15.3% of revenue as compared with 17.7% in 2001. The decrease in interest expense resulted from several factors: (1) a large reduction in interest expense on the Notes due to the repurchases, (2) in 2001, the cancellation of a swap agreement at a cost of $417,000 and (3) a lower level of interest rates in 2002 which was beneficial with respect to the Company's existing credit facility with Fortis Bank and BNP which loan rate is based on Libor.

Interest income totalled $127,559 in 2002, a decrease from interest income of $373,589 in 2001. The decrease in interest earnings was due to the reduction in the general level of interest rates and lower cash balances.

In 2002, the Company repurchased Notes having a total face value of $180,000 and recorded a gain of $94,598 on the transaction. In 2001, the Company repurchased Notes having a total face value of $33,840,000 and recorded a gain of $11,388,757 on the transactions. The repurchased Notes have been retired.

Impairment Loss

In December 2001, the Board approved the sale of four vessels. The vessels were written down to the lower of book value or fair market value less costs to sell. The provision for estimated impairment loss recorded in 2001 was $10,137,008.

Two vessels were sold in 2002, the other two vessels were reclassified from "held for sale" to "held and used" at the end of 2002. They were reinstated at the carrying amount, before they were classified as held for sale, adjusted for any depreciation expense that would have been recognised had the vessels been continuously classified as held and used, which amount was lower than fair value at year end.

In January 2003, the Company received appraisals for its fleet (including vessels earmarked for sale) from leading independent shipbrokers. The appraised value of the Company s fleet was approximately $80.5 million. This indicated that the aggregate market value of the vessels was below the carrying values by approximately $10.8 million. The aggregate market value of the gas carriers were $15.9 million below the carrying values, while the aggregate market value of the container carriers were approximately $4.9 million above the carrying values. The Company s estimates of undiscounted cash flows indicated at that time that such carrying values were expected to be recovered. Evaluating recoverability requires Management to make estimates and assumptions regarding future cash flows. Actual results could differ from those estimates, which could have a material effect on the recoverability of vessels.

Management regularly obtains valuations of its vessels and will continue to monitor such valuations in order to determine if any permanent impairment in asset values occurs, and whether any write-downs in asset values are necessary.

Net Income

The net income for the year ended December 31, 2002 was $2,241,906, as compared to a net income of $2,853,217 for the year ended December 31, 2001.

Impact of Inflation

Management believes that inflation did not have a material impact upon the Company s business during the year ended December 31, 2002.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Company's financial statements in accordance with accounting principles generally accepted in the United States requires that management make estimates and assumptions affecting 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 reporting period. The following is a discussion of the accounting policies applied by the Company that are considered to involve a higher degree of judgment in their application.

In accordance with SFAS 144 Accounting for the Impairment or Disposal of Long-lived Assets , the Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In evaluating the carrying values of long-lived assets, management reviews valuations performed by leading independent shipbrokers and compares these to the vessels' carrying values. An impairment loss for an asset held for use is recognized, when the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount. Measurement of the impairment loss is based on the fair value of the asset.

To estimate the cash flows expected to be generated by a vessel, Management has to make a large number of assumptions on future market performance (the future level of charter rates, the level of commissions), on future operating performance (the level of operating expenses, the costs of dry-docks, the level of off-hire) and on inflation. Actual results could differ from these assumptions and the Company may have in the future to record additional impairment charges not previously recognised.

In January 2004, the Company received appraisals for its fleet from leading independent shipbrokers. The appraised value of the Company s fleet was approximately $61.8 million. This indicated that the aggregate market value of the vessels was approximately equal to the carrying values. The aggregate market value of the container carriers were approximately $10.6 million above their carrying values while the aggregate market value of the gas carriers were $11 million below their carrying values.

LIQUIDITY AND SOURCES OF CAPITAL

Liquidity

The Company had $16,446,582 in cash available at December 31, 2003 as compared to $14,061,451 at December 31, 2002. In addition, at December 31, 2003, deposits totalling $615,455 (December 31, 2002 - $2,001,759) were pledged to guarantee the Company s performance under various loan agreements. It should be noted that $2,005,913 was deposited in vessel operating accounts which are directly operated by the vessel technical managers ($3,617,858 in 2002).

The ratio of current assets to current liabilities increased from 0.88 at December 31, 2002 to 1.79 at December 31, 2003. Following the sale of four containerships in July 2003, the Company's cash balances increased by approximately $9.6 million and the current portion of long term debt decreased by $7.2 million following the $10.8 million prepayment of the Nedship Bank loan incurred in 2002 for the acquisition of such ships.

Operating activities

The Company generated cash flows from operations of $5,086,297 in 2003 compared to $11,675,654 in 2002. The reduction is due to the sale of four vessels and to the dry-docking of eight vessels in 2003.

The four vessels sold in July were employed on a bareboat basis. Since they had no operating expenses (see Overview), the resulting reduction in cash flow from operations is equal to approximately 90% of the reduction in revenues.

In 2003, the Company dry-docked 8 vessels for a total cost of $4.8 million. In addition to the cost of the dry-docks, the Company lost approximately 145 days of revenues since charterers do not pay the hire during dry-docks.

Investing activities

On July 15, 2003, the Company sold four containerships to a non-related party for $21,200,000 and prepaid the Nedship Bank loan outstanding amount of $10,800,000. The sale generated a net profit of $1,785,253. These vessels were not the ones earmarked for sale. These funds have not yet been reinvested.

Financing activities

In 2003, the Company repaid net borrowings of $27,168,616 and reduced its long term debt (including current portion) from $78,429,859 as of December 31, 2002 to $51,261,243 as of December 31, 2003. The cash outlay was as follows:

Scheduled repayments	$	8,309,241
Prepayment of one of Scotiabank loans	$	1,059,375
Retirement of $7 million of Notes	$	4,283,050
Prepayment of the Nedship Bank loan	$	10,800,000
	$	24,451,666

As a result, as of December 31, 2003, the Company's contractual obligations were as follows:

	Payments due by period			
Contractual Obligations	Total	Less than 1 Year	1 to 2 years	3 to 5 years
11.25% Senior Notes due 2008	$ 27,640,000	$ -	$ -	$ 27,640,000
Fortis/BNP amortising loan due 2006	16,216,868	1,487,053	14,729,815	-
Scotiabank amortising loan due 2006	7,404,375	2,692,500	4,711,875	-
TOTAL	51,261,243	4,179,553	19,441,690	27,640,000

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The Company's long-term bank debt is secured by certain of its vessels. The bond indenture and the loan agreements contain various business and financial covenants (see Note 6 to the consolidated financial statements).

Guarantees

In July 2003, the Company counter-guaranteed, for an amount of Euros 2,250,000, a performance bond issued in favour of a major European shipping group. This bond was placed to support the Company s submission to a tender offer for the acquisition of some of this group s vessels, together with a time charter back. The tender offer was made jointly by a group of companies including the Company, and the performance bond was issued by a bank. In August 2003, the Company was advised that its offer had not been retained and the guarantee was released in October 2003.

The Company s obligations under the Note Indenture are guaranteed on a senior unsecured basis by substantially all of the Company s vessel-owning subsidiaries except for the unrestricted subsidiaries (See Note 6 to the consolidated financial statements in Item 8).

Off-Balance Sheet Financial Arrangements

The Company had no off-balance sheet financial arrangements as of December 31, 2003.

Contingencies

In June 2001, the Company sold the 1984-built container vessel Maersk Tampa to a non-affiliated Company with the Maersk charter attached. In the event Maersk does not extend the present charter at its expiry in November 2004, the new owners have the option to give the vessel back on charter to the Company for a period of eighteen months. The charter rate will be $17,900 per day for twelve months and $17,500 per day for the remaining six months. The aggregate amount of the commitment under this agreement is approximately $9,700,000 as follows:

2004	$	560,000
2005	$	6,500,000
2006	$	2,640,000
total	$	9,700,000

These amounts do not take into consideration any revenues the Company will earn from chartering out the vessel to another party. As of March 2004, the current market rate for twelve month time charter of a vessel similar to the Maersk Tampa is well in excess of $17,900. So, the expected revenues from the chartering out of the vessel would cover the expected amount of the commitment. There is no assurance to-day, however, as to where market rates will be in November 2004.

Future cash requirements

In 2004, the Company will have only one vessel to dry-dock. Management believes that the net cash provided by operating activities will provide sufficient funds to enable the Company to meet its liquidity requirements throughout 2004, based on current levels of charter rates.

The Company has currently no vessel earmarked for sale. Following the sale of four vessels in 2003, Management believes that the Company has excess cash to invest and is looking actively at the acquisition of vessels. However, the Company does not currently have any significant commitments for capital expenditures. Actual results in 2004 will depend on the reinvestment of the excess cash.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Swaps

In 2001, the Company had entered into an interest rate swap agreement, which is used to hedge the Company s interest rate exposure associated with a long-term loan (see Note 6 - Long-Term Debt). As of December 31, 2003, the swap agreement had a notional amount of $7,404,375, a fair market value of $286,894 in favour of the Bank and an interest rate of 4.595%. It will expire in September 2006.

Long term Debt

The Company is subject to interest rate risk associated with certain variable rate long-term debt as described below.

At December 31, 2003, the Company had approximately $16,216,868 in variable rate long term debt outstanding which was not hedged by interest rate swaps, corresponding to the outstanding amount of the credit facility of $40,000,000 granted in June 1998 to the Company by Fortis Bank and BNP. The facility bears interest at LIBOR plus 1.25% and matures in June 2006. For every one-percent variation in interest rate, the interest expense would vary by $153,201.

Impact of Currency Fluctuations

The Company s functional currency is the US dollar; however, a number of transactions are performed in other currencies.

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ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

All other schedules for MC Shipping Inc. and subsidiaries have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the respective financial statements or notes thereto.

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors

MC Shipping Inc. and subsidiaries

We have audited the consolidated balance sheets of MC Shipping Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedules listed in Item 15(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MC Shipping Inc. and its subsidiaries at December 31, 2003 and 2002 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG
Chartered Accountants

Nicosia, Cyprus
March 19, 2004

MC SHIPPING INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

		DECEMBER 31 2003		DECEMBER 31 2002
CURRENT ASSETS				
Cash and cash equivalents	$	16,446,582	$	14,061,451
Restricted cash		615,455		2,001,759
Hire receivables		13,111		8,560
Recoverable from insurers		807,530		946,447

Inventories	582,388	506,401
Receivables from affiliates	76,094	80,518
Prepaid expenses and other current assets	1,186,015	1,182,139
TOTAL CURRENT ASSETS	19,727,175	18,787,275
VESSELS, AT COST	109,303,246	134,303,246
Less Accumulated depreciation	(47,114,005)	(43,098,414)
	62,189,241	91,204,832
FURNITURE & EQUIPMENT, AT COST	24,304	33,955
Less Accumulated depreciation	(21,737)	(25,492)
	2,567	8,463
OTHER ASSETS		
Dry-docking costs (net of accumulated amortisation of $2,006,533 in 2003 and $1,180,678 in 2002)	4,894,163	1,638,711
Debt issuance cost (net of accumulated amortisation of $1,472,654 in 2003 and $1,446,026 in 2002)	502,870	989,956
TOTAL ASSETS	$ 87,316,016	$ 112,629,237

THE ACCOMPANYING NOTES ARE AN INTEGRAL
PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

MC SHIPPING INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 31 2003	DECEMBER 31 2002
CURRENT LIABILITIES		
Accounts payable	$ 612,759	$ 650,174
Hire received in advance	584,843	629,645
Accrued expenses	4,435,166	5,455,907
Accrued interest	1,193,420	1,675,313
Current portion of long term debt	4,179,553	12,968,616

TOTAL CURRENT LIABILITIES		11,005,741		21,379,655
LONG TERM DEBT				
11.25% Senior Notes due 2008		27,640,000		34,640,000
Secured loans		19,441,690		30,821,243
TOTAL LONG TERM DEBT		47,081,690		65,461,243
TOTAL LIABILITIES		58,087,431		86,840,898
SHAREHOLDERS EQUITY				
Common stock, $.01 par value				
20,000,000 shares authorised in 2003 and 2002,				
8,530,238 shares issued and outstanding in 2003 (8,481,624 in 2002)		85,302		84,816
Additional paid-in capital		52,135,576		52,165,202
Less: Treasury stock, at cost (221,730 shares at December 31, 2003 and 241,466 at December 31, 2002)		(891,806)		(971,185)
Accumulated deficit		(21,905,096)		(24,996,251)
Accumulated comprehensive income		(195,391)		(494,243)
TOTAL SHAREHOLDERS EQUITY		29,228,585		25,788,339
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	87,316,016	$	112,629,237

THE ACCOMPANYING NOTES ARE AN INTEGRAL
PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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MC SHIPPING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	FOR THE YEARS ENDED DECEMBER 31					
		2003		**2002**		**2001**
CHARTERHIRE AND OTHER INCOME	$	35,797,522	$	41,858,999	$	44,823,301
COSTS AND EXPENSES						
Commission on charterhire		(895,394)		(1,100,422)		(1,223,268)
Vessel operating expenses		(17,875,984)		(19,547,436)		(22,321,851)
Amortisation of dry-docking costs		(1,176,659)		(575,185)		(895,802)
Depreciation		(8,295,583)		(9,127,713)		(10,761,040)

General and administrative expenses	(1,419,368)	(1,382,587)	(1,652,622)
OPERATING INCOME	6,134,534	10,125,656	7,968,718
OTHER INCOME/(EXPENSES)			
Interest expense	(4,866,062)	(6,418,537)	(7,953,745)
Interest income	110,603	127,559	373,589
Equity in losses from associated companies	-	-	(296,378)
Provision for impairment losses on vessels	(2,693,650)	(1,687,370)	(10,712,007)
Gains on disposals of vessels	1,785,253	-	2,084,283
Gains on repurchases of notes	2,620,477	94,598	11,388,757
NET INCOME	$ 3,091,155	$ 2,241,906	$ 2,853,217
BASIC AND DILUTED PER SHARE AMOUNTS:			
Net Income	$ 0.37	$ 0.27	$ 0.35
Basic weighted average number of shares outstanding	8,256,463	8,228,868	8,180,134
Diluted weighted average number of shares outstanding	8,401,432	8,392,016	8,266,848

THE ACCOMPANYING NOTES ARE AN INTEGRAL
PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

MC SHIPPING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31		
	2003	**2002**	**2001**
NET INCOME	$ 3,091,155	$ 2,241,906	$ 2,853,217
Adjustments to reconcile Net Income to net cash provided from operating activities:			
Depreciation	8,295,583	9,127,713	10,761,040
Amortisation of dry-docking costs	1,176,659	575,185	895,802
Amortisation of issuance costs	233,660	287,161	293,478
Provision for impairment loss on vessels	2,693,650	1,687,370	10,712,007
Equity in loss of associated Company	-	-	296,378
Dry-docking costs capitalised	(4,791,608)	(162,778)	(1,683,386)
Gains on disposals of vessels	(1,785,253)	-	(2,084,283)
Gains on repurchases of Notes	(2,620,477)	(94,598)	(11,388,757)
Non cash compensation to Directors	20,000	20,000	50,000
Changes in Operating Assets and Liabilities:			
Hire receivables	(4,551)	120,248	(6,562)

Recoverable from insurers	138,917	(284,281)	967,179
Inventories	(75,987)	270,929	231,240
Receivables from affiliates	4,424	78,768	429,543
Prepaid expenses and other current assets	(3,876)	191,393	1,082,114
Accounts payable	(37,415)	(26,335)	(1,726,348)
Accrued expenses and hire received in advance	(1,065,543)	(2,084,575)	1,481,564
Accrued interest	(183,041)	(272,453)	(1,295,100)
CASH PROVIDED FROM OPERATING ACTIVITIES	5,086,297	11,675,653	11,869,126
INVESTING ACTIVITIES			
Purchases of vessels	-	(25,000,000)	(18,165,000)
Proceeds from disposals of vessels	20,335,693	6,664,000	37,711,547
Variation in office equipment	(1,737)	(3,340)	(7,571)
Change in restricted cash	1,386,304	(1,233,348)	558,287
NET CASH PROVIDED FROM/ (USED BY) INVESTING ACTIVITIES	21,720,260	(19,572,688)	20,097,263
FINANCING ACTIVITIES			