MC SHIPPING INC
Form 10-K
March 17, 2006

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 December 31, 2005	**Commission file number: 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 N°)

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
o yes x no

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or section 15(d) of the Act
o yes x no

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.
x yes o no

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

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act)

o yes x no

The aggregate market value of the voting and non voting equity held by non-affiliates of the Registrant computed by reference to the closing American Stock Exchange price on June 30, 2005 was: $38,375,865. Excluded from this amount are the shares of Common Stock beneficially owned by V. Investments, Navalmar and by each officer and director of the Registrant in that such companies and persons may be deemed to be affiliates of the Registrant. 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 15, 2006 was:

Common Stock, $.01 par value: 8,915,714

1

Table of contents

Table of Contents

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.

PART I

ITEM 1: BUSINESS - GENERAL

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

Since its foundation, the Company has been engaged in the business of investing in, owning and operating second-hand vessels. As of December 31, 2005, the Company's fleet totaled sixteen ships. The Company fully owned nine liquefied petroleum gas ("LPG") carriers and two coastal bulk carriers as of that date. In addition, the Company had a 50% interest in another LPG carrier and a 25.8% percent interest in four containerships as of that date. 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 fertilizer industries. A containership is a vessel designed exclusively to carry containers. A coastal bulk carrier (also known as 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 voyage 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 or several 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, inter alia, the number of vessels controlled by the Company during each year and the charter rate of those vessels.

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, and 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.

Table of Contents

OPERATIONS

Ship owning 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 ship managers, currently, V.Ships or its affiliates ("V.Ships") for LPG vessels and ARPA Shipping BV (“ARPA”) for the coastal bulk carriers. Management may use other ship managers if the price and service is competitive. 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 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 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 the technical managers for the operation of the Company's vessels and the technical managers are paid a fixed management fee. In addition, if the Company deems it necessary to employ the services of technical managers in the chartering or commercial operation of any of the Company's vessels, 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 below Compensation to Affiliates.

The Company had nine charters covering the year 2005, seven of which commenced prior to 2005, and three charterers provided revenues exceeding 10% of the Company's total revenues. The Company’s coastal bulk carriers were engaged on voyage charters in 2005 and are excluded from these statistics.

The Company operates as a single segment, as Management internally evaluates the performance of the enterprise as a whole and not on the basis of separate business units or different types of charter.

COMPENSATION TO AFFILIATES

The By-Laws of the Company provide that any of the transactions giving rise to potential conflicts of interest are subject to review by the Audit Committee of the Company's Board of Directors which is also charged with the responsibility of monitoring and reviewing transactions to be entered into with affiliates (See Item 10: Directors and executive officers of the registrant and Item 13: Certain relationships and Related transactions).

As of March 1, 2006, Navalmar Transportes Maritimos LDA (“Navalmar”) and V.Investments Limited (“V.Investments”) owned respectively 45.2% and 3.2% of the Company. Navalmar and V.Investments are deemed to share beneficial ownership of the common shares of the Company. Navalmar Transportes Maritimos LDA is a Portuguese company which owns and operates a fleet of vessels and is a subsidiary of CO.FI.PA. Spa (formerly known as Bogazzi Fimpar Spa). V.Investments is a subsidiary of V.Holdings Limited, which operates primarily under the V.Ships brand. V.Investments handles the investment activities of the V.Ships group.

The Company, via its wholly owned subsidiaries, has entered into Management Agreements (the "Agreements") with V.Ships for the technical operation of some of its vessels. The Management 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 2005, the management fees were fixed at the rate of $9,250 per vessel/per month for the container ships and the large LPG carriers and at the rate of $9,167 per vessel/per month for the smaller LPG carriers (in 2004, $8,855 and $8,753 respectively - in 2003, $8,600 and $8,500 respectively). In 2005, the Company paid management fees of $1,006,756 to V.Ships (2004 - $1,150,926; 2003 - $1,128,000).

Table of Contents

The Company does not currently employ the services of V.Ships in the chartering or commercial operation of vessels. In 2005, no commercial chartering commissions were paid by the Company to V.Ships (2004 - none; 2003 - $4,500).

If the Company deems it necessary to employ the services of V.Ships to assist with legal work for the acquisition or disposal of vessels, the Company will pay legal fees determined in the light of current industry practice. In 2005, legal fees and expenses totaling $37,876 were paid by the Company to affiliates of V.Ships (2004 - $33,443; 2003 - $17,942).

The Company leases office space from and reimburses telecommunication expenses to various affiliates of V.Ships. In 2005, the rental cost and telecommunications expenses paid to affiliates of V.Ships were approximately $104,455 (2004 - $133,416; 2003 - $101,218).

In August 2004, the Company entered into a service agreement with V.Investments whereby the Company paid a fee of £10,000 per month in consideration of V.Ships permitting the Company's Chief Executive Officer, who was a full time employee of V.Ships, to provide his services on a part time basis to the Company**.** V.Ships was also entitled to reimbursement of all business expenses incurred by the CEO in the provision of his services. Such agreement terminated on October 31, 2005 when the CEO joined the Company on a full time basis. In 2005, the fees and expenses paid to V.Investments amounted to $203,084.

The Company outsources some bookkeeping functions to an affiliate of V.Ships. In 2005, the Company paid a total of approximately $28,833 for such accounting services (2004 - $31,000; 2003 - $31,000).

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 to arrange for insurance, crew and staff traveling, port agency services, manning, safety and training services, and miscellaneous services described below. The payments described below represent in part fees and for the most part payments to third parties.

The Company currently does not place its vessel insurance through V.Ships. In 2005, insurance premiums paid by the Company to V.Ships amounted to $3,240 (2004 - $706,946 ; 2003 - $919,127). In addition, in 2005, cover for legal expenses in case of commercial disputes was dealt with by the way of a retainer amounting to approximately $58,793 to a subsidiary of V.Ships specializing in such work.

The Company uses, for crew and staff traveling, the services of a company affiliated with V.Ships. In 2005, such traveling expenses amounted to approximately $378,340 and were included in vessel operating expenses or in general and administrative expenses (2004 - $267,670; 2003 - $278,831).

The Company uses from time to time the port agency services of various companies affiliated with V.Ships. In 2005, the Company paid to these companies approximately $278,719 for port and other costs, which were included in vessel operating expenses (2004 - $313,754 ; 2003 - $480,660).

The Company uses various companies affiliated with V.Ships for manning, safety and training. In 2005, such expenses amounted to approximately $253,375 and were included in vessel operating expenses (2004 - $346,129; 2003 - $347,179).

At December 31, 2005, the Company had intercompany balances of trade accounts receivables of $202,208 due from affiliates ($80,492 in 2004). This amount includes $180,789 receivable from MUNIA for the payment of the lube oil remaining on board at the time of sale of the container vessels. Munia Mobiliengesellschaft mbH & Co. KG ("MUNIA") is a special purpose German KG company which purchased four container vessels from the Company in January 2005 and which is 25.8% owned by the Company (see Note 4: Investment in Associated Companies to the Consolidated

Financial Statements in Item 8).

Table of Contents

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 labor 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 Defense 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 $150,000 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. Two of the Company's vessels made one call and one vessel made two calls to a United States port in 2005.

Table of Contents

COMPETITION

Competition in the operation of 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 sector, 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

At the end of 2005, the Company employed five 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, Ukraine, Philippines and the United Kingdom currently man the Company's vessels and a total of approximately two hundred and fifty seafarers currently serve on the Company's vessels. These seamen are generally unionized and the Company believes its relationships with the seamen who serve on board its vessels are good.

ITEM 1A: RISK FACTORS

RISK FACTORS RELATING TO OUR BUSINESS AND OPERATIONS

Our business is subject to the general volatility of the shipping market. 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 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.

Our business is subject to significant environmental and other regulations. The operation of vessels is affected by extensive and changing environmental protection and other laws and regulations, compliance with which may entail significant expense, including expenses for ship modifications and changes in operating procedures. Such expense could have a material adverse effect on the Company at any time.

Our business is subject to government regulation which may increase our costs and potential liabilities, including for the failure to obtain required permits, licenses and certificates and the failure to keep up with changing regulations. The shipping 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.

Table of Contents

Shipping is an inherently risky business and our insurance may not be adequate. 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 labor strikes. In addition, the operation of any ocean-going vessel entails an inherent risk of catastrophic marine disaster. Any of these events may result in loss of revenues, increased costs and decreased cash flows. The Company maintains Insurance consistent with industry practice. Nonetheless, risks may arise against which we are not adequately insured. For example, a catastrophic event could exceed our insurance coverage and have a material adverse effect on our financial condition. Although the Company has had no difficulty in obtaining such insurance for its vessels in the past, there can be no assurance that the Company will be able to continue to procure sufficient amounts of insurance at commercially reasonable rates in the future and we cannot guarantee that any particular claim will be paid.

There may be risks associated with the purchase and operation of second hand vessels. The economic useful lives of most gas carriers are generally estimated to be approximately 30 years, depending on market conditions, the type of cargo being carried and the level of maintenance. Although we inspect second-hand vessels prior to purchase, this does not normally provide us with the same knowledge about their condition that we would have had if such vessels had been built for and operated exclusively by us. Second-hand vessels carry no warranties from sellers or manufacturers. In general, expenditures necessary to maintain a vessel in good operating condition increase with the age of the vessel. Second-hand vessels may develop unexpected mechanical and operational problems despite adherence to regular survey schedules and proper maintenance. Changes in governmental regulations and safety standards may require expenditures for alterations. The Company's vessels range from 10 to 30 years old. There can be no assurance that market conditions will justify the level of expenditures necessary to maintain such vessels, to comply with applicable regulations, to enable the Company to operate such vessels profitably during the remainder of such vessels' useful lives or to sell such vessels at prices approaching or in excess of the book value. Therefore, our future operating results could be negatively affected if some of the vessels do not perform as we expect.

We may face unexpected repair costs for our vessels. Repairs and maintenance costs are difficult to predict with certainty and may be substantial. Many of these expenses are not covered by our insurance. Large repair expenses could decrease our cash flow and profitability and reduce our liquidity.

Our revenues may be adversely affected if we do not successfully employ our vessels. The Company's vessels are currently chartered for periods ranging from three to fifty one months. Upon the termination of such charters, the Company may seek to sell one or more of its vessels, enter into medium- to long-term charters or trade such vessels in the spot market. If the Company decides to recharter the vessels, there can be no assurance that it will be able to enter into charters for periods and at rates of hire that will be sufficient to enable the Company's vessels to be operated profitably.

We are dependant on a few charterers and if we lose any of our charterers or a significant portion of our revenues, our operating results could be materially adversely affected. The Company has derived and is expected to continue to derive, a significant portion of its revenues from a limited number of charterers. If the Company loses a significant customer, or if a significant customer decreases the amount of business it transacts with us, our revenues, cash flows and profitability could be materially and adversely affected.

The risks associated with operations outside the United States could adversely impact our operating results. The Company's operations are conducted worldwide, and may be affected by changing economic, political and social conditions in the countries where the Company is engaged in business or where the Company's vessels are registered or flagged. In particular, the Company's operations may be affected by war, expropriation of vessels, the imposition of taxes, increase regulation or other circumstances, and as a consequence the Company may incur higher costs, its assets may be impaired or its operations may be curtailed.

8

Table of Contents

Our operating performance may be materially affected by competition. Competition in the operation of LPG carriers is intense. A few large and experienced operators, with greater financial resources than those of the Company, dominate the LPG sector, particularly in the larger ship segments, and there is no assurance that the Company will be able to compete successfully with other shipping firms.

Related party transactions may materially affect our business. Certain of the directors and executive officers of the Company are involved in outside business activities similar to those conducted by the Company. As a result of such affiliations, such persons may experience conflicts of interest in connection with the selection, purchase, operation and sale of the Company's vessels and those of other entities affiliated with such persons.

If we default under any of our loan agreements, we could forfeit our rights in our vessels and their charters. We have pledged all of our vessels and related collateral as security to the lenders under our loan agreements. Default under any of these loan agreements, if not waived or modified, would permit the lenders to foreclose on the mortgages over the vessels and the related collateral, and we could lose our rights in the vessels and their charters.

RISK FACTORS RELATED TO OUR COMMON STOCK

You may not be able to sell your common stock when you want to and, if you do, you may not be able to receive the price that you want. Although our common stock trades on the American Stock Exchange, we do not know if an active trading market for the common stock will continue or, if it does, at what prices the common stock may trade. During 2005, the reported closing prices for our common stock have ranged from a high of $15.82 to a low of $3.55. In addition, the stock markets in general, including the American Stock Exchange, have experienced extreme price and trading volume fluctuations. These fluctuations have resulted in volatility in the market prices of securities that has often been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of our common stock. Further, possible additional issuances could significantly increase the number of shares of our common stock outstanding, and could result in a decline in the market price of our common stock. Therefore, you may not be able to sell our common stock when you want and, if you do, you may not receive the price you want.

We cannot assure you that we will pay any dividends. In March 2005, our board of directors initiated a cash dividend policy. The timing and amount of dividends, if any, could be affected by factors affecting cash flows, results of operations, required capital expenditures, or reserves. Maintaining the dividend policy will depend on our cash earnings, financial condition and cash requirements and could be affected by factors, including the loss of a vessel, required capital expenditures, reserves established by the board of directors, increased or unanticipated expenses, additional borrowings or future issuances of securities, which may be beyond our control.

ITEM 1B: UNRESOLVED STAFF COMMENTS

Not applicable.

Table of Contents

ITEM 2: PROPERTIES

The Company, through its wholly owned subsidiary MC Shipping S.A.M., directly rents office space from V.Ships and procures administrative services in Monaco. In 2005, the Company leased office space at a cost of $89,167 (2004 - $87,206; 2003 - $76,078). Additionally, the Company has at its disposal office space and administrative services in Bermuda.

At December 31, 2005, the Company's fleet consisted of the following vessels:

Name	Type	Year Built	DWT	% ownership
Deauville	LPG Carrier	1995	2,601	100.0%
Auteuil	"	1995	2,588	100.0%
Coniston	"	1991	4,833	100.0%
Cheltenham	"	1990	4,318	100.0%
Longchamp	"	1990	4,316	100.0%
Malvern	"	1990	4,148	100.0%
La Forge	"	1981	45,587	100.0%
Chelsea Bridge	"	1987	51,466	100.0%
Tower Bridge	"	1991	49,245	100.0%
Bay Trader	Coastal Bulk Carrier	1980	1,579	100.0%
Link Trader	"	1980	1,579	100.0%
Galileo	LPG Carrier	1983	47,593	50.0%
Maersk Belawan	Container Carrier	1983	37,212	25.8%
Maersk Brisbane	"	1976	37,129	25.8%
Maersk Barcelona	"	1976	37,115	25.8%
Ankara	"	1975	37,116	25.8%

ITEM 3: LEGAL PROCEEDINGS

The Company has no material legal proceedings.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

None

Table of Contents

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”. As of February 15, 2006, there were 60 record holders of Common Stock.

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

Quarter ended	2005		2004	
	High	Low	High	Low
March 31	8.93	3.55	3.00	2.00
June 30	10.11	7.59	2.90	2.16
September 30	10.35	8.95	4.61	1.86
December 31	15.82	9.30	5.82	3.28

DIVIDENDS

In March 2006, the Company’s Board of Directors announced a dividend of $0.25 per share to be paid in four equal quarterly installments commencing in April 2006 and a stock dividend of one share for every twenty shares owned, rounded up to the nearest multiple. In March 2005, the Company’s Board of Directors declared a dividend of $0.25 per share which was paid in four equal quarterly installments commencing in April 2005. In March 2004, the Company's Board of Directors decided to distribute a stock dividend of 1 share for every 20 shares owned, rounded up to the nearest multiple of 20 and 415,513 shares were issued to that effect.

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 AUTHORIZED UNDER EQUITY COMPENSATION PLAN

As of December 31, 2005

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	186,398	$9.228	-
Equity compensation plans	-	-	-

not approved by security holders			
Total	186,398	$9.228	-

11

Table of Contents

SHARE REPURCHASE PROGRAM

In March 2006, the Company's Board of Directors extended the authorization to repurchase of up to 400,000 shares of its common stock. Shares will be repurchased in the open market at times and prices considered appropriate by the Company. The timing of any purchases and the exact number of shares to be purchased will be dependent on market conditions. Repurchased stock, if any, will be held in treasury. There were no repurchases of common shares in 2005 under the Share Repurchase Program.

ITEM 6: SELECTED FINANCIAL DATA

The following selected financial data for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 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.

The Company is in the business of investing in, owning and operating vessels. As a result, the composition and size of the Company's fleet varies significantly every year (see Note 3: Acquisitions and Sales of Vessels to the Consolidated Financial Statements in Item 8).

Table of Contents

Consolidated Statements of Operations Data

	Years ended December 31				
	2005	**2004**	**2003**	**2002**	**2001**
Charterhire and Other Income	$ 35,396,519	$ 31,895,393	$ 35,797,522	$ 41,858,999	$ 44,823,301
Commission on Charterhire	(532,281)	(759,673)	(895,394)	(1,100,422)	(1,223,268)
Vessel Operating Expenses	(13,983,069)	(16,821,562)	(17,875,984)	(19,547,436)	(22,321,851)
Amortization of Dry-docking Costs	(808,129)	(1,433,150)	(1,176,659)	(575,185)	(895,802)
Depreciation	(8,114,264)	(5,140,639)	(8,295,583)	(9,127,713)	(10,761,040)
General and Administrative Expenses	(2,254,864)	(2,577,213)	(1,419,368)	(1,382,587)	(1,652,622)
Impairment Loss	-	-	(2,693,650)	(1,687,370)	(10,712,007)
Gain on disposals of vessels	-	-	1,785,253	-	2,084,283
Recognized deferred gain on sale of vessels	4,515,383	-	-	-	-
Operating Income	14,219,295	5,163,156	5,226,137	8,438,286	(659,006)
Interest Expense	(4,018,670)	(3,463,491)	(4,866,062)	(6,418,537)	(7,953,745)
Interest Income	454,037	156,964	110,603	127,559	373,589
Equity in Gain / (Loss) from Associated Companies	113,983	-	-	-	(296,378)
(Loss)/Gains on debt extinguishment	-	(744,250)	2,620,477	94,598	11,388,757
Net Income	10,768,645	1,112,379	$ 3,091,155	$ 2,241,906	$ 2,853,217
Per Share amounts:					
Basic Net Income	$ 1.22	$ 0.13	$ 0.36	$ 0.26	$ 0.33
Diluted Net Income	$ 1.19	$ 0.13	$ 0.35	$ 0.25	$ 0.33

Consolidated Balance Sheet Data

	December 31				
	2005	**2004**	**2003**	**2002**	**2001**
Current Assets	$ 16,693,433	$ 14,095,193	$ 19,727,175	$ 18,787,275	$ 18,122,265
Current Liabilities	$ 17,749,812	$ 11,980,513	$ 11,005,741	$ 21,379,655	$ 16,802,533
Total Assets	$ 148,742,523	$ 80,317,068	$ 87,316,016	$ 112,629,237	$ 104,828,997
Long-term Debt	$ 77,326,000	$ 37,500,000	$ 47,081,690	$ 65,461,243	$ 64,209,859
Shareholders' Equity	$ 40,466,810	$ 30,836,555	$ 29,228,585	$ 25,788,339	$ 23,816,605

13

Table of Contents

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, 2005, the Company'sfleet totaled sixteen ships. The Company fully owns nine liquefied petroleum gas ("LPG") carriers and two coastal bulk carriers. In addition, the Company had a 50% interest in another LPG carrier and a 25.8% percent interest in four containerships. 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 charter party 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 and the charter rates of those vessels.

Shipping markets

In 2005, the market saw a continuing strong recovery in LPG charter rates. However, throughout 2005, most of the Company's small LPG ships remained under charters or options granted under charters initiated in prior years. Such rates reflected the then current market conditions and were substantially below those enjoyed today. One small LPG tanker was renewed at the end of 2005 at current market rate. Four small LPG tankers are due for renewal in the first six-seven months of 2006, one in December 2006 and one very large gas carrier ("VLGC") tanker in November 2006: the Company hopes to secure current market rates at renewal. The Company's remaining VLGC tankers (including Galileo 50% owned) will continue on charter at the rates which were previously agreed.

In general, increased freight rates are driven by increased production linked to LNG projects which produce LPG as an associated gas, worldwide demand for LPG, an aging fleet, enhanced industry standards and shipyards' inability to deliver replacement tonnage earlier than in the next 24 months due to prior commitments for other ship designs.

The main LPG trade between Arabian Gulf countries and Japan serves as a market indicator and the freight rates on this route are considered the industry benchmark for VLGCs. The table below demonstrates the recent increase in freight rates achieved on this route. The table also shows the evolution of 12-month time charter rates for vessels of sizes and types similar to the Company's ships.

14

Table of Contents

LPG market	2003	2004	2005
Voyage rates ($/mt) Arabian Gulf/Japan	28.73	36.15	40.51
12-month time charter ($/day)			
78,000 m^3 average daily charter rate	22,091	27,822	33,538
3,500 m^3 average daily charter rate	4,274	6,247	7,566

Sources: © Clarkson Research Services Limited; © Lorentzen & Stemoco; © Barry Rogliano Salles; © Inge Steensland AS.

Like charter rates, LPG ship values have increased substantially over the last twelve months, as demonstrated by the appraisals received by the Company for its gas fleet from leading independent shipbrokers.

In 2005, the market for containerships remained very strong, although the end of the year showed signs of a decline in rates. However, the four container vessels, which are 25.8% owned by the Company, are fixed on long term charters with AP Møller until February 1st 2008, September 1st 2008, May 15th 2009 and February 1st 2009, respectively, at rates which remain well below current market levels.

Market value of the fleet

On the basis of appraisals received from leading independent shipbrokers, the appraised value of the Company's fully owned fleet in January 2006 was approximately $174,675,000 compared to a book value of $121,991,571 on December 31, 2005. The excess of appraised value over book value was approximately $52.7 million. In January 2005, the appraised value of the Company's fleet was approximately $91,850,000 compared to a book value of $57,051,369 at December 31, 2004. The excess of appraised value over book value was approximately $34.8 million.

Accumulated Deficit.

As of December 31, 2005, the Company's accumulated deficit was $10,024,072. This amount consisted of total accumulated losses (net of accumulated profits) of $1,328,228 since the Company's inception and dividends declared of $8,695,844 over the same period. An additional $7,140,332 of dividends was 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. As a result of the Company's accumulated deficit position, the stock dividend declared and issued in 2005 was accounted for as a reduction in Additional Paid-in Capital.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

Significant events during 2005

In 2005, the Company had decided to focus its activities in the LPG sector. In January, the Company sold four container vessels, while retaining a 25.8% interest. In April, the Company bought two very large gas carriers from Bergesen and acquired a 50% interest in another one bought from Shell (see in Item 8 the consolidated financial statements Note 3: Sale and Purchase of vessels and Note 4: Investments in Associated Companies, included elsewhere in this document).

Following various share transactions that took place in 2005 and that are fully described in Note 2: Related Company Transactions to the consolidated financial statements in Item 8, Navalmar now owns approximately 45.2% of the

Company while V.Ships owns approximately 3.2% of the Company.

Table of Contents

Revenue

The Company had gross revenue from charterhire and other sources of $35,396,519 for the year ended December 31, 2005, a 11% increase from gross revenue of $31,895,393 in 2004. The revenue increase resulted mainly from a change in the fleet composition (see Significant Events during 2005).

The average rate per day on hire was $10,066 in 2005 ($7,313 in 2004 for all vessels). In 2005, the Company's on-hire performance of the vessels on time charter excluding the vessels sold in January 2005 was 97.6% on a potential 3,021 days, (99.4% on a potential 4,026 days in 2004 for all vessels). The decrease in on-hire performance was mainly due to the fact that four vessels underwent dry-docking in 2005.

In 2005, the vessels on time charter experienced off-hire time for the following reasons: (i) 1.99% of the total available days were lost due to dry-docking and planned repair time, (ii) 0.38% of the total available days were lost due to technical reasons ("operating off-hire") and (iii) 0.08% % of the total available days were lost due to underperformance of the vessel.

Costs and Expenses

Commission on charterhire was $532,281 in 2005, a 29.9% decrease from the $759,673 incurred during 2004. This decrease results principally from the lack of commissions on the charterhire of the last two vessels acquired.

Vessel operating expenses plus amortization of dry-docking costs totaled $14,791,198 for the year ended December 31, 2005, representing a decrease of 23% from 2004 in which vessel operating expenses plus amortization of dry-docking amounted to $18,254,712. 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 amortization of dry-docking costs were equal to 41.8% in 2005 compared to 57.2% in 2004. The decrease in vessel operating expenses as a percentage of revenues in 2005 is due to the increase in charterhire. The decrease in operating expenses is due to the fact that the Company sold four vessels in January and purchased two in April.

Depreciation was $8,114,264 for the year ended December 31, 2005, compared to $5,140,639 in 2004. The increase in depreciation is principally due to the purchase of two VLGC vessels in April 2005 which was partially offset by the reduction in depreciation due to the sale of four container vessels in January 2005.

General and administrative expenses were $2,254,864 for the year ended December 31, 2005, compared to $2,577,213 in 2004. This represented 6.4% of revenue in 2005 as compared to 8.1% of revenue in 2004. In the second half of 2004, the Company had incurred certain non-recurring expenses in relation with the change of ownership of the Company and the offer for additional equity received by the Company.

Impairment Loss

As of December 31, 2005, the Company evaluated the recoverability of its vessels in accordance with FAS 144 and determined that no provision for impairment loss was required. As of December 31, 2004, the Company also had determined that no provision for impairment loss was required.

In February 2006, the Company received appraisals for its entire fleet from leading independent shipbrokers. On this basis, the appraised value of the Company's fully owned fleet as of December 31, 2005 was approximately $174,675,000 (compared to a book value of $121,991,571 on December 31, 2005).

Interest Income and Expenses

Interest expense amounted to $4,018,670 for the year ended December 31, 2005 as compared to $3,463,491 in 2004, and represented 11.3% of revenue as compared with 10.8% in 2004. The increase in interest expense resulted from the increase in the Company's debt (see Note 6: Long Term Debt to the Consolidated Financial Statements in Item 8).

16

Table of Contents

Interest income totaled $454,037 in 2005, a 189% increase from interest income of $156,964 in 2004. The increase in interest earnings was due to higher interest rates.

Deferred Income

Recognized deferred gain totaled $4,515,383 in 2005 and represents the portion of Deferred Gain on sale of assets recognized as income during the year.

Equity in Income / (Loss) of associated companies

Equity in net income of associated companies totaled $113,983 for the year ended December 31, 2005 (see Note 4: Investment in associated Companies to the Consolidated Financial Statements in Item 8).

The Company's 25.8% share of MUNIA's net income amounted to $389,764 for the year ended December 31, 2005 (see below Liquidity and Sources of Capital - Investing activities). The on-hire performance of the container vessels was 99.9% on a potential 1,460 days in 2005. The Company received dividends of $110,000 in July 2005 and $180,000 in January 2006. The operating expenses of the vessels were approximately at the guaranteed level in 2005 and no payment were made or received under the guarantee, except for the expenses accrued in relation to the Maersk Barcelona incident (see Note 4: Investments in Associated Companies to the Consolidated Financial Statements in Item 8).

The LPG carrier Galileo, owned by Waterloo Shipping Limited (see below Liquidity and Sources of Capital - Investing activities) has incurred additional operating expenses to be brought to a standard the Company believes to be required for long term safe operation. In addition, the ship has suffered technical off-hire during the second and third quarters to allow this work to take place. The vessel suffered no off-hire in the fourth quarter of 2005. Management believes the Galileo will prove a positive investment going forward and valuations have shown a fair market value in excess of her current book value. In 2005, the on-hire performance of the Galileo was 86.7% on a potential 270 days. Because of the Galileo's start up costs, the Company's 50% portion of Waterloo's net loss amounted to $275,780 for the year ended December 31, 2005.

Net Income

Net income for the year ended December 31, 2005 was $10,768,645 as compared to net income of $1,112,379 for the year ended December 31, 2004.

Impact of Inflation

Management believes that inflation did not have a material impact on the Company's business during the year ended December 31, 2005.

Subsequent events

On January 27, 2006, the Company paid the fourth dividend quarterly installment of $557,104 ($0.0625 per share).

In January 2006, the Company opened an office in London. Following the joining of the Chief Executive Officer on a full time basis in November 2005, it is the intention of the Company to develop its activities on a global basis. It is expected that additional staff will be hired both in London and elsewhere. The annual rental cost of the leased office space is equal to approximately $133,000.

In March 2006, the Company signed Memoranda of Agreement for the purchase of two LPG vessels from the Bernhard Schulte Group of Germany at a total cost of $11 million. The vessels, Hermann Schulte (built 1980) and Dorothea Schulte (built 1981) are semi-refrigerated and of 5,600 cbm capacity each. The acquisition will be funded with an $ 8 million bank loan facility and for the balance with the Company's current cash holdings. Simultaneously with the purchase, they will be time-chartered back to the Schulte Group for a minimum period of one year. Following a tender aiming to compare experience and cost, the technical management of the vessels will be contracted to Wallem Shipmanagement Ltd, an unrelated technical manager. The vessels are expected to be delivered before March 31, 2006. Management will benchmark services and introduce more competition between suppliers.

Table of Contents

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2003

Significant Events During 2004

On May 13, 2004, the Vlasov Group sold all of its 4,168,000 shares of Common Stock of MC Shipping (approximately 47.78%) to V.Investments and Navalmar. As of May 14, 2004, V.Investments Limited, V.Ships Group LTD., V.Holdings Limited, Greysea Limited, Close Securities Limited, Close Investment Partners Limited, Navalmar (UK) Limited, Bogazzi Fimpar SpA, and Enrico Bogazzi filed a joint Form 13D to report that they might be deemed to have shared beneficial ownership of 4,308,790 common shares, which represented approximately 49.39% of the common stock outstanding. Following the purchase of additional shares in the open market by Navalmar in the later part of 2004, V.Investments and Navalmar controlled over 50% of the outstanding stock of the Company. As a result of the above, a number of changes took place in Management and the Board of Directors of the Company (see Item 10: Directors and Executive Officers of the Company) and the Company incurred significant non-recurring General and Administrative Expenses (see below: Costs and Expenses).

On October 11, 2004, the Company entered into a $45,000,000 long-term debt agreement with Fortis Bank in order to refinance all of its outstanding debt including its 11.25% Senior Notes due 2008. Following the prepayment of its debt, the Company recorded a net loss on extinguishment of debt of $1,107,369 in the 4th quarter of 2004 (see Note 6: Long term Debt to the consolidated financial statements in Item 8). The refinancing is expected to provide substantial interest expenses savings in the next few years. In 2005, the interest saving will be approximately $1,545,615.

Revenue

The Company had gross revenue from charterhire and other sources of $31,895,393 for the year ended December 31, 2004, a 10.9% decrease from gross revenue of $35,797,522 in 2003. The revenue decrease resulted mainly from the sale of four vessels in July 2003.

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 $7,313 in 2004 ($7,437 in 2003). In 2004, the Company's on-hire performance of the vessels on time charter was 99.4% on a potential 4,026 days (95.1% on a potential 4,015 days in 2003). The increase in on-hire performance was mainly due to a reduction in the number of dry-docks in 2004: one vessel on time charter was dry-docked in 2004 against eight vessels in 2003.

In 2004, the vessels on time charter experienced off-hire time for the following reasons: (i) 0.3% of the total available days were lost due to technical reasons ("operating off-hire") and (ii) 0.3% of the total available days were lost due to dry-docking and planned repair time.

Costs and Expenses

Commission on charterhire was $759,673 in 2004, a 15.1% decrease from the $895,394 incurred during 2003. This decrease is a direct result of decreased revenues.

Table of Contents

Vessel operating expenses plus amortization of dry-docking costs totaled $18,254,712 for the year ended December 31, 2004, representing a decrease of 4.4% from 2003 vessel operating expenses plus amortization of dry-docking which amounted to $19,052,643. 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 amortization of dry-docking costs were equal to 57.2% in 2004 compared to 53.2% in 2003. The increase in vessel operating expenses as a percentage of revenues in 2004 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 $5,140,639 for the year ended December 31, 2004, compared to $8,295,583 in 2003. The reduction resulted from the sale of four vessels in July 2003. At the beginning of 2004, in view of rising scrap prices in the last years, Management decided to increase for accounting purposes the estimated residual values of its container vessels. The net effect of this change of estimate was to reduce depreciation and to increase net income by $327,997 in the first three quarters of 2004. Subsequently, the Company reconsidered this change in accounting estimate and reflected an additional depreciation charge of $327,997 in the first three quarters of 2004. There will be no effect on the 2005 operating results of the Company as the container vessels were sold in January.

General and administrative expenses were $2,577,213 for the year ended December 31, 2004, compared to $1,419,368 in 2003. This represented 8.1% of revenue in 2004 as compared to 4.0% of revenue in 2003. The 82% increase in general and administrative expenses in 2004 is substantially due to the non-recurring legal and advisory expenses incurred in relation with the change of ownership of the Company, the offer for additional equity received by the Company and severance payments. In addition, the appreciation of the euro had a negative impact on the overhead expenses which were denominated in euros.

Impairment Loss

As of December 31, 2004, the Company evaluated the recoverability of its vessels in accordance with FAS 144 and determined that no provision for impairment loss was required. In 2003, the Company had recorded a provision for estimated impairment loss of $2,693,650.

In January 2005, the Company received appraisals for its gas fleet from leading independent shipbrokers. The market value of the container vessels was assumed to be equal to the sale price received in January 2005. On this basis, the appraised value of the Company's entire fleet was approximately $91,850,000 compared to a book value of $57,051,369 on December 31, 2004.

If there are indicators of impairment, evaluating recoverability require Management to make estimates and assumptions regarding future cash flows (see below: Critical Accounting Policies and 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 indicators of impairment in vessel values occur.

Other Income and Expenses

Interest expense amounted to $3,463,491 for the year ended December 31, 2004 as compared to $4,866,062 in 2003, and represented 10.8% of revenue as compared with 13.6% in 2003. The decrease in interest expense resulted from a reduction in the Company's debt.

Interest income totaled $156,964 in 2004, a 42% increase from interest income of $110,603 in 2003. The increase in interest earnings was due to the increased cash balances and slightly higher interest rates.

In 2004, the Company recorded a net loss on debt extinguishment of $744,250. This amount consisted of: (1) a net gain of $363,119 recorded on repurchases in the open market of Notes having a total face value $6,540,000 and (2) a net loss of $1,107,369 recorded at the time of refinancing in the 4th quarter 2004, corresponding the 3.75% call premium of the $21.1 million of Notes ($791,250), to the write off of the Notes unamortized issuance costs ($183,938) and to the write off of the existing bank debt unamortized issuance costs ($132,181). (See Note 6: Long Term Debt to the consolidated financial statements in Item 8).

Table of Contents

In 2003, the Company recorded a gain of $2,620,477 on the repurchase of Notes having a total face value of $7,000,000 and a $1,785,253 gain on the sale of four container vessels.

Net Income

The net income for the year ended December 31, 2004 was $1,112,379 as compared to a net income of $3,091,155, for the year ended December 31, 2003.

Impact of Inflation

Management believes that inflation did not have a material impact upon the Company's business during the year ended December 31, 2004.

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.

Depreciation and amortization

We record the value of our vessels at their cost (which includes pre-operating costs directly attributable to the vessel) less accumulated depreciation. We depreciate our LPG vessels on a straight-line basis over their estimated useful lives, estimated to be 30 years from date of initial delivery from the shipyard. Depreciation is based on cost less the estimated residual scrap value. For the larger vessels, we estimate residual scrap value as the lightweight tonnage of each vessel multiplied by $175 scrap value per ton, which management estimates to approximate the historical average price of scrap steel. For the smaller vessels, Management's estimates of the residual scrap value range from zero to $200,000. An increase in the useful life of a vessel would have the effect of decreasing the annual depreciation charge and extending it into later periods. An increase in the residual scrap value would decrease the amount of the annual depreciation charge. A decrease in the useful life of a vessel would have the effect of increasing the annual depreciation charge. A decrease in the residual scrap value would increase the amount of the annual depreciation charge.

Deferred dry dock cost

Our vessels are dry-docked approximately every 30 to 60 months for major repairs and maintenance that cannot be performed while the vessels are operating. We capitalize the costs associated with the dry-docks as they occur and amortize these costs on a straight line basis over the period between dry-docks. Costs capitalized as part of the dry dock include actual costs incurred at the dry-dock yard; cost of fuel consumed between the vessel's last discharge port prior to the dry dock and the time the vessel leaves the dry dock yard; cost of hiring riding crews to effect repairs on a ship and parts used in making such repairs that are reasonably made in anticipation of reducing the duration or cost of the dry dock; cost of travel, lodging and subsistence of our personnel sent to the dry dock site to supervise; and the cost of hiring a third party to oversee a dry dock. We believe that these criteria are consistent with GAAP guidelines and industry practice, and that our policy of capitalization reflects the economics and market values of the vessels.

Table of Contents

Impairment of long-lived assets

In accordance with SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company's vessels are regularly reviewed for impairment. The Company performs the impairment valuations at the individual vessel level pursuant to paragraph 10 of SFAS 144.

To consider whether there is an impairment indicator, the Company compares the book value and the market value of each vessel at the end of each quarterly reporting period. At year end, the market value used by the Company is equal to the average of the appraisals provided by two leading independent shipbrokers. Appraisals are based on the technical specifications of each vessel, but are not based on a physical inspection of the vessel. At quarter end, the market values are assessed by the Chief Executive Officer on the basis of market information, shipping newsletters, sale of comparable vessels reported in the press, informal discussions with shipbrokers or unsolicited proposals received from third parties for the vessels.

Whenever a vessel market value is above its book value, the Company considers there is no indication of impairment. Whenever a vessel market value is below its book value, the Company considers there is a potential impairment and performs a recoverability test. The Company estimates the undiscounted future cash flows attributable to the vessel in order to determine if the book value of such vessel is recoverable.

The assumptions used to determine whether the sum of undiscounted cash flows expected to result from the use and eventual disposition of the vessel exceeds the carrying value involve a considerable degree of judgment on the part of Management. Actual results could differ from those estimates, which could have a material effect on the recoverability of the vessels. The most significant assumptions are:

- The time of final disposal corresponds to the estimated useful life of the vessel: 25 years for a container vessel or 30 years for a gas vessel. These assumptions are identical to the ones used for depreciation purposes.
- The estimated value at time of disposal is the estimated scrapping price, calculated as lightweight of the vessel in tons times a certain price per ton, conservatively estimated by Management relative to market price.
- The projected increase in costs and in revenues is equal to the current inflation rate.
- The charter rates used in such computations are estimated by the Chief Executive Officer on the basis of past historical rates and modulated by his assessment of current and expected future economic and industry trends. They are subjective as they correspond to the company's best estimate of an average long term rate.
- The maintenance of the vessel is estimated at one dry-dock every 2.5 years, alternating intermediate and special survey dry-docks,
- Days on hire are estimated at a level consistent with the Company's on-hire statistics (see Management's discussion and Analysis of Financial Condition and Results of operations - Results of Operations - revenue).

If the book value of the vessel exceeds the estimated undiscounted future cash flows attributable to the vessel, the Company recognizes an impairment loss equal to the excess of the book value over the market value as defined above.

The Company's investment in MUNIA is also reviewed for impairment at year end and at each quarter end. To consider whether there is an indication of impairment, the Company compares the fair market value or estimated scrap value of each container vessel at the end of the reporting period with the minimum threshold of $4.9 million, which corresponds to a full recovery of the investment (see Note 4: Investment in Associated Companies to the consolidated financial statements in Item 8). Whenever the fair market value or estimated scrap value (corresponding to a price of scrap of $314 per ton) of a vessel is below $4.9 million, the Company considers there is a potential impairment and performs a recoverability test. To perform the recoverability test, the Company estimates the undiscounted future cash flows attributable to the investment in order to determine if the book value of such investment is recoverable. If the book value of the investment exceeds the estimated undiscounted future cash flows attributable to the investment, the

Company recognizes an impairment loss equal to the excess of the book value over the scrap value.

Table of Contents

LIQUIDITY AND SOURCES OF CAPITAL

Liquidity

The Company had $12,292,015 in cash available on December 31, 2005 as compared to $11,629,896 at December 31, 2004. In addition, on December 31, 2005, deposits totaling $1,759,237 (December 31, 2004 - $5,000,000) were pledged to guarantee the Company's performance under the Fortis loan agreement. Fortis bank released a $5,000,000 deposit on January 20, 2005 following the prepayment of $15,000,000 under the Fortis loan Agreement on such date. It should be noted that $557,680 were deposited in vessel operating accounts which are directly operated by the vessel technical managers ($1,255,280 in 2004).

The ratio of current assets to current liabilities decreased from 1.18 at December 31, 2004 to 0.94 at December 31, 2005. The reduction is mainly due to the fact that, upon the acquisition of two vessels in April 2005, the Company's current portion of long term debt increased by $7,116,000 after the drawdown of the Scotia loan (See Note 6 to the consolidated financial statements: Long Term Debt). However, the cash flows from the purchased vessels, which are employed under five year time charters at fixed charter rates, are expected to be more than sufficient to cover the expected interest and principal repayments of such loan.

Operating activities

The Company generated cash flows from operations of $14,437,039 in 2005 compared to $6,521,090 in 2004. The increase is due to higher charter rates and a change in the fleet composition resulting in higher income. In 2005, the Company dry-docked four vessels for a total cost of $1,920,922. In 2004, the Company dry-docked three vessels for a total cost of $368,579. The cost of a dry-dock depends on the size and age of the vessel.

Investing activities

On January 20, 2005 the Company sold four container vessels to MUNIA, a special purpose German KG company formed by the German finance house KGAL for net proceeds of $29.8 million. As part of the transaction, the Company guarantees certain levels of operating expenses and of employment for a fee. Concurrently, the Company invested $4 million in Munia for a 25.8% equity participation.

In April 2005, the Company acquired two very large gas carriers ("VLGCs") from the Bergesen Group of Norway. The vessels, Tower Bridge (ex Berge Flanders) of 75,000 m^3 capacity (built 1991) and Chelsea Bridge (ex Berge Kobe) of 77,000 m^3 capacity (built 1987) were acquired for considerations of $50,717,250 and $32,260,000, respectively. The vessels are time-chartered to the Bergesen Group for a minimum period of five years. The acquisitions were funded with a $68 million loan from Scotiabank Europe PLC and for the balance with internal cash resources.

In April 2005, Waterloo Shipping Limited ("Waterloo"), a joint venture company set up on a 50/50 basis by the Company and Petredec Limited ("Petredec"), a leading LPG trading and shipping company, acquired the 1983-built, 59,725 m^3, LPG carrier Galileo for a total consideration of $16 million and chartered the vessel to Petredec for a period of four years. The Company and Petredec each advanced an amount of $2,481,923 to Waterloo and Waterloo borrowed $11.2 million from Danmarks Skibskreditfond. The bank loan bears interest at LIBOR plus 1.05% and is repayable in 16 equal quarterly installments of $610,156 plus a balloon of $1,437,504. The loan is non-recourse to the joint venture partners, except for a corporate guarantee limited to $850,000 for each joint venture partner.

Table of Contents

Financing activities

The Company's long term debt (including the current portion) increased from $45,000,000 as of December 31, 2004 to $89,442,000 as of December 31, 2005. As of December 31, 2005, the Company's contractual obligations were as follows:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Fortis loan due 2010	$ 25,000,000	$ 5,000,000	$ 10,000,000	$ 10,000,000	-
Scotia loan due 2016	$ 64,442,000	$ 7,116,000	$ 14,232,000	$ 14,232,000	$ 28,862,000
Total	$ 89,442,000	$ 12,116,000	$ 24,232,000	$ 24,232,000	$ 28,862,000

In April 2005, the Company borrowed $68 million to partially finance the acquisition of two vessels. The debt service of this loan during the first five years is more than adequately supported by time charters.

During 2005, the Company repaid net borrowings of $23,558,000. These repayments consisted of: (i) $8,558,000 of normal scheduled repayments and (ii) $15,000,000 of prepayment.

Dividend

The Company paid a dividend of $0.25 per share in 2005 in four equal quarterly installments for a total of $1,662,771. The last installment of $0.0625 per share amounting to $557,104 was paid on January 27, 2006.

Future cash requirements

In 2006, the Company will have to dry-dock three vessels for an estimated total cost of approximately $3,000,000. The Company has agreed to purchase two LPG vessels from the Bernhard Schulte Group of Germany at a total cost of $11 million before March 31, 2006. The acquisition of these vessels will be funded with an $8 million bank loan facility and for the balance with the Company’s current cash holdings. Management believes that the net cash provided by operating activities will provide sufficient funds to enable the Company to meet its liquidity requirements throughout 2006.

Guarantees

The Company has issued guarantees in relation to the Fortis and Scotia Loans. In addition, the Company has issued a guarantee of $850,000 in relation with the loan granted by Danmarks Skibskreditfond to Waterloo.

In connection with the sale of the container vessels in January 2005, the Company has agreed to guarantee to the purchaser certain levels of operating expenses and of employment for the vessels until February 1st 2008, September 1st 2008, May 15th 2009 and February 1st 2009, for each vessel (or earlier in case of sale or total loss of a vessel). As a result, the excess or surplus of operating expenses, up to a certain extent, will be absorbed by the Company. As compensation for issuing such guarantee, the Company receives a daily guarantee fee for each vessel, which is included in Revenues. On September 20, 2005, the m/v ‘Maersk Barcelona’ owned by MUNIA suffered a malfunction of her oily water separator, which may have resulted in an accidental overboard discharge of oil-contaminated water off the coast of France. The Company has a potential liability corresponding to the amount of the bail (EUR 500,000) from potential fine and court fees. However, all expenses to be incurred under the MUNIA guarantee were accrued for in the third quarter and the Company expects that costs beyond the deductible will be covered by insurance, as any discharge was not deliberate.

Share Repurchase Program

The Company's Share Repurchase Program (see Note 8: Changes in Shareholders' Equity to the Consolidated Financial Statements in Item 8) is not expected to have a material impact on the Company's liquidity. The timing and the exact number of shares to be purchased will be dependent on market conditions. The share repurchase program is designed as one of the tools to enhance shareholder value and will not replace or repress the strategy in place to grow the Company.

Table of Contents

Off-Balance Sheet Financial Arrangements

The Company had no off-balance sheet financial arrangements as of December 31, 2005.

Contingencies

The Company had no contingencies as of December 31, 2005 other than as discussed in the Guarantees section above.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company operates internationally and is exposed to certain market risks that, in the normal course of business, include fluctuations in interest rates and currency exchange rates. While the Company occasionally uses derivative financial instruments to reduce these risks, the Company does not enter into derivative financial instruments for trading or speculative purposes.

Impact of Interest Rate fluctuations

As of December 31, 2005, the Company had $89,442,000 of debt outstanding at variable rates, which have been fixed through the use of interest rate swap agreements as detailed below.

As of December 31, 2005	Notional amount	Fair value	Interest rate	Expiration
First swap / Fortis loan	$ 25,000,000	$ 629,000	3.075%	October 2007
Second swap / Scotia loan	$ 39,227,500	$ 130,188	4.580%	April 2010
Third swap / Scotia loan	$ 25,214,500	$ 201,117	4.545%	April 2010
Total	$ 89,442,000	$ 960,305		

As a result as of December 31, 2005, the Company had no variable interest debt whose interest rates have not been fixed.

Impact of currency fluctuations

The Company's functional currency is the US dollar; however, a number of trade transactions related to normal vessel operations are performed in other currencies. Trade payables and accrued expenses as well as cash and trade receivables in foreign currencies are converted at year end exchange rates and therefore recorded at fair value. The Company does not hold any other assets or liabilities denominated in foreign currencies.

Table of Contents

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.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
MC Shipping Inc.

We have audited the accompanying consolidated balance sheets of MC Shipping Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the index at Item 15(a)(2) of Form 10-K. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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. The Company is not required to have, nor were we engaged, to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MC Shipping Inc. and subsidiaries as of December 31, 2005 and 2004 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Moore Stephens Hays LLP

New York, NY
March 1, 2006

Table of Contents

MC SHIPPING INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31 2005	DECEMBER 31 2004
CURRENT ASSETS		
Cash	$ 12,292,015	$ 11,629,896
Restricted cash	1,759,237	-
Hire receivables	13,583	4,835
Recoverable from insurers, net	68,807	55,529
Inventories	406,643	1,044,353
Receivables from affiliates	202,208	80,492
Prepaid expenses and other current assets	1,950,940	1,280,088
TOTAL CURRENT ASSETS	16,693,433	14,095,193
VESSELS, AT COST	155,406,193	109,303,246
Less - Accumulated depreciation	(33,414,622)	(52,251,877)
	121,991,571	57,051,369
OTHER ASSETS		
Investments in associated companies	6,485,906	-
Furniture and equipment (net of accumulated depreciation of $13,596 at December 31, 2005 and $30,645 at December 31, 2004)	3,139	-
Dry-docking costs (net of accumulated amortization of $1,772,673 in 2005 and $3,439,685 in 2004)	3,139,184	3,829,590
Restricted cash	-	5,000,000
Debt issuance cost (net of accumulated amortization of $68,511 in 2005 and $10,323 in 2004)	429,290	340,916
TOTAL ASSETS	$ 148,742,523	$ 80,317,068

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

Table of Contents

MC SHIPPING INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 31 2005	DECEMBER 31 2004