

DEEP SEA FISHERIES LTD

GROUP OF COMPANIES

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Deep Sea Fisheries Ltd Chairman's Statement Half Year Ended 31 December 2006

The Deep Sea Fisheries Ltd group owns and operates a fleet of fishing vessels and Statutory Fishing Rights and Permits to produce ocean-caught, premium seafoods, and directly markets these products to buyers world-wide.

During the period the group has operated in the major fisheries to which it had access, being the Northern Prawn Fishery (NPF) and the North West Slope Trawl Fishery (NWSTF) producing prawns and scampi respectively.

Profit after tax from ordinary activities for the six months to December 2006 was \$57,364. Net profit after tax for the period was \$1,435,564 with profit lifted by the one-off successful tender and disposal of the group's NPF Statutory Fishing Rights (SFRs).

Despite another season of seamless fishing and marketing operations, producing a significant increase in catch over the previous corresponding period, coupled with continued tight cost controls, it is sobering to note that the profit from ordinary activities was again entirely unsatisfactory.

On a number of occasions since 2003 I have outlined the dual structural threats facing the Australian fishing industry of sharply rising costs such as fuel, and falling or stagnating product prices due to advances in ultra cheap aquaculture from developing countries. In addition the industry generally lacks unity, has faced inequitable terms of trade internationally, has been hindered by inert fisheries management authorities locally, and has grappled with generally unsettled and oversupplied markets.

As previously announced to the market on 22 December 2006, the company sold three of its six fishing vessels and all its NPF SFRs for a total consideration (net of GST) of \$15,804,000. This decision is to be ratified at the forthcoming general meeting of shareholders on 15 March 2007.

SFRs are limited in number and provide access rights to a given fishery. In our case they are an input control and govern the amount of fishing capacity and effort we can apply.

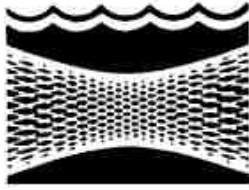
For many years prior to deciding to pursue a sale of these assets, the board had formulated and adopted a strategy of acquiring additional SFRs in order to protect and increase the company's ability to supply products to its markets, and as a platform to provide organic growth of profits and asset values.

This rationale was strongly underwritten at the time by the need to increase catch volumes as input costs rose and product prices stagnated so as to lower our costs of production overall to better compete with the flood of cheap overseas and often environmentally unconstrained aquaculture product.

The strategy remained sound until it became more and more evident to the board that structural, rather than simply cyclical, economic changes were intensifying. While these had always been correctly identified as structural, they had reached proportions whereby it had

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DEEP SEA FISHERIES LTD ABN 44 009 163 919
TIGER FISHERIES PTY LTD ABN 83 008 812 986
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become very difficult indeed to project forward and mount a case on which to continue our existing operations and be able to return solid and sustainable dividends to our shareholders.

In previous reports I have spoken about the government's Structural Adjustment Package under its \$220 million *Securing Our Fishing Future* restructuring initiative. This has been commonly known as a "buyback" of fishing rights. The aim is to reduce excess fishing capacity in Commonwealth fisheries, to enhance future economic prospects for those who choose to remain, as well as to reduce the risks of over-fishing in future.

In the case of the NPF, it was pleasing to note that the government has recognised the truly vast amount of money paid by NPF industry over the years to almost single-handedly address and fund issues such as self imposed reductions of fishing effort and general ecological sustainability. In 2004 the fishery achieved environmental accreditation after an independent strategic assessment under the Environmental Protection and Biodiversity Conservation Act 1999. This was a major achievement but one which came at great economic cost to NPF industry.

Given the seriously depressed state of the Australian fishing industry at large, there was no prospect of the board locating a trade buyer for the company's assets at reasonable levels, so this co-payment from government has been made available at an important time.

In a previous announcement to the market the company's managing director advised of the board's assessment that participating in the first round of the government's buyback plan was not in the best interests of the company's shareholders. It was the board's intention to press on and attempt to further refine its above strategy while it monitored any options and opportunities the second round of the buyback may present.

However during the latter part of the period, the directors came to the conclusion that simply continuing to pursue increased catch volumes, even if these were available and even at the most optimistic of levels, could not ensure the achievement of a satisfactory return on investment within an acceptable degree of risk. Similarly, other remedial actions put in place by the board in the past had been fully utilised, yet had not made a sufficient impact on declining profits. After a comprehensive assessment the board resolved to tender the SFRs and sell part of the fishing fleet.

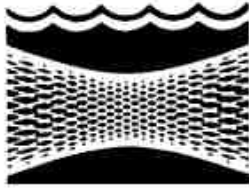
The board is now fully focused on finding the best available option to maximise value for the company and its shareholders into the future. Shareholders will be further updated on the progress in this area at the upcoming shareholders meeting.

Gordon Hill
Chairman of Directors

28 February 2007

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