

DEEP SEA FISHERIES LTD

GROUP OF COMPANIES

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DEEP SEA FISHERIES LTD CHAIRMAN'S STATEMENT HALF YEAR ENDED 31 DECEMBER 2005

The Deep Sea Fisheries Ltd group of companies operates a fleet of fishing vessels in the Northern Prawn Fishery, the North West Slope Trawl Fishery and other adjacent fisheries. The group markets its prawn and scampi catch both nationally and internationally to discerning markets under its long established "Tarni Brand".

The Australian fishing industry has come under severe pressure from rapid rises in the cost of fuel, and flat product prices due to intense competition from aquaculture in developing countries. It is in these difficult circumstances that Deep Sea Fisheries is pleased to announce a pre-tax profit of \$138,436 for the six months to December 05, up 209% on the previous corresponding period.

While this positive result is welcome, the level of profit is considered to not represent an adequate return on the Groups assets. Directors consider that existing profit levels must be increased a great deal further before the company could justify resumption of dividends to shareholders.

For Australian companies to be able to compete with aquaculture prawns that are produced in low cost developing countries, it is necessary to reduce the cost of production for Australian vessels. The principal fishery within which the Group operates is the Northern Prawn Fishery (NPF), which is the most valuable Commonwealth managed fishery in Australia. It is well accepted within the Australian fishing industry that there is a fundamental need to reduce the number of vessels that are authorised to operate within the NPF to enable the individual vessel to increase its catch (and operating efficiency) without endangering the fishing resource stocks.

The principal assets of the Group are Statutory Fishing Rights (SFRs), through which the Group's fishing vessels have access to this fishery. The Government, with Industry participation, manages the fishery by reviewing and adjusting the number of SFRs that is required for a vessel to access a fishery.

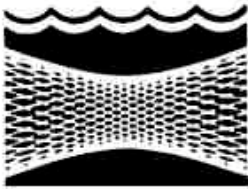
A milestone in fishery management was reached last year with the successful partial restructure of the NPF by a further reduction of SFRs. This resulted in the removal of further excess fishing capacity as boats with insufficient gear based SFRs retired from the fishery. The Group has acquired such Rights over time in order to protect and increase its share of the resource as restructures become necessary, and has maintained its fleet size against the background of a shrinking fleet across the fishery.

This trend of removing excess fishing capacity from fisheries to increase the economic efficiency of those who remain is far from over in the NPF. The structural changes of high fuel prices and booming aquaculture have meant that this strategy must be accelerated. Operators who wish to exit the fishery will soon be able to tender their SFRs into a Government funded buy-back where, if accepted, SFRs tendered will be cancelled and the relevant boats removed. The Government has recognised that the industry sector of the NPF has already spent vast sums of its own money maintaining the biological and economic sustainability of the fishery, and the Government co-payment has been made available at an important time.

If sufficient capacity is bought out of the NPF prior to June when the tender process is expected to be completed, the fishery and its sharply reduced number of operators will move to quota style management by 2008. It is expected that this will bring benefits to those who remain and we will report on the implications of this further when Deep Sea Fisheries has determined its own approach to the initiative. The Group is in a flexible position and has several options before it, which are now being considered.

INCORPORATING

DEEP SEA FISHERIES LTD ABN 44 009 163 919
TIGER FISHERIES PTY LTD ABN 83 008 812 986
CARPENTARIA FISHING CO. PTY LTD ABN 29 008 861 738



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There are a number of other challenges to be met before the Group can achieve adequate returns on investment. To successfully meet these challenges, the board had identified several milestones that needed to be reached. One of these was to completely review the company's costs and adopt strategies to quickly reduce expenditure. As we reported some time ago, this has been achieved by developments such as sourcing cheaper goods and services from overseas, and consolidating our vessel refit and maintenance facilities in Darwin - closer to our areas of actual operation.

A formal and continuing culture of ever greater levels of efficiency and cost reduction has been developed by management and enthusiastically taken up by our personnel both ashore and at sea.

A further milestone was achieved with the establishment of a national seafood promotional body, sponsored by industry groups including our Group. Seafood Experience Australia (SEA) is without precedent and includes all sectors of Australian seafood, from producers of both wild and farmed Australian products through to distributors, fish markets and retail outlets. The drive is for inclusiveness and a unified sense of purpose to promote the benefits of Aussie seafood to consumers.

Finally the milestone of being able to conduct fair trade on an even playing field must be reached. We have made it plain to the Australian Government that we do not believe we are competing on an even international playing field. For example, imported farmed prawns from China come into this country free of tariffs, yet our product is subject to hefty duties when exported to China. Similarly, we are not convinced that many overseas producers are addressing issues such as their environmental and workplace responsibilities as diligently as Australian producers. So far our Government has been disappointingly inert in lending its effective support to these concerns, but your Directors will continue to lobby for support and action on these issues.

In closing, I will take this opportunity to report on our progress in the application of funds received from our capital raising last year. We have completed the installation of additional fuel capacities of three of our vessels, and have partially upgraded the refrigeration of one vessel. We will roll out further upgrades as cash flows allow, but generally the directors are pleased with the progress made, and expect efficiency gains to flow in the medium term.

The directors believe that times will remain quite tough in the short term despite an uptick in the December 2005 result. However they remain focused on continued lowering of our production costs, further increasing of efficiencies, supporting effective product promotion activities, and pushing for a more even playing field on which to compete internationally.

The Group has a strong Balance Sheet with a conservative debt level. While there will be further challenges in the short term, the initiatives that are now being put in place should ensure that the Group will emerge strong and profitable, with expectations of acceptable growth in shareholder wealth.

Gordon Hill
Chairman of Directors

16 March 2006

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