

ABERDEEN AUSTRALIA EQUITY FUND INC  
Form N-CSR  
January 04, 2005

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM N-CSR**

---

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT**

**INVESTMENT COMPANIES**

Investment Company Act file number:	811-04438
Exact name of registrant as specified in charter:	Aberdeen Australia Equity Fund, Inc.
Address of principal executive offices:	800 Scudders Mill Road, Plainsboro, New Jersey 08536
Name and address of agent for service:	Mr Beverly Hendry, 300 S.E. 2 <sup>nd</sup> Street, Suite #820, Fort Lauderdale, Florida 33301
Registrant's telephone number, including area code:	212-968-8800
Date of fiscal year end:	10/31/04
Date of reporting period:	10/31/04

---

Item 1 Reports to Stockholders [ INSERT REPORT ]

Annual Report

**October 31, 2004**

## Letter to Shareholders

December 20, 2004

Dear Shareholder,

We present this Annual Report which covers the activities of Aberdeen Australia Equity Fund, Inc. (the Fund) for the year ended October 31, 2004. The Fund's principal investment objective is long-term capital appreciation through investment primarily in equity securities of Australian companies listed on The Australian Stock Exchange. The Fund's secondary investment objective is current income.

### Change of Fund Address

On November 1, 2004, the Fund's address was changed to 800 Scudders Mill Road, Plainsboro, New Jersey 08536.

### New Fund Administrator

Effective November 1, 2004, Aberdeen Asset Management Inc. became the Fund's administrator.

### Managed Distribution Policy

The Fund has a managed distribution policy of paying quarterly distributions at an annual rate, set once a year, that is a percentage of the rolling average of the Fund's prior four quarter-end net asset values. The Board of Directors has determined the initial rolling distribution rate to be 10%. This policy will be subject to regular review by the Fund's Board of Directors. The distributions will be made from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital.

On December 20, 2004, the Board of Directors declared a quarterly distribution of 25 cents per share, payable on January 14, 2005 to all shareholders of record as of December 31, 2004.

### Net Asset Value Performance

For the twelve months ended October 31, 2004, the Fund's total return based on NAV was 23.2% after expenses (assuming reinvestment of distributions) compared with 26.9%, in U.S. dollar terms, for the S&P/ASX 200 Accumulation Index.

### Share Price Performance

The Fund's share price rose 22.0% over the year, from \$8.40 on October 31, 2003 to \$10.25 on October 31, 2004. The Fund's share price on October 31, 2004 represented a discount of 3.7% to the NAV per share of \$10.64 on that date, compared with a discount of 10.4% to the NAV per share of \$9.38 on October 31, 2003. At the date of this letter, the share price was \$11.30, representing a discount of 1.8% to the NAV per

share of \$11.51.

Aberdeen Australia Equity Fund, Inc.

## Letter to Shareholders (continued)

### Portfolio Holdings Disclosure

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington D.C. Information about the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund's schedule of portfolio holdings are part of the fund's quarterly reports to shareholders, which are available on the Fund's website or upon request and without charge by calling Investor Relations toll-free at 1-866-839-5205.

### Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the Fund voted proxies relating to portfolio securities during the twelve months ended June 30, 2004, is available: (i) upon request and without charge by calling Investor Relations toll-free at 1-866-839-5205; and (ii) on the SEC's website at <http://www.sec.gov>.

For information about the Fund, including a market review and outlook, weekly updates of share prices, NAV and details of recent distributions, please contact Aberdeen Asset Management Inc. by:

Calling toll free on 1-866-839-5205 or 1-954-767-9900 in the United States,

E-mailing to [InvestorRelations@aberdeen-asset.com](mailto:InvestorRelations@aberdeen-asset.com), or

Visiting the website at [www.aberdeen-asset.us](http://www.aberdeen-asset.us).

For information about the Aberdeen Group, visit the Aberdeen website at [www.aberdeen-asset.com](http://www.aberdeen-asset.com).

Yours sincerely,

**Martin Gilbert**

President

**All amounts are U.S. dollars unless otherwise stated.**

Aberdeen Australia Equity Fund, Inc.

Your Board's policy is to provide investors with a stable distribution rate. Each quarterly distribution will be paid out of current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital.

The Fund is subject to U.S. corporate, tax and securities laws. Under U.S. tax accounting rules, the amount of distributable income for each fiscal period depends on the actual exchange rates during the entire year between the U.S. dollar and the currencies in which Fund assets are denominated and on the aggregate gains and losses realized by the Fund during the entire year.

Therefore, the exact amount of distributable income for each fiscal year can only be determined as of the end of the Fund's fiscal year, October 31. However, under the U.S. Investment Company Act of 1940, the Fund is required to indicate the source of each distribution to shareholders. This estimated distribution composition may vary from quarter to quarter because it may be materially impacted by future realized gains and losses on securities and fluctuations in the value of the currencies in which Fund assets are denominated.

The distributions for the fiscal year ended October 31, 2004 were comprised of 39% net investment income, 47% realized capital gains and 14% return of paid-in capital.

In January 2005, a Form 1099 DIV will be sent to shareholders, which will state the amount and composition of distributions and provide information with respect to their appropriate tax treatment for the 2004 calendar year.

Aberdeen Australia Equity Fund, Inc.



## Dividend Reinvestment and Cash Purchase Plan

We invite you to participate in the Fund's Dividend Reinvestment and Cash Purchase Plan (the "Plan"), which allows you to automatically reinvest your distributions in shares of the Fund's common stock at favorable commission rates. Distributions made under the Plan are taxable to the same extent as are cash distributions. The Plan also enables you to make additional cash investments in shares of at least \$100, with a maximum of \$10,000 per month, with an aggregate annual limit of \$120,000. Under this arrangement, the Plan Agent will purchase shares for you on the American or Pacific Stock Exchanges or otherwise on the open market on or before the 15th day of each month.

Effective July 26, 2004, The Bank of New York became the Plan Agent, replacing EquiServe Trust Company, N.A. as Plan Agent. As a result of this transfer of services, certain fees associated with the Plan may have changed. Fees payable by Plan participants are more fully described under the heading "Other Information (Unaudited)" following the notes to the financial statements included in this report.

As a Participant in the Plan, you will have the convenience of:

**Automatic reinvestment** - the Plan Agent will automatically reinvest your distributions, allowing you to gradually grow your holdings in the Fund;

**Lower cost** - shares are purchased on your behalf under the Plan at low brokerage rates. Brokerage on share purchases is currently 2 cents per share;

**Convenience** - the Plan Agent will hold your shares in non-certificated form and will provide a detailed plan account statement of your holdings at the end of each distribution period.

To request a brochure containing information on the Plan, together with an enrollment form, please contact the Plan Agent, The Bank of New York, Shareholder Relations Department, P.O. Box 11258, Church Street Station, New York, NY 10286 or call toll free on 1-800-432-8224.

Aberdeen Australia Equity Fund, Inc.

## Report of the Investment Manager

### Portfolio Composition

The following chart summarizes the composition of the Fund's portfolio, in industry classification standard sectors, expressed as a percentage of net assets. An industry sector can include more than one industry group. On October 31, 2004, the Fund held 97.2% of its net assets in equities and 2.8% in other assets in excess of liabilities.

Aberdeen Australia Equity Fund, Inc.

## Selected Equity Holdings

The following were the Fund's top ten holdings at October 31, 2004.

<u>Name of Security</u>	<u>Percentage of Net Assets</u>
Australia & New Zealand Banking Group Limited	8.2%
QBE Insurance Group Limited	7.5%
Westpac Banking Corporation Limited	6.9%
BHP Billiton Limited	5.9%
Telecom Corporation of New Zealand Limited	5.7%
Foster's Group Limited	5.7%
TABCORP Holdings Limited	4.6%
Leighton Holdings Limited	4.6%
Woolworths Limited	4.5%
Rio Tinto Limited	4.3%

The Fund may invest between 25% and 35% of its total assets in the securities of any one industry group if, at the time of investment, that industry group represents 20% or more of the S&P/ASX 200 Accumulation Index. As of October 31, 2004, the Fund did not have more than 25% of its assets invested in any industry group.

An industry classification standard sector, as referred to on the previous page, can include more than one industry group.

Aberdeen Asset Management Asia Limited, December 2004.

Aberdeen Australia Equity Fund, Inc.

## Portfolio of Investments

October 31, 2004

Shares	Description	Value (US\$)
<b>LONG-TERM INVESTMENTS 97.2%</b>		
<b>Common Stocks 97.2%</b>		
<b>Consumer Discretionary 12.5%</b>		
1,360,000	APN News & Media Corporation Limited	\$ 4,845,613
494,000	Billabong International Limited	3,874,429
1,906,000	Pacifica Group Limited	5,239,166
740,000	TABCORP Holdings Limited	8,291,143
		<b>22,250,351</b>
<b>Consumer Staples 15.8%</b>		
2,680,000	Foster s Group Limited	10,109,219
811,000	Lion Nathan Limited	4,773,517
1,390,000	McGuigan Simeon Wines Limited	5,295,127
797,000	Woolworths Limited	7,965,369
		<b>28,143,232</b>
<b>Energy 1.5%</b>		
188,000	Woodside Petroleum Limited	<b>2,734,105</b>
<b>Financials 34.2%</b>		
960,000	Australia & New Zealand Banking Group Limited	14,628,266
294,000	Australian Stock Exchange Limited	4,064,856
125,632	Bendigo Bank Limited	943,099
238,000	Commonwealth Bank of Australia	5,706,547
187,000	National Australia Bank Limited	3,948,743
1,303,000	QBE Insurance Group Limited*	13,363,075
470,000	Suncorp-Metway Limited	6,010,257
873,000	Westpac Banking Corporation Limited	12,311,406
		<b>60,976,249</b>
<b>Shares</b>		
<b>Industrials 6.1%</b>		
981,000	Leighton Holdings Limited*	\$ 8,192,232
1,089,000	Qantas Airway Limited	2,700,582
		<b>10,892,814</b>
<b>Materials 10.3%</b>		
1,026,000	BHP Billiton Limited	10,614,232
283,000	Rio Tinto Limited	7,736,757
		<b>18,350,989</b>
<b>Property 4.2%</b>		
675,999	Westfield Group Limited	<b>7,574,060</b>
<b>Telecommunication Services 9.5%</b>		

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-CSR

	2,580,000	Telecom Corporation of New Zealand Limited	10,194,521
	1,932,000	Telstra Corporation Limited	6,739,310
			<b>16,933,831</b>
<b>Utilities 3.1%</b>			
	506,000	Australian Gas Light Company Limited	4,951,232
	381,446	GasNet Australia Group	652,469
			<b>5,603,701</b>
Total long-term investments (cost \$113,337,085)			<b>173,459,332</b>
<b>Total Investments 97.2% (cost \$113,337,085)</b>			<b>173,459,332</b>
Other assets in excess of liabilities 2.8%			5,091,303
<b>Net assets 100%</b>			<b>\$178,550,635</b>

---

\* Portion of security is on loan, see Note 3.

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

## Statement of Assets and Liabilities

October 31, 2004

<b>Assets</b>	
Investments, at value (including \$449,476 of securities on loan) (cost \$113,337,085) (Note 3)	\$ 173,459,332
Foreign currency, at value (cost \$4,808,806)	4,962,732
Dividends and interest receivable	216,679
Receivables for investments sold	115,659
Other assets	139,334
	<hr/>
Total assets	178,893,736
	<hr/>
<b>Liabilities</b>	
Accrued expenses and other liabilities	325,830
Payable to custodian	17,271
	<hr/>
Total liabilities	343,101
	<hr/>
<b>Net Assets</b>	<b>\$ 178,550,635</b>
	<hr/>
Net assets were comprised of:	
Common stock, \$.01 par value	\$ 167,773
Paid-in capital in excess of par	134,082,419
	<hr/>
	134,250,192
Distributions in excess of net investment income	(1,476)
Accumulated net realized loss on investments	(53,362)
Net unrealized appreciation on investments	36,442,623
Accumulated net realized foreign exchange losses	(15,922,772)
Net unrealized foreign exchange gains	23,835,430
	<hr/>
<b>Net assets</b>	<b>\$ 178,550,635</b>
	<hr/>
Net asset value per share: (\$178,550,635 ÷ 16,777,298 shares of common stock issued and outstanding)	\$10.64
	<hr/>

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

## Statement of Operations

Year Ended October 31, 2004

<b>Net Investment Income</b>	
Income	
Dividends (net of foreign withholding taxes of \$259,441)	\$ 7,343,711
Interest	276,203
Income from securities loaned, net	25,838
	<u>7,645,752</u>
Total income	
Expenses	
Investment management fee	1,468,789
Legal fees and expenses	437,000
Directors' fees and expenses	215,000
Insurance expense	212,000
Custodian's fees and expenses	132,000
Reports to shareholders	130,000
Administration fee	83,367
Independent auditors' fees and expenses	83,000
Investor relations fees and expenses	77,000
Transfer agent's fees and expenses	43,000
Litigation Settlement (Note 7)	8,100
Miscellaneous	13,384
	<u>2,902,640</u>
Total operating expenses	2,902,640
	<u>4,743,112</u>
Net investment income	
<b>Realized and Unrealized Gains (Losses) on Investments and Foreign Currencies</b>	
Net realized gain on investment transactions	5,906,261
Net realized foreign exchange gains	7,443,611
	<u>13,349,872</u>
	<u>16,279,442</u>
Net change in unrealized appreciation on investments	16,279,442
Net change in unrealized foreign exchange losses	(154,910)
	<u>16,124,532</u>
	<u>29,474,404</u>
Net gain on investments and foreign currencies	29,474,404
	<u>\$ 34,217,516</u>
<b>Net Increase In Net Assets Resulting From Operations</b>	

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.





## Statement of Changes in Net Assets

	Year Ended October 31,	
	2004	2003
<b>Increase in Net Assets</b>		
Operations		
Net investment income	\$ 4,743,112	\$ 2,135,073
Net realized gains on investment transactions	5,906,261	646,739
Net realized foreign exchange gains	7,443,611	6,831,734
Net increase in unrealized appreciation on investments	16,279,442	12,891,635
Net change in unrealized foreign exchange gains (losses)	(154,910)	22,964,386
<b>Net increase in Net Assets resulting from operations</b>	<b>34,217,516</b>	<b>45,469,567</b>
Dividends to shareholders from net investment income	(5,068,817)	(1,677,682)
Distributions to shareholders from long-term capital gains	(6,088,832)	(1,174,365)
Tax return of capital	(1,928,603)	
Cost of Fund shares reacquired in repurchase program (0 and 116,200 shares, respectively) (Note 5)		(687,920)
<b>Total increase</b>	<b>21,131,264</b>	<b>41,929,600</b>
<b>Net Assets</b>		
Beginning of year	157,419,371	115,489,771
End of year(a)	\$ 178,550,635	\$ 157,419,371
(a) Includes distributions in excess of net investment income and undistributed net investment income of:	\$ (1,476)	\$ 307,900

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

## Notes to Financial Statements

Aberdeen Australia Equity Fund, Inc. (the Fund) is a closed-end, non-diversified management investment company incorporated in Maryland on September 30, 1985. The Fund's principal investment objective is long-term capital appreciation through investment primarily in equity securities of Australian companies listed on The Australian Stock Exchange. The Fund's secondary investment objective is current income. In order to comply with a rule adopted by the Securities and Exchange Commission under the Investment Company Act of 1940 regarding fund names, the Board of Directors has adopted an investment policy that, for as long as the name of the Fund remains Aberdeen Australia Equity Fund, Inc., it shall be the policy of the Fund normally to invest at least 80% of its net assets plus the amount of any borrowings for investment purposes, in equity securities, consisting of common stock, preferred stock and convertible stock, listed on The Australian Stock Exchange. This 80% investment policy is a non-fundamental policy of the Fund and may be changed by the Board of Directors upon 60 days prior written notice to shareholders.

### Note 1. Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

#### *Basis of Presentation:*

The financial statements of the Fund are prepared in accordance with accounting principles generally accepted in the United States of America, using the United States dollar as both the functional and reporting currency. However, the Australian dollar is the functional currency for Federal tax purposes (see Taxes below).

#### *Securities Valuation:*

The Fund's Board of Directors has adopted Pricing and Valuation Procedures (the Procedures) to be used in determining the value of the assets held by the Fund. In accordance with the Procedures, investments are stated at value. Investments for which market quotations are readily available are valued at the last trade price on the date of determination as obtained from a pricing source. If no such trade price is available, such investments are valued at the quoted bid price or the mean between the quoted bid and asked price on the date of determination as obtained from a pricing source.

Short-term securities which mature in more than 60 days are valued at current market quotations. Short-term securities which mature in 60 days or less are valued at amortized cost, which approximates market value.

Securities for which market quotations are not readily available (including investments which are subject to limitations as to their sale) are to be valued at fair value. As a general rule, whether or not the Fund is required to fair value price an asset is dependent on the ready availability of current market quotes or, even if readily available, the reliability of such quotes. Any assets for which market quotations are not readily available or for which

Aberdeen Australia Equity Fund, Inc.



## Notes to Financial Statements (continued)

available prices are not reliable, shall be determined in a manner that most fairly reflects the asset's (or group of assets) fair value (*i.e.*, the amount that the Fund might reasonably expect to receive for the asset upon its current sale) on the valuation date, based on a consideration of all available information.

The Procedures provide that in certain instances, including without limitation, if there is a stale price for a portfolio security, in an emergency situation, or if a significant event occurs after the close of trading of a portfolio security, but before the calculation of the Fund's net asset value, the security may be valued at its fair value.

### *Repurchase Agreements:*

In connection with transactions in repurchase agreements with United States financial institutions, it is the Fund's policy that its custodian or designated subcustodians under triparty repurchase agreements, as the case may be, take possession of the underlying collateral securities, the value of which exceeds the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to ensure the adequacy of the collateral. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

### *Foreign Currency Translation:*

Australian dollar ( A\$ ) amounts are translated into United States dollars ( US\$ ) on the following basis:

(i) market value of investment securities, other assets and liabilities at the exchange rates at the end of the reporting period; and

(ii) purchases and sales of investment securities, income and expenses at the rate of exchange prevailing on the respective dates of such transactions.

The Fund isolates that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities held at fiscal year end. Similarly, the Fund isolates the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of portfolio securities sold during the reporting period.

Net realized and unrealized foreign exchange gains (losses) include realized foreign exchange gains (losses) from sales and maturities of portfolio securities, sales of foreign currencies, currency gains (losses) realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books and the US\$ equivalent amounts actually received or paid and changes in unrealized foreign exchange gains (losses) in the value of portfolio securities and other assets and liabilities arising as a result of changes in the

Aberdeen Australia Equity Fund, Inc.

## Notes to Financial Statements (continued)

exchange rate. Accumulated net realized and unrealized foreign exchange gains (losses) shown in the composition of net assets at October 31, 2004 represent foreign exchange gains (losses) for book purposes that may not have been recognized for tax purposes.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of domestic origin, including unanticipated movements in the value of the foreign currency relative to the US\$.

The exchange rate at October 31, 2