

ABERDEEN AUSTRALIA EQUITY FUND INC

Form 497

December 16, 2005

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Prospectus dated December 16, 2005

ABERDEEN AUSTRALIA EQUITY FUND, INC.

3,975,000 Shares of Common Stock

Par value \$.01 per Share

This Prospectus relates to the offer and sale of 3,975,000 shares of Common Stock par value \$.01 ( Common Stock ) of Aberdeen Australia Equity Fund, Inc. ( Fund ) by the Selling Stockholder, identified under the heading Selling Stockholder. No shares of the Fund's Common Stock are being offered by the Fund pursuant to this Prospectus.

The Selling Stockholder may offer its shares of Common Stock from time to time through broker-dealers at prevailing market prices on the American Stock Exchange ( Amex ), or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which such shares are traded. The Selling Stockholder's shares of Common Stock which are registered hereunder are referred to in this Prospectus as the Shares. The Fund will not receive any of the proceeds from the sale of Shares by the Selling Stockholder. See Use of Proceeds.

The Fund's Common Stock is traded on the Amex and the Pacific Stock Exchange ( PSE ) under the symbol IAF. The last reported sale price of the Fund's Common Stock, as reported by the Amex on November 23, 2005 was \$12.85 per share.

The Fund is a non-diversified, closed-end management investment company. 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 Limited. The Fund's secondary investment objective is current income. The Fund's investment manager is Aberdeen Asset Management Asia Limited ( Investment Manager ), an affiliate of the Fund's investment adviser, Aberdeen Asset Management Limited ( Investment Adviser ), and of the Fund's administrator, Aberdeen Asset Management Inc. ( Administrator ). The Fund's address is 800 Scudders Mill Road, Plainsboro, New Jersey 08536, and its telephone number is 1-866-839-5205.

**Investment in the Shares involves certain risks and special considerations, including risks associated with currency fluctuations. The Fund also has authority (which it has not exercised) to borrow to finance investments and to issue preferred stock. Both practices entail risks. For a discussion of these and other risks, see Risks and Special Considerations.**

This Prospectus sets forth concisely the information about the Fund and the Selling Stockholder that a prospective investor should know before investing. It should be retained for future reference. The Statement of Additional Information ( SAI ), dated December 16, 2005, contains more information about the Fund and the Selling Stockholder and is incorporated by reference into this Prospectus. The Table of Contents for the SAI is on page 37 of the Prospectus. You may call 1-866-839-5205 or email InvestorRelations@aberdeen-asset.com to obtain, free of charge, copies of the SAI and the Fund's annual and semi-annual reports to stockholders, as well as to obtain other information about the Fund and to make stockholder inquiries. The Fund's SAI, as well as the annual and semi-annual reports to stockholders, is also available on the Fund's website at www.aberdeeniaf.com. The Securities and Exchange Commission ( SEC ) maintains a website at <http://www.sec.gov> that contains the SAI,

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material incorporated by reference into the Fund's registration statement and other information about the Fund.

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The following table applies to the proposed offering of the Shares by the Selling Stockholder:

|           | <u>Price to the<br/>Public(1)</u> | <u>Sales Load</u> | <u>Proceeds to<br/>the Selling<br/>Stockholder(2)</u> |
|-----------|-----------------------------------|-------------------|---|
| Per Share | \$ 12.85                          | \$ .06(3)         | \$ 12.79(4)   |
| Total     | \$ 51,078,750                     | \$ 238,500(3)     | \$ 50,840,250(4)                                      |

- (1) Based on the market price of the Fund's shares at the close of trading on the Amex on November 23, 2005. The price at which securities will be offered pursuant to this registration statement will be the then current market price of such shares on the Amex, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which such shares are traded, which may differ from the market price at the close of trading on the Amex on November 23, 2005.
- (2) The total expenses of the offering, estimated to be approximately \$529,000, will be borne by the Selling Stockholder, and have not been deducted from the Proceeds to the Selling Stockholder.
- (3) The Selling Stockholder has informed the Fund that the Selling Stockholder intends to use the services of one or more brokers to sell Shares pursuant to this Registration Statement, and that the Selling Stockholder will pay such brokers commissions of between \$.01 to \$.06 per share. For purposes of this table, the maximum estimated commission of \$.06 per share has been used.
- (4) In the event the Selling Stockholder pays the minimum estimated commission of \$.01 per share, the proceeds to the Selling Stockholder would be \$12.84 per share, or an aggregate of \$51,039,000.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the adequacy of this Prospectus. Any representation to the contrary is a criminal offense.**

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In purchasing Shares, you should rely only on the information contained in, or incorporated by reference into, this Prospectus or in any amendment or supplement thereto. Neither the Fund nor the Selling Stockholder has authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Selling Stockholder is not making an offer to sell the Shares in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this Prospectus, or in any amendment or supplement thereto, is accurate only as of the date of this Prospectus, or of such amendment or such supplement, as applicable. The Fund's business, financial condition and prospects, as well as information regarding the Selling Stockholder, may have changed since the date of its description in this Prospectus, or since the date of any such description in an amendment or supplement thereto.

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**PROSPECTUS SUMMARY**

*The following information is only a summary. You should consider the more detailed information contained in the Prospectus and the SAI before purchasing Shares, especially the information under Risks and Special Considerations on page 20 of the Prospectus.*

|                          |  |
|--------------------------|--|
| The Selling Stockholder  | The Selling Stockholder is Bankgesellschaft Berlin AG, a German banking corporation organized under the laws of the Federal Republic of Germany ( Selling Stockholder ). The Selling Stockholder has advised the Fund that, as of November 21, 2005, it was the beneficial owner of 4,613,450 shares, and the owner of record and beneficially of 7,500 shares, of the Fund s Common Stock. Of such shares, 3,975,000 shares (the Shares ) are registered hereunder and are being offered by this Prospectus. One of the Fund s Directors is a representative of the Selling Stockholder. See Selling Stockholder. |
| Use of Proceeds          | The Fund will not receive any of the proceeds from sale of the Shares. The Selling Stockholder has indicated that such proceeds will be used by the Selling Stockholder for general corporate purposes. See Use of Proceeds.   |
| Plan of Distribution     | The Shares will be sold at their then current price on the Amex, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which such shares are traded, at such times and in such numbers as the Selling Stockholder may determine from time to time. The Selling Stockholder reserves the right to terminate sales of Shares pursuant to this offering at any time. See Plan of Distribution.   |
| Amex and PSE Listed      | The Fund s shares of Common Stock are listed for trading on the Amex and on the PSE, under the symbol IAF. As of November 23, 2005, the Fund had 16,803,510 shares of Common Stock, par value \$.01 per share , outstanding. As of November 23, 2005, the last reported sale price of a Fund share on the Amex was \$12.85. See Description of Common Stock.   |
| Stock Repurchase Program | Under the Fund s stock repurchase program, the Fund is permitted to repurchase up to 10% of its outstanding shares on the open market during any 12 month period if and when the discount from net asset value is at least 10%. The Fund may borrow to repurchase shares under this program. There have not been any repurchases of shares under this program since 2002. Applicable law may prevent such repurchases during the offering of the Shares described herein. See Description of Common Stock Stock Repurchase Program.  |
| The Fund                 | The Fund is a non-diversified, closed-end management investment company organized as a Maryland corporation. See The Fund.   |
| Investment Objectives    | 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  |

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Limited ( ASX ). Its secondary objective is current income, which is expected to be derived primarily from dividends and interest on Australian corporate and governmental securities. The Fund's investment objectives may not be changed without approval of stockholders. See Investment Objectives.

Investment Policies

The Fund normally invests at least 80% of its net assets, plus borrowings for investment purposes, in common, preferred and convertible stock listed on the ASX. The Fund may invest up to 10% of its total assets in unlisted equity securities. It may also invest in debt securities issued by Australian companies, Australian Federal and State governments and the U.S. government. The Fund's investments in any one industry or group of industries are generally limited to 25% of its total assets, except that it may invest between 25% and 35% of its total assets in securities of an industry group that, at the time of investment, represents 20% or more of the S&P/ASX 200 Accumulation Index. The Fund has authority to engage in options transactions, to enter into repurchase agreements, and to lend its portfolio securities. See Investment Policies.

Investment Restrictions

The Fund has certain investment restrictions that may not be changed without approval by a majority of the Fund's outstanding voting securities. These restrictions concern issuance of senior securities, borrowing, lending, concentration, diversification and other matters. See Investment Restrictions.

Risks (See generally Risks and Special Considerations for more information on these and other risks)

The value of the Fund's assets, as well as the market price of its shares, will fluctuate. You can lose money on your investment. Investing in the Fund involves other risks, including the following:

*Offer of Shares.* Because the Shares constitute a significant block of the Fund's outstanding Common Stock, their offering may exert downward pressure on the market price of the Fund's shares to the extent not offset by demand.

*Currency Exchange Rate Fluctuations.* The Fund invests substantially in instruments denominated in foreign currencies—primarily the Australian dollar, but also the New Zealand dollar. Fluctuations in the value of these non-U.S. currencies relative to the U.S. dollar can adversely affect the U.S. dollar value of the Fund's assets. A decline in the value of such a foreign currency can require the Fund to liquidate portfolio securities to pay distributions previously calculated in U.S. dollars and can increase the relevant foreign currency cost of expenses incurred in U.S. dollars. Currency exchange losses can reduce or eliminate the Fund's ability to make ordinary income distributions.

*Foreign Securities.* In addition to foreign currency risks, investments in non-U.S. securities involve risk of loss in the event of tax increases or adverse political, economic or diplomatic

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developments in Australia and New Zealand. The Australian securities market for both listed and unlisted securities may be more volatile and is less liquid than the major U.S. markets, and investing in non-U.S. securities may involve greater costs plus more uncertainty regarding legal protections. Regulatory oversight of markets and custody facilities may differ from that in the U.S.

*Concentration.* The Fund may invest up to 35% of its total assets in securities of an industry group that, at the time of investment, represents 20% or more of the S&P/ASX 200 Accumulation Index. An industry sector can include more than one industry group. As of July 31, 2005, 33.3% of the Fund's net assets were invested in the financials sector of the Standard & Poor's Global Industry Classification Sectors. Such a concentration of investments in a single industry sector makes the Fund particularly vulnerable to adverse economic, political or other developments affecting that sector. Also, because the Fund's investments are primarily in Australian securities, The Fund will be particularly affected by adverse political, economic and other developments impacting Australia.

*Net Asset Value Discount.* Shares of the Fund, a closed-end investment company, may trade in the market at a discount from their net asset value.

*Distribution Rate.* There can be no assurance that the Board will maintain the Fund's distribution rate at a particular level, or that the Board will continue a managed distribution policy. Additionally, distributions may include return of capital as well as net investment income and capital gains. If the Fund's investments do not generate sufficient income, the Fund may be required to liquidate a portion of its portfolio to fund these distributions. See Dividends and Distributions.

*Non-Diversified Fund.* As a non-diversified investment company, the Fund can invest more of its assets in fewer issuers than an investment company that is diversified, exposing the Fund to greater risk.

*Stock Repurchases.* When the Fund repurchases shares of its Common Stock pursuant to the Fund's stock repurchase program, the resulting decrease in shares outstanding may increase the Fund's expense ratio; any borrowing to finance repurchases would reduce net income; and any sales of portfolio securities to finance repurchases may not be at a preferred time from a portfolio management perspective and would increase portfolio turnover and related expenses.

*Anti-Takeover Provisions.* The Fund's bylaws contain several provisions that may be regarded as anti-takeover because they have the effect of maintaining continuity of management. Also, Articles Supplementary approved by the Board of Directors subject the Fund to certain provisions of the Maryland General Corporation Law with respect to unsolicited takeovers. See Certain Provisions of the Charter and Bylaws.

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*Leverage.* The Fund has authority to issue preferred stock and to borrow to finance investments. Each of these is a form of leverage that entails particular risks for holders of Common Stock. The issuance of preferred stock would affect the amount of income available for distribution on the Fund's Common Stock as well as the net asset value of the Common Stock and the voting rights of holders of Common Stock. Leverage would exaggerate the effects of both currency fluctuations and of market downturns or upturns on the net asset value and market value of the Fund's Common Stock, as well as on distributions to holders of Common Stock. Leverage can also increase the volatility of the Fund's net asset value, and expenses related to leverage can reduce the Fund's income. In the case of leverage, if Fund assets decline in value so that legal asset coverage requirements for any preferred stock or borrowings would not be met, the Fund may be prevented from paying distributions, which could jeopardize its qualification for pass-through tax treatment, make it liable for excise taxes and/or force it to sell portfolio securities at an inopportune time. Holders of preferred stock have the right to elect two directors, and such holders, as well as Fund creditors, have the right under certain circumstances to elect a majority of the Fund's directors.

*Unlisted Securities.* The Fund may invest up to 10% of its total assets in unlisted equity securities. Because the market for unlisted securities is not liquid, it may be difficult for the Fund to sell these securities at a desirable price. Unlisted securities are not subject to the disclosure and other investor protection requirements of Australian law applicable to listed securities.

*Securities Lending.* With respect to loans of its portfolio securities, the Fund is exposed to risks of loss in the event of default or bankruptcy of the borrower, and in the event that the return on the loan, or on invested collateral, will be less than the related costs.

*Options.* Options strategies may not be successful if the Investment Adviser's expectations about market trends are not fulfilled. These strategies can also increase portfolio turnover and involve costs to the Fund.

*Repurchase Agreements.* These transactions involve risks in the event of counterparty default or insolvency.

Investment Manager and Investment Adviser      The Fund's Investment Manager is Aberdeen Asset Management Asia Limited, a Singapore corporation located at 21 Church Street, #01-01 Capital Square Two, Singapore 049480. The Investment Manager serves as investment manager to both equity and fixed income investment portfolios for a range of clients, with approximately \$18.8 billion in assets, including the Fund and two other U.S. registered closed-end funds with aggregate net assets of approximately \$2.7 billion, as of September 30, 2005. The Investment Manager, in accordance with the Fund's stated investment objectives, policies and limitations and subject to the supervision of the Fund's Board of Directors, manages the Fund's investments and makes



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investment decisions on behalf of the Fund, including the selection of, and being responsible for the placement of orders with, brokers and dealers to execute the Fund's portfolio transactions.

The Fund's Investment Adviser is Aberdeen Asset Management Limited, an Australian corporation affiliated with the Investment Manager. The Investment Adviser is located at Level 6, 201 Kent Street, Sydney, NSW 2000, Australia. The Investment Adviser's principal business focus is to provide investment management services with regard to equity and fixed income investments in Australian securities. The Investment Adviser managed approximately \$0.4 billion of assets, as of September 30, 2005. The Investment Adviser makes recommendations to the Investment Manager as to specific portfolio securities to be purchased, retained or sold by the Fund and provides or obtains such research and statistical data as may be necessary in connection therewith.

The Investment Adviser is a wholly-owned subsidiary of Aberdeen Asset Management Holdings Limited (AAMHL), an Australian corporation, which in turn is a wholly-owned subsidiary of the Investment Manager. The Investment Manager is a wholly-owned subsidiary of Aberdeen Asset Management PLC (Aberdeen PLC), a United Kingdom corporation, that is the parent company of an asset management group (the Aberdeen Group) managing approximately \$52.3 billion of assets as of September 30, 2005, including approximately \$31.5 billion of investments in equity securities as of August 31, 2005, for pension funds, financial institutions, investment trusts, unit trusts, U.S. registered investment companies, offshore funds, charities and private clients. Aberdeen PLC entered into an agreement with Deutsche Asset Management Group Limited (Deutsche Bank) on July 7, 2005 to acquire certain fund management businesses (the Target Businesses) of Deutsche Bank. The Target Businesses comprise a global fixed income business, itself made up of a London-based business and a Philadelphia-based business, a UK open-ended investment company business, a London-based UK and global equities business and a London-based multi-asset business. As at September 30, 2005, the Target Businesses had assets under management of approximately \$53.2 billion. See Management of the Fund The Investment Manager and the Investment Adviser.

The Fund pays a fee to the Investment Manager computed at the annual rate of 1.10% of the Fund's average weekly Managed Assets (defined as net assets plus the amount of any borrowings for investment purposes) up to \$50 million, 0.90% of such assets between \$50 million and \$100 million, and 0.70% of such assets in excess of \$100 million, computed as of the end of each week and payable at the end of each calendar month.

The Investment Manager pays the fees of the Investment Adviser. These fees are computed at the annual rate of 0.30% of the Fund's average weekly Managed Assets (defined as net assets plus the

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amount of any borrowings for investment purposes) up to \$50 million, 0.25% of such assets between \$50 million and \$100 million, and 0.15% of such assets in excess of \$100 million, computed as of the end of each week and payable at the end of each calendar month.

**Portfolio Managers** The following persons have day-to-day management of the Fund's portfolio: Hugh Young, Managing Director of the Investment Manager; Peter Hames, a Director of the Investment Manager; and Augustine Mark Daniels, Michelle Casas and Natalie Tam, investment professionals of the Investment Adviser. See "Management of the Fund" Portfolio Management.

**Administrator** Aberdeen Asset Management Inc., 1735 Market Street, 37<sup>th</sup> Floor, Philadelphia, Pennsylvania 19103, acts as the Fund's administrator ( "Administrator" ). The Administrator is a subsidiary of Aberdeen PLC and an affiliate of the Investment Manager and Investment Adviser. The Fund pays a fee to the Administrator at an annual rate equal to 0.04% of the Fund's average weekly net assets plus the amount of any borrowings for investment purposes. The Administrator delegates certain of its responsibilities to a sub-administrator, Princeton Administrators, L.P. See "Management of the Fund" Administrator.

**Custodian and Transfer Agent** State Street Bank and Trust Company, One Heritage Drive, North Quincy, Massachusetts 02171, acts as the Fund's custodian. The Bank of New York, 101 Barclay Street, New York, New York 10286, acts as the Fund's stock transfer agent, dividend paying agent and agent for the Fund's Dividend Reinvestment and Cash Purchase Plan. See "Management of the Fund" Custodian and Transfer Agent.

**Dividends and Distributions** The Board of Directors has implemented 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 current rolling distribution rate is 10%, but this rate may be changed by the Board. There can be no assurance that the Board will continue a managed distribution policy. See "Dividends and Distributions."

**Dividend Reinvestment and Cash Purchase Plan** Stockholders may elect to have their distributions automatically reinvested in Fund shares which will be either issued by the Fund or purchased on the open market, depending on the market price per share plus any brokerage commissions, relative to the Fund's net asset value per share.

**Taxation** Withholding and/or other taxes may apply in the countries in which the Fund invests, which will reduce the Fund's cash return in those countries. The Fund intends to elect, when eligible, to "pass-through" to the Fund's stockholders the ability to claim (subject to limitations) a deduction or credit for the amount of foreign income and similar taxes paid by the Fund. Tax considerations for an investor in the Fund are summarized under "Taxation." See also "Risks and Special Considerations."

**Table of Contents****FUND EXPENSES****Stockholder Transaction Expenses**

|   |    |
|---|----|
| Maximum Sales Load* (as a percentage of offering price) | 0% |
| Dividend Reinvestment and Cash Purchase Plan Fees       | 0% |

**Annual Operating Expenses (As a Percentage of Average Net Assets Attributable to the Fund's Common Stock)**

|                                 |       |
|---------------------------------|-------|
| Management Fee(1)               | 0.85% |
| Administration Fee(2)           | 0.04% |
| Other Expenses(3)               | 0.58% |
| Total Annual Operating Expenses | 1.47% |

\* The sales load of \$.01 cents to \$.06 cents per Share sold pursuant to this Prospectus will be borne entirely by the Selling Stockholder.

(1) See Management of the Fund The Investment Manager and the Investment Adviser for additional information.

(2) See Management of the Fund Administrator for additional information.

(3) Other Expenses have been estimated for the current fiscal year.

**Example**

An investor would pay the following expenses on a \$1,000 investment in the Fund, assuming a 5% annual return.

| <u>One Year</u> | <u>Three Years</u> | <u>Five Years</u> | <u>Ten Years</u> |
|-----------------|--------------------|-------------------|------------------|
| \$14.96         | \$ 46.51           | \$ 80.36          | \$ 176.16        |

The above tables are intended to assist investors in understanding the various costs and expenses directly or indirectly associated with investing in the Fund. This Example assumes that all dividends and other distributions are reinvested at net asset value and that the percentage amounts listed in the table above under Total Annual Operating Expenses remain the same in the years shown. The above tables and the assumption in the Example of a 5% annual return are required by regulations of the SEC that are applicable to all investment companies; the assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Fund's Common Stock. For more complete descriptions of certain of the Fund's costs and expenses, see Management of the Fund and Expenses.

**This Example should not be considered a representation of past or future expenses, and the Fund's actual expenses may be greater than or less than those shown.**

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The financial highlights table is intended to help you understand the Fund's financial performance. Information is shown for the Fund's last ten fiscal years, and for the six months ended April 30, 2005. Certain information reflects financial results for a single Fund share. The following information, insofar as it relates to each year of the ten-year period ended October 31, 2004, has been audited by PricewaterhouseCoopers LLP, independent registered public accounting firm for the Fund, whose reports thereon were unqualified. The report of PricewaterhouseCoopers LLP, together with the financial statements of the Fund, are included in the Fund's October 31, 2004 Annual Report, and are included in the SAI, which is available upon request. The information for the six months ended April 30, 2005 is unaudited.

|  | For the<br>Six Months<br>Ended<br>April 30, 2005<br>(unaudited) | Year Ended October 31, |            |            |
|--|---|------------------------|------------|------------|
|  |   | 2004                   | 2003       | 2002       |
| <b>PER SHARE OPERATING PERFORMANCE:</b>  |   |                        |            |            |
| Net asset value, beginning of period   | \$ 10.64  | \$ 9.38                | \$ 6.84    | \$ 5.97    |
| Net investment income  | 0.19  | .28                    | .12        | .15        |
| Net realized and unrealized gains (losses) on investments and foreign currencies | 0.93  | 1.76                   | 2.58       | .93        |
| Total from investment operations   | 1.12  | 2.04                   | 2.70       | 1.08       |
| <b>DIVIDENDS AND DISTRIBUTIONS FROM:</b>   |   |                        |            |            |
| Net investment income  | (0.19)  | (.30)                  | (.10)      | (.15)      |
| In excess of net investment income   | (0.32)  |                        |            |            |
| Net capital and currency gains   |   | (.36)                  | (.07)      | (.07)      |
| Tax return of capital  |   | (.12)                  |            |            |
| Total dividends and distributions  | (0.51)  | (.78)                  | (.17)      | (.22)      |
| Capital reduction with respect to issuance of Fund shares                        |   |                        |            |            |
| Increase resulting from Fund share repurchase                                    |   |                        | .01        | .01        |
| Net asset value, end of period   | \$ 11.25  | \$ 10.64               | \$ 9.38    | \$ 6.84    |
| Market price per share, end of period  | \$ 11.16  | \$ 10.25               | \$ 8.40    | \$ 5.73    |
| <b>TOTAL INVESTMENT RETURN BASED ON(1):</b>                                      |   |                        |            |            |
| Market value   | 13.97%  | 32.53%                 | 50.40%     | 12.55%     |
| Net asset value  | 10.68%  | 23.19%                 | 40.69%     | 19.04%     |
| <b>RATIOS/SUPPLEMENTAL DATA:</b>   |   |                        |            |            |
| Ratio of expenses to average net assets  | 1.47%(2)  | 1.75%                  | 2.55%      | 1.76%      |
| Ratio of net investment income to average net assets                             | 3.27%(2)  | 2.85%                  | 1.66%      | 2.33%      |
| Portfolio turnover rate  | 12%   | 23%                    | 32%        | 56%        |
| Net assets, end of period (000 omitted)  | \$ 188,720  | \$ 178,551             | \$ 157,419 | \$ 115,490 |
| Average net assets (000 omitted)   | \$ 194,202  | \$ 166,284             | \$ 128,662 | \$ 114,213 |

(1)

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Total investment return is calculated assuming a purchase of common stock on the first day and a sale on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

(2) Annualized.

(3) Less than \$0.005 per share.

NOTE: Contained above is operating performance for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for each of the periods indicated. This information has been determined based upon financial information provided in the financial statements and market value data for the Fund's shares.

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|  | Year Ended October 31, |            |            |            |
|--|------------------------|------------|------------|------------|
|  | 2001                   | 2000       | 1999       | 1998       |
| <b>PER SHARE OPERATING PERFORMANCE:</b>  |                        |            |            |            |
| Net asset value, beginning of period   | \$ 6.86                | \$ 8.78    | \$ 8.25    | \$ 9.35    |
| Net investment income  | .12                    | .14        | .08        | .21        |
| Net realized and unrealized gains (losses) on investments and foreign currencies | (.33)                  | (1.25)     | 1.26       | (.41)      |
| Total from investment operations   | (.21)                  | (1.11)     | 1.34       | (.20)      |
| <b>DIVIDENDS AND DISTRIBUTIONS FROM:</b>   |                        |            |            |            |
| Net investment income  |                        | (.12)      | (.30)      | (.23)      |
| In excess of net investment income   |                        |            |            |            |
| Net capital and currency gains   |                        | (.69)      | (.51)      | (.66)      |
| Tax return of capital  | (.68)                  |            |            |            |
| Total dividends and distributions  | (.68)                  | (.81)      | (.81)      | (.89)      |
| Capital reduction with respect to issuance of Fund shares                        |                        |            |            | (.01)      |
| Increase resulting from Fund share repurchase                                    | (3)                    |            |            |            |
| Net asset value, end of period   | \$ 5.97                | \$ 6.86    | \$ 8.78    | \$ 8.25    |
| Market price per share, end of period  | \$ 5.29                | \$ 5.875   | \$ 8.00    | \$ 6.5625  |
| <b>TOTAL INVESTMENT RETURN BASED ON(1):</b>                                      |                        |            |            |            |
| Market value   | 1.06%                  | (17.31)%   | 34.91%     | (0.38)%    |
| Net asset value  | (2.32)%                | (12.02)%   | 17.77%     | (0.34)%    |
| <b>RATIOS/SUPPLEMENTAL DATA:</b>   |                        |            |            |            |
| Ratio of expenses to average net assets  | 1.80%                  | 1.66%      | 2.58%      | 1.61%      |
| Ratio of net investment income to average net assets                             | 1.77%                  | 1.66%      | .87%       | 2.38%      |
| Portfolio turnover rate  | 50%                    | 120%       | 143%       | 180%       |
| Net assets, end of year (000 omitted)  | \$ 102,361             | \$ 117,941 | \$ 150,916 | \$ 141,794 |
| Average net assets (000 omitted)   | \$ 115,051             | \$ 143,801 | \$ 157,565 | \$ 149,827 |

(1) Total investment return is calculated assuming a purchase of common stock on the first day and a sale on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

(2) Annualized.

(3) Less than \$0.005 per share.

NOTE: Contained above is operating performance for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for each of the periods indicated. This information has been determined based upon financial information provided in the financial statements and market value data for the Fund's shares.

**Table of Contents****FINANCIAL HIGHLIGHTS (Concluded)**

|  | Year Ended October 31, |            |            |
|--|------------------------|------------|------------|
|  | 1997                   | 1996       | 1995       |
| <b>PER SHARE OPERATING PERFORMANCE:</b>  |                        |            |            |
| Net asset value, beginning of period   | \$ 10.98               | \$ 10.04   | \$ 11.76   |
| Net investment income  | .18                    | .20        | .22        |
| Net realized and unrealized gains (losses) on investments and foreign currencies | (1.45)                 | 1.25       | (.71)      |
| Total from investment operations   | (1.27)                 | 1.45       | (.49)      |
| <b>DIVIDENDS AND DISTRIBUTIONS FROM:</b>   |                        |            |            |
| Net investment income  | (.17)                  | (.23)      | (.22)      |
| In excess of net investment income   |                        |            |            |
| Net capital and currency gains   | (.18)                  | (.26)      | (.94)      |
| Tax return of capital  |                        |            |            |
| Total dividends and distributions  | (.35)                  | (.49)      | (1.16)     |
| Capital reduction with respect to issuance of Fund shares                        | (.01)                  | (.02)      | (.07)      |
| Increase resulting from Fund share repurchase                                    |                        |            |            |
| Net asset value, end of period   | \$ 9.35                | \$ 10.98   | \$ 10.04   |
| Market price per share, end of period  | \$ 7.44                | \$ 9.125   | \$ 8.19    |
| <b>TOTAL INVESTMENT RETURN BASED ON(1):</b>                                      |                        |            |            |
| Market value   | (15.17)%               | 17.76%     | (7.84)%    |
| Net asset value  | (11.37)%               | 15.55%     | (2.70)%    |
| <b>RATIOS/SUPPLEMENTAL DATA:</b>   |                        |            |            |
| Ratio of expenses to average net assets  | 1.39%                  | 1.41%      | 1.50%      |
| Ratio of net investment income to average net assets                             | 1.68%                  | 1.86%      | 2.24%      |
| Portfolio turnover rate  | 270%                   | 133%       | 45%        |
| Net assets, end of year (000 omitted)  | \$ 159,422             | \$ 185,756 | \$ 168,111 |
| Average net assets (000 omitted)   | \$ 182,588             | \$ 178,756 | \$ 162,228 |

- (1) Total investment return is calculated assuming a purchase of common stock on the first day and a sale on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.
- (2) Annualized.
- (3) Less than \$0.005 per share.

NOTE: Contained above is operating performance for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for each of the periods indicated. This information has been determined based upon financial information provided in the financial statements and market value data for the Fund's shares.

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**SELLING STOCKHOLDER**

The Shares to be offered and sold pursuant to this registration statement are beneficially owned by Bankgesellschaft Berlin AG ( Selling Stockholder ), a German banking organization which is a corporation formed under the laws of the Federal Republic of Germany, with its registered office located at Alexanderplatz 2-10178, Berlin, Germany.

The Selling Stockholder has advised the Fund that, as of November 21, 2005, it was the beneficial owner of 4,613,450 shares (constituting approximately 27.5% of the then outstanding shares), and the owner of record and beneficially of 7,500 shares (constituting less than .04% of the then outstanding shares), of the Fund's Common Stock. Of such shares, 3,975,000 shares (the Shares ) are registered hereunder and are being offered by this Prospectus.

The Selling Stockholder has advised the Fund that the Selling Stockholder acquired a total of 5,370,349 shares of the Fund's Common Stock in October and November 2002, of which 5,348,149 shares were purchased from Mira L.P. in a private transaction that closed on October 22, 2002 and 22,200 shares were purchased in open market transactions in November 2002. Together with 4,600 shares of Common Stock previously owned by the Selling Stockholder, after these purchases, the Selling Stockholder owned a total of 5,374,949 shares, or approximately 31.4% of the then outstanding shares, of the Fund. The Selling Stockholder has informed the Fund that, from November 2004 through November 21, 2005, the Selling Stockholder has sold a total of 753,999 shares of Common Stock in at-the-market transactions pursuant to the provisions of Rule 144 under the Securities Act of 1933, as amended ( 1933 Act ). The Selling Stockholder has informed the Fund that the Selling Stockholder intends to sell Shares in this offering periodically in at-the-market sales on the Amex, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which such Shares are traded, at such times and in such manner as the Selling Stockholder may determine to be advantageous. See Plan of Distribution. The Selling Stockholder has informed the Fund that the Selling Stockholder has not determined how many Shares it will sell pursuant to this offering and reserves the right to terminate sales and this offering at any time. The Selling Stockholder has also informed the Fund that the Selling Stockholder may continue to sell its shares of the Fund's Common Stock under Rule 144, to the extent permitted by Rule 144, at the same time as it is selling Shares pursuant to this offering. Any Shares sold pursuant to Rule 144 will not be covered by this registration statement.

For purposes of this registration statement, the Selling Stockholder may be presumed to be a control person of the Fund, because the Selling Stockholder is the beneficial owner of more than 25% of the voting securities of the Fund. The Selling Stockholder has informed the Fund that it deems itself currently to be a controlling party with respect to the Fund, as a result of its continued ownership of almost 30% (constituting by far the largest block) of the outstanding shares of the Fund's Common Stock.

The Board of Directors indicated in the proxy statement for the Fund's 2004 Annual Meeting of Stockholders that, if the Fund's stockholders voted to recommend the adoption of the alternative directors qualifications set forth in such proxy statement, the Board would amend the Fund's bylaws accordingly. The Board of Directors further indicated in the proxy statement that, in the event the bylaws were so amended by the Board, then it was the intention of the Board of Directors promptly thereafter to increase the size of the Board by one Director and to elect one representative of the Selling Stockholder to the Board of Directors for a three-year term as a Class I Director, provided that, at the time of such appointment, the Selling Stockholder continued to own at least 25% of the Fund's Common Stock, and further provided that such representative then satisfied the alternative director qualifications. At the 2004 Annual Meeting of Stockholders, the stockholders voted to recommend that the Board amend such provisions of the Fund's bylaws by adopting the alternative director qualifications. The Selling Stockholder submitted Mr. Moritz Sell as its proposed representative to serve on the Board of Directors. The Fund's Nominating Committee, composed entirely of directors who are not deemed interested persons (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended ( 1940 Act )) of the Fund, the Investment Manager or the Investment Adviser ( Independent



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Directors ), determined that Mr. Sell met the alternative director qualifications and was otherwise an appropriate candidate to serve as a Director of the Fund. In May 2004, the Board of Directors amended the Fund's bylaws to adopt the alternative director qualifications and increased the size of the Board of Directors by one Director. Upon the recommendation of the Nominating Committee, the Board of Directors appointed Mr. Sell as a Class I Director to serve for the remainder of a three-year term expiring at the Annual Meeting of Stockholders to be held in 2007. The Selling Stockholder has informed the Fund that Mr. Sell has been a director, market strategist with the Selling Stockholder since 1996. The Selling Stockholder has informed the Fund that the Selling Stockholder has agreed to indemnify Mr. Sell in connection with his service as a Director of the Fund.

## **USE OF PROCEEDS**

The Selling Stockholder has advised the Fund that proceeds received by the Selling Stockholder as a result of any sale of Shares hereunder will be utilized by the Selling Stockholder for general corporate purposes.

The Fund will not receive any of the proceeds from the sale of the Shares by the Selling Stockholder.

## **PLAN OF DISTRIBUTION**

The Selling Stockholder has informed the Fund that the Selling Stockholder intends to sell Shares in this offering periodically in at-the-market sales on the Amex, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which the Shares are traded, at such times and in such number as the Selling Stockholder may determine to be advantageous in light of the price at which the Shares trade from time to time, the volume of trading, the relationship of the Shares' trading price to their net asset value, and any other factors that the Selling Stockholder considers relevant.

The last reported sale price of the Fund's Common Stock, as reported by the Amex on November 23, 2005 was \$12.85 per share. The price at which securities will be offered pursuant to this registration statement will be the then current market price of such shares on the Amex, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which such shares are traded, which may differ from the market price at the close of trading on the Amex on November 23, 2005.

The Selling Stockholder has indicated that it has not determined how many Shares it will sell pursuant to this offering and reserves the right to terminate sales and this offering at any time. The Selling Stockholder has indicated that if it determines that it is able to sell its Shares in accordance with the provisions of Rule 144 under the 1933 Act in a manner other than pursuant to this offering, either during this offering or after termination of this offering, it may choose to do so.

The Selling Stockholder has informed that Fund that, in connection with sales of substantial blocks of Shares, the Selling Stockholder reserves the right to enter into arrangements with the buyer either to repurchase from that buyer some or all of the Shares sold to that buyer on a specified date or dates if the price at which the Shares trade on a specified date or dates is below a specified level or levels or to enter into other arrangements to provide price protection to such a buyer.

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The Selling Stockholder has informed the Fund that the Selling Stockholder intends to use the services of one or more brokers (collectively, Selling Brokers ), which may include, without limitation, Seaboard Securities, Inc. and TFS Securities, Inc., to sell Shares pursuant to this Registration Statement, and that the Selling Stockholder will pay the Selling Brokers commissions of 1 ¢ to 6 ¢ per share.

The Fund and the Selling Stockholder will enter into an agreement, upon the effectiveness of this Registration Statement, pursuant to which they will agree to indemnify each other against certain liabilities, including liabilities under the 1933 Act.

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The Selling Stockholder has informed the Fund that pursuant to the sales agreement that the Selling Stockholder intends to enter into with each Selling Broker, the Selling Stockholder will agree to indemnify the Selling Broker in connection with the accuracy and completeness of the information provided by the Selling Stockholder to the Fund for inclusion in and/or Preparation of this Registration Statement and in fact included herein.

The Fund anticipates entering into an agreement with each Selling Broker, pursuant to which the Fund will agree to indemnify the Selling Broker in connection with the accuracy and completeness of the information provided by the Fund for inclusion in this Registration Statement.

**DESCRIPTION OF COMMON STOCK**

The Fund, which was incorporated under the laws of the State of Maryland on September 30, 1985, is authorized to issue 50,000,000 shares, consisting of 20,000,000 shares of Common Stock, \$.01 par value per share, and 30,000,000 shares of preferred stock, \$.01 par value per share. As of the date of this Prospectus, the Fund has not issued any shares of preferred stock and the Board of Directors has no present intention to issue shares of preferred stock. All references to stock or shares herein refer to Common Stock, unless otherwise indicated. Each share of Common Stock has equal voting, dividend, distribution and liquidation rights. The shares of Common Stock outstanding, including the Shares offered hereby, are fully paid and non-assessable. Shares of Common Stock are not redeemable and have no preemptive, conversion or cumulative voting rights. The number of shares of Common Stock outstanding as of November 23, 2005, including the Shares offered hereby, was 16,803,510.

The Fund's shares are publicly held and listed and traded on the Amex and the PSE. The Fund determines its net asset value on a daily basis. The following table sets forth, for the quarters indicated, the highest and lowest daily closing prices on the Amex per share of Common Stock, and the net asset value per share and the premium to or discount from net asset value, on the date of each of the high and low market prices. The table also sets forth the number of shares of Common Stock traded on the Amex during the respective quarters.

| <b>During Quarter Ended</b> | <b>NAV per Share on<br/>Date of Market<br/>Price High<br/>and Low(1)</b> |            | <b>Amex Market Price<br/>Per Share(2)</b> |            | <b>Premium/(Discount)<br/>on Date of Market<br/>Price High<br/>and Low(3)</b> |            | <b>Amex<br/>Volume(4)</b> |
|-----------------------------|--|------------|---|------------|---|------------|---------------------------|
|                             | <b>High</b>  | <b>Low</b> | <b>High</b>                               | <b>Low</b> | <b>High</b>   | <b>Low</b> |                           |
| January 31, 2003            | \$ 7.16  | \$ 6.73    | \$ 6.30                                   | \$ 5.70    | (12.0)%   | (15.3)%    | 1,084,500                 |
| April 30, 2003              | 7.44   | 6.66       | 6.39                                      | 5.90       | (14.1)  | (11.4)     | 1,135,900                 |
| July 31, 2003               | 8.29   | 7.62       | 7.36                                      | 6.39       | (11.2)  | (16.1)     | 1,457,800                 |
| October 31, 2003            | 9.35   | 8.25       | 8.44                                      | 7.12       | (9.7)   | (13.7)     | 950,400                   |
| January 31, 2004            | 10.39  | 9.41       | 9.50                                      | 8.14       | (8.6)   | (13.5)     | 1,685,378                 |
| April 30, 2004              | 10.61  | 9.74       | 9.79                                      | 7.92       | (7.7)   | (18.7)     | 3,964,000                 |
| July 31, 2004               | 9.94   | 9.15       | 8.90                                      | 7.60       | (10.5)  | (16.9)     | 1,657,200                 |
| October 31, 2004            | 10.64  | 9.73       | 10.25                                     | 8.42       | (3.7)   | (13.5)     | 2,590,300                 |
| January 31, 2005            | 11.84  | 10.68      | 11.94                                     | 10.37      | 0.8   | (2.9)      | 4,229,700                 |
| April 30, 2005              | 12.33  | 11.13      | 13.53                                     | 10.54      | 9.7   | (5.3)      | 4,386,200                 |
| July 31, 2005               | 11.81  | 10.78      | 12.41                                     | 10.37      | 5.1   | (3.8)      | 2,635,900                 |
| October 31, 2005            | 12.49  | 11.62      | 13.99                                     | 11.75      | 12.0  | 1.1        | 2,435,300                 |

(1) Based on the Fund's computations.

(2) Source: The American Stock Exchange.

- (3) Based on the Fund's computations.
- (4) Source: The American Stock Exchange.

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On November 23, 2005, the per share net asset value of the Fund's Common Stock was \$12.12 and the per share market price was \$12.85, representing a 6.02% premium over such net asset value.

The Fund's shares have traded in the market below, at and above net asset value since the commencement of the Fund's operations. However, it has frequently been the case that the Fund's shares have traded at a discount from net asset value. The Fund cannot determine the reasons why the Fund's shares trade at a premium to or discount from net asset value, nor can the Fund predict whether its shares will trade in the future at a premium to or discount from net asset value, or the level of any premium or discount. Shares of closed-end investment companies frequently trade at a discount from net asset value.

**Stock Repurchase Program.** On March 1, 2001, the Fund's Board of Directors approved a stock repurchase program, which permits the Fund to repurchase up to 10% of its outstanding shares of Common Stock on the open market during any 12-month period, if and when the discount from net asset value is at least 10%. All purchases must be made in compliance with applicable legal requirements and such requirements may prevent the Fund from making such repurchases during the offering described in this Prospectus.

When the Fund repurchases its shares for a price below their net asset value, the net asset value of the shares that remain outstanding will be enhanced, but this does not necessarily mean that the market price of those outstanding shares will be affected. Any acquisition of shares by the Fund will decrease the total assets of the Fund and therefore may increase the Fund's expense ratio. Furthermore, if the Fund borrows to finance share repurchases, interest on such borrowings will reduce the Fund's net investment income. (The Fund's fundamental investment restrictions permit it to borrow to the extent permitted, or not prohibited, by the 1940 Act, and related rules and regulatory interpretations.) If the Fund must liquidate a portion of its investment portfolio in connection with a share repurchase, such liquidation might be at a time when independent investment judgment would not dictate such action, increasing the Fund's overall portfolio turnover and making it more difficult for the Fund to achieve its investment objective. Since inception of the stock repurchase program, the Fund has repurchased 412,700 shares of Common Stock, for a total consideration of \$2,424,385, with a cumulative effect of increasing the Fund's per share net asset value by 2.35 cents. There have not been any repurchases of shares under this program since 2002.

The following information regarding the Fund's authorized shares is as of November 23, 2005.

| Title of Class  | Amount<br>Authorized | Amount Held<br>by Fund for<br>its own Account | Amount<br>Outstanding<br>Exclusive of<br>Amount<br>held<br>by Fund |
|-----------------|----------------------|---|--|
| Common Stock    | 20,000,000           | 0   | 16,803,510   |
| Preferred Stock | 30,000,000           | 0   | 0  |

**THE FUND**

The Fund is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund is designed for investors seeking experienced professional management of a portfolio of Australian securities. An investment in the Fund may not be appropriate for all investors and should not be considered to be a complete investment program. An investment in the Fund involves risks that you should consider before purchasing Shares. See Risks and Special Considerations.



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**INVESTMENT OBJECTIVES**

The Fund's principal investment objective is long-term capital appreciation through investment primarily in equity securities of Australian companies listed on the ASX. Its secondary objective is current income, which is expected to be derived primarily from dividends and interest on Australian corporate and governmental securities. There can be no assurance the Fund will achieve its investment objectives. The Fund's investment objectives and each of the percentage limitations on investments set forth below in Investment Policies, unless otherwise indicated, are fundamental policies that may not be changed without the approval of a majority of the Fund's outstanding voting securities. Under the 1940 Act, a majority of the Fund's outstanding voting securities means the lesser of (i) 67% or more of the shares represented at a meeting at which more than 50% of the outstanding shares are represented, or (ii) more than 50% of the outstanding shares. In the event that the Fund issues preferred shares, changes in fundamental policies would also require approval by a majority of the outstanding preferred shares, voting as a separate class.

**INVESTMENT POLICIES**

The Fund has adopted a policy that, so long as its name remains Aberdeen Australia Equity Fund, Inc., it will invest, under normal conditions, 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 ASX. 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 stockholders. However, it is a fundamental policy of the Fund to normally invest at least 65% of its total assets in equity securities, consisting of common stock, preferred stock and convertible preferred stock, listed on the ASX. The Fund's equity investments are generally limited to securities of companies that are listed on the ASX. These investments may include securities of New Zealand issuers that are listed on the ASX. However, up to 10% of the value of the Fund's total assets (at the time of purchase) may be invested in unlisted equity securities.

The Fund may also invest in debt securities, consisting of notes and debentures of Australian companies, bills and bonds of the Federal and State governments of Australia and U.S. Government securities. During periods when, in the Investment Manager's judgment, changes in the Australian market or other economic conditions warrant a defensive economic policy, the Fund may temporarily reduce its position in equity securities and increase its position in debt securities or in money market instruments having a maturity of not more than six months and consisting of Australian bank time deposits; bills and acceptances; Australian Federal Treasury bills; Australian corporate notes; and U.S. Treasury bills. The Fund may also invest in such money market instruments in order to meet dividend and expense obligations.

The Fund invests its assets in a broad spectrum of Australian and New Zealand industries, including metals and minerals, other natural resources, construction, electronics, food, appliances and household goods, transport, tourism, the media and financial institutions. In selecting industries and companies for equity investment, the Investment Manager may, among other factors, consider overall growth prospects, competitive positions in domestic and export markets, technology, research and development, productivity, labor costs, raw material costs and sources, profit margins, return on investment, capital resources, management and government regulation. The Fund's investments in Australian debt securities and Australian money market instruments are limited to obligations of Australian Federal and State governments, governmental agencies and authorities, listed corporate issuers and banks considered to be creditworthy by the Investment Manager.

In 1999, the Fund received a no-action assurance letter from the SEC staff to permit the Fund to concentrate its portfolio investments under certain circumstances. The Fund will not invest in a security if, after the investment, more than 25% of its total assets would be invested in any one industry or group of industries, provided that 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





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Accumulation Index. The no-action letter issued by the SEC staff referred to industry sectors of the Australian All Ordinaries Index, then the Fund's performance benchmark. The Fund's performance benchmark was subsequently changed to the S&P/ASX 200 Accumulation Index ( S&P/ASX 200 ), as reported to stockholders in the Fund's semi-annual report for the period ended April 30, 2000. The S&P/ASX 200 comprises the top 200 companies listed on the ASX by market capitalization, and was introduced by the ASX in April 2000. The S&P/ASX 200 most closely represents the universe of stocks that are considered the Fund. Standard & Poor's subsequently discontinued the use of the ASX classification system for the S&P/ASX 200 and replaced such classification system with the Global Industry Classification Standard ( GICS ). The GICS classification tier of 23 Industry Groupings, which the Fund currently uses for its concentration policy, is the classification most comparable to the 24 ASX sectors formerly used by both the Australian All Ordinaries Index and the S&P/ASX 200.

The Fund does not trade in securities for short-term gain. The Fund's annual portfolio turnover rate for its fiscal year ended October 31, 2004 was 23%. The portfolio turnover rate is calculated by dividing the lesser of sales or purchases of portfolio securities by the average monthly value of the Fund's portfolio securities. For purposes of this calculation, portfolio securities exclude purchases and sales of debt securities having a maturity at the date of purchase by the Fund of one year or less.

## **Options Strategies**

The Fund may seek to protect the value of certain of the common stocks in its portfolio against decline by purchasing put options on such stocks. The Fund may also purchase call options on common stock in anticipation of price increases. In addition, the Fund may seek to protect the value of such stocks by selling covered call options on common stock held in its portfolio. A call option is covered if the Fund owns the stock subject to the option or holds a call option on the same stock with an exercise price equal to or less than the exercise price of the call sold. All options purchased will be listed on the ASX.

In order to terminate its rights and obligations on options, the Fund may sell or buy an option in a closing transaction. If an option is not exercised or sold, it will become worthless at its expiration date. The aggregate premiums paid for all options held by the Fund will not exceed 10% of the value of its total assets at the time of the purchase and the Fund will not write any call options if as a result it then would have more than 50% of its total assets subject to purchase upon exercise of calls. See **Risks and Special Considerations** for risks of engaging in options strategies.

## **Repurchase Agreements**

The Fund may enter into repurchase agreements with banks and broker-dealers when it deems it advisable. A repurchase agreement is a contract under which the Fund acquires a security for a relatively short period (usually no more than one week) subject to the obligations of the seller to repurchase and the Fund to resell such security at a fixed time and price (representing the Fund's cost plus interest). The Investment Manager will monitor the value of such securities daily to determine that the value equals or exceeds the repurchase price. Under the 1940 Act, repurchase agreements are considered to be loans made by the Fund which are collateralized by the securities subject to repurchase. See also **Risks and Special Considerations**.

## **Loans of Portfolio Securities**

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The Fund's investment policies permit the Fund to enter into securities lending agreements. Under such agreements, the Fund may lend to borrowers (primarily banks and broker-dealers) portfolio securities with an aggregate market value of up to one-third of the Fund's total assets when it deems advisable. Any such loans must be secured by collateral (consisting of any combination of cash, U.S. government securities, irrevocable bank letters of credit or other high quality debt securities) in an amount at least equal, on a daily marked-to-market basis, to the current market value of the securities loaned. Cash collateral will be invested by the lending

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agent in short-term instruments, money market mutual funds or other collective investment funds, and income from these investments will be allocated among the Fund, the borrower and the lending agent. The Fund may terminate a loan after such notice period as is provided for the particular loan. The Fund will receive from the borrower amounts equivalent to any cash payments of interest, dividends and other distributions with respect to the loaned securities, although the tax treatment of such payments may differ from the treatment of distributions paid directly by the issuer to the Fund. The Fund also has the option to require non-cash distributions on the loaned securities to be credited to its account. The terms of the Fund's lending arrangement includes provisions to permit the Fund to vote the loaned securities. See also Risks and Special Considerations.

## **INVESTMENT RESTRICTIONS**

The following restrictions are fundamental policies, which cannot be changed without the approval of the holders of a majority of the Fund's outstanding voting securities. In the event that the Fund issues preferred shares, changes in investment restrictions would also require approval by a majority of the outstanding preferred shares, voting as a separate class. If a percentage restriction on investment or use of assets set forth below is adhered to at the time a transaction is effected, later changes in a percentage resulting from changing values will not be considered a violation.

The Fund may not:

- (1) Purchase securities on margin, except such short-term credits as may be necessary for the clearance of securities.
- (2) Make short sales of securities or maintain a short position.
- (3) (a) Issue senior securities except (i) insofar as the Fund may be deemed to have issued a senior security in connection with any repurchase or securities lending agreement or any borrowing permitted by its investment restrictions, and (ii) that the Fund may issue one or more series of a class of preferred stock, if permitted by its Articles; or (b) borrow money, except as permitted under, or to the extent not prohibited by, the 1940 Act, as amended, and rules thereunder, as interpreted or modified by regulatory authority having jurisdiction, from time to time.
- (4) Buy or sell commodities, commodity contracts, real estate or interests in real estate, except that the Fund may buy and sell shares of real estate unit investment trusts which are listed on the ASX and which hold interests in real estate.
- (5) Make loans (except that the Fund may purchase debt securities whether or not publicly traded or privately placed or may enter into repurchase and securities lending agreements consistent with the Fund's investment policies).
- (6) Make investments for the purpose of exercising control or management.

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(7) Act as an underwriter (except to the extent the Fund may be deemed to be an underwriter in connection with the sale of securities in the Fund's investment portfolio).

(8) Invest more than 25% of its assets in a particular industry or group of industries, provided, however, that 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.

### RISKS AND SPECIAL CONSIDERATIONS

An investment in the Fund involves certain risks and considerations, including risks and considerations not typically associated with funds that invest only in U.S. securities. These risks and considerations are described below.

**Risks From the Offer of Shares.** The Selling Stockholder's offer of the Shares, totaling approximately 23.7% of the Fund's outstanding shares, may exert downward pressure on the market price for the Fund's shares.

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to the extent not offset by demand for Fund shares. Any such pressure would continue at least until all the Shares are sold. Neither the extent of any dampening effect, or the extent of offsetting demand, on share price or the length of time either would continue can be predicted.

**Currency Exchange Rate Fluctuations.** Currency exchange rates can fluctuate significantly over short periods and can be subject to unpredictable changes based on a variety of factors, including political developments and currency controls by foreign governments. The Fund will normally hold almost all its assets in Australian dollar denominated securities, although some assets may be denominated in New Zealand dollars. Accordingly, a change in the value of the Australian dollar or New Zealand dollar against the U.S. dollar will generally result in a change in the U.S. dollar value of the Fund's assets. Such a change may thus decrease the Fund's net asset value.

In addition, although most of the Fund's income will be received or realized primarily in Australian dollars, the Fund will be required to compute and distribute its income in U.S. dollars. Therefore, for example, if the exchange rate for the Australian dollar declines after the Fund's income has been accrued and translated in U.S. dollars, but before the income has been received or converted into U.S. dollars, the Fund could be required to liquidate portfolio securities to make distributions. Similarly, if the exchange rate declines between the time the Fund incurs expenses in U.S. dollars and the time such expenses are paid, the amount of Australian dollars required to be converted into U.S. dollars in order to pay those expenses will be greater than the Australian dollar equivalent of those expenses at the time they were incurred. Similar effects may result from the Fund's investments that are New Zealand dollar denominated.

Currency exchange rate fluctuations can decrease or eliminate income available for distribution or, conversely, increase income available for distribution. For example, in some situations, if certain currency exchange losses exceed net investment income for a taxable year, the Fund would not be able to make ordinary income distributions, and all or a portion of distributions made before the losses were realized but in the same taxable year would be recharacterized as a return of capital to stockholders for U.S. federal income tax purposes, thus reducing stockholders' cost basis in their Fund shares, or as a capital gain distribution, rather than as an ordinary income dividend.

**Equity Risk.** The value of equity securities, including common stock, preferred stock and convertible stock, will fluctuate in response to factors affecting the particular company, as well as broader market and economic conditions. Moreover, in the event of the company's bankruptcy, claims of certain creditors, including bondholders, will have priority over claims of common stock holders and are likely to have varying types of priority over holders of preferred and convertible stock.

**Foreign Securities Risk.** Investments in foreign securities that are traded on foreign markets, including Australian and New Zealand securities, are subject to risks of loss that are different from the risks of investing in U.S. securities. These include the possibility of losses due to currency fluctuations (see *Currency Exchange Rate Fluctuations*), or to adverse political, economic or diplomatic developments in Australia and New Zealand, including possible increases in taxes. Additionally, accounting, auditing, financial reporting standards and other regulatory practices and requirements for securities in which the Fund may invest vary from those applicable to entities subject to regulation in the United States. The Australian securities market for both listed and unlisted securities may be more volatile and less liquid than the major U.S. markets. In addition, the cost to the Fund of buying, selling and holding securities in the Australian market may be higher than in the United States. Any higher expenses of non-U.S. investing may reduce the amount the Fund can earn on its investments and typically results in a higher operating expense ratio than for investment companies that invest only in the United States. Regulatory oversight of the Australian securities market may differ from that of U.S. markets. There also may be difficulty in invoking legal protections across borders.

**Foreign Custody.** The Fund's custodian generally holds the Fund's non-U.S. securities and cash in non-U.S. bank sub-custodians and securities depositories- generally in Australia. (See *Management of the*



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Fund Custodian and Transfer Agent. ) Regulatory oversight of non-U.S. banks and securities depositories may differ from that in the U.S. Additionally, laws applicable to non-U.S. banks and securities depositories may limit the Fund's ability to recover its assets in the event the non-U.S. bank, securities depository or issuer of a security held by the Fund goes bankrupt.

**Net Asset Value Discount.** Shares of closed-end investment companies frequently trade at a discount from net asset value. This characteristic is a risk separate and distinct from the risk that net asset value will decrease. The Fund's shares have frequently traded in the market below net asset value since the commencement of the Fund's operations. In the 12-month period ended June 30, 2005, the Fund's shares have traded in the market at an average discount from net asset value of 2.85%. The Fund cannot predict whether its shares in the future will trade at, below or above net asset value. This risk that shares of a closed-end fund might trade at a discount is more significant for investors who wish to sell their shares in a relatively short period of time. For those investors, realization of gain or loss on their investment is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance.

**Distribution Rate.** The Fund has a managed distribution policy under which quarterly distributions, at a rate determined annually by the Board of Directors, are paid from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital. See Dividends and Distributions - Managed Distribution Policy. There can be no assurance that the distribution rate set at any time, or the policy itself, will be maintained. For the fiscal year ended 2004 and for the current fiscal year to date, distributions exceeded the sum of net investment income and realized capital gains. To the extent total distributions for a year exceed the Fund's net investment income, the difference will be deemed for income tax purposes to have been distributed from realized capital gains and/or will be treated as return of capital, as applicable. The Fund's managed distribution policy may, in certain situations, cause the Fund to make taxable distributions to stockholders in excess of the minimum amounts of such taxable distributions required to avoid liability for federal income and excise taxes. Such excess taxable distributions may, in such situations, cause stockholders to be liable for taxes for which they would not otherwise be liable if the Fund only paid that amount required to avoid liability for federal income and excise taxes. The Fund's income distributions and its capital and currency gains distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States. These differences are primarily due to differing treatments for foreign currencies.

If the Fund's investments do not generate sufficient income, the Fund may be required to liquidate a portion of its portfolio to fund these distributions, and therefore a portion or all of such distributions may represent a reduction of the stockholders' principal investment. Such liquidation might be at a time when independent investment judgment would not dictate such action, increasing the Fund's overall portfolio turnover (and related transaction costs) and making it more difficult for the Fund to achieve its investment objective.

**Non-Diversified Status.** The Fund is classified as a non-diversified management investment company under the 1940 Act. This means that the Fund is not subject to limits under the 1940 Act as to the proportion of its assets that may be invested in the securities of a single issuer. As a non-diversified investment company, the Fund may therefore invest its assets in securities of a smaller number of issuers, and, as a result, would be subject to greater risk with respect to its portfolio securities. Although the Fund must comply with certain diversification requirements in order to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended ( Code ), the Fund may be more susceptible to any single economic, political or regulatory occurrence than would be the case if it had elected to diversify its holding sufficiently to be classified as a diversified management investment company under the 1940 Act.

**Stock Repurchase Risk.** Any acquisition by the Fund of its shares, pursuant to its stock repurchase program, will decrease the total assets of the Fund and therefore may increase the Fund's expense ratio. Furthermore, if the Fund borrows to finance share repurchases, interest on such borrowings would reduce the Fund's net investment income. If the Fund liquidates a portion of its investment portfolio in connection with a share repurchase, such liquidation might be at a time when independent investment judgment would not dictate

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such action, increasing the Fund's overall portfolio turnover (and related transaction costs) and making it more difficult for the Fund to achieve its investment objective. There are also tax implications for both tendering and non-tendering stockholders in the event the Fund offers to repurchase its shares. See "Taxation."

**Tax Considerations.** The Fund intends to qualify and to continue to qualify as a regulated investment company under the Code. If it so qualifies, it generally will be relieved of U.S. federal income tax on its net investment income and capital gains, if any, which it generally distributes to stockholders in accordance with requirements under the Code. In order to continue to meet the requirements of the Code applicable to regulated investment companies and to minimize its U.S. Federal tax liability, it is the Fund's policy to distribute substantially all of its taxable net income and capital gains, if any, to stockholders. To the extent that the Fund has earnings available for distribution, its distributions in the hands of stockholders may be treated as ordinary dividend income, although certain distributions may be designated by the Fund as capital gain distributions which would be treated as long-term capital gain, or qualified dividend income which may be eligible for long-term capital gain tax rates if certain holding period rules apply. Dividends and capital gains distributions paid by the Fund will not qualify for the corporate dividends-received deduction. Distributions in excess of the Fund's current and accumulated earnings and profits will first reduce a stockholder's basis in his shares and, after the stockholder's basis is reduced to zero, will constitute capital gains to the stockholder who holds his shares as capital assets.

Subject to certain limitations imposed by the Code, foreign taxes withheld from distributions or otherwise paid by the Fund may be creditable or deductible by U.S. stockholders for U.S. income tax purposes, if the Fund is eligible to and makes an election to treat the stockholders as having paid those taxes for U.S. federal income tax purposes. No assurance can be given that the Fund will be eligible to make this election each year, but it intends to do so if it is eligible. If the election is made, the foreign withholding taxes paid by the Fund will be includable in the U.S. federal taxable income of stockholders. Non-U.S. investors may not be able to credit or deduct the foreign taxes, but they may be deemed to have additional income from the Fund, equal to their share of the foreign taxes, that is subject to the U.S. withholding tax. Investors should review carefully the information discussed under the heading "Taxation" and should discuss with their tax advisers the specific tax consequences of investing in the Fund.

**Anti-Takeover Provisions.** The Fund presently has provisions in its bylaws that may limit the ability of other entities or persons to acquire control of the Fund. The bylaws provide for a staggered election of the Fund's Directors, who are divided into three classes, each having a term of three years. Thus, only Directors in a single class may be changed in any one year and it would require two years to change a majority of the Board of Directors. This system of electing Directors may be regarded as "anti-takeover" because it makes it more difficult for Fund stockholders to change a majority of the Fund's Directors and, thus, has the effect of maintaining continuity of management. Other bylaw provisions that may be regarded as "anti-takeover": (a) provide specific requirements for stockholder-requested special meetings; (b) require that stockholders who wish to propose a nominee for Director or have stockholders vote on other proposals satisfy certain advance notice and information requirements; (c) disclose that the Fund has elected to be subject to the Maryland Control Share Acquisition Act (MCSAA), which sets restrictions on the voting rights of holders of MCSAA control shares of the Fund acquired in a MCSAA control share acquisition; (d) establish Director qualifications; (e) establish supermajority Board vote requirements for certain actions, including mergers, dissolution, election of officers, officer and Director compensation, and the amendment of the Director term and qualification requirements; (f) establish restrictive approval requirements for an investment advisory agreement, a sub-advisory agreement or a management agreement between the Fund and an affiliate of an Independent Director; and (g) subject to such conditions as provided in the bylaws, reserve to the Board the power to adopt, alter, or repeal the bylaws or any provision of the bylaws.

Articles Supplementary approved by the Board of Directors subject the Fund to certain provisions of the Maryland General Corporation Law with respect to unsolicited takeovers. These provisions limit the ability of stockholders to remove Directors, provide that the number of Directors may be fixed only by the Board, provide that certain vacancies on the Board of Directors may be filled only by the vote of the remaining Directors, and limit the ability of stockholders to call a special meeting of stockholders.



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The foregoing provisions may be regarded as anti-takeover provisions and may have the effect of depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices. See Certain Provisions of the Charter and Bylaws.

**Concentration.** The Fund's investment policies permit it to invest up to 35% of its total assets in the securities of a single industry group, provided that, at the time of investment, that group represents 20% or more of the S&P/ASX 200 Accumulation Index. At any time the Fund has such a concentration of investments in a single industry group, it will be particularly vulnerable to adverse economic, political and other factors that affect that industry group. An industry sector can include more than one industry group. As of July 31, 2005, 33.3% of the Fund's net assets were invested in the financials sector of the Standard & Poor's Global Industry Classification Sectors, making the Fund particularly vulnerable to developments that negatively affect that sector. Also, the fact that the Fund invests primarily in Australian securities makes it particularly vulnerable to loss in the event of adverse political, economic, financial and other developments that affect Australia, including fluctuations of Australian currency versus the U.S. dollar.

**Securities Lending Risk.** In connection with its loans of portfolio securities, the Fund may be exposed to the risk of delay in recovery of the loaned securities or possible loss of rights in the collateral should the borrower become insolvent. The Fund also bears the risk of loss on the investment of cash collateral. There is also the risk that, in the event of default by the borrower, the collateral might not be sufficient to cover any losses incurred by the Fund. There can be no assurance that the return to the Fund from a particular loan, or from its loans overall, will exceed the related costs and any related losses.

**Repurchase Agreement Risk.** Repurchase agreements may involve risks in the event of default or insolvency of the seller, including possible delays or restrictions with respect to the Fund's ability to dispose of the underlying securities, and the possibility that the collateral might not be sufficient to cover any losses incurred by the Fund.

**Unlisted Securities Risk.** The Fund may invest up to 10% of the value of its total assets (at the time of purchase) in unlisted equity securities. Because the market for unlisted securities is not liquid, it may be difficult for the Fund to sell these securities timely and at a desirable price. If not listed, such securities could nonetheless be resold in privately negotiated transactions, although the price may be lower and the time to dispose of the security may take considerably longer than for listed securities and the sale price may be lower than the price paid by the Fund. Unlisted securities are not subject to the disclosure and other investor protection requirements of Australian law applicable to listed securities.

**Risks of Options.** The options market in Australia may be more volatile and less liquid than options markets in the U.S. Currently, on the ASX, options are traded on securities of only a limited number of companies. The extent to which options strategies may reduce the inherent risks in equity investment will depend on the Investment Adviser's ability to predict price movements in underlying stocks, as to which there can be no assurance. In addition, the Fund's ability to engage in options transactions will be limited by certain requirements that the Fund must satisfy in order to qualify as a regulated investment company under the Code. See Taxation. The Fund's options activities also may have an impact upon the level of its portfolio turnover and brokerage commissions.

**Risks of Issuance of Preferred Shares.** The Fund has authority to issue preferred shares. The Board has not yet exercised this authority and has no current intention of exercising this authority. The following is a description of the risks involved if the Fund were to issue preferred shares.

**Leverage.** The issuance of preferred shares would create leverage that would affect the amount of income available for distribution on the Fund's shares of Common Stock as well as the net asset value of the shares of Common Stock. It is expected that the initial dividend rate or rates that would be paid on any class or series of preferred shares would be determined at the time of issuance and would depend on various factors, including market conditions prevailing at the time. If the investment performance of the capital represented by the preferred shares fails to cover

the dividends payable thereon, the total return on the

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Fund's Common Stock would be less or, in the case of negative returns, would result in higher negative returns to a greater extent than would otherwise be the case. Negative performance of the invested capital would also reduce the Fund's net asset value. The requirement to pay dividends on the preferred stock in full before any dividends may be paid on the Common Stock means that dividends on the Common Stock from earnings may be reduced or eliminated.

**Voting Rights.** Voting rights in the Fund are non-cumulative. The voting rights of the holders of the current outstanding Common Stock would be limited by the issuance of any preferred shares because the holders of any preferred shares would have the following class voting rights. Pursuant to current applicable law, holders of preferred shares, voting as a separate class, would be entitled to elect two of the Fund's Directors (the remaining Directors would be elected by holders of the Fund's Common Stock.) Additionally, if dividends on preferred shares were unpaid in an amount equal to two years' dividends, holders of such preferred shares, voting as a separate class and subject to any prior rights of any other outstanding class of senior securities, would be entitled to elect a majority of the Fund's Directors and to continue to be so represented until all dividends in arrears have been paid or otherwise provided for. Approval by the holders of a majority of the outstanding preferred shares, voting as a separate class, would also be required for a plan of reorganization that would adversely affect their shares, for changes in fundamental investment restrictions, for a change to an open-end classification, or for a proposal for the Fund to cease to be an investment company.

**Asset Coverage.** The Fund would be required to have asset coverage with respect to its preferred stock of at least 200 per cent immediately after the issuance of the preferred stock. The Fund would not be permitted to pay any dividend (except a dividend paid in Common Stock) or distribution, or to purchase its Common Stock, unless the asset coverage test is met at the time of declaring the dividend or distribution, or purchasing the stock, after deducting the amount of the dividend, distribution or stock purchase price, as applicable.

**Other Considerations.** The class or other voting rights of the preferred shares and the representation of the preferred shares on the Board of Directors could make it more difficult for the Fund to engage in certain types of transactions that might be proposed by the Board of Directors and/or holders of Common Stock, such as a change in a fundamental investment policy, a merger, sale of assets, exchange of securities, liquidation of the Fund or conversion to an open-end fund. Holders of preferred shares might have interests that differ from holders of Common Stock, and there can be no assurance that holders of preferred shares would vote to approve transactions approved by holders of the Common Stock. The flexibility to issue preferred shares as well as Common Stock could enhance the Board of Directors' ability to negotiate on behalf of the stockholders in a takeover, but might also render more difficult, or discourage, a merger, tender offer or proxy contest, the assumption of control by the holder of a large block of the Fund's securities or the removal of incumbent management. The issuance of preferred shares would involve costs (underwriting commissions, offering expenses, rating agency expenses, legal fees, etc.) that would be borne by the holders of Common Stock. See also "Risks of Borrowing and Leverage to Holders of Common Stock," below.

**Risks of Borrowing and Leverage to Holders of Common Stock.** The Fund's fundamental investment policies permit it to borrow to the extent permitted, or not prohibited, by the 1940 Act and related rules and regulatory interpretations. The Board has not yet exercised this authority and has no current intention of exercising this authority. Borrowing is a form of leverage, as is the issuance of preferred stock. Certain risks of leverage are discussed under "Risks of Issuance of Preferred Shares" above. Borrowing, either by the issuance of debt obligations or through loans from banks or private sources, would involve interest and other costs to the Fund. If the return to the Fund from investments made with proceeds of a borrowing does not exceed the interest and costs of the borrowing, such costs could reduce the return to the holders of Common Stock. Moreover, leveraging would generally exaggerate the positive and negative effects of market, interest rate and currency fluctuations on the net asset value and market value of the Fund's Common Stock, as well as on distributions to common stockholders. By increasing the Fund's invested assets, and thus its market exposure, leveraging would increase the volatility of both the net asset value and, consequently, the market value of the Fund's Common

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Stock. Any decline in the value of the Fund's investments would be borne entirely by the holders of its Common Stock. Thus, although leveraging may enhance benefits to holders of Common Stock in a rising market environment, a market downturn can be particularly disadvantageous to holders of Common Stock of a leveraged fund. Because the Fund invests primarily in securities that are not U.S. dollar-denominated and because it pays dividends and other distributions in U.S. dollars, any leveraging or the issuance of debt securities that also pay interest in U.S. dollars would exaggerate the effects of currency fluctuations on the prices of, and distributions on, the Fund's Common Stock. Moreover, a decline in the value of the Fund's assets, and thus its asset coverage for any senior securities, could prevent the Fund from paying dividends or distributions on its Common Stock, which could, in turn, jeopardize the Fund's qualification as a regulated investment company under the Code and/or subject the Fund to income and excise taxes and/or force the Fund to sell portfolio securities at a time or price that is not favorable.

Borrowings by the Fund generally require asset coverage of 300 per cent. The Fund would be prohibited from declaring a dividend (other than a dividend payable in stock of the Fund) or distribution on any class of its stock, and from purchasing Fund stock, unless this asset coverage requirement is met at the time such dividend or distribution is declared, or stock is purchased, after deducting the amount of such dividend, distribution or stock purchase price, as applicable. However, the Fund would be permitted to pay dividends on any preferred stock if, at the time of declaring the dividend, the Fund has asset coverage of at least 200% for its borrowings, after deducting the amount of the dividend. Holders of senior securities representing indebtedness would have the right to elect a majority of the Fund's directors if the Fund failed to have asset coverage for its debt of at least 100 per cent on the last business day of each of twelve consecutive calendar months. This right would continue until such asset coverage was 110 per cent or more on the last business day of each of three consecutive calendar months. An event of default would be deemed to have occurred if the Fund failed to have asset coverage for its debt of at least 100 per cent for 24 consecutive months.

## **MANAGEMENT OF THE FUND**

### **The Board of Directors**

The management of the Fund, including general supervision of the duties performed by the Investment Manager, the Investment Adviser and other service providers, is the responsibility of the Board of Directors.

### **The Investment Manager and the Investment Adviser**

Aberdeen Asset Management Asia Limited serves as the investment manager to the Fund ( "AAMAL" or the "Investment Manager" ) and Aberdeen Asset Management Limited serves as investment adviser to the Fund ( "AAML" or the "Investment Adviser" ) pursuant to a management agreement dated as of March 8, 2004 (the "Management Agreement" ) and an investment advisory agreement dated as of March 8, 2004 (the "Advisory Agreement" ), respectively.

The Investment Manager is a Singapore corporation incorporated in 1991. The registered office of the Investment Manager is located at 21 Church Street, #01-01 Capital Square Two, Singapore 049480. The Investment Manager serves as investment manager to both equity and fixed income investment portfolios for a range of clients, with approximately \$18.8 billion in assets, including the Fund and two other U.S. registered closed-end funds with aggregate net assets of approximately \$2.7 billion, as of September 30, 2005. The Investment Manager, in accordance with the Fund's stated investment objectives, policies and limitations and subject to the supervision of the Fund's Board of Directors, manages the Fund's investments and makes investment decisions on behalf of the Fund, including the selection of, and being responsible for the placement of orders with, brokers and dealers to execute the Fund's portfolio transactions.

The Investment Adviser is an Australian corporation, which is a wholly-owned subsidiary of Aberdeen Asset Management Holdings Limited ( AAMHL ), an Australian corporation. The registered office of the Investment Adviser and AAMHL are located at Level 6, 201 Kent Street, Sydney, NSW 2000, Australia. The

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Investment Adviser's principal business focus is to provide investment management services with regard to equity and fixed income investments in Australian securities. The Investment Adviser managed approximately \$0.4 billion of assets, as of September 30, 2005. The Investment Adviser makes recommendations to the Investment Manager as to specific portfolio securities to be purchased, retained or sold by the Fund and provides or obtains such research and statistical data as may be necessary in connection therewith.

Both the Investment Manager and AAMHL are wholly-owned subsidiaries of Aberdeen Asset Management PLC (Aberdeen PLC), a United Kingdom corporation. The registered offices of Aberdeen PLC are located at 10 Queen's Terrace, Aberdeen, Scotland AB10 1YG. Aberdeen PLC is the parent company of an asset management group managing approximately \$52.3 billion of assets as of September 30, 2005, including approximately \$31.5 billion of investments in equity securities as of August 31, 2005, for a range of pension funds, financial institutions, investment trusts, unit trusts, offshore funds, charities and private clients, in addition to U.S. registered investment companies. Aberdeen PLC entered into an agreement with Deutsche Asset Management Group Limited (Deutsche Bank) on July 7, 2005 to acquire certain fund management businesses (the Target Businesses) of Deutsche Bank. The Target Businesses comprise a global fixed income business, itself made up of a London-based business and a Philadelphia-based business, a UK open-ended investment company business, a London-based UK and global equities business and a London-based multi-asset business. As at September 30, 2005, the Target Businesses had assets under management of approximately \$53.2 billion.

The Management Agreement provides that the Fund will pay the Investment Manager a fee at the annual rate of 1.10% of the Fund's average weekly Managed Assets up to \$50 million; 0.90% of Managed Assets between \$50 million and \$100 million; and 0.70% of Managed Assets in excess of \$100 million; computed as of the end of each week and payable at the end of each calendar month. Managed Assets are defined in the Management Agreement as net assets plus the amount of any borrowings for investment purposes.

Under the Advisory Agreement, the Investment Manager pays the Investment Adviser a fee computed at the annual rate of 0.30% of the Fund's average weekly Managed Assets up to \$50 million; 0.25% of Managed Assets between \$50 million and \$100 million; and 0.15% of Managed Assets in excess of \$100 million; computed as of the end of each week and payable at the end of each calendar month. Managed Assets are defined in the Advisory Agreement as net assets plus the amount of any borrowings for investment purposes.

For the fiscal years ended October 31, 2004, 2003 and 2002, the Fund paid to the Investment Manager management fees of \$1,468,789, \$1,223,725, and \$1,099,493, respectively. The Investment Manager informed the Fund that, during the same periods, the Investment Manager paid advisory fees of \$374,426, \$324,109, and \$296,320, respectively, to the Investment Adviser. A discussion regarding the basis for the Board of Directors' approval of the Management Agreement and the Advisory Agreement is available in the Fund's semi-annual report to stockholders for the six-month period ended April 30, 2005, and also appears in the SAI.

In rendering investment advisory services, the Investment Manager and Investment Adviser (the Advisers) may use the resources of Aberdeen Asset Managers Limited (Aberdeen UK), a United Kingdom corporation which is a wholly-owned investment adviser subsidiary of Aberdeen PLC. The Investment Manager and Investment Adviser have entered into a Memorandum of Understanding with Aberdeen UK, pursuant to which investment professionals from Aberdeen UK may render portfolio management, research or trading services to the U.S. clients of the Advisers, including the Fund. On June 28, 2005, proceedings were issued against Aberdeen UK and Aberdeen Asset Managers Jersey Limited (collectively, the Aberdeen Parties) and a non-Aberdeen party, in the High Court in London by Real Estate Opportunities Limited (REO). In 2003, the board of REO announced, with respect to the Aberdeen Parties, that REO had terminated its management contract with immediate effect and indicated that it held the Aberdeen Parties liable for damages in respect of losses incurred on REO's income portfolio. The Aberdeen Parties do not accept the validity of REO's termination without notice. The Aberdeen Parties believe that the claim is without merit. The Aberdeen Parties will vigorously defend the proceedings and counterclaim for their accrued fees and the fees relating to the 12 months' notice period provided for in the management contract. It is not possible to quantify any exposure to damages with respect to this proceeding.



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### **Non-U.S.-Resident Directors and Officers**

Although the Fund is a Maryland corporation, certain of its Directors and officers (Messrs. Elsum, Miles, O'Connell, Sacks, Sell, Young, and Gilbert) are non-residents of the United States and have all, or a substantial part, of their assets located outside the United States. None of the Directors or officers has authorized an agent for service of process in the United States. As a result, it may be difficult for U.S. investors to effect service of process upon such Directors and officers within the United States or to effectively enforce judgments of courts of the United States predicated upon civil liabilities of the Directors or officers under the federal securities laws of the United States.

The Fund has been advised by local counsel in the United Kingdom and Canada, the foreign jurisdictions (other than Australia and Singapore) in which Fund Directors and/or officers reside, that it is uncertain whether the courts of those jurisdictions would adjudge civil liability against Directors and officers resident in those jurisdictions in an original action in such jurisdictions predicated solely on a violation of the federal securities laws of the United States. However, although there is no arrangement in place between those jurisdictions and the United States for the reciprocal enforcement of judgments, a final and conclusive monetary judgment against the Directors and officers in an original action predicated on such provisions rendered by a court in the United States may be enforceable by action or counterclaim or be recognized by the courts of those jurisdictions as a defense to an action or as conclusive of an issue in that action if it was not obtained by fraud or otherwise than in accordance with the principles of natural justice, the enforcement would not be contrary to public policy and the United States court had jurisdiction in respect of the defendant in the original action.

The Fund has been advised by local counsel in Australia, a foreign jurisdiction in which certain Fund Directors and/or officers reside, that there is doubt as to the enforceability in such jurisdiction of the civil liability provisions of the federal securities laws of the United States, whether or not the liabilities are based upon judgments of courts in the United States or are pursuant to original actions.

The Fund has been advised by local counsel in Singapore, a foreign jurisdiction in which certain Fund Directors and/or officers reside, that the judgments of U.S. courts based on the civil liability provisions of the federal securities laws of the United States are not enforceable in Singapore courts, and that there is doubt as to whether Singapore courts will enter judgments in an original action brought in Singapore courts based solely on the civil liability provisions of the federal securities laws of the United States.

### **Portfolio Management**

The following persons have primary responsibility for the day-to-day management of the Fund's portfolio. The Fund's SAI provides additional information about the portfolio managers' compensation, other accounts managed by the portfolio managers and the portfolio managers' ownership of securities in the Fund.

Hugh Young is Managing Director of Singapore-based Aberdeen Asset Management Asia Limited, the Fund's Investment Manager (Aberdeen Asia). Mr. Young established Aberdeen Asia in 1992 as the Aberdeen Group's Asia-Pacific headquarters. He is also a member of the executive committee responsible for the day-to-day management of the Aberdeen Group's parent company, Aberdeen Asset Management PLC, and head of equities of the Aberdeen Group. Aberdeen Asia manages all the Aberdeen Group's regional funds. Domestic funds are additionally managed from the Aberdeen Group's offices in Sydney, Australia, Bangkok, Thailand, and Kuala Lumpur, Malaysia, over which Mr. Young is also in overall charge. He has over 23 years experience in fund management and has managed the Aberdeen Group's Asian assets since 1988. He has a BA (Honors) degree in politics from Exeter University in the United Kingdom.



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Peter Hames is a Director of the Fund's Investment Manager. In 1990, he joined the Aberdeen Group's office in London, Aberdeen Asset Managers Limited, as an investment manager. Since 1992, he has been based with the Investment Manager, where he is currently head of Asian Equities for the Aberdeen Group.

Augustine Mark Daniels became head of Australian equities of the Aberdeen Group, including Aberdeen Asset Management Limited, the Fund's Investment Adviser, in 2005. Commencing in 2005, he has been based in the Aberdeen Group's office in Sydney, Australia. From 1990 to 2005, he was based in the Aberdeen Group's office in London, Aberdeen Asset Managers Limited, where he focused principally on UK equities and closed-end funds.

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During his employment by the Aberdeen Group, he has assisted with the development and integration of the Aberdeen Group's bottom-up investment process, initially developed in Asia, across the Aberdeen Group's equities desks. Before joining the Aberdeen Group, he graduated from University College, Cardiff with a degree in Economics. In 1985 he joined Richards Longstaff as a fund manager and subsequently became investment director in 1988. In 1990 Richards Longstaff was acquired by Aberdeen Asset Management PLC.

Michelle Casas joined the Investment Adviser in 2004 as a graduate investment analyst working for the Australian equities team in the Aberdeen Group's Sydney office, where she underwent the majority of her training. Previous experience includes an internship at KPMG Corporate Finance from December 2001 to March 2002, and as a quantitative analyst with Watson Wyatt from January 2004 to April 2004. She completed a double degree in Applied Finance and Commerce (Marketing) at Macquarie University, Sydney, graduating in December 2003.

Natalie Tam joined the Investment Adviser in 2005 as a graduate investment analyst working for the Australian equities team in Sydney. She completed a Bachelor of Commerce (Accounting & Finance) degree from the University of New South Wales, graduating in 2003. In 2004 she worked for Deutsche Bank in Sydney completing their Global Equities Graduate Training program.

## **Portfolio Management Structure**

Mr. Young is head of the Asia-Pacific Division of the Aberdeen Group and has overall responsibility for the Aberdeen Group's Asia-Pacific offices, including the Sydney office. Mr. Hames is Head of Asian Equities, including Australia, for the Aberdeen Group. He has principal responsibility for the day-to-day management of all Asia ex-Japan portfolios.

Mr. Daniels is head of Australian equities of the Aberdeen Group. He is primarily responsible for: ensuring that the Australian equities investment team adheres to the Australian equities investment strategy; undertaking and supervising equities research and analysis; producing equities reports and recommendations on a range of equities products in the Australian market; portfolio management, including setting portfolio strategies; undertaking or assisting in equities trading; making recommendations regarding corporate actions and takeover analysis; providing advice/input for the management of the Fund and the Investment Adviser's other Australian equities accounts; assisting in marketing activities for his designated accounts; and attending and coordinating investment strategy meetings.

Miss Casas and Miss Tam are graduate investment analysts that provide company-specific analysis across all industry groups of the S&P/ASX 200, and support the management of the Australian equity portfolios, including open-ended unit trusts, as well as the Fund and an Australian closed-end fund. They report to Mr. Daniels.

Mr. Young is the Managing Director of the Fund's Investment Manager and head of equities for the Aberdeen Group. Mr. Hames is a Director of the Fund's Investment Manager and Head of Asian Equities of the Aberdeen Group. In their roles, both Mr. Young and Mr. Hames oversee consistency of adherence to the equity process by the Australian equities team. Mr. Young and Mr. Hames, individually or together, make investment decisions on behalf of the Fund, in conjunction with the members of the Australian equities team. Mr. Daniels is in charge of the Australian equities team of the Aberdeen Group (including the Investment Adviser) and is responsible, with the assistance of Miss Casas and Miss Tam, investment analysts, for research and investment decisions in respect of Australian equities holdings. In relation to the management of the assets of the Fund, the Investment Adviser makes recommendations to the Investment Manager as to specific portfolio securities, which are denominated in Australian or New Zealand dollars, to be purchased, retained, or sold by the Fund, and provides or obtains such research and statistical data as may be necessary in connection therewith.

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The Australian equities team based in Sydney is closely supported by the substantial Singapore-based equities team who have been investing in Australian equities over many years. It is integral to the Aberdeen Group's investment management process that all equities teams investing in the same or similar universe of securities, such as Singapore and Sydney equities desks, work together as a team. As such, the Singapore-based equities team offers additional technical support and research analysis to the Sydney-based portfolio managers.

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### **Administrator**

Aberdeen Asset Management Inc., 1735 Market Street, 37<sup>th</sup> Floor, Philadelphia, Pennsylvania 19103, is the Fund's administrator ( Administrator ). Subject to the control, supervision and direction of the Board of Directors, the Administrator is responsible for, among other things: providing operational management; coordination of communication between, and oversight of, the Fund's service providers; negotiation of the Fund's service provider contracts; preparation of financial information and reports; arranging for payment of Fund expenses; monitoring compliance with the Fund's investment objectives, policies and restrictions, and with applicable tax law and regulations; maintenance of the Fund's books and records; and other administrative services. The Administrator, a subsidiary of Aberdeen PLC, is an affiliate of the Investment Manager and the Investment Adviser. The Fund pays a fee to the Administrator at an annual rate equal to 0.04% of the Fund's average weekly net assets, computed based upon the net asset values applicable to the shares of Common Stock plus the amount of any borrowings for investment purposes.

The Administrator delegates certain of its responsibilities to a sub-administrator, Princeton Administrators, L.P. ( Princeton ). Pursuant to a Sub-administration agreement between the Administrator and Princeton, effective November 1, 2004 ( Sub-administration Agreement ), Princeton has been retained to perform certain administrative services with respect to the Fund. Under the terms of the Sub-administration Agreement, the Administrator will pay to Princeton a fee at an annual rate equal to 0.02% of the Fund's Managed Assets, which are defined in that agreement as the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities, which liabilities exclude debt relating to leverage, short-term debt and the aggregate liquidation preference of any outstanding preferred stock.

### **Custodian and Transfer Agent**

State Street Bank and Trust Company, One Heritage Drive, North Quincy, Massachusetts 02171, acts as the Fund's custodian, with responsibility for selecting foreign sub-custodian(s) for the Fund's assets. Such foreign sub-custodian is currently Westpac Banking Corporation, Level 5, 255 Elizabeth Street, Sydney 2000 Australia. The Bank of New York, 101 Barclay Street, New York, New York 10286, acts as the Fund's stock transfer agent, dividend paying agent and agent for the Fund's Dividend Reinvestment and Cash Purchase Plan. See Dividend Reinvestment and Cash Purchase Plan.

## **EXPENSES**

The Fund pays all of its expenses, including organization expenses; fees of the Investment Manager, Administrator, custodian and dividend disbursing and stock transfer agent; Independent Director fees; out of pocket expenses of all Fund Directors and officers, including those affiliated with Fund management which may be reimbursed under the Fund's reimbursement policy regarding fund-related expenses; other expenses related to meetings of Directors; legal fees and expenses; costs of insurance; costs of stockholders' meetings, proxy statements and stockholder reports; investors' relation fees and expenses, interest expenses; taxes and governmental fees, including original issue taxes or transfer taxes related to portfolio transactions; brokerage commissions and other portfolio transaction expenses; auditing and accounting fees and expenses; and costs of regulatory filings and compliance. Although the Fund normally pays expenses of issuing, offering, distributing, selling and underwriting of Fund shares, as well as expenses of registering and qualifying the Fund's shares for sale with the SEC and in various states (if any) and foreign jurisdictions, the Selling Stockholder will bear such expenses in connection with the offering of Shares described in this Prospectus.

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**DIVIDENDS AND DISTRIBUTIONS**

**Managed Distribution Policy**

The Board of Directors has implemented 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 current rolling distribution rate is 10%. This policy is subject to regular review by the Fund's Board of Directors. The distributions are made from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital. Persons who purchase Shares in this offering will be entitled to any regular quarterly distributions the record date for which occurs after such Shares are purchased.

There can be no assurance that the current rolling distribution rate will be maintained in the future. The Board of Directors may determine not to maintain the managed distribution rate at its current level, and it is possible, depending on market conditions, that it may determine to abandon the managed distribution policy altogether.

**Background of Managed Distribution Policy**

In order to try to reduce the discount of the Fund's Common Stock share price to net asset value, the Fund announced in April 1998 the implementation of a managed distribution policy under which the Fund undertook to make quarterly distributions at an annual rate, set once a year, that was a percentage of the rolling average of the Fund's prior four quarter-end net asset values. The rolling distribution rate was set at an annual rate of 9% of the rolling average of the prior four quarter-end net asset values for each year that such distribution policy was in effect. In March 2002, the Board of Directors determined to discontinue the managed distribution policy in order to better enable the Investment Manager to achieve the Fund's principal investment objective of long-term capital appreciation.

After a period of strong capital performance in U.S. dollar terms beginning in early 2003, the Board of Directors approved in February 2004, the implementation of 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 initial rolling distribution rate was set at 10%. In March 2005, the Board of Directors set the rolling distribution rate at 10% for the 12-month period commencing with the distribution payable in April 2005.

**General Distribution Policy**

It is the Fund's policy to continue to meet the requirements of the Code applicable to regulated investment companies and to distribute substantially all of its taxable net income and capital gains, if any, to stockholders. On an annual basis, the Fund intends to distribute its net realized capital gains, if any, by way of a final distribution to be declared during the calendar quarter ending December 31. Dividends and distributions to stockholders are recorded on the ex-dividend date.

Income distributions and capital and currency gains distributions are determined in accordance with income tax regulations (see "Taxation"), that may differ from accounting principles generally accepted in the United States. These differences are primarily due to differing treatments for

foreign currencies.

**DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN**

Pursuant to the Fund's Dividend Reinvestment and Cash Purchase Plan ( "Plan" ), stockholders may elect to have all their distributions automatically reinvested in Fund shares by the Plan Agent, The Bank of New York. A stockholder who is unable to participate in the Plan because his or her shares are held by a broker or other nominee, may request to have his or her shares re-registered in his or her own name. This will enable the stockholder to participate in the Plan.

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Distributions payable to Plan participants will be promptly invested. If the Fund declares a distribution payable in stock to stockholders who are not Plan participants, the Plan participants will receive that distribution in newly issued shares of the Fund's Common Stock on identical terms and conditions.

In every other case, Plan participants will receive shares on the following basis: if, on the valuation date (the date the distribution becomes payable, or such other date as may be specified by the Fund's Board), the market price of the Fund's Common Stock plus any applicable brokerage commission is equal to or exceeds the net asset value per share, Plan participants will receive newly issued shares of the Fund's Common Stock valued at the greater of net asset value per share or 95% of the then current market price. If, on the other hand, the net asset value per share exceeds the market price plus any brokerage commission, the Plan Agent will buy shares of Common Stock on the open market. If, before the Plan Agent has completed its purchases, the market price plus any applicable brokerage commission exceeds the net asset value per share as last determined before the Plan Agent has completed its purchases, the Plan Agent will suspend making open market purchases and shall invest the balance available in newly-issued shares valued at the greater of the net asset value per share as last so determined or 95% of the then-current market value. All reinvestments are in full and fractional shares carried to four decimal places.

There is no direct charge to participants for reinvesting distributions, since the Plan Agent's fees for handling the reinvestment of distributions are paid by the Fund. There will be no brokerage commissions charged with respect to shares issued directly by the Fund. However, each participant will pay a pro-rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases. Purchases and sales may be made through a broker affiliated with the Plan Agent.

The automatic reinvestment of distributions does not relieve Plan participants of any federal income tax that may be payable on such distributions. Fund distributions are taxable to stockholders in the same manner whether received in cash or reinvested in additional Fund shares. Stockholders participating in the Plan receiving a distribution in the form of newly-issued shares will be treated for U.S. Federal income tax purposes as receiving a distribution in an amount equal to the fair market value, determined as of the distribution date, of the shares received and will have a cost basis in each share received equal to the fair market value of a share of the Fund on the distribution date. Stockholders participating in the Plan receiving a distribution in the form of shares purchased by the Plan Agent in the open market will be treated for U.S. Federal income tax purposes as receiving a distribution of the cash that such stockholder would have received had it not elected to have such distribution reinvested and will have a cost basis in such shares equal to the amount of such distribution. Stockholders will be notified annually as to the U.S. Federal tax status of distributions, and stockholders receiving distributions in the form of newly-issued shares will receive a report as to the fair market value of the shares received.

Plan participants also have the option of making voluntary cash investments by sending additional funds by a check drawn on a U.S. bank, in U.S. dollars, payable to The Bank of New York - Aberdeen Australia Equity Fund, Inc. Plan. Additional voluntary cash investments must be for at least \$100 per transaction with a maximum of \$10,000 per month, and with an aggregate annual maximum of \$120,000, for the purchase of Fund shares on the open market. Voluntary cash investments will be invested on or before the 15<sup>th</sup> day of the month, and in no event more than 45 days after such date except where temporary curtailment or suspension of purchases is necessary to comply with applicable provisions of the federal securities laws. Cash investments may be commingled with the funds held by the Plan Agent for other stockholders of the Fund, and the average price (including brokerage commissions) of all shares purchased by the Plan Agent will be the price per share allocated to each Plan participant. In the event a Plan participant's voluntary cash investment check is returned unpaid for any reason, the Plan participant will be charged a \$20.00 return fee.

Participants in the Plan may withdraw some or all of their shares from the Plan by notifying the Plan Agent in writing, via the internet by visiting The Bank of New York's website at [www.stockbny.com](http://www.stockbny.com), or pursuant to telephonic procedures established by the Plan Agent. Unless otherwise specified, upon any withdrawal, partial withdrawal or termination, a Plan participant will receive stock certificates for all full shares. The Plan Agent





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will convert any fractional shares to cash at the then current market price, less the sales fee and brokerage commissions, and send a check to the participant for the proceeds. The sales fee payable will be the lesser of \$10 or the net proceeds from the sale of the fractional shares. If the fees and commissions exceed the proceeds from the sale of a fractional share, Plan participants will receive a transaction advice instead of a check. There is no sales fee for the issuance of a certificate for all full shares. If, by giving proper notice to the Plan Agent, Plan participants request cash, the Plan Agent will sell the shares and send the participants the proceeds, less the sales fee of \$10 (subject to change) and brokerage commissions of \$0.10 per share.

The Fund or the Plan Agent reserves the right to amend or terminate the Plan upon 90 days' written notice to Fund stockholders.

For additional information regarding the Plan, all correspondence should be directed to the Plan Agent, The Bank of New York, Stockholder Relations Department, P.O. Box 11258, Church Street Station, New York, NY 10286, or by calling 1-800-432-8224 or 1-610-382-7833 (internationally).

## **TAXATION**

The following is intended to be a general summary of certain tax consequences that may result to the Fund and its stockholders. It is not intended as a complete discussion of all such tax consequences, nor does it purport to deal with all categories of investors. Investors are therefore advised to consult with their tax advisers before making an investment in the Fund.

Dividends paid out of the Fund's investment company taxable income (which includes dividends, interest and net short-term capital gains) generally will be taxable to stockholders as ordinary income. Properly designated distributions of long-term capital gains, if any, earned by the Fund are taxable to stockholders as long-term capital gains, regardless of how long stockholders have held their shares. Distributions in excess of the Fund's current and accumulated earnings and profits will first reduce a stockholder's basis in his shares and, after the stockholder's basis is reduced to zero, will constitute capital gains to the stockholder who holds his shares as capital assets.

No portion of the dividends paid by the Fund is expected to be eligible for the dividends-received deduction for corporate stockholders.

A portion of the dividends received from the Fund by an individual stockholder may be treated as qualified dividend income which is taxable to individuals at the same rates that are applicable to long-term capital gains. A Fund distribution will be treated as qualified dividend income to the extent that the Fund receives dividend income from taxable domestic corporations and certain qualified foreign corporations, provided that certain holding period and other requirements are met. Fund distributions generally will not qualify as qualified dividend income to the extent attributable to interest, capital gains, REIT distributions and, in many cases, distributions from non-U.S. corporations.

Fund distributions are taxable to stockholders in the same manner whether received in cash or reinvested in additional Fund shares.

Fund distributions may also subject stockholders to alternative minimum tax liability. Because of the complexity of the alternative minimum tax rules, stockholders should consult their tax advisers as to their applicability to a Fund investment.

A distribution will be treated as paid to stockholders on December 31 of the current calendar year if it is declared by the Fund in October, November or December with a record date in such a month and paid by the Fund during January of the following calendar year.

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Each year, the Fund will notify stockholders of the tax status of dividends and other distributions.

A stockholder who invests through a tax-deferred account, such as a retirement plan, generally will not pay tax on Fund dividends or other taxable distributions until they are distributed from the account. These accounts are subject to complex rules. Stockholders should consult their tax advisers about investment through a tax-deferred account.

Subject to certain limitations imposed by the Code, foreign taxes withheld from distributions or otherwise paid by the Fund may be creditable or deductible by U.S. stockholders for U.S. income tax purposes, if the Fund is eligible to and makes an election to treat the stockholders as having paid those taxes for U.S. federal income tax purposes. No assurance can be given that the Fund will be eligible to make this election each year, but it intends to do so if it is eligible. If the election is made, the foreign withholding taxes paid by the Fund will be includable in the U.S. federal taxable income of stockholders. Non-U.S. investors may not be able to credit or deduct the foreign taxes, but they may be deemed to have additional income from the Fund, equal to their share of the foreign taxes, that is subject to the U.S. withholding tax.

Upon the sale or other disposition of Fund shares, a stockholder may realize a capital gain or loss which may be long-term or short-term, depending on how long the stockholder held the shares.

If, pursuant to an offer by the Fund to repurchase its shares, a stockholder tenders all shares of the Fund that such stockholder owns or is considered to own, the stockholder may realize a capital gain or loss. This gain or loss will be treated as capital gain or loss if the Fund shares are held as capital assets, and will be long-term or short-term, depending on the stockholder's holding period for the shares. If, pursuant to an offer by the Fund to repurchase its shares, a stockholder tenders less than all of the shares of the Fund that such stockholder owns or is considered to own, the redemption may not qualify as an exchange, and the proceeds received may be treated as a dividend, return of capital or capital gain, depending on the Fund's earnings and profits and the stockholders basis in the tendered shares. In such event, there is a risk that non-tendering stockholders may be considered to have received a deemed distribution as a result of the Fund's purchase of the tendered shares, and all or a portion of that deemed distribution may be taxable as a dividend.

The Fund may be required to withhold U.S. federal income tax at the rate of 28% of all taxable distributions payable to a stockholder if the stockholder fails to provide the Fund with such stockholder's correct taxpayer identification number or to make required certifications, or if the stockholder has been notified by the IRS that such stockholder is subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be credited against a stockholder's U.S. federal income tax liability.

Fund distributions also may be subject to state, local and foreign taxes. Stockholders should consult their own tax advisers regarding the particular tax consequences of an investment in the Fund.

## **CERTAIN PROVISIONS OF THE CHARTER AND BYLAWS**

The Fund's charter and bylaws contain certain provisions, described below, that may be regarded as anti-takeover provisions and that may deprive stockholders of certain opportunities to sell their shares at a premium over prevailing market prices.

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The Fund, by supplement to its charter, has elected to be subject to certain provisions of Maryland law that make it more difficult for challengers to gain control of the Board. Articles Supplementary approved by the Board of Directors in 2000 subject the Fund to certain provisions of Subtitle 8 of the Maryland General Corporation Law with respect to unsolicited takeovers. These provisions: (i) provide that the stockholders of the Fund may remove any Director by the affirmative vote of at least two-thirds of all the votes entitled to be cast by the stockholders generally in the election of Directors (and since the Fund's directors have been divided into

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classes, a director may not be removed without cause), (ii) require that the number of Directors of the Fund shall be fixed only by the vote of the Board of Directors, (iii) provide that a vacancy on the Board of Directors due to an increase in the size of the Board or the death, resignation or removal of a Director, may be filled only by the affirmative vote of the majority of the remaining Directors in office, even if the remaining Directors do not constitute a quorum, and (iv) provide that the Secretary of the Fund may call a special meeting of stockholders only on the written request of the stockholders entitled to cast at least a majority of all votes entitled to be cast at the meeting.

Additionally, as described below, the Fund's bylaws contain certain provisions that may tend to make a change of control of the Fund more difficult.

The bylaws:

1. Provide for three classes of Directors elected by common stockholders, with staggered three-year terms. Only one class of those Directors is up for election each year, so that two years would be required to change a majority of the Fund's Directors.
2. Establish procedures for stockholder-requested special meetings, including procedures for setting the record date for the stockholders entitled to request a special meeting, procedures for setting the record date for the meeting and the time, place and date of the meeting and specific provisions governing who shall chair the meeting. Consistent with the Maryland General Corporation Law, stockholders requesting a meeting would be required to disclose the purpose of the meeting and the matters to be proposed for action at the meeting.
3. Enhance bylaw provisions that require a stockholder to give written advance notice and other information to the Fund of the stockholder's nominees for Directors and proposals for other business to be considered at stockholders meetings.
4. Disclose that the Board has elected on behalf of the Fund to be subject to the Maryland Control Share Acquisition Act, which provides that MCSAA control shares acquired in a MCSAA control share acquisition may not be voted except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. (Generally, MCSAA control shares are voting shares of stock which would entitle the acquirer of the shares to exercise voting power within one of the following ranges of voting power: (1) one-tenth or more but less than one-third, (2) one-third or more but less than a majority, or (3) a majority or more of all voting power. This limitation does not apply to matters for which the 1940 Act requires the vote of a majority of the Fund's outstanding voting securities (as defined in that Act)). The bylaws further provide that, notwithstanding the election to be subject to the MCSAA, but subject to the following sentence, a person who acquires control shares shall be exempt from the MCSAA. Upon the final judgment of a federal court of competent jurisdiction or the issuance of a rule or regulation of the SEC or published interpretation by the SEC or its staff that the provisions of the MCSAA are not inconsistent with the provisions of the 1940 Act, or a change to the provisions of the 1940 Act having the same effect, the provisions of the prior sentence shall terminate and any exemption under the prior sentence shall be without force or effect upon the 180<sup>th</sup> day after the Fund provides notice of the judgment, rule, regulation, published interpretation or change to the provisions of the 1940 Act, to any holder of control shares who became exempt from the MCSAA in accordance with the prior sentence.
5. Establish qualifications for Fund Directors. These qualifications are designed to assure that individuals have the type of background and experience necessary to provide competent service as Directors of a closed-end fund that invests in Australian equity securities. To qualify as a nominee for a Fund Directorship, a candidate must (a) have at least 5 years' experience in either investment management, economics, public accounting or Australian business; (b) have a college undergraduate degree in economics, finance, business administration, accounting, or engineering, or a professional degree in law, engineering, or medicine from an accredited university or college in the United States or Australia or the equivalent degree from an equivalent institution of higher learning in another country; and (c) not have violated any provision of the U.S.

federal or state securities laws, or comparable laws of another country. In addition, the Fund s

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Nominating and Corporate Governance Committee shall apply the Fund's Conflict of Interest and Corporate Opportunities Policy as a standard in selecting nominees to ensure that an incumbent nominee has not violated the Policy and that a non-incumbent nominee would not be in violation of the Policy if elected. Current Directors are exempted from these requirements (except compliance with the Fund's conflict of interest policy) because they have become qualified through past experience as Directors of the Fund. Nevertheless, almost all current Directors satisfy the Fund's qualification requirements. No person shall be qualified to be a Director unless the Nominating and Corporate Governance Committee, in consultation with Fund counsel, determines that such person, if elected, would not cause the Fund to be in violation of applicable law, regulation or regulatory policy, the Fund's charter or any general policy adopted by the Board regarding retirement age or specifying proportions of Directors who may be interested persons, as defined in the 1940 Act.

6. Establish supermajority Board vote requirements for certain actions, including mergers, dissolution, amendment of the Fund's charter, election of officers, officer and Director compensation, the amendment of the Director term and qualification requirements and Director quorum and voting requirements.

7. Require that any proposed advisory, sub-advisory or management agreement between the Fund and an affiliate of (i) a current Independent Director or (ii) a person who served as an Independent Director within the preceding two years, be approved by at least 75% of the Independent Directors who are not affiliates of a proposed party to the contract. This provision cannot be changed except by 75% of the Directors who were in office on January 16, 2003 or who were recommended to succeed such a Director by a majority of such Directors then on the Board.

8. In the event that the Board approves an advisory, sub-advisory or management agreement between the Fund and (i) an affiliate of an Independent Director, (ii) a person (or his affiliate) who nominated any Independent Director serving at the time such agreement is considered for approval, or (iii) a person (or his affiliate) that controls the Fund, the bylaws would provide automatic liquidity to dissatisfied stockholders by requiring the Fund, within 45 days after the agreement is approved, to commence a tender offer for at least 50 percent of its outstanding shares at a price of not less than 98 percent of the Fund's per share net asset value. This provision cannot be changed except by 75% of the Directors who were in office on January 16, 2003 or who were recommended to succeed such a Director by a majority of such Directors then on the Board.

9. Reserve to the Board the power to adopt, alter, or repeal any provision of the bylaws or to make new bylaws, unless otherwise provided in the bylaws.

## **LEGAL PROCEEDINGS**

There are no material pending legal proceedings to which the Fund, the Investment Manager or the Investment Adviser is a party.

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**APPENDIX A**

**SELECTED AUSTRALIAN ECONOMIC DATA**

Since 1980-81, the Australian economy has recorded average annual GDP growth of 3.2%. However, there were severe recessions in 1982-83 and 1990-91, with strong growth in the intervening years. Following the 1990-91 recession, economic activity accelerated with strong growth in private consumption and housing investment. Concern about the possible inflation consequences of strong growth prompted the Reserve Bank of Australia (RBA) to raise interest rates in the second half of 1994. The tightening in monetary policy saw growth return to more sustainable levels. Annual GDP growth peaked at 6.2% in the September quarter of 1994 and slowed to an annual rate of 2.8% by the March quarter of 1997. Weaker economic growth during 1996 and early 1997, combined with low inflation, encouraged the RBA to lower cash rates (the rate charged on overnight loans between financial intermediaries operating in the Australian money market), which promoted a reacceleration of economic growth driven mostly by business investment spending and residential real estate activity. Rising inflation once again saw the RBA increase rates in early 2000, but this was quickly followed by rate cuts in 2001 due to the dramatic slow down in domestic and global growth. The easy monetary settings fostered strong domestic growth fueled by consumption and housing activity. This allowed the domestic economy to grow at an average rate of 3.7% over 2002-2003, a period when global economic growth was anemic. The robust growth in consumer credit posed a risk for longer term economic growth and the RBA recommenced tightening in November 2003 to counter this perceived risk. As such, economic growth eased back to its long run average of 3.2% over 2004.

In recent years, the RBA has adopted a target for the underlying CPI inflation rate of 2-3% (averaged over a number of years). 2004 saw a 2.6% growth over the prior year.

External trade plays an important part in the Australian economy. In the five years ended December 31, 2004, merchandise exports and imports in current prices, calculated on a balance of payments basis, both averaged approximately 20% of GDP.

Australia's net foreign debt as of June 30, 2005 was US\$328 billion (A\$1.3118 = US\$1), which is equivalent to approximately 55% of its GDP.

In the current interest rate cycle, U.S., European and Australian rates peaked during 2000 at 6.5%, 4.75% and 6.25%, respectively, before embarking on a downward trend in 2001. However, Australian interest rates did not reach the lows seen in other major developed markets. The RBA cash rate target reached a low of 4.25% on December 5, 2001. The U.S. Federal Reserve and the European Central Bank both reduced rates until lows were established in June 2003 for the Federal Funds rate and the ECB Refinancing rate of 1% and 2%, respectively. As of August 31, 2005, the RBA cash rate was 5.5%, after a 25 bp increase on March 2, 2005. As at August 31, 2005, the yield on the 10-Year Australian Commonwealth Government Bond was 5.06%, a spread of 105bp over the 10-Year US Treasury Bond yield of 4.01%.

With Australian cash rates currently the second highest in the G10 countries (Belgium and the Netherlands, Canada, France, Germany, Italy, Japan, Sweden, Switzerland, United Kingdom and United States), the Australian dollar has benefited from its high yielding currency status. The Australian dollar rose from an exchange rate of US\$1 = A\$2.0595 on March 31, 2001 to an exchange rate of US\$1 = A\$1.2817 on December 31, 2004 and was US\$1 = A\$1.3275 as of August 31, 2005. US based investors have therefore enjoyed a significant currency uplift in addition to a strong Australian equity market performance.

**THE AUSTRALIAN SECURITIES MARKET**

The **Australian Stock Exchange Limited** ( ASX ) was formed in 1987 through the amalgamation of six independent stock exchanges that formerly operated in the State capital cities. Each of those exchanges had a history of share trading dating back to the 19th century.

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ASX was originally a mutual organization of stockbrokers, like its predecessor State stock exchanges. However, in 1996, its members decided to demutualize and become a listed company, which required legislation of the Australian parliament. The change of status took place on October 13, 1998, and the following day ASX shares were listed for trading on ASX's own market.

ASX operates Australia's primary national stock exchange for equities, derivatives and fixed interest securities.

ASX's **Listing Rules** govern the admission of entities to the official list, quotation of securities, suspension of securities from quotation and removal of entities from the official list. They also govern disclosure and some aspects of a listed entity's conduct. Compliance with the Listing Rules is a requirement for admission to the official list.

The objectives of ASX include:

providing a fair and well-informed market for financial securities; and

providing an internationally competitive market.

The **Australian Securities and Investments Commission** (ASIC) is the statutory body to regulate companies and the financial services markets in Australia. ASIC actively supervises ASX's activities as a market operator and listed company and enforces and regulates company and financial services laws to protect consumers, investors and creditors.

## **Corporations Act 2001**

### **Australian Securities and Investments Commission Act 2001**

The Commonwealth's Corporations Act 2001 and Australian Securities and Investments Commission Act 2001 became law on July 15, 2001 and marked a significant stage in the cooperation of governments in the Australian federation in national regulation of corporations and financial markets.

**Financial Services Reform** was introduced to establish a uniform licensing, conduct and disclosure regime for financial service providers. In general, since March 11, 2004 all financial service providers need an Australian Financial Services License (issued by ASIC) under the Financial Services Reform Act 2001 (FSR). In May 2005, the Treasury published a Proposals Paper entitled *Refinements to Financial Services Legislation*, having determined that it had become clear that some aspects of the regulation of financial services would benefit from refinement to improve their practical application. ASIC anticipates that all the refinement projects will be completed by November 2005.

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**Corporate Governance.** ASX convened the ASX Corporate Governance Council in August 2002. Its purpose was to develop recommendations which reflect international best practice. From the 2003/2004 financial year onwards, the top 500 listed companies on the ASX are required to report on their compliance or otherwise with Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The foregoing is a brief overview of the financial services regulatory and corporate governance environment in Australia.

**How trading on ASX works.** All trades in ASX-listed equities (shares) take place on computers. Stock Exchange Automated Trading System (SEATS) is the ASX's computerized trading system. Exchange Traded Options are traded on the Derivatives Trading Facility, which is a separate computer system.

Shares began to trade on SEATS in 1987. Initially, only a few stocks were traded this way to enable the marketplace to adjust to the new trading method. By the end of 1990 all share trading on ASX was taking place on SEATS and the trading floors were closed. SEATS matches buy and sell orders then trades them automatically. Best priced orders have priority. If there is more than one order at the same price, the order that was placed first takes precedence. Large orders have no priority over small orders.

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Clearing House Electronic Subregister System ( CHESSE ) is operated by the ASX Settlement and Transfer Corporation ( ASTC ), a wholly owned subsidiary of the ASX. ASTC authorises participants such as brokers, custodians, institutional investors and settlement agents to access CHESSE and settle trades made on their own behalf or on behalf of their clients.

**ASX Market Statistics**

(All values in this section are US Dollars)

The ASX is the 13<sup>th</sup> largest exchange based upon domestic market capitalization as at August 31, 2005.

|     | <u>Exchange</u>       | <u>Market Capitalization</u> |
|-----|-----------------------|------------------------------|
| 1.  | NYSE                  | \$ 13,137bn                  |
| 2.  | Tokyo SE              | \$ 3,688bn                   |
| 3.  | Nasdaq                | \$ 3,515bn                   |
| 4.  | London SE             | \$ 3,047bn                   |
| 5.  | Euronext              | \$ 2,598bn                   |
| 6.  | Osaka SE              | \$ 2,423bn                   |
| 7.  | TSX Group             | \$ 1,396bn                   |
| 8.  | Deutsche Borse        | \$ 1,194bn                   |
| 9.  | BME Spanish Exchanges | \$ 990bn                     |
| 10. | Hong Kong Exchanges   | \$ 947bn                     |
| 11. | Swiss Exchange        | \$ 872bn                     |
| 12. | Borsa Italiana        | \$ 774bn                     |
| 13. | Australian SE         | \$ 772bn                     |

The following table summarizes the growth in aggregate market capitalization and trading volumes of the ASX in the five years to December 31, 2004:

|                       | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Market Capitalization | \$ 375bn    | \$ 370bn    | \$ 376bn    | \$ 632bn    | \$ 773bn    |
| No. of equity trades  | 14.8mil     | 13.3mil     | 14.0mil     | 16.1mil     | 18.8mil     |
| Average daily trades  | 58,718      | 52,400      | 55,315      | 63,435      | 78,889      |
| Turnover value        | \$ 218bn    | \$ 243bn    | \$ 305bn    | \$ 427bn    | \$ 553bn    |
| Average daily value   | \$ 0.9bn    | \$ 1.0bn    | \$ 1.2bn    | \$ 1.7bn    | \$ 2.2bn    |
| Exchange rate US\$1 = | A\$ 1.7897  | A\$ 1.9629  | A\$ 1.7801  | A\$ 1.3298  | A\$ 1.2817  |

The following table details the number of companies listed at the close of each calendar year together with the number of new entities listed and the aggregate capital raised. That aggregate capital raised is further analyzed by total secondary market raisings\* and by new floats.

| <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|-------------|-------------|-------------|-------------|-------------|
|-------------|-------------|-------------|-------------|-------------|

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|                                   |            |            |            |            |            |
|-----------------------------------|------------|------------|------------|------------|------------|
| New entities listed               | 182        | 84         | 102        | 124        | 202        |
| Entities listed as at December 31 | 1,450      | 1,463      | 1,484      | 1,573      | 1,709      |
| Capital raised                    | \$ 17.6bn  | \$ 6.6bn   | \$ 12.7bn  | \$ 26.2bn  | \$ 26.8bn  |
| Secondary market raisings*        | \$ 8.3bn   | \$ 5.5bn   | \$ 9.7bn   | \$ 19.2bn  | \$ 15.4bn  |
| New floats                        | \$ 9.3bn   | \$ 1.1bn   | \$ 3.0bn   | \$ 7.0bn   | \$ 11.4bn  |
| Capital raised                    | \$ 17.6bn  | \$ 6.6bn   | \$ 12.7bn  | \$ 26.2bn  | \$ 26.8bn  |
| Exchange rate US\$1 =             | A\$ 1.7897 | A\$ 1.9629 | A\$ 1.7801 | A\$ 1.3298 | A\$ 1.2817 |

\* Secondary market raisings comprise inter alia rights issues, placements, reinvested dividends, payment of options and issues to employees. Placements of up to 15% of issued share capital can be made without shareholder approval.

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There are a number of market indices but the most widely used is the S&P/ASX 200 Index, representing approximately 80% by value of the market capitalization of the ASX. The end-of-year closing values are as follows:

|             | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| S&P/ASX 200 | 3206.2      | 3422.3      | 3007.1      | 3306.0      | 4053.1      |
| Yield %     | 2.4         | 2.5         | 2.4         | 2.9         | 3.3         |
| P/E*        | 24.3        | 23.7        | 25.1        | 20.7        | 17.7        |

\* This ratio is calculated excluding negative earnings.

The S&P/ASX 200 index by GICS sector as at December 31, 2004 is as follows:

| <u>GICS Sector</u>            | <u>No. of Companies</u> | <u>Market Capitalization</u> |
|-------------------------------|-------------------------|------------------------------|
| Energy                        | 11                      | \$ 19.1bn                    |
| Materials                     | 39                      | \$ 113.3bn                   |
| Industrials                   | 27                      | \$ 49.3bn                    |
| Consumer Discretionary        | 29                      | \$ 62.5bn                    |
| Consumer Staples              | 15                      | \$ 44.7bn                    |
| Health Care                   | 15                      | \$ 16.7bn                    |
| Information Technology        | 5                       | \$ 2.9bn                     |
| Telecommunications Services   | 2                       | \$ 27.2bn                    |
| Utilities                     | 8                       | \$ 8.2bn                     |
| Property Trusts               | 21                      | \$ 58.4bn                    |
| Financials ex Property Trusts | 28                      | \$ 200.2bn                   |
| Total                         | 200                     | \$ 602.5bn                   |

Exchange rate US\$1 = A\$1.2817

Global Industry Classification Standard ( GICS ) is a joint Standard and Poor s/Morgan Stanley Capital International product aimed at standardizing industry definitions. To conform Australia to global practice, effective July 1, 2002, Standard and Poor s reclassified all ASX listed entities according to GICS. GICS consists of 10 economic sectors (11 in Australia) aggregated from 23 industry groups, 59 industries, and 122 sub-industries currently covering over 12,000 companies globally.

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The following table contains information about the 20 most actively traded shares on the ASX for August 2005. Although the Fund may invest in the companies below, the table is not necessarily indicative of the investment the Fund has or proposes to make in equity securities.

| <u>Company</u>                                | <u>Value</u>                       | <u>No. of Trades</u> | <u>Average Price</u>               | <u>GICS Sector</u>          |
|---|------------------------------------|----------------------|------------------------------------|-----------------------------|
| BHP Billiton Limited                          | \$13.3bn                           | 192,010              | \$15.31                            | Materials                   |
| Telstra Corporation Limited                   | \$ 6.6bn                           | 126,140              | \$ 3.64                            | Telecommunications Services |
| Commonwealth Bank of Australia                | \$ 6.5bn                           | 95,398               | \$28.35                            | Financials                  |
| Rio Tinto Limited                             | \$ 5.9bn                           | 74,154               | \$38.06                            | Materials                   |
| Australia & New Zealand Banking Group Limited | \$ 4.3bn                           | 75,642               | \$16.43                            | Financials                  |
| National Australia Bank Limited               | \$ 3.9bn                           | 77,030               | \$23.45                            | Financials                  |
| Westpac Banking Corporation Limited           | \$ 3.2bn                           | 64,282               | \$14.86                            | Financials                  |
| Woodside Petroleum Limited                    | \$ 2.8bn                           | 69,154               | \$23.82                            | Energy                      |
| Westfield Group Limited                       | \$ 2.7bn                           | 47,290               | \$13.23                            | Property Trusts             |
| AMP Limited                                   | \$ 2.3bn                           | 60,400               | \$ 5.35                            | Financials                  |
| Insurance Australia Group Limited             | \$ 2.2bn                           | 57,374               | \$ 4.36                            | Financials                  |
| News Corporation Inc. Class B Common          | \$ 2.1bn                           | 37,448               | \$17.17                            | Consumer Discretionary      |
| QBE Group Limited                             | \$ 1.9bn                           | 45,870               | \$12.77                            | Financials                  |
| Macquarie Bank Limited                        | \$ 1.9bn                           | 46,072               | \$45.63                            | Financials                  |
| Patrick Corporation Limited                   | \$ 1.7bn                           | 44,922               | \$ 5.08                            | Industrials                 |
| Brambles Industries Limited                   | \$ 1.6bn                           | 38,404               | \$ 6.54                            | Industrials                 |
| Woolworths Limited                            | \$ 1.5bn                           | 49,372               | \$12.29                            | Consumer Staples            |
| Coles Myer Limited                            | \$ 1.5bn                           | 49,332               | \$ 7.30                            | Consumer Staples            |
| Foster s Group Limited                        | \$ 1.5bn                           | 34,764               | \$ 4.18                            | Consumer Staples            |
| News Corporation Inc., Class A Common (NV)    | \$ 1.5bn                           | 18,742               | \$16.27                            | Consumer Discretionary      |
|   | Exchange rate<br>US\$1 = A\$1.3275 |                      | Exchange rate<br>US\$1 = A\$1.3275 |                             |

**Derivatives.** As stated above, in addition to operating the exchange for equities, the ASX also operates trading and settlement for derivatives. These comprise primarily exchange traded options over approximately 100 equities and 3 indices and warrants. During the six months ended December 31, 2004, 1,835 new warrants were listed, of which just under 1,500 comprised put and call warrants over Australian and international equities, Australian and international indices, and currencies.

The following table details the volumes and value associated with derivatives trading on the ASX in each of the five calendar years ending with December 31, 2004

|                          | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Options Contracts Traded | 9.5 mil     | 13.7 mil    | 16.7 mil    | 16.9 mil    | 20.7 mil    |
| Notional value           | n/a         | \$ 83.5bn   | \$ 116.8bn  | \$ 161.7bn  | \$ 230.9bn  |
| Exchange Rate US\$1 =    |             | A\$ 1.9629  | A\$ 1.7801  | A\$ 1.3298  | A\$ 1.2817  |
| Warrant trades           | 197,000     | 445,000     | 459,000     | 275,000     | 364,000     |



**Table of Contents****AUSTRALIAN DEBT SECURITIES**

**Primary Market.** Australian semi-government bonds (debt issued by Australian States) and corporate notes and debentures are issued through tender, private placements or by direct solicitation to the public through prospectuses registered with ASIC and are not generally listed on the ASX. Australian corporations and Government entities also issue Australian dollar-denominated bonds and notes in the Euromarket.

**Secondary Market.** As with the U.S. secondary market, most trading in Australian debt securities takes place off the ASX. Trading in Eurobonds also takes place off the European stock exchanges. Certain major commercial banks, stockbrokers and other financial institutions have been designated by the RBA as reporting bond dealers through which the RBA usually conducts transactions in Commonwealth Government securities with maturities of more than one year. In addition, commercial banks and investment banking institutions operate an unofficial secondary market in the debt securities of corporations and Government entities.

**Short-Term Debt Instruments.** Short-term marketable debt instruments are usually issued with a maturity period of 90 to 180 days. These instruments include notes and bills from Government entities, bank and commercial bills, promissory notes, and certificates of deposit. Short-term non-marketable debt instruments include deposits with banks or merchant banks on a fixed-term basis, varying from 24 hours to 365 days. These securities are traded by commercial banks and investment banking institutions on an unofficial secondary market.

The Australian debt securities market is summarized in the table below as at December 31, 2004:

|                         | <u>Nominal Value</u> | <u>Market Value</u> |
|-------------------------|----------------------|---------------------|
| Commonwealth Government | \$ 35.4bn            | \$ 38.3bn           |
| Semi-government         | \$ 49.1bn            | \$ 51.7bn           |
| Corporate               | \$ 45.2bn            | \$ 46.5bn           |
| Total                   | \$129.7bn            | \$136.5bn           |
|                         | Exchange rate        | Exchange rate       |
|                         | US\$1 = A\$1.2817    | US\$1 = A\$1.2817   |

Source: UBS Australia Bond Indices, Dec 2004

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**Aberdeen Australia Equity Fund, Inc.**

Statement of Additional Information

December 16, 2005

Aberdeen Australia Equity Fund, Inc. (the Fund) is a non-diversified, closed-end management investment company, registered with the U.S. Securities and Exchange Commission (SEC) under the Investment Company Act of 1940, as amended (1940 Act).

This Statement of Additional Information relating to the offer and sale of 3,975,000 shares of the Fund's common stock, \$.01 par value per share (Common Stock), by Bankgesellschaft Berlin AG (the Selling Stockholder) (Shares), is not a prospectus, but should be read in conjunction with the Fund's prospectus, dated December 16, 2005 (the Prospectus). The Statement of Additional Information does not include all information that a prospective investor should consider before purchasing the Shares, and investors should obtain and read the Prospectus prior to purchasing such Shares. Capitalized terms used but not defined in this Statement of Additional Information have the meanings ascribed to them in the Prospectus.

You may call 1-866-839-5205 or email [InvestorRelations@aberdeen-asset.com](mailto:InvestorRelations@aberdeen-asset.com) to obtain, free of charge, copies of the Prospectus. The Fund's Prospectus is also available on the Fund's website at [www.aberdeeniaf.com](http://www.aberdeeniaf.com). You may also obtain a copy of the Prospectus on the SEC's website (<http://www.sec.gov>).

No person has been authorized to give any information or to make any representations not contained in the Prospectus or in this Statement of Additional Information in connection with the offering made by the Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Fund. The Prospectus and Statement of Additional Information do not constitute an offering by the Selling Stockholder in any jurisdiction in which such offering may not lawfully be made.

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**HISTORY OF THE FUND**

The Fund is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund was incorporated under the laws of the State of Maryland on September 30, 1985, under the name The First Australia Fund, Inc. Effective May 1, 2001, the Fund's name was changed to Aberdeen Australia Equity Fund, Inc. to reflect the fact that the Fund's investment manager and investment adviser had been acquired by Aberdeen Asset Management PLC in 2000.

**MANAGEMENT OF THE FUND**

The business and affairs of the Fund are managed under the direction of the Board of Directors ( Board ). The Board approves all significant agreements between the Fund and persons or companies furnishing services to it, including the Fund's agreements with the Investment Manager, Investment Adviser, Administrator, custodian and transfer agent, and the Independent Directors (as defined below) ratify the agreement with the Fund's independent registered public accounting firm. The officers of the Fund serve at the pleasure of the Board of Directors.

The Fund's bylaws provide that the Board of Directors will be divided into three classes, as nearly equal in number as possible, each of which will serve for three years, with one class being elected each year. Each year the term of office of one class expires. The names of the Directors and officers of the Fund, and their addresses, ages and principal occupations during the past five years, are provided in the tables below. Directors who are deemed interested persons (as that term is defined in Section 2(a)(19) of the 1940 Act) of the Fund, Aberdeen Asset Management Asia Limited ( AAMAL or the Investment Manager ), or Aberdeen Asset Management Limited ( AAML or the Investment Adviser ) are included in the table entitled Interested Directors. Directors who are not interested persons as described above are referred to in the table below, and elsewhere in this Statement of Additional Information ( SAI ), as Independent Directors.

**Table of Contents****Interested Directors**

| <b>Name, Address and Age</b>  | <b>Position(s) Held With the Fund</b> | <b>Term of Office and Length of Time Served</b> | <b>Principal Occupation(s) During Past Five Years</b>  | <b>Number of Funds in Fund Complex* Overseen by Director</b> | <b>Other Directorships Held by Director</b> |
|---|---------------------------------------|---|--|--|---|
| Moritz Sell**<br>1 Crown Court, Cheapside<br>London EC2V 6LR<br>United Kingdom<br>Age: 38     | Class I<br>Director                   | Term expires 2007;<br>Director since<br>2004    | Mr. Sell has been a director, market strategist of Bankgesellschaft Berlin AG (banking) since 1996. He also served as a Director of the France Growth Fund from 2000 until 2004.   | 1  |   |
| Hugh Young***<br>21 Church Street<br>#01 01 Capital Square Two<br>Singapore 049480<br>Age: 47 | Class II<br>Director                  | Term expires 2008;<br>Director since<br>2001    | Mr. Young was a Director of Aberdeen Asset Management PLC, parent company of the Fund's Investment Manager and Investment Adviser, from 1991 to 2002 and is currently a member of the Executive Management Committee of Aberdeen Asset Management PLC. He has been Managing Director of Aberdeen Asset Management Asia Limited, the Fund's Investment Manager (effective March 8, 2004) since 1991. Mr. Young has also served as a Director of Aberdeen Asset Managers (C.I.) Limited (the Fund's Investment Manager to March 8, 2004) and the Investment Adviser since 2000. From 2001 to February 2004, Mr. Young was President of the Fund and of Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc. | 1  |   |

\* Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc. have a common Investment Manager and Investment Adviser with the Fund, and may thus be deemed to be part of the same Fund Complex as the Fund.

\*\* Mr. Sell is deemed to be an interested person because he was appointed as a Director as the representative of the Selling Stockholder, the owner of approximately 27.5% of the outstanding shares of the Fund's Common Stock as of November 21, 2005.

\*\*\* Mr. Young is deemed to be an interested person because of his affiliation with the Fund's Investment Manager and Investment Adviser.

**Table of Contents****Independent Directors**

| <b>Name, Address and Age</b>  | <b>Position(s)<br/>Held With<br/>the Fund</b>       | <b>Term of<br/>Office and Length<br/>of Time Served</b> | <b>Principal Occupation(s)<br/>During Past Five Years</b>   | <b>Number of<br/>Funds in<br/>Fund<br/>Complex*<br/>Overseen by<br/>Director</b> | <b>Other Directorships Held by<br/>Director</b>                            |
|---|---|---|---|--|--|
| Anthony E. Aaronson<br>116 South Anita Avenue<br>Los Angeles, CA 90049<br><br>Age: 68   | Class I<br>Director                                 | Term expires 2007;<br>Director since<br>1985            | Mr. Aaronson has been a textile agent for over ten years, representing American and European textile mills.   | 2  | Aberdeen Asia-Pacific Income Fund, Inc.                                    |
| David L. Elsum, A.M. °<br>c/o Aberdeen Asset<br>Management Asia Limited<br>21 Church Street<br>#01 01 Capital Square Two<br>Singapore 049480<br><br>Age: 68 | Class II<br>Director                                | Term expires 2008;<br>Director since<br>1985            | Mr. Elsum is currently retired. He serves as a non-executive director or adviser to several government and privately owned organizations in Australia.  | 3  | Aberdeen Global Income Fund, Inc.; Aberdeen Asia-Pacific Income Fund, Inc. |
| Neville J. Miles °<br>504 Pacific Highway<br>5 <sup>th</sup> Floor<br>St. Leonards, NSW 2065<br>Australia<br><br>Age: 59                                    | Chairman<br>of the<br>Board,<br>Class I<br>Director | Term expires 2007;<br>Director since<br>1996            | Mr. Miles has been Chief Executive Officer of Pulse International Pty. Ltd. (financial transaction processing) since April 2004. Mr. Miles is, and has been for a period in excess of ten years, Chairman of Ballyshaw Pty. Ltd. (share trading, real estate development, and investment). He also is a non-executive director of a number of Australian companies. | 3  | Aberdeen Asia-Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc. |
| Peter J. O Connell<br>Level 39, The Chifley Tower<br>2 Chifley Square<br>Sydney, NSW 2000<br>Australia<br><br>Age: 52                                       | Class III<br>Director                               | Term expires 2006;<br>Director since<br>1999            | Mr. O Connell has been Chief Executive Officer of Babcock & Brown Wind Partners (fund established to own and manage wind energy generation assets globally) since September 2005, and Chairman of Multiplex Facilities Management Pty Ltd. (facilities management business) since 2003. He was Managing Director of   | 2  | Aberdeen Asia-Pacific Income Fund, Inc.                                    |

Multiplex Infrastructure Pty.  
Ltd. (infrastructure  
development) from 2003 to  
2005, and Managing  
Director (from 2002 to  
2003) and Director (from  
1999 to 2002) of Lang  
Holdings (Aust) Pty. Ltd.  
(technology consulting).

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| <b>Name, Address and Age</b>   | <b>Position(s)<br/>Held With<br/>the Fund</b> | <b>Term of<br/>Office and Length<br/>of Time Served</b> | <b>Principal Occupation(s)<br/>During Past Five Years</b>  | <b>Number of<br/>Funds in<br/>Fund<br/>Complex*<br/>Overseen by<br/>Director</b> | <b>Other Directorships Held by<br/>Director</b>  |
|--|---|---|--|--|--|
| William J. Potter °<br>712 Fifth Avenue<br>New York, New York 10018<br>Age: 57                                   | Class III<br>Director                         | Term expires 2006;<br>Director since<br>1985            | Mr. Potter has been<br>Chairman of Robert<br>Meredith & Co., Inc.<br>(investment management)<br>since 2004. He was<br>President of Kingsdale<br>Capital Markets (USA) Inc.<br>(private placement broker)<br>from 2004 through June<br>2005, and President of<br>Ridgewood Group<br>International Ltd.,<br>(international consulting and<br>merchant banking company)<br>from 1996 to 2003. | 3  | Aberdeen Global Income<br>Fund, Inc.; Aberdeen<br>Asia-Pacific Income Fund,<br>Inc.; Voicenet Inc.; EC Power<br>Inc. |
| Peter D. Sacks<br>445 King Street West<br>4 <sup>th</sup> Floor<br>Toronto, Ontario M5V 1K4<br>Canada<br>Age: 60 | Class II<br>Director                          | Term expires 2008;<br>Director since<br>1999            | Mr. Sacks has been<br>Managing Partner of Toron<br>Capital Markets, Inc.<br>(investment management)<br>since 1988.   | 3  | Aberdeen Asia-Pacific Income<br>Fund, Inc.; Aberdeen Global<br>Income Fund, Inc.                                     |
| John T. Sheehy °<br>560 Sylvan Avenue<br>Englewood Cliffs, NJ 07632<br>Age: 63                                   | Class III<br>Director                         | Term expires 2006;<br>Director since<br>1985            | Mr. Sheehy has been Senior<br>Managing Director of B.V.<br>Murray and Company<br>(investment banking) since<br>2001, and Managing<br>Member of The Value<br>Group LLC (venture capital)<br>since 1997.   | 3  | Aberdeen Global Income<br>Fund, Inc.; Aberdeen<br>Asia-Pacific Income Fund,<br>Inc.                                  |

- \* Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc. have a common Investment Manager and Investment Adviser with the Fund, and may thus be deemed to be part of the same Fund Complex as the Fund.  
Messrs. Elsum, Miles and Potter are members of the Contract Review Committee.  
Messrs. Aaronson, Sacks and Sheehy are members of the Audit and Valuation Committee.
- ° Messrs. Elsum, Miles, Potter and Sheehy are members of the Nominating and Corporate Governance Committee.

The Board of Directors indicated in the proxy statement for the Fund's 2004 Annual Meeting of Stockholders that, if the Fund's stockholders voted to recommend the adoption of the alternative Director qualifications set forth in such proxy statement, the Board would amend the Fund's bylaws accordingly. The Board of Directors further indicated in such proxy statement that, in the event the bylaws were so amended by the Board, then it was the intention of the Board of Directors promptly thereafter to increase the size of the Board by one director and to elect one representative of the Selling Stockholder to the Board of Directors for a three-year term as a Class I Director, provided that, at the time of such appointment, the Selling Stockholder continued to own at least 25% of the Fund's Common Stock, and further provided that such



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representative then satisfied the alternative director qualifications. At the 2004 Annual Meeting of Stockholders, the stockholders voted to recommend that the Board amend such provisions of the bylaws by adopting the alternative director qualifications. The Selling Stockholder submitted Mr. Moritz Sell as its proposed representative to serve on the Board of Directors. The Fund's Nominating Committee, composed entirely of Independent Directors, determined that Mr. Sell met the alternative director qualifications and was otherwise an appropriate candidate to serve as a Director of the Fund. In May 2004, the Board amended the Fund's bylaws to adopt the alternative director qualifications and increased the size of the Board of Directors by one Director. Upon the recommendation of the Nominating Committee, the Board of Directors appointed Mr. Sell as a Class I Director to serve for the remainder of a three-year term expiring at the Annual Meeting of Stockholders to be held in 2007. The Selling Stockholder has informed the Fund that Mr. Sell has been a director, market strategist, with the Selling Stockholder since 1996. The Selling Stockholder has informed the Fund that the Selling Stockholder has agreed to indemnify Mr. Sell in connection with his service as a Director of the Fund.

**Officers Who Are Not Directors**

The names of the officers of the Fund who are not Directors, their addresses, ages and principal occupations during the past five years are provided in the table below:

| Name, Address and Age   | Position(s)          | Term of Office* | Principal Occupation(s) During Past Five Years  |
|---|----------------------|-----------------|---|
|   | Held With the        | and Length of   |   |
|   | Fund                 | Time Served     |   |
| Martin J. Gilbert<br>c/o Aberdeen Asset<br>Management Asia Limited<br><br>21 Church Street #01-01 Capital<br>Square Two<br><br>Singapore 049480<br><br>Age: 50                        | President**          | Since 2004      | Chief Executive and an Executive Director of Aberdeen Asset Management PLC (parent company of the Fund's Investment Manager and Investment Adviser) (since 1983); Director of Aberdeen Asset Management Asia Limited (the Fund's Investment Manager) (since 1991); Director of Aberdeen Asset Management Limited (the Fund's Investment Adviser) (since 2000) and Director of Aberdeen Asset Managers (C.I.) Limited (the Fund's former investment manager) (from 2000 to June 2005); Director (since 1995) and President (from 1995 to October 2005) of Aberdeen Asset Management Inc. (the Fund's Administrator). |
| Beverly Hendry<br><br>Aberdeen Asset Management<br>Inc.<br><br>Las Olas Place<br><br>300 S.E. 2 <sup>nd</sup> Street<br><br>Suite 820<br><br>Fort Lauderdale, FL 33301<br><br>Age: 52 | Vice<br>President*** | Since 2003      | Director (since 1995), Vice President, Managing Director, Latin American operations (from October 2005) and Chief Executive Officer (from 1995 to October 2005) of Aberdeen Asset Management Inc. (the Fund's Administrator); Director of Aberdeen Asset Managers (C.I.) Limited (from 2001 to June 2005); Member of Executive Management Committee (since 2002) and Executive Director (from 1991 to 2002) of Aberdeen Asset Management PLC (parent company of the Fund's Investment Manager and Investment Adviser).  |



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| Name, Address and Age   | Position(s)<br>Held With the<br>Fund       | Term of Office*<br>and Length of<br>Time Served | Principal Occupation(s) During Past Five Years   |
|---|--|---|--|
| Christian Pittard<br>Aberdeen Asset<br>Management Inc.<br><br>1735 Market Street 37 <sup>th</sup><br>Floor Philadelphia, PA<br>19103<br>Age: 32 | Treasurer and<br>Assistant<br>Secretary*** | Since<br>2001                                   | Director, President, and Chief Executive Officer (since October 2005) and employee (since June 2005) of Aberdeen Asset Management Inc.; Member of Executive Management Committee of Aberdeen Asset Management PLC (since August 2005); Managing Director of Aberdeen Asset Managers (C.I.) Limited (the Fund's former investment manager) (from 2000 to June 2005); Managing Director of Aberdeen Private Wealth Management Limited (affiliate of the Fund's Investment Manager and Investment Adviser) (from 2000 to May 2005); Managing Director of Aberdeen Asset Managers Jersey Limited (affiliate of the Fund's Investment Manager and Investment Adviser) (from 1999 to November 2005). |
| Andrew Smith<br>Aberdeen Asset<br>Management Inc.<br><br>1735 Market Street 37 <sup>th</sup><br>Floor Philadelphia, PA<br>19103<br>Age: 37      | Vice President<br>Compliance***            | Since<br>2004                                   | Vice President (since 2000), a Director (since January 2005), and Treasurer and Chief Financial Officer (since October 2005) of Aberdeen Asset Management Inc. (the Fund's administrator); Vice President of Murray Johnstone Group (from 1988 to 2000).   |
| Alan Goodson<br>Aberdeen Asset<br>Management Inc.<br><br>1735 Market Street 37 <sup>th</sup><br>Floor Philadelphia, PA<br>19103<br>Age: 31      | Secretary***                               | Since<br>2005                                   | Vice President and Secretary (since October 2005) and employee (since June 2005) of Aberdeen Asset Management Inc.; Head of Finance (from 2000 to May 2005) and Company Secretary (from 2001 to May 2005) of Aberdeen Private Wealth Management Limited; Finance Director and Company Secretary of Aberdeen Asset Managers Jersey Limited (from 2002 to November 2005); Company Secretary of Aberdeen Asset Managers (C.I.) Limited (from 2001 to June 2005).  |

\* Officers hold their positions with the Fund until a successor has been duly elected and qualifies. Officers are generally elected annually at the meeting of the Board of Directors next following the annual meeting of stockholders. The officers were last elected on June 8, 2005, except for Mr. Goodson, who was elected on September 8, 2005.

\*\* Messrs. Gilbert, Smith, Pittard and Goodson hold the same position(s) with Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc., both of which may be deemed to be a part of the same Fund Complex as the Fund.

\*\*\* Mr. Hendry serves as Assistant Treasurer of Aberdeen Global Income Fund, Inc., which may be deemed to be part of the same Fund Complex as the Fund.

Although the Fund is a Maryland corporation, certain of its Directors and officers (Messrs. Elsum, Miles, O'Connell, Sacks, Sell, Young, and Gilbert) are non-residents of the United States and have all, or a substantial part, of their assets located outside the United States. None of the Directors or officers has authorized an agent in the United States to receive notice.

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The Fund's bylaws provide that the Fund shall indemnify its current and former Directors and officers against liabilities and expenses, and that such Directors and officers shall be entitled to advances from the Fund for payment of reasonable expenses incurred by them, in connection with matters as to which they are seeking indemnification in which they may be involved because of their position with the Fund. The Fund's bylaws do not, however, indemnify any current or former Director or officer against any liability to the Fund or any stockholder to which such Director or officer would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

The Fund has entered into a separate agreement with each of the Fund's Directors, pursuant to which the Fund has agreed to indemnify each Director against expenses reasonably incurred by such Director in a proceeding arising out of or in connection with the Director's service to the Fund, to the maximum extent permitted by the Maryland General Corporation Law and the Investment Company Act of 1940, as amended.

## **Standing Committees of the Board of Directors**

Current Committees and Members. The Board of Directors has a standing Audit and Valuation Committee, Contract Review Committee, and Nominating and Corporate Governance Committee, each of which is composed entirely of Independent Directors. Each member is also independent within the meaning of the American Stock Exchange ( Amex ) listing standards.

### *Audit and Valuation Committee*

The Audit and Valuation Committee, established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the 1934 Act ), is responsible for the selection and engagement of the Fund's independent registered public accounting firm (subject to ratification by the Fund's Independent Directors), pre-approves and reviews both the audit and non-audit work of the Fund's independent registered public accounting firm, and reviews compliance by the Fund with regulations of the SEC and the Internal Revenue Service, and other related matters. The members of the Fund's Audit and Valuation Committee are Messrs. Anthony E. Aaronson, Peter D. Sacks and John T. Sheehy.

The Audit and Valuation Committee oversees the activities of the Fund's Pricing Committee and performs the responsibilities assigned to the Audit and Valuation Committee in the Fund's Pricing and Valuation Procedures, such as overseeing the implementation of the Fund's Pricing and Valuation Procedures. The Board of Directors has delegated to the Audit and Valuation Committee the responsibility of determining the fair value of the Fund's securities or other assets in situations set forth in the Pricing and Valuation Procedures.

### *Contract Review Committee*

The Contract Review Committee reviews and makes recommendations to the Board of Directors with respect to entering into, renewal or amendment of the Fund's management agreement, advisory agreement, administration agreement, investor relations services agreement and other agreements. The members of the Fund's Contract Review Committee are Messrs. David L. Elsum, Neville J. Miles and William J. Potter.

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### *Nominating and Corporate Governance Committee; Consideration of Potential Director Nominees*

The Nominating and Corporate Governance Committee recommends nominations for membership on the Board of Directors and reviews and evaluates the effectiveness of the Board in its role in governing the Fund and overseeing the management of the Fund. It evaluates candidates qualifications for Board membership and, with respect to nominees for positions as Independent Directors, their independence from the Fund's Investment Manager and Investment Adviser and other principal service providers. The Committee generally meets twice annually to identify and evaluate nominees for Director and makes its recommendations to the Board at the time of the Board's December meeting. The Committee also periodically reviews Director compensation and will recommend any appropriate changes to the Board as a group. The Committee also reviews and may make

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recommendations to the Board relating to those issues that pertain to the effectiveness of the Board in carrying out its responsibilities in governing the Fund and overseeing the management of the Fund. The members of the Fund's Nominating and Corporate Governance Committee are Messrs. David L. Elsum, Neville J. Miles, William J. Potter and John T. Sheehy.

The Committee will consider potential Director candidates recommended by Fund stockholders. In 2004, the Fund's Board approved Policies for Consideration of Board Member Candidates submitted by Fund Stockholders (Policies). These Policies set forth requirements that stockholder candidates must meet in order to be considered as either an Independent Director or interested Director of the Fund, as defined by Section 2(a)(19) of the 1940 Act. A stockholder or stockholder group submitting a candidate to the Nominating and Corporate Governance Committee must direct the submission to the attention of the Fund's Secretary, who will forward such submission to the Committee for consideration. The submission must include the following:

- (1) Contact information for the nominating stockholder or stockholder group;
- (2) A certification from the nominating stockholder or stockholder group providing that the shares have been held continuously for at least two years as of the date of the submission of the candidate, and will continue to be held through the date of the Stockholders Meeting;
- (3) The candidate's contact information and the number of applicable Fund shares owned by the candidate;
- (4) All information regarding the candidate that would be required to be disclosed in solicitations of proxies for elections of Directors required by Regulation 14A under the 1934 Act;
- (5) A notarized letter executed by the candidate, stating his or her intention to serve as a candidate and consent to be named in the Fund's proxy statement and form of proxy, if so designated by the Fund's Board, and to serve as a Director if so elected;
- (6) A representation that, to the knowledge of the nominating stockholder or stockholder group, the nominee's candidacy or, if elected, board membership, would not violate controlling state law or federal law or rules of a national securities exchange or national securities association applicable to the Fund; and
- (7) A statement as to whether or not, during the past ten years, the nominating stockholder or any member of the nominating stockholder group has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) and, if so, the dates, the nature of the conviction, the name or other disposition of the case; and whether the individual has been involved in any other legal proceedings during the last five years, as specified in Item 401(f) of Regulation S-K. When the nominating stockholder or any member of the nominating stockholder group is a general or limited partnership, syndicate or other group, the foregoing information must be provided with respect to (i) each partner of the general partnership; (ii) each partner who is, or functions as, a general partner of the limited partnership; (iii) each member of the syndicate or group; and (iv) each person controlling the partner or member. If the nominating stockholder or any member of the nominating stockholder group is a corporation or if a person referred to in (i)-(iv) of the preceding sentence is a corporation, the foregoing information must be provided with respect to (a) each executive officer and director of the corporation; (b) each person controlling the corporation; and (c) each executive officer and director of any corporation or other person ultimately in control of the corporation.

In addition, with respect to Independent Director candidates, the stockholder or stockholder group submitting the candidate must also furnish a copy of the Schedule 13G or Schedule 13D filed with the SEC by the nominating stockholder or the nominating stockholder group.

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In the event that a submission is deficient, the Committee will have sole discretion whether to seek corrections of such submission or to exclude a candidate from consideration.

*Board and Committee Meetings in Fiscal 2004*

During the Fund's fiscal year ended October 31, 2004, the Board of Directors held four regular meetings and three special meetings; the Audit and Valuation Committee held three meetings; the Contract Review Committee held one meeting; and the Nominating and Corporate Governance Committee held eight meetings. Each incumbent Director attended at least 75% of the aggregate number of meetings of the Board of Directors and of all the Committees of the Board on which he served.

**Ownership of Securities by Directors and Officers**

As of December 31, 2004, the Fund's Directors and officers, as a group, owned less than 1% of the Fund's outstanding shares of Common Stock. Mr. Moritz Sell is a director, market strategist of the Selling Stockholder, and was appointed as a Director of the Fund as the representative of the Selling Stockholder. As of November 21, 2005, the Selling Stockholder owned 4,620,950 shares of the Fund's Common Stock, constituting approximately 27.5% of the Fund's shares then outstanding.

The information as to ownership of securities which appears below is based on statements furnished to the Fund by its Directors and officers.

As of December 31, 2004, the dollar range of equity securities owned beneficially by each Director in the Fund and in any registered investment companies overseen by the Director within the same family of investment companies as the Fund was as follows:

| <u>Name of Director</u>      | <u>Dollar Range of Equity Securities in the Fund</u> | <u>Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Director in Family of Investment Companies*</u> |
|------------------------------|--|---|
| <b>Interested Directors</b>  |  |   |
| Moritz Sell                  | \$0**  | \$0**   |
| Hugh Young                   | \$10,001 to \$50,000                                 | \$10,001 to \$50,000  |
| <b>Independent Directors</b> |  |   |
| Anthony E. Aaronson          | \$10,001 to \$50,000                                 | \$10,001 to \$50,000  |
| David L. Elsum               | \$10,001 to \$50,000                                 | \$50,001 to \$100,000   |
| Neville J. Miles             | \$10,001 to \$50,000                                 | \$10,001 to \$50,000  |
| Peter J. O. Connell          | \$10,001 to \$50,000                                 | \$10,001 to \$50,000  |
| William J. Potter            | \$10,001 to \$50,000                                 | \$10,001 to \$50,000  |
| Peter D. Sacks               | \$10,001 to \$50,000                                 | \$10,001 to \$50,000  |
| John T. Sheehy               | \$10,001 to \$50,000                                 | \$10,001 to \$50,000  |

\* Aggregate Dollar Range shown includes equity securities of the Fund, and of Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc., all of which may be deemed to be in the same Family of Investment Companies.

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\*\* Does not include shares of the Fund's Common Stock owned by the Selling Stockholder. Mr. Sell is a director, market strategist of the Selling Stockholder and was appointed as a Director of the Fund as the representative of the Selling Stockholder.

As of December 31, 2004, none of the Independent Directors or their immediate family members owned any shares of the Investment Manager or Investment Adviser or of any person (other than a registered investment company) directly or indirectly controlling, controlled by, or under common control with the Investment Manager or Investment Adviser.



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As of December 31, 2004, the officers of the Fund owned no shares of the Fund's Common Stock.

**Compensation of Directors and Certain Officers**

The following table sets forth information regarding compensation of Directors by the Fund and by the fund complex of which the Fund is a part for the fiscal year ended October 31, 2004. Officers of the Fund and Directors who are interested persons of the Fund do not receive any compensation directly from the Fund or any other fund in the fund complex for performing their duties as officers or Directors, respectively. Each Independent Director of the Fund receives an aggregate fee, effective January 1, 2004, of \$18,500 per year, inclusive of attendance at in-person and telephonic Board meetings. Members of the Fund's Audit and Valuation Committee, Contract Review Committee, Nominating and Corporate Governance Committee and ad hoc committees receive a fee of \$500 per committee meeting attended, and the Chairman of each of these Committees receives an additional fee of \$500 per committee meeting attended. The fees for attendance at committee meetings may be less than \$500 per meeting, in certain instances where committee meetings are held jointly with committee meetings of other funds in the same fund complex.

**Compensation Table****Fiscal Year Ended October 31, 2004**

| <b>Name of Director</b> | <b>Aggregate Compensation From Fund</b> | <b>Pension or Retirement Benefits Accrued as Part of Fund Expenses</b> | <b>Estimated Annual Benefits Upon Retirement</b> | <b>Total Compensation From Fund and Fund Complex Paid to Directors*</b> |
|-------------------------|---|--|--|---|
| Anthony E. Aaronson     | \$19,083                                | N/A  | N/A  | \$43,583(2)   |
| David L. Elsum          | \$18,140                                | N/A  | N/A  | \$59,380(3)   |
| Laurence Freedman       | \$ 0                                    | N/A  | N/A  | \$ 0(2)   |
| Neville J. Miles        | \$36,398                                | N/A  | N/A  | \$93,405(3)   |
| Peter O. Connell        | \$17,390                                | N/A  | N/A  | \$40,040(2)   |
| William J. Potter       | \$27,125                                | N/A  | N/A  | \$79,543(3)   |
| Peter D. Sacks          | \$22,166                                | N/A  | N/A  | \$71,416(3)   |
| Moritz Sell             | \$ 0                                    | N/A  | N/A  | \$ 0(1)   |
| John T. Sheehy          | \$29,125                                | N/A  | N/A  | \$81,793(3)   |
| Hugh Young              | \$ 0                                    | N/A  | N/A  | \$ 0(1)   |

\* The number in parentheses indicates the total number of boards in the fund complex on which the Director serves or served at any time during the fiscal year ended October 31, 2004.

Mr. Freedman resigned from the Board of Directors, effective February 18, 2004.

**PRINCIPAL STOCKHOLDER**

The Shares to be offered and sold pursuant to this registration statement are owned by the Fund's principal stockholder, Bankgesellschaft Berlin AG (Selling Stockholder), a German banking organization which is a corporation formed under the laws of the Federal Republic of Germany, with its registered office located at Alexanderplatz 2-10178, Berlin, Germany. The Finance Department of the City of Berlin, Germany is the 82% owner of the Selling Stockholder. The name and address of the Berlin Finance Department is Senatsverwaltung für Finanzen, Klosterstrasse 59, 10179 Berlin, Germany.

For purposes of this registration statement, the Selling Stockholder may be presumed to be a control person of the Fund, because the Selling stockholder is the beneficial owner of more than 25% of the voting securities of the Fund. The Selling Stockholder has informed the Fund that it deems itself currently to be a controlling party with respect to the Fund, as a result of its continuing ownership of almost 30% of the outstanding shares of the Fund's Common Stock.

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The Selling Stockholder has advised the Fund that the Selling Stockholder acquired a total of 5,370,349 shares of the Fund's Common Stock in October and November 2002, of which 5,348,149 shares were purchased from Mira L.P. in a private transaction that closed on October 22, 2002 and 22,200 shares were purchased in open market transactions in November 2002. Together with 4,600 shares of Common Stock previously owned by the Selling Stockholder, after these purchases, the Selling Stockholder owned a total of 5,374,949 shares (of which 5,367,449 shares were owned beneficially, and 7,500 shares were owned of record), or approximately 31.4% of the then outstanding shares, of the Fund. The Selling Stockholder has informed the Fund that, from November 2004 through November 21, 2005, the Selling Stockholder has sold a total of 753,999 shares of Common Stock in at-the-market transactions pursuant to the provisions of Rule 144 under the 1933 Act. The Selling Stockholder has informed the Fund that the Selling Stockholder intends to sell Shares in this offering periodically in at-the-market sales on the Amex, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, though which such Shares are traded, at such times and in such manner as the Selling Stockholder may determine to be advantageous. The Selling Stockholder has informed the Fund that the Selling Stockholder has not determined how many Shares it will sell pursuant to this offering and reserves the right to terminate sales and this offering at any time. The Selling Stockholder has also informed the Fund that the Selling Stockholder may continue to sell its shares of the Fund's Common Stock under Rule 144, to the extent permitted by Rule 144, at the same time as it is selling Shares pursuant to this offering. Any Shares sold pursuant to Rule 144 will not be covered by this registration statement.

## **INVESTMENT MANAGEMENT, INVESTMENT ADVISORY AND OTHER AGREEMENTS**

### **Background**

Aberdeen Asset Management Asia Limited serves as the investment manager to the Fund (the "Investment Manager") and Aberdeen Asset Management Limited serves as investment adviser to the Fund (the "Investment Adviser") pursuant to a management agreement dated as of March 8, 2004 (the "Management Agreement") and an investment advisory agreement dated as of March 8, 2004 (the "Advisory Agreement"), respectively. The Investment Manager, in accordance with the Fund's stated investment objectives, policies and limitations and subject to the supervision of the Fund's Board of Directors, manages the Fund's investments and makes investment decisions on behalf of the Fund, including the selection of, and being responsible for the placement of orders with, brokers and dealers to execute the Fund's portfolio transactions. The Investment Adviser makes recommendations to the Investment Manager as to specific portfolio securities to be purchased, retained or sold by the Fund and provides or obtains such research and statistical data as may be necessary in connection therewith.

Upon the organization of the Fund in 1985, EquitiLink International Management Limited, an Australian corporation ("EIML"), served as the Fund's investment manager, and EquitiLink Australia Limited, an Australian corporation ("EAL"), served as the Fund's investment adviser. In December 2000, Aberdeen Asset Management PLC, a United Kingdom corporation ("Aberdeen PLC"), acquired the business of EIML and EAL, which continued to serve as the investment manager and investment adviser, respectively, of the Fund. In connection with this acquisition, EIML entered into a new management agreement with the Fund, and EAL and EIML entered into a new investment advisory agreement with the Fund. Each of such agreements was approved by the Fund's Board of Directors and separately by a majority of the Fund's Independent Directors, and subsequently by the Fund's stockholders. Following this acquisition, the name of EIML was changed to Aberdeen Asset Managers (C.I.) Limited ("AAMCIL") and the name of EAL was changed to Aberdeen Asset Management Limited ("AAML").

In December 2003, the Board of Directors approved the transfer by AAMCIL to Aberdeen Asset Management Asia Limited ("AAMAL", an affiliate of AAMCIL), of the rights and obligations of AAMCIL under the management agreement and the investment advisory agreement entered into in December 2000. This transfer was effected pursuant to the current Management Agreement and Advisory Agreement, both dated as of

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March 8, 2004. Prior to becoming the Fund's Investment Manager, AAMAL and its personnel had been providing portfolio management, research and trading services to the Fund pursuant to a Memorandum of Understanding with AAMCIL and AAML. The transfer was not intended to, and did not result in, any change in the fundamental investment processes, investment strategies or investment techniques employed by portfolio managers and investment professionals in providing investment advisory services to the Fund, and did not result in any change in the terms of the Fund's management and advisory agreements, other than in the name of the investment manager. For a transition period following March 8, 2004, AAMCIL continued to provide administrative support and certain trading services to the Fund pursuant to Memoranda of Understanding with the Fund's Investment Manager and Investment Adviser. AAMCIL has been wound up and no longer provides services to the Fund.

The Investment Manager, Aberdeen Asset Management Asia Limited, is a Singapore corporation incorporated in 1991. The registered office of the Investment Manager is located at 21 Church Street, #01-01 Capital Square Two, Singapore 049480. The Investment Manager serves as Investment Manager to both equity and fixed income investment portfolios for a range of clients, with approximately \$18.8 in assets as of September 30, 2005, including the Fund and two other U.S. registered closed-end funds with aggregate net assets of approximately \$2.7 billion.

The Investment Adviser, Aberdeen Asset Management Limited, is an Australian corporation, which is a wholly-owned subsidiary of Aberdeen Asset Management Holdings Limited (AAMHL), an Australian corporation. AAMHL is a wholly-owned subsidiary of the Investment Manager. The registered office of the Investment Adviser and AAMHL are located at Level 6, 201 Kent Street, Sydney, NSW 2000, Australia. The Investment Adviser's principal business focus is to provide investment management services with regard to equity and fixed income investments in Australian securities. The Investment Adviser managed approximately \$0.4 billion of assets, as of September 30, 2005.

The Investment Manager is a wholly-owned subsidiary of Aberdeen PLC. The registered offices of Aberdeen PLC are located at 10 Queen's Terrace, Aberdeen, Scotland AB10 1YG. Aberdeen PLC is the parent company of an asset management group managing approximately \$52.3 billion of assets as of September 30, 2005, including approximately \$31.5 billion of investments in equity securities as of August 31, 2005, for a range of pension funds, financial institutions, investment trusts, unit trusts, offshore funds, charities and private clients, in addition to U.S. registered investment companies. Aberdeen PLC entered into an agreement with Deutsche Asset Management Group Limited (Deutsche Bank) on July 7, 2005 to acquire certain fund management businesses (the Target Businesses) of Deutsche Bank. The Target Businesses comprise a global fixed income business, itself made up of a London-based business and a Philadelphia-based business, a UK open-ended investment company business, a London-based UK and global equities business and a London-based multi-asset business. As at September 30, 2005, the Target Businesses had assets under management of approximately \$53.2 billion.

## **Considerations in Approving Renewal of Management Agreement and Advisory Agreement**

The Management Agreement and the Advisory Agreement (collectively, the Agreements) became effective as of March 8, 2004, for an initial term through December 21, 2004. In December 2004, at an in-person meeting, the Board of Directors, including all of the Independent Directors, considered and approved the renewal of the Agreements for an additional term of twelve months. At this meeting, the Directors reviewed an extensive report prepared by the Investment Manager and the Investment Adviser (collectively, the Advisers) in response to a request submitted by the Independent Directors' independent legal counsel on behalf of such Directors, and discussed this report with representatives of the Advisers. The Independent Directors had the opportunity to consult with counsel to the Independent Directors regarding the renewal of the Agreements. The Directors also considered the recommendation of the Contract Review Committee of the Board consisting solely of Independent Directors (the Committee) that the Agreements be renewed, noting that the Committee had discussed, in executive session with independent counsel, the nature, extent and quality of the management and advisory services provided to the Fund by the Advisers, the level of the management and advisory fees, the costs of the services provided and the profits realized by the Advisers, the Fund's expense ratio, its relative and absolute



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performance, any economies of scale with respect to the management of the Fund, any ancillary benefits received by the Advisers and their affiliates as a result of their relationship with the Fund, and various other matters included within the report of the Advisers. In approving the renewal of the Agreements, the Committee, and the entire Board of Directors, concluded that:

The annual management fee rate paid by the Fund to the Investment Manager for investment management services was well within the lowest quartile of effective advisory fee rates of a comparison group consisting of a 22-fund category of closed-end Pacific region equity funds compiled by Lipper Inc. at the request of the Fund (the Peer Group). The fee rate was also below the weighted average for a subgroup of equity funds of comparable size investing in the Pacific region. The Board assumed that the Lipper compilation of funds represented a reasonably comparable group and that the compilation provided a reasonably reliable general indication of relative fees. Additionally, the Board noted that the Fund's effective management fee rate of 0.928% contained in the Lipper data was higher than the annual fee rate of 0.726% paid to the investment Adviser by an Australian-domiciled open-ended fund that invests principally in Australian equity securities. However, the Board determined that this disparity was reasonable due to the lower complexity of the Australian-domiciled fund, which was not subject to the same investment restrictions or diversification requirements and had no need to hold U.S. currency.

The Committee and the Board were satisfied with the nature, quality and extent of services provided by the Advisers. In reaching this conclusion, the Committee and the Board reviewed, among other things, the Advisers' investment experience, including their capabilities in Australia. The Committee and the Board received information regarding the Advisers' compliance with applicable laws and SEC and other regulatory inquiries or audits of the Fund and the Advisers. The Committee also received and considered a report from the Chief Executive of Aberdeen Asset Management PLC in regard to, among other matters, the financial capacity of the Advisers' parent company to support the services provided by its subsidiaries to the Fund and the strengthening of the parent company's balance sheet during the last year. The Committee and the Board also considered the background and experience of the Advisers' senior management and the qualifications, background and responsibilities of the portfolio managers primarily responsible for the day-to-day portfolio management services for the Fund.

The Fund experienced above-average investment performance as compared to the funds within a subset of the Peer Group consisting of Pacific region single country ex-Japan funds, and its performance was generally comparable to the performance of the Australian-domiciled open-ended fund advised by the Investment Adviser (the value of the Fund's total assets, before deducting expenses and withholding taxes, for the year ending October 31, 2004 was up 24.57%, compared to 24.92% for the Australian-domiciled fund). The Committee and the Board received and considered information regarding the Fund's total return in US dollar terms for each of the last five fiscal years on a gross and net basis and relative to the Fund's benchmark, the Fund's share performance and premium/discount information during the same period and the impact of foreign currency movements on the Fund's performance in US dollar terms. The Committee and the Board also received and reviewed information as to the Fund's total return for each of the last five fiscal years as compared with the total returns of Pacific region single country ex-Japan funds in the Peer Group, as well as with the Australian-domiciled open-ended fund. The Committee and the Board further reviewed information as to the Fund's discount/premium ranking per the Peer Group for the one, five and seven year periods ended October 31, 2004.

The Board noted that the Fund's expense ratio of 1.75% for the fiscal year ended October 31, 2004 was considerably lower than the expense ratio for the fiscal year ended October 31, 2003 of 2.55%. However, the Board also noted that the 2003 expense ratio had been unusually high due to substantial non-recurring legal and other expenses. When revised to reflect a more normal level for these expenses, the 2003 expense ratio was estimated at 1.79%, so that the 2004 expense ratio represented only a marginal decline. Nevertheless, the Board was pleased at the lower level of expenses.

Any potential economies of scale were being shared between the Fund and the Advisers in an appropriate manner. This determination was based on factors including that the Fund's management fee

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schedule provided significant breakpoints at higher asset levels, and that profitability of the Investment Manager and the Investment Adviser were determined to be reasonable based upon the Board's review of the peer group data and other information provided to the Board.

In light of the costs of providing investment management and advisory services to the Fund, the profits that the Advisers received, individually and on an aggregate basis (based on certain pro forma estimates), with respect to providing investment management and advisory services to the Fund were reasonable, and any ancillary benefits received by the Advisers and their affiliates as a result of their relationship with the Fund were reasonable.

As noted above, the Board reviewed detailed materials received from the Advisers as part of the renewal process. The Board also regularly reviews and assesses the quality of the services the Fund receives throughout the year. In this regard, the Board reviews reports of the Advisers at least in each of its regular quarterly meetings, which include, among other things, a portfolio review and Fund performance reports.

After considering the above-described factors and based on the deliberations and its evaluation of the information provided to it, the Committee and the Board concluded that approval of the renewal of the Agreements was in the best interest of the Fund and its stockholders. Accordingly, the Board, and the Independent Directors voting separately, unanimously approved the renewal of the Agreements.

## **Terms of the Management Agreement**

The Management Agreement provides that the Investment Manager will manage, in accordance with the Fund's stated investment objective, policies and limitations and subject to the supervision of the Fund's Board of Directors, the Fund's investments and make investment decisions on behalf of the Fund including the selection of, and being responsible for the placement of orders with, brokers and dealers to execute portfolio transactions on behalf of the Fund. The Management Agreement further provides that the Investment Manager will not be liable for any error of judgment or for any loss suffered by the Fund in connection with matters to which the Management Agreement relates, except a loss resulting from a breach of fiduciary duty with respect to receipt of compensation for services (in which case any award of damages shall be limited to the period and the amount set forth in Section 36(b)(3) of the 1940 Act) or a loss resulting from willful misfeasance, bad faith or gross negligence on its part in the performance of, or from reckless disregard by the Investment Manager of, its duties and obligations under the Management Agreement.

The Management Agreement provides that the Investment Manager may, at its expense, employ, consult or associate with itself, such person or persons as it believes necessary to assist it in carrying out its obligations thereunder, provided, however, that if any such person would be an investment adviser (as that term is defined under the 1940 Act) to the Fund, (a) the Fund is a party to any contract with such a person and (b) the contract is approved by the Fund's stockholders and Directors, including Independent Directors, as required by the 1940 Act.

*Management Fee.* The Management Agreement provides that the Fund will pay the Investment Manager a fee at the annual rate of 1.10% of the Fund's average weekly Managed Assets up to \$50 million; 0.90% of Managed Assets between \$50 million and \$100 million; and 0.70% of Managed Assets in excess of \$100 million; computed as of the end of each week and payable at the end of each calendar month. Managed Assets are defined in the Management Agreement as net assets plus the amount of any borrowings for investment purposes.

For the fiscal years ended October 31, 2004, 2003 and 2002, the Fund paid management fees of \$1,468,789, \$1,223,725, and \$1,099,493, respectively. The investment manager has informed the Fund that, during the same periods, the investment manager paid advisory fees of \$374,426, \$324,109, and \$296,320, respectively, to the Investment Adviser.

*Payment of Expenses.* The Management Agreement obligates the Investment Manager to bear all expenses of its employees, except as provided in the following sentence, and overhead incurred in connection with its



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duties under the Management Agreement and to pay all salaries and fees of the Fund's Directors and officers who are interested persons (as defined in the 1940 Act) of the Investment Manager. The Fund will bear all of its own expenses, including: expenses of organizing the Fund; fees of the Fund's Independent Directors; out-of-pocket expenses for all Directors and officers of the Fund, including expenses incurred by the Investment Manager's employees who serve as Directors and officers of the Fund, which may be reimbursed by the Fund under the Fund's policy governing reimbursement of Fund-related expenses; and other expenses incurred by the Fund in connection with meetings of Directors and stockholders; interest expense; taxes and governmental fees including any original issue taxes or transfer taxes applicable to the sale or delivery of shares or certificates therefor; brokerage commissions and other expenses incurred in acquiring or disposing of the Fund's portfolio securities; expenses in connection with the issuance, offering, distribution, sale or underwriting of securities issued by the Fund; expenses of registering and qualifying the Fund's shares for sale with the SEC and in various states and foreign jurisdictions; auditing, accounting, insurance and legal costs; custodian, dividend disbursing and transfer agent expenses; and the expenses of stockholders' meetings and of the preparation and distribution of proxies and reports to stockholders. Notwithstanding the foregoing sentence, the Selling Stockholder will pay all expenses in connection with the offer of the Shares pursuant to this registration statement.

*Duration and Termination.* The Management Agreement became effective as of March 8, 2004 for an initial term until December 22, 2004. The Management Agreement provides that it will continue in effect for successive 12-month periods, if not sooner terminated, provided that each such continuance is specifically approved annually by (1) the vote of a majority of the Fund's Board of Directors who are not parties to the Management Agreement or interested persons (as defined in the 1940 Act) of any such party, cast in person at a meeting called for the purpose of voting on such approval and (2) either (a) the vote of a majority of the outstanding voting securities of the Fund, or (b) the vote of a majority of the Fund's Board of Directors. The Management Agreement may be terminated at any time by the Fund without the payment of any penalty, by a vote of a majority of the Fund's Board of Directors or a majority of the outstanding voting securities of the Fund upon at least 60 days written notice to the Investment Manager. The Management Agreement will terminate automatically in the event of its assignment (as defined in the 1940 Act). In addition, the Investment Manager may terminate the Management Agreement upon at least 90 days' written notice to the Fund.

## **Terms of the Advisory Agreement**

The Advisory Agreement provides that the Investment Adviser will make recommendations to the Investment Manager as to specific portfolio securities, which are denominated in Australian or New Zealand dollars, to be purchased, retained or sold by the Fund and will provide or obtain such research and statistical data as may be necessary in connection therewith. The Advisory Agreement further provides that the Investment Adviser will give the Investment Manager and the Fund the benefit of the Investment Adviser's best judgment and efforts in rendering services under the Advisory Agreement.

The Advisory Agreement provides that neither the Investment Manager nor the Investment Adviser will be liable for any error of judgment or for any loss suffered by the Fund in connection with matters to which the Advisory Agreement relates, except a loss resulting from a breach of fiduciary duty with respect to receipt of compensation for services (in which case any award of damages shall be limited to the period and the amount set forth in Section 36(b)(3) of the 1940 Act) or a loss resulting from willful misfeasance, bad faith or gross negligence on the part of the Investment Manager or the Investment Adviser, as appropriate, in the performance of, or from reckless disregard by such party of such party's obligations and duties under, the Advisory Agreement.

*Advisory Fee.* Under the Advisory Agreement, the Investment Manager pays the Investment Adviser a fee computed at the annual rate of 0.30% of the Fund's average weekly Managed Assets up to \$50 million; 0.25% of Managed Assets between \$50 million and \$100 million; and 0.15% of Managed Assets in excess of \$100 million; computed as of the end of each week and payable at the end of each calendar month. Managed Assets are defined in the Advisory Agreement as net assets plus the amount of any borrowings for investment purposes.

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*Payment of Expenses.* The Advisory Agreement obligates the Investment Adviser to bear all expenses of its employees, except certain expenses incurred by the Investment Adviser's employees who serve as officers and Directors of the Fund which are reimbursed by the Fund under the Fund's policy governing reimbursement of Fund-related expenses. The Advisory Agreement also obligates the Investment Adviser to bear all overhead incurred in connection with its duties under the Advisory Agreement and to pay all salaries and fees of the Fund's Directors and officers who are interested persons (as defined in the 1940 Act) of the Investment Adviser but who are not interested persons of the Investment Manager.

*Duration and Termination.* The Advisory Agreement became effective as of March 8, 2004 for an initial term until December 22, 2004. The Advisory Agreement provides that it will continue in effect for successive 12-month periods, if not sooner terminated, provided that each such continuance is specifically approved annually by (1) the vote of a majority of the Fund's Board of Directors who are not parties to the Advisory Agreement or interested persons (as defined in the 1940 Act) of any such party, cast in person at a meeting called for the purpose of voting on such approval and (2) either (a) the vote of a majority of the outstanding voting securities of the Fund, or (b) the vote of a majority of the Fund's entire Board of Directors. The Advisory Agreement may be terminated at any time by the Fund without the payment of any penalty, by a vote of a majority of the Fund's Board of Directors or a majority of the outstanding voting securities of the Fund, upon at least 60 days' written notice to the Investment Manager and the Investment Adviser. The Advisory Agreement will terminate automatically as to any party in the event of its assignment (as defined in the 1940 Act) by that party. In addition, the Investment Manager or the Investment Adviser may terminate the Advisory Agreement as to such party upon at least 90 days' written notice to the Fund and the other party, but any such termination shall not affect continuance of the Advisory Agreement as to the remaining parties.

## **Experience of the Investment Manager and Investment Adviser and of the Aberdeen Group; Location of the Investment Manager and Investment Adviser**

The Investment Manager and the Investment Adviser also serve in these capacities for Aberdeen Global Income Fund, Inc., a non-diversified, closed-end management investment company investing in global fixed income securities, which commenced operations in 1992 and the shares of which are listed on the Amex; Aberdeen Asia-Pacific Income Fund, Inc., a non-diversified closed-end management investment company investing primarily in Australian and Asian debt securities, which commenced operations in 1986 and the shares of which are listed on the Amex and the Pacific Stock Exchange; and Aberdeen Asia-Pacific Income Investment Company Limited, a closed-end management investment company investing primarily in Australian and Asian debt securities, which commenced operations in 1986 and the shares of which are listed on the Toronto Stock Exchange. The Investment Manager and the Investment Adviser are registered with the SEC under the Investment Advisers Act of 1940, as amended.

The Advisers, together with other affiliates of Aberdeen Asset Management PLC (collectively, the Aberdeen Group) form a globally diversified management firm. As of September 30, 2005, the Aberdeen Group had approximately \$53.1 billion in assets under management.

In rendering investment advisory services, the Investment Manager and Investment Adviser may use the resources of Aberdeen Asset Managers Limited (Aberdeen UK), a United Kingdom corporation which is a wholly-owned investment adviser subsidiary of Aberdeen PLC. The Investment Manager and Investment Adviser have entered into a Memorandum of Understanding with Aberdeen UK, pursuant to which investment professionals from Aberdeen UK may render portfolio management, research or trading services to the U.S. clients of the Advisers, including the Fund.

Each of the Advisers has all, or a substantial part, of its assets located outside of the United States. As a result, it may be difficult for U.S. investors to enforce judgments of the courts of the United States against the Advisers predicated solely on the civil liability provisions of the Federal securities laws of the United States. The Fund has been advised that there is doubt as to the enforceability in the courts of Australia, in original actions or



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in actions for enforcement of judgments of U.S. courts against the Investment Adviser, predicated solely upon the civil liability provisions of the Federal securities laws of the United States. The Fund has also been advised that the judgments of U.S. courts based on the civil liability provisions of the Federal securities laws of the United States are not enforceable in Singapore courts, and that there is doubt as to whether Singapore courts will enter judgments in an original action brought in Singapore courts based solely on the civil liability provisions of the Federal securities laws of the United States.

## **Relationship of Certain Directors, Officers and Service Providers to Investment Manager and Investment Adviser**

Mr. Hugh Young, a Director of the Fund, also serves as the Managing Director of the Investment Manager and a Director of the Investment Adviser, and as a member of the Executive Management Committee of Aberdeen Asset Management PLC. Mr. Martin Gilbert, the President of the Fund, also serves as a Director of the Investment Manager and the Investment Adviser, and is the Chief Executive and an Executive Director of Aberdeen Asset Management PLC. Mr. Christian Pittard, the Treasurer and an Assistant Secretary of the Fund, is a member of the Executive Management Committee of Aberdeen Asset Management PLC. Messrs. Young, Gilbert and Pittard are also stockholders of Aberdeen Asset Management PLC.

Aberdeen Asset Management Inc. ( AAMI or Administrator ), an affiliate of the Investment Manager and the Investment Adviser, serves as the Fund's administrator, see Other Agreements Administration Agreement with Aberdeen Asset Management Inc. below. AAMI is a Delaware corporation with its principal business office located at 1735 Market Street, 37<sup>th</sup> Floor, Philadelphia PA 19103. AAMI also provides investor relations services to the Fund under an investor relations services agreement, for a monthly retainer of \$5,000, plus out-of-pocket expenses. Messrs. Martin Gilbert, Beverley Hendry, Christian Pittard, Andrew Smith and Alan Goodson, who serve as officers of the Fund, are also directors and/or officers of AAMI. See Management of the Fund-Officers who are not Directors for further information.

## **Other Agreements**

### *Administration Agreement with Aberdeen Asset Management Inc.*

Pursuant to an administration agreement effective November 1, 2004 ( Administration Agreement ), AAMI is responsible, subject to the control, supervision and direction of the Board of Directors, for providing to the Fund operational management, coordination and oversight of the Fund's service providers, negotiation of the Fund's service contracts, preparation of various financial information and reports, arrangements for payment of Fund expenses, monitoring of compliance with the Fund's investment objectives, policies and restrictions and with applicable tax law and regulations, maintenance of the Fund's books and records and other administrative services. AAMI receives a fee at an annual rate equal to 0.04% of the Fund's average weekly net assets plus the amount of any borrowings for investment purposes. Pursuant to the Administration Agreement, AAMI may also delegate certain of its duties and obligations to third parties. Presently, AAMI delegates certain of its responsibilities to a sub-administrator, Princeton Administrators, L.P.

Prior to November 1, 2004, Prudential Investments LLC ( Prudential ) served as administrator to the Fund pursuant to an agreement which provided Prudential with a fee at the annual rate of the greater of \$25,000 or 0.05% of the Fund's average weekly net assets. For the fiscal years ended October 31, 2004, 2003 and 2002, the Fund paid administration fees of \$83,367, \$65,176, and \$57,107, respectively.

## **CODE OF ETHICS**

The Fund and the Advisers have each adopted a code of ethics (each, a Code of Ethics ) in accordance with Rule 17j-1 under the 1940 Act. Subject to certain conditions and restrictions, each Code of Ethics permits personnel who are subject to the Code of Ethics to invest in securities, including securities that may be purchased or held by the Fund.

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Each Code of Ethics may be reviewed and copied at the Public Reference Room of the SEC in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-942-8090. Each Code of Ethics is also available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. Copies of each Code of Ethics may be obtained, after paying a duplicating fee, by electronic request to [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing to the SEC's Public Reference Section, Washington, D.C. 20549-0102.

**PORTFOLIO MANAGERS****Other Accounts Managed by Portfolio Managers**

The portfolio managers who are primarily responsible for the day-to-day management of the Fund also manage other registered investment companies, other pooled investment vehicles and other accounts, as indicated below. The following table identifies, as of August 31, 2005: (i) the portfolio(s) managed by the specified portfolio manager; (ii) the number of other registered investment companies, pooled investment vehicles and other accounts managed by the portfolio manager; and (iii) the total assets of such companies, vehicles and accounts.

| Name of Portfolio Manager | Registered Investment |                 |                            |                 | Other Accounts       |                 |
|---------------------------|-----------------------|-----------------|----------------------------|-----------------|----------------------|-----------------|
|                           | Companies Managed by  |                 | Pooled Investment Vehicles |                 | Managed by Portfolio |                 |
|                           | Portfolio Manager     |                 | Managed by Portfolio       |                 | Manager              |                 |
|                           | Total Assets*         |                 | Total Assets*              |                 | Total Assets*        |                 |
|                           | Number                | (in \$millions) | Number                     | (in \$millions) | Number               | (in \$millions) |
| Hugh Young                | 2                     | 2,417.3         | 25**                       | 8,780.0         | 39                   | 5,311.4         |
| Peter Hames               | 2                     | 2,417.3         | 25**                       | 8,780.0         | 39                   | 5,311.4         |
| Mark Daniels              | 0                     | 0               | 3                          | 166.2           | 2                    | 143.8           |
| Michelle Casas            | 0                     | 0               | 3                          | 166.2           | 2                    | 143.8           |
| Natalie Tam               | 0                     | 0               | 3                          | 166.2           | 2                    | 143.8           |

\* Total assets are as of August 31, 2005 and have been translated to U.S. dollars at a rate of £1.00 = \$1.7606

\*\* There are ten accounts (with assets under management totaling approximately \$909 million) with respect to which part of the advisory fee is based on the performance of the account. The investment strategies of these ten accounts are significantly different from that of the Fund, so the performance fee should not create any material conflict between the interest of the Portfolio Manager (and consequently, the Advisers) and the interest of the Fund.

**Securities Ownership by Portfolio Managers**

The table below shows the dollar range of shares of the Fund's Common Stock beneficially owned, as of August 31, 2005, by each portfolio manager of the Fund.

Name of Portfolio Manager

|                | <b>Dollar Range of Equity<br/>Securities in the Fund</b> |
|----------------|--|
| Hugh Young     | \$10,001 to \$50,000                                     |
| Peter Hames    | None   |
| Mark Daniels   | None   |
| Michelle Casas | None   |
| Natalie Tam    | None   |

**Conflicts of Interest**

Conflicts of interest potentially may arise in connection with a portfolio manager's management of the Fund's investments, on the one hand, and the investments of the other accounts managed by the portfolio manager, on the other. Such conflicts may arise where some client accounts are managed based on higher fees than the fees paid by other client accounts, because the incentives associated with any given account may be significantly higher or lower than those associated with other accounts. Such conflicts could arise with respect to the allocation of investment opportunities among different client accounts, or the allocation of time by the portfolio manager and the Advisers among those accounts.

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The management of multiple client accounts may result in the individual portfolio managers (and consequently, the Advisers) devoting unequal time and attention to the management of a particular client account. The portfolio managers and the Advisers seek to manage competing interests by focusing on a particular investment discipline or complementary investment disciplines and aggregating transactions in a fair and equitable manner.

Some securities considered for investment by the Fund may also be appropriate for other clients served by the Advisers. If purchase or sale of securities consistent with the investment policies of the Fund and one or more of these other clients served by the Advisers is considered at or about the same time, transactions in such securities will be allocated among the Fund and clients in a manner deemed fair and reasonable by the Advisers. In making these allocations, the factors to be considered include, but are not limited to, the respective investment objectives of the Fund and other clients, the relative size of the portfolio holdings of the same or comparable securities, the availability of cash for investment by the Fund and other clients, the size of investment commitments the Fund and other clients generally hold, and opinions of the persons responsible for recommending investments to the Fund and other clients.

## **Portfolio Manager Compensation**

As of September 2005, the Aberdeen Group's remuneration policy ( Policy ) is designed to reflect the importance of recruiting, retaining and motivating senior executives and portfolio managers of the caliber necessary to maintain and improve the Aberdeen Group's position in the asset management industry. The Policy seeks to reward performance in a manner which aligns the interests of clients, shareholders and executives. The elements of the Policy are as follows:

*Basic salary.* The salaries of all employees are reviewed annually and are determined by reference to external market research. The Aberdeen Group's Policy is to pay salaries which, when taken together with other benefits, will provide a remuneration package that is reasonable and competitive in the asset management industry. The Aberdeen Group participates in compensation surveys which provide salary comparisons for a range of employees across the Aberdeen Group. The Aberdeen Group also considers information included in other publicly available research and survey results. Staff performance is reviewed formally once a year with mid-term reviews. The review process looks at all of the ways in which an individual has contributed to the organization, and specifically, in the case of portfolio managers, to the investment team.

*Annual bonus.* The Policy is to recognize corporate and individual achievements each year through an appropriate annual bonus plan. The aggregate amount of a cash bonus available in any year is dependent on the Aberdeen Group's overall performance and profitability. Consideration will also be given to the levels of bonuses paid in the marketplace. Individual awards, payable to all members of staff, are determined by a rigorous assessment of achievement against defined objectives, and are reviewed and approved by the Aberdeen Group's Remuneration Committee.

Portfolio managers' bonuses are based on a combination of the investment team's overall performance and the individual's performance. In calculating a portfolio manager's bonus, the Aberdeen Group takes into consideration investment matters (which include the performance of funds, adherence to the Aberdeen Group's investment process, and quality of company meetings) as well as more subjective issues such as team participation and effectiveness at client presentations. Generally, around 80% of a bonus will be determined by investment related matters and the remaining 20% will be based on more subjective issues. Performance for each fund is judged against the fund's benchmark which, in the case of the Fund, is the S&P/ASX 200 Accumulation Index. Portfolio manager performance on investment matters is judged over all funds the fund manager contributes to and documented in the appraisal process.



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The compensation of fund managers is a subjective exercise, and is not determined by a formulaic approach. Bonuses are not calculated based upon any particular movement in the performance of the Fund against the performance of a benchmark. The performance of the Fund against its benchmark is one of a number of factors

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used to determine managers' compensation, but there is no direct weighting given to such factor. Other factors taken into account in the annual review process by the Aberdeen Remuneration Committee include adherence to the Aberdeen Group's investment process, and subjective factors such as team participation and effectiveness in client presentations. Performance is measured on a year-by-year basis over the length of time that a fund manager has served in such capacity with respect to a fund.

Overall participation in team meetings, generation of original research ideas and contributing to external investment team presentations are also evaluated when determining a portfolio manager's bonus. Discretionary bonuses generally range from 10% to 50% of a portfolio manager's annual salary. In line with the Aberdeen Group's Policy of retaining highly qualified and competent individuals, the Policy does not impose a limit with respect to amounts for discretionary bonuses.

*Executive share option plan.* The Aberdeen Group has an executive share option plan. Options are granted based on assessments of the individual's expected contribution to future Aberdeen Group performance. Options are granted for no consideration. Options granted may only be exercised if the Aberdeen Group's Remuneration Committee is satisfied that the prescribed performance criteria are met. The criteria have been chosen as being reflective of success in the industry sector within which the Aberdeen Group operates. The criteria have also been deemed to be appropriate in order to achieve the goal of delivering good returns to clients and shareholders alike.

*Share incentive plan.* The Share Incentive Plan is intended to encourage ownership of shares of Aberdeen PLC by employees of the Aberdeen Group, and is available to all executive directors and employees of the Aberdeen Group, thus aligning their interests with those of shareholders. All executive directors and employees who have been employed for a minimum period of 12 months may participate in the Share Incentive Plan.

*Pension.* The Aberdeen Group offers a contributory money purchase pension plan to which the employer's contribution is 15% of basic salary and the employee contributes 5%. Once an employee becomes a member of the Aberdeen Group's pension plan, the Aberdeen Group will provide life insurance coverage that provides death-in-service benefits.

*Deferred bonus.* During 2003, the Aberdeen Group implemented a deferred bonus plan designed to encourage the retention of certain key employees identified as critical to the Aberdeen Group's achievement of its long-term goals. An employee benefit trust was established and funded for the purpose of paying potential awards under this plan. Deferred payments made in the form of cash bonuses will be paid to qualifying employees over a three year period from 2004 to 2006.

*Long Term Incentive Plan ( LTIP ).* The LTIP is administered by an independent professional trustee. Under the LTIP, an award made by the trustee to an eligible participant may take one of the following two forms:

1. The right to acquire a specified number of shares. The number of shares which may be acquired will be determined by the performance of the Aberdeen Group over the relevant measurement period; or
2. The acquisition of shares by a participant at the time the award is made. The participant's ownership of any shares is contingent upon the satisfaction of the Aberdeen Group's performance targets.

In each case, the rules of the LTIP will ensure that the participant does not acquire ownership of the relevant shares until the end of the measurement period and then only to the extent that the performance targets have been satisfied.

**PORTFOLIO TRANSACTIONS AND BROKERAGE**

The Aberdeen Group's equities portfolio managers generally make and implement investment decisions using the team approach. Regional dealers execute the trades for all of the equities portfolio managers using a centralized trading structure. The Aberdeen Group manages client portfolios in accordance with any investment objectives, policies or restrictions documented by the client and acknowledged by the Aberdeen Group. In the

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case of an investment company client, such as the Fund, its investment objectives, policies and restrictions are set forth in its Prospectus, and may subsequently have been amended by stockholders or the Board of Directors as reflected in minutes of meetings of stockholders and the Board of Directors.

In selecting brokers and dealers and in effecting portfolio transactions, the Advisers, together with certain affiliated entities providing advisory services to U.S. clients (each an Aberdeen Group Adviser and, collectively, the Aberdeen Group Advisers) seek to obtain the best combination of price and execution with respect to clients' portfolio transactions. It is the policy of the Aberdeen Group Advisers to ensure that their respective client accounts, including the Fund: (1) participate in trades in a fair way; (2) participate in trades in which the intended basis of allocation is recorded before any order is (a) passed by a fund manager to a broker, or (b) instructed to a broker/counterparty; and (3) have trades allocated fairly, if only a percentage of the originally intended allocation can be filled. The Aberdeen Group Advisers are not required to aggregate transactions for client accounts. However, when a decision is made to aggregate transactions on behalf of more than one client account, those transactions will be allocated to all participating client accounts in a fair and equitable manner. The methods of allocation used by the Aberdeen Group Advisers may include *pro rata*, rotation or random allocation depending on various considerations. Regular monitoring will be employed to ensure that the Aberdeen Group Advisers' Best Execution, Soft Dollar, Order Aggregation and Trade Allocation Policies and Procedures (Procedures) are followed and satisfy the Aberdeen Group Advisers' fiduciary duty to seek best execution.

There are no specific statutory provisions or rules under the Federal securities laws applicable to best execution or trade allocation. However, based on guidance provided by the staff of the SEC, the Aberdeen Group Advisers may individually or jointly aggregate orders for the purchase and sale of securities on behalf of most investment advisory clients, including individual client accounts, investment companies and other collective investment vehicles in which the Aberdeen Group Advisers or their associated persons might have an interest, provided that based on the time each order was received, the Aberdeen Group Advisers:

Do not intentionally favor any client account over any other client account;

Ensure that each client account eligible to participate in an aggregated order participates at the average execution price for the appropriate time frame;

Aggregate trades only if consistent with the duty to seek best execution and with the terms of the relevant investment management and investment advisory agreements and applicable law;

Specify the participating client accounts and the relevant allocation method with regard to each aggregated order;

Fully disclose their aggregation policies to all clients;

Provide individual investment advice to each client account;

Do not receive any additional compensation or remuneration of any kind solely as a result of the aggregation or the allocation;

Separately reflect in their books and records, for each client account whose orders are aggregated, the securities held by, and bought and sold for, each client account;

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Deposit all funds and securities for aggregated client accounts with one or more banks, trust companies or broker-dealers and ensure that neither the clients' cash nor their securities will be held any longer than necessary to settle the purchase or sale in question; and

Provide notice of the Procedures to the boards of directors of the funds whose trades may be aggregated with those of other clients' accounts.

For the fiscal years ended October 31, 2004, 2003 and 2002, the Fund paid aggregate brokerage commissions of \$250,027.79, \$256,912.08, and \$530,237.73, respectively. There is no significant variance in the level of brokerage commissions paid in the two most recent fiscal years. When comparing brokerage

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commissions paid in 2004 and 2003 to those paid in 2002, the 2004 and 2003 figures reflect a more regular level of portfolio trading activity. Trading activity in 2002 reflects the 2001 rebalancing of the Fund's portfolio in line with the Aberdeen Group's Australian model portfolio, following Aberdeen PLC's acquisition of the business of the Fund's then investment manager and the investment adviser.

No brokerage commission was paid by the Fund, during the fiscal years ended October 31, 2004, 2003 or 2002, to any broker that: (1) was then an affiliated person of the Fund; (2) was then an affiliated person of an affiliated person of the Fund; or (3) had an affiliated person that is an affiliated person of the Fund, its investment adviser, its investment manager, or principal underwriter.

Each Aberdeen Group Adviser has a fiduciary duty to place the interests of its clients above its own interests. Among other things, this duty requires each Aberdeen Adviser to seek best execution in effecting portfolio transactions for client accounts. Steps associated with seeking best execution are to: (1) determine each client's trading requirements; (2) select appropriate trading methods, venues, and agents to execute the trades under the circumstances; (3) evaluate market liquidity of each security and take appropriate steps to avoid excessive market impact; (4) maintain client confidentiality and proprietary information inherent in the decision to trade; and (5) review the results on a periodic basis.

The SEC generally describes "best execution" as executing securities transactions so that a client's total costs or proceeds in each transaction are the most favorable under the circumstances. However, the SEC has stated that, in selecting a broker or dealer, the determining factor is not the lowest possible commission cost but rather whether the transaction represents the best qualitative execution.

In evaluating whether best execution is being obtained, the Aberdeen Group Advisers must exercise reasonable, good faith judgment to select broker-dealers that consistently provide best execution with respect to the securities they handle. It is well-recognized that broker-dealers may have different execution capabilities with respect to different types of securities. When seeking best execution and when making after-the-fact determinations as to whether best execution has been obtained, the Aberdeen Group Advisers do not adhere to any rigid formula in making the selection of the applicable broker or dealer for portfolio transactions, but will consider and evaluate the factors discussed below and document such factors as necessary:

1. *Price and Commission Rates.* The Aberdeen Group Advisers will evaluate the price at which a transaction is executed, commission rates, and total costs (price plus commission). The Advisers do not engage in principal transactions. Price and commission rates are compared among a number of broker-dealers, if available (how many will depend on the nature of the security and the markets in which it trades). Persons acting on behalf of the Fund may pay a broker a commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of brokerage services which, in the opinion of the Advisers, are necessary for the achievement of best execution, provided the Advisers believe this to be in the best interest of the Fund.

2. *Execution Capability.* Execution capability generally involves the relative ability of a broker-dealer to execute an order at the best available price, as well as the speed, quality, overall cost, and certainty of execution. Factors the Aberdeen Group Advisers may consider in assessing a broker-dealer's execution capability include, but are not limited to, the following:

speed of execution;

ratio of complete versus incomplete trades;

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the ability of the broker-dealer to minimize costs associated with implementing investment decisions;

the character of and market for the particular security;

the size and type of transaction;

the number of primary markets that are checked;

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the broker-dealer's reliability in executing trades and keeping records, including accounting for trade errors and correcting them in a satisfactory manner;

the broker-dealer's access to primary markets and quotation sources;

the broker-dealer's familiarity with and knowledge of the primary markets;

the broker-dealer's access to underwriting offerings and secondary markets;

the broker-dealer's clearance and trade settlement record (*i.e.*, record of effecting securities transactions timely);

the broker-dealer's ability to engage in cross-border or different time zone trading, when required;

the broker-dealer's ability to handle high-volume transactions without undue market impact; and

the broker-dealer's ability to handle large trades in securities with limited liquidity.

*3. Responsiveness and Financial Responsibility.* The Aberdeen Group Advisers also shall consider the broker-dealer's responsiveness, financial responsibility, creditworthiness and any other factors that may affect confidence in the broker-dealer's stability. In this regard, the Aberdeen Group Advisers shall not engage in securities transactions with any broker-dealer that is unwilling to provide complete and timely disclosure of its financial condition upon reasonable request. In addition, the Aberdeen Group Advisers may consider some or all of the following factors with respect to broker-dealers with which they do business:

the adequacy of the capital of the broker-dealers in relationship to other broker-dealers;

the broker-dealer's willingness and ability to maintain quality services during volatile market periods or unusual market conditions;

the broker-dealer's willingness to accommodate the Aberdeen Group Advisers' special needs;

accuracy in preparation of confirmations; and

the broker-dealer's willingness and ability to commit capital by taking positions in order to complete trades.

*4. Other Factors.* Other factors that the Aberdeen Group Advisers may consider in selecting broker-dealers include:



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the broker-dealer's integrity (*e.g.*, the ability to maintain confidentiality and/or anonymity of the client and/or investment adviser);

the quality of the communication links between the broker-dealer and the Aberdeen Group Advisers;

the adequacy of the information provided to the Aberdeen Group Advisers by the broker-dealer;

the broker-dealer's ability to provide *ad hoc* information or services, such as suggestions that improve the quality of trade executions, proprietary or third-party research (involving, for example, market information and identification of potential investment opportunities), visits with research analysts, access to broker-dealer staff, and access to issuers and their road-shows; and

the broker-dealer's use of electronic communication networks.

The Aberdeen Group Advisers may also consider any other factors they deem relevant to best execution, so long as such consideration is documented in a manner consistent with the Procedures. With respect to the Fund, these factors might include the broker-dealer's ability to:

execute unique trading strategies;

execute and settle difficult trades;

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handle client-directed brokerage arrangements;

implement step-outs;

participate in underwriting syndicates; and

obtain initial public offering shares.

5. *Value of Execution and Research Services Provided.* The Aberdeen Group Advisers may also consider the value of a broker-dealer's execution and research services, including, but not limited to, third party research provided to the Aberdeen Group Advisers by the broker-dealer (*i.e.*, soft dollar services), provided they fall within the safe harbor of Section 28(e) of the 1934 Act.

Effective December 2004, the Investment Manager discontinued the use of soft dollars with respect to the Fund.

## **PROXY VOTING POLICIES AND PROCEDURES**

The Fund's proxy voting policies and procedures are attached to this SAI as Appendix A. The Board has delegated to the Investment Manager and the Investment Adviser responsibility for decisions regarding proxy voting for securities held by the Fund. The Investment Manager and Investment Adviser will vote such proxies in accordance with their proxy policies and procedures, which have been reviewed by the Board, and which are attached to this SAI as Appendix B. Any material changes to the proxy voting policies and procedures of the Fund, or the Advisers, will be submitted to the Board for approval or review, as the case may be.

Information regarding how the Fund voted proxies relating to portfolio securities for the most recent 12-month period ending June 30 of each year is available (1) without charge, upon request by calling 1-866-839-5205 and (2) on the SEC's website (<http://www.sec.gov>).

## **TAXATION**

The following is intended to be a general summary of certain tax consequences that may result to the Fund and its stockholders. It is not intended as a complete discussion of all such tax consequences, nor does it purport to deal with all categories of investors. Investors are therefore advised to consult with their tax advisers before making an investment in the Fund. The summary is based on the laws in effect on the date of this Statement of Additional Information, which are subject to change.

### **United States Taxes**

**Tax Treatment of the Fund - General**

The Fund intends to continue to qualify annually to be treated as a regulated investment company under the U.S. Internal Revenue Code ( Code ).

To qualify as a regulated investment company, the Fund must, among other things, (a) derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income derived with respect to its business of investing in such stock, securities or currencies, and net income from interests in qualified publicly traded partnerships ( Qualifying Income Requirement ); (b) diversify its holdings so that, at the end of each quarter of the taxable year (i) at least 50% of the market value of the Fund 's assets is represented by cash and cash items, U.S. government securities, the securities of other regulated investment companies and other securities, with such other securities of any one issuer limited for purposes of this calculation to an amount

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not greater than 5% of the value of the Fund's total assets and 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its total assets is invested in the securities (other than U.S. government securities or the securities of other regulated investment companies) of any one issuer, any two or more issuers that the Fund controls and that are determined to be engaged in the same or similar trades or businesses (or related trades or businesses) or of one or more qualified publicly traded partnerships; and (c) distribute at least 90% of its investment company taxable income (which includes, among other items, dividends, interest, and net short-term capital gains in excess of net long-term capital losses) each taxable year. The U.S. Treasury Department has authority to promulgate regulations pursuant to which gains from foreign currency (and options, futures and forward contracts on foreign currency) not directly related to a regulated investment company's business of investing in stocks and securities would not be treated as qualifying income for purposes of the Qualifying Income Requirement. To date, such regulations have not been promulgated.

As a regulated investment company, the Fund generally will not be subject to U.S. Federal income tax on its investment company taxable income and net capital gains (net long-term capital gains in excess of the sum of net short-term capital losses and capital loss carryovers from prior years), if any, that it distributes to stockholders. However, the Fund would be subject to corporate income tax (currently at a 35% rate) on any undistributed income. The Fund intends to distribute to its stockholders, at least annually, substantially all of its investment company taxable income and net capital gains.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a non-deductible 4% excise tax. To prevent imposition of the tax, the Fund must distribute during each calendar year an amount equal to the sum of (1) at least 98% of its ordinary income (not taking into account any capital gains or losses) for the calendar year, (2) at least 98% of its capital gains in excess of its capital losses (adjusted for certain ordinary losses) for the 12-month period ending on October 31st of the calendar year, and (3) all such ordinary income and capital gains for previous years that were not distributed during such years. To prevent application of the excise tax, the Fund intends to make its distributions in accordance with the calendar year distribution requirement.

A distribution will be treated as having been paid on December 31st if it is declared by the Fund in October, November or December with a record date in such month and is paid by the Fund in January of the following year. Accordingly, such distributions will be taxable to stockholders in the calendar year in which the distributions are declared.

The Fund may distribute net capital gains at least annually and designate them as capital gain dividends where appropriate, or, alternatively, the Fund may choose to retain net capital gains and pay corporate income tax (and, possibly, an excise tax) thereon. In the event that the Fund retains net capital gains, the Fund would most likely make an election which would require each stockholder of record on the last day of the Fund's taxable year to include in gross income for U.S. Federal tax purposes his or her proportionate share of the Fund's undistributed net capital gain. If such an election were made, each stockholder would be entitled to credit his or her proportionate share of the tax paid by the Fund against his or her Federal income tax liabilities and to claim a refund to the extent that the credit exceeds such liabilities. Tax-qualified pension plans and individual retirement accounts ( IRAs ) (through their custodian or trustee), as well as nonresident aliens and foreign corporations, can obtain a refund of their proportionate shares of the tax paid by the Fund by filing a U.S. Federal income tax return. In addition, the stockholder would be entitled to increase the basis of the shares for U.S. Federal tax purposes by an amount equal to 65% of his or her proportionate share of the undistributed net capital gain.

If in any taxable year the Fund fails to qualify as a regulated investment company under the Code, the Fund will be taxed in the same manner as an ordinary corporation and distributions to its stockholders will not be deductible by the Fund in computing its taxable income. In addition, in the event of a failure to qualify, the Fund's distributions, to the extent derived from the Fund's current or accumulated earnings and profits, will be taxable to stockholders as dividend income. However, such dividends will be eligible (i) to be treated as qualified dividend income in the case of stockholders taxed as individuals and (ii) for the dividends received deduction in



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the case of corporate shareholders. If the Fund fails to qualify as a regulated investment company in any year, it must pay out its earnings and profits accumulated in that year and may be required to recognize any net unrealized gains on its entire portfolio in order to requalify as a regulated investment company.

## **Distributions**

For Federal income tax purposes, dividends paid by the Fund out of its investment company taxable income generally will be taxable to a U.S. stockholder as ordinary income. To the extent that the Fund designates distributions of net capital gains as capital gain dividends, such distributions will be taxable to a stockholder as long-term gain, regardless of how long the stockholder has held the Fund's shares, and are not eligible for the dividends-received deduction. Distributions in excess of the Fund's current and accumulated earnings and profits will first reduce a stockholder's basis in his shares and, after the stockholder's basis is reduced to zero, will constitute capital gains to a stockholder who holds his shares as capital assets.

Because none of the Fund's income is expected to consist of dividends paid by U.S. corporations, none of the dividends paid by the Fund is expected to be eligible for the corporate dividends-received deduction.

A portion of the dividends received from the Fund by an individual stockholder may be treated as qualified dividend income which is taxable to individuals at the same rates that are applicable to long-term capital gains. A Fund distribution will be treated as qualified dividend income to the extent that the Fund receives dividend income from taxable domestic corporations and certain qualified foreign corporations, provided that certain holding period and other requirements are met. Fund distributions generally will not qualify as qualified dividend income to the extent attributable to interest, capital gains, REIT distributions and, in many cases, distributions from non-U.S. corporations.

Fund distributions are taxable to stockholders in the same manner whether received in cash or reinvested in additional Fund shares.

Stockholders participating in the Plan receiving a distribution in the form of newly-issued shares will be treated for U.S. Federal income tax purposes as receiving a distribution in an amount equal to the fair market value, determined as of the distribution date, of the shares received and will have a cost basis in each share received equal to the fair market value of a share of the Fund on the distribution date. Stockholders participating in the Plan receiving a distribution in the form of shares purchased by the Plan Agent in the open market will be treated for U.S. Federal income tax purposes as receiving a distribution of the cash that such stockholder would have received had it not elected to have such distribution reinvested and will have a cost basis in such shares equal to the amount of such distribution. Stockholders will be notified annually as to the U.S. Federal tax status of distributions, and stockholders receiving distributions in the form of newly-issued shares will receive a report as to the fair market value of the shares received.

Under United States 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 31st.

## **Sale of Shares**

Upon the sale or other disposition of shares of the Fund, or upon receipt of a distribution in complete liquidation of the Fund, a stockholder may realize a taxable gain or loss depending upon his basis in the shares. The gain or loss generally will be treated as capital gain or loss if the shares are capital assets in the stockholder's hands and generally will be long-term or short-term gain, depending upon the stockholder's holding period for the shares. Any loss realized on a sale or exchange will be disallowed to the extent the shares disposed of are

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replaced within a period of 61 days beginning 30 days before and ending 30 days after the shares are disposed of. In that case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Any loss realized by a stockholder on a disposition of Fund shares held by the stockholder for six months or less will be treated as long-term capital loss to the extent of any distributions of capital gain dividends received by the stockholder with respect to the shares.

### **Passive Foreign Investment Companies**

If the Fund invests in stock of certain foreign investment companies, the Fund may be subject to U.S. Federal income taxation on a portion of any excess distribution with respect to, or gain from the disposition of, such stock. The tax would be determined by allocating such distribution or gain ratably to each day of the Fund's holding period for the stock. The distribution or gain so allocated to any taxable year of the Fund, other than the taxable year of the excess distribution or disposition, would be taxed to the Fund at the highest ordinary income tax rate in effect for such year, and the tax would be further increased by an interest charge to reflect the value of the tax deferral deemed to have resulted from the ownership of the foreign company's stock. Any amount of distribution or gain allocated to the taxable year of the distribution or disposition would be included in the Fund's investment company taxable income and, accordingly, would not be taxable to the Fund to the extent distributed by the Fund as a dividend to its stockholders.

The Fund may be able to make an election, in lieu of being taxable in the manner described above, to include annually in income its pro rata share of the ordinary earnings and net capital gain of the foreign investment company, regardless of whether it actually received any distributions from the foreign company. These amounts would be included in the Fund's investment company taxable income and net capital gain which, to the extent distributed by the Fund as ordinary or capital gain dividends, as the case may be, would not be taxable to the Fund. In order to make this election, the Fund would be required to obtain certain annual information from the foreign investment companies in which it invests, which in many cases may be difficult to obtain. Alternatively, if eligible, the Fund may be able to elect to mark to market its foreign investment company stock, resulting in the stock being treated as sold at fair market value on the last business day of each taxable year. Any resulting gain, and any gain from an actual disposition of the stock, would be reported as ordinary income. Any resulting loss would be deductible to the extent of any net mark-to-market gain (that is, previously included mark-to-market gain that has not been offset by mark-to-market losses). Any allowable mark-to-market loss, as well as any loss from an actual disposition of the stock (to the extent not in excess of any net mark-to-market gain) would be treated as ordinary loss. The Fund may make either of these elections with respect to its investments in foreign investment companies.

### **Currency Fluctuations Section 988 Gains or Losses**

Under the Code, the gains or losses attributable to fluctuations in exchange rates which occur between the time the Fund accrues receivables or liabilities denominated in a currency which is not a functional currency for the Fund and the time the Fund actually collects such receivables or pays such liabilities generally are treated as ordinary income or ordinary loss. Similarly, on disposition of debt securities denominated in a currency which is not a functional currency of the Fund, gains or losses attributable to fluctuations in the value of the currency between the date of acquisition of the security and the date of disposition are also treated as ordinary gain or loss. These gains or losses, referred to under the Code as Section 988 gains or losses, may increase or decrease the amount of the Fund's investment company taxable income to be distributed to its stockholders as ordinary income.

For federal income and excise tax purposes, the Fund uses the Australian dollar as its functional currency in accounting for its investments in Australia and New Zealand. Gains and losses on non-Australian investments will first be translated into the Australian dollar equivalent, which may result in Section 988 gains or losses as described above, and then into their U.S. dollar equivalent for purposes of computing U.S. tax liabilities. Because the Australian dollar is the functional currency of the Fund, the Fund is not required to take into account gains or





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losses attributable to fluctuations in the value of this functional currency, which otherwise would be treated as Section 988 gains or losses, described above. However, remittances from Australia or New Zealand to the United States will result in recognition of ordinary gains or losses attributable to fluctuations in the value of the Australian dollar.

### **Certain Securities Transactions**

#### *Options, Futures and Forward Contracts.*

The premium received by the Fund for writing a put or call option is not included in income at the time of receipt for equity options and over-the-counter options on debt securities. If the option expires, the premium is short-term capital gain to the Fund. If the Fund enters into a closing transaction, the difference between the amount paid to close out its position and the premium received is short-term capital gain or loss. If a call option written by the Fund is exercised, thereby requiring the Fund to sell the underlying security, the premium will increase the amount realized upon the sale of such security and any resulting gain or loss will be a capital gain or loss, and will be long-term or short-term depending upon the holding period of the security. If a put option written by the Fund is exercised, thereby requiring the Fund to purchase the underlying security, the premium will decrease the Fund's basis for the acquired security for purposes of determining the Fund's gain or loss on a subsequent disposition of the acquired security. If the Fund sells a put or a call option it purchased, any resulting gain or loss will be a capital gain or loss, and will be long-term or short-term, depending upon the holding period of the option. If the option expires, the resulting loss is a capital loss and is long-term or short-term, depending upon the holding period of the option. If the option is exercised, the cost of the option, in the case of a call option, is added to the basis of the purchased security and, in the case of a put option, reduces the amount realized on the sale of the underlying security in determining gain or loss.

Any regulated futures contracts and certain options (namely, non-equity options and dealer equity options) in which the Fund may invest may be section 1256 contracts. Gains (or losses) on these contracts generally are considered to be 60% long-term and 40% short-term capital gains or losses. Also, Section 1256 contracts held by the Fund at the end of each taxable year (and on certain other dates prescribed in the Code) are marked to market with the result that unrealized gains or losses are treated as though they were realized.

Transactions in options, futures and forward contracts undertaken by the Fund may result in straddles under the Code. The straddle rules may affect the character of gains (or losses) realized by the Fund, and losses realized by the Fund on positions that are part of a straddle may be deferred under the straddle rules, rather than being taken into account in calculating the taxable income for the taxable year in which the losses are realized. In addition, certain carrying charges (including interest expense) associated with positions in a straddle may be required to be capitalized rather than deducted currently.

Certain elections that the Fund may make with respect to its straddle positions may also affect the amount, character and timing of the recognition of gains or losses from the affected positions.

The straddle rules may increase the amount of short-term capital gain realized by the Fund, which is taxed as ordinary income when distributed to stockholders. Because application of the straddle rules may affect the character of gains or losses, defer losses and/or accelerate the recognition of gains or losses from the affected straddle positions, the amount which must be distributed to stockholders as ordinary income or long-term capital gain may be increased or decreased substantially as compared to a fund that did not engage in such transactions.

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*Constructive Sales.* Under certain circumstances, the Fund may recognize gain from a constructive sale of an appreciated financial position it holds if it enters into a short sale, forward contract or other transaction that substantially reduces the risk of loss with respect to the appreciated position. In that event, the Fund would be treated as if it had sold and immediately repurchased the property and would be taxed on any gain (but not loss) from the constructive sale. The character of gain from a constructive sale would depend upon the Fund's holding

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period in the property. Loss from a constructive sale would be recognized when the property was subsequently disposed of, and its character would depend on the Fund's holding period and the application of various loss deferral provisions of the Code. Constructive sale treatment does not apply to transactions closed before the end of the 30th day after the close of the taxable year, if certain conditions are met.

## **Foreign Withholding Taxes**

Income received by the Fund from sources within foreign countries may be subject to withholding and other taxes imposed by such countries. For example, the Fund's dividend income derived from Australian sources generally is subject to a 15% Australian withholding tax. If more than 50% of the value of the Fund's total assets at the close of its taxable year consists of securities of foreign corporations, the Fund will be eligible and intends to elect to pass-through to the Fund's stockholders the amount of foreign taxes paid by the Fund. Pursuant to this election, a stockholder will be required to include in gross income (in addition to taxable dividends actually received) his proportionate share of the foreign taxes paid by the Fund, and will be entitled either to deduct (as an itemized deduction) his pro rata share of foreign taxes in computing his taxable income or to use it as a foreign tax credit against his U.S. Federal income tax liability, subject to limitations. No deduction for foreign taxes may be claimed by an individual stockholder who does not itemize deductions. The deduction for foreign taxes is not allowable in computing alternative minimum taxable income of non-corporate stockholders. A foreign stockholder may be subject to U.S. withholding tax on such foreign taxes included in income, and may be unable to claim a deduction or credit for such taxes. Each stockholder will be notified within 60 days after the close of the Fund's taxable year whether the foreign taxes paid by the Fund will pass-through for the year and of the amount of such taxes deemed paid by the stockholder.

Generally, a credit for foreign taxes is subject to the limitation that it may not exceed the stockholder's U.S. tax attributable to his foreign source taxable income. For this purpose, if the pass-through election is made, the source of the Fund's income flows through to its stockholders. With respect to the Fund, certain gain from the sale of securities will be treated as derived from U.S. sources, and currency fluctuation gains, including fluctuation gains from certain foreign currency denominated debt securities, receivables and payables, may be treated as ordinary income derived from U.S. sources. The limitation on the foreign tax credit is applied separately to foreign source passive income (as defined for purposes of the foreign tax credit), including the foreign source passive income passed through by the Fund. Stockholders may be unable to claim a credit for the full amount of their proportionate share of the foreign taxes paid by the Fund. The foreign tax credit limitation rules do not apply to certain electing individual taxpayers who have limited creditable foreign taxes and no foreign source income other than passive investment-type income. The foreign tax credit generally is eliminated with respect to foreign taxes withheld on income and gain if the Fund or its stockholders fail to satisfy minimum holding period requirements with respect to the property giving rise to the income and gain, or the shares of the Fund, as appropriate. In addition, if the Fund fails to satisfy these holding period requirements, it cannot elect to pass through to stockholders the ability to claim a deduction for the related foreign taxes. If the Fund is not eligible to make the election to pass through to its stockholders its foreign taxes, the foreign taxes it pays will reduce its income and distributions by the Fund will be treated as U.S. source income.

The foregoing is only a general description of the foreign tax credit and, because application of the credit depends on the particular circumstances of each stockholder, stockholders are advised to consult their own tax advisers.

## **Backup Withholding**

The Fund may be required to withhold U.S. Federal income tax at the rate of 28% of all taxable distributions payable to stockholders who fail to provide the Fund with their correct taxpayer identification number or to make required certifications, or when the Internal Revenue Service has notified the Fund or a stockholder that the stockholder is subject to backup withholding. Corporate stockholders and certain other stockholders specified in the Code generally are exempt from such backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be credited against the stockholder's U.S. Federal income tax liability.



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### **Foreign Stockholders**

U.S. taxation of a stockholder who, as to the United States, is a non-resident alien individual, a foreign trust or estate, a foreign corporation or foreign partnership ( foreign stockholder ) depends on whether the income from the Fund is effectively connected with a U.S. trade or business carried on by such stockholder.

*Income Not Effectively Connected.* If the income from the Fund is not effectively connected with a U.S. trade or business carried on by the foreign stockholder, distributions of investment company taxable income will be subject to a U.S. tax of 30% (or lower treaty rate), which tax is generally withheld from such distributions.

Distributions of capital gain dividends and amounts retained by the Fund which are designated as undistributed capital gains will not be subject to U.S. tax at the rate of 30% (or lower treaty rate) unless the foreign stockholder is a non-resident alien individual and is physically present in the United States for more than 182 days during the taxable year and meets certain other requirements. However, this 30% tax on capital gains of non-resident alien individuals who are physically present in the United States for more than the 182-day period only applies in exceptional cases because any individual present in the United States for more than 182 days during the taxable year is generally treated as a resident for U.S. Federal income tax purposes; in that case, he or she would be subject to U.S. Federal income tax on his or her worldwide income at the graduated rates applicable to U.S. citizens, rather than the 30% U.S. tax. If the Fund retains net capital gains and elects to treat such net capital gains as having been distributed, a foreign stockholder would have to file a return to obtain a refund of the stockholder's proportionate share of U.S. taxes paid by the Fund as a result of the retention of net capital gains (see Tax Treatment of the Fund - General for a discussion of the retention of net capital gains). In the case of a foreign stockholder who is a non-resident alien individual, the Fund may be required to withhold U.S. Federal income tax at a rate of 28% of distributions of net capital gains unless the foreign stockholder certifies his or her non-U.S. status under penalties of perjury or otherwise establishes an exemption. See Backup Withholding above. If a foreign stockholder is a non-resident alien individual, any gain such stockholder realizes upon the sale or exchange of such stockholder's shares of the Fund in the United States will ordinarily be exempt from U.S. tax unless such stockholder is physically present in the United States for more than 182 days during the taxable year and meets certain other requirements, or is otherwise considered to be a resident alien of the United States.

For Fund taxable years beginning after December 31, 2004 and before January 1, 2008, a portion of Fund distributions received by a foreign stockholder may, however, be exempt from U.S. withholding tax to the extent attributable to U.S. source interest income and short-term capital gains. Also, for that same three-year period, U.S. estate taxes may not apply to that portion of shares held by a non-U.S. investor that is attributable to Fund assets consisting of certain debt obligations or other property treated as not within the United States for U.S. estate tax purposes. Although not anticipated, Fund distributions, if any, made during such three year period that are attributable to gains from the sale or exchange of U.S. real property interests, which the Code defines to include direct holdings of U.S. real property and interests (other than solely as a creditor) in U.S. real property holding corporations, (including certain non-domestically-controlled REITs), will be taxable to foreign stockholders and will require such stockholders to file U.S. income tax returns.

*Income Effectively Connected.* If the income from the Fund is effectively connected with a U.S. trade or business carried on by a foreign stockholder, then distributions of investment company taxable income and capital gain dividends, amounts retained by the Fund which are designated as undistributed capital gains and any gains realized upon the sale or exchange of shares of the Fund will be subject to U.S. Federal income tax at the graduated rates applicable to U.S. citizens, residents and domestic corporations. Such stockholders that are classified as corporations for U.S. tax purposes may also be subject to the branch profits tax imposed by the Code.

The tax consequences to a foreign stockholder entitled to claim the benefits of an applicable tax treaty may be different from those described herein. Foreign stockholders are advised to consult their own tax advisers with respect to the particular tax consequences to them of an investment in the Fund.



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### **Other Taxation**

Distributions also may be subject to additional state, local and foreign taxes depending on each stockholder's particular situation. Stockholders are advised to consult their own tax advisers with respect to the particular tax consequences to them of an investment in the Fund.

### **Australian Taxes**

The following discussion is based upon the advice of Blake Dawson Waldron, Australian counsel for the Fund, and is a general and non-exhaustive summary of Australian tax considerations which may be applicable to the Fund under current law.

Under current Australian law, the Fund will be regarded as a non-resident of Australia. Pursuant to the United States Australia Double Tax Agreement ( Tax Agreement ) and assuming the Fund to be a resident of the United States for the purposes of the Tax Agreement and a qualified person entitled to the benefits of the Tax Agreement, the Fund will be liable to taxation in Australia on its business profits only if the Fund carries on business in Australia at or through a permanent establishment, and those business profits are attributable to the Fund's Australian permanent establishment. Generally, the Fund will not be regarded as having a permanent establishment in Australia if it has no fixed place of business in Australia through which it carries on business and if there is no person (other than a broker, general commission agent or other agent of independent status acting in the ordinary course of his or her business) in Australia who has authority to conclude contracts on behalf of the Fund and habitually exercises that authority.

The Fund does not intend to have a fixed place of business in Australia or to give any person (other than a broker, general commission agent or other agent of independent status acting in the ordinary course of his or her business) in Australia the authority to conclude contracts on behalf of the Fund, and accordingly, the Fund should not be regarded as having a permanent establishment in Australia. As a result, none of the Fund's profits arising from the carrying on of its business in Australia should be subject to Australian taxes.

The Fund will be subject to interest withholding tax at the rate of 10% on all interest payments and payments in the nature of interest (including discounts on money market securities) paid by a resident of Australia, or by a non-resident of Australia making the interest payment in carrying on business at or through a permanent establishment in Australia (unless the particular issue of securities qualifies for an exemption from interest withholding tax). Australian interest withholding tax does not apply to interest on Eurodollar obligations issued by non-residents of Australia where the interest is not an expense incurred by the issuer in carrying on business in Australia at or through a permanent establishment in Australia of that non-resident. See Taxation - United States Taxes - Foreign Withholding Taxes. Generally, the Fund will not be subject to a stamp duty on its investments in government and semi-government securities, promissory notes and bills of exchange.

The Fund will be subject to dividend withholding tax at the rate of 15% on all dividends paid by Australian resident companies, unless a lower rate of withholding tax or an exemption is provided by the Tax Agreement. However, dividends paid by Australian resident companies to the Fund will not be subject to dividend withholding tax to the extent that they have been franked under the Australian imputation rules. Australia's system of dividend imputation, also known as franking, allows a company declaring a dividend to give the shareholder a credit (a franking credit) that represents the amount of tax already paid by the company. A company which declares a dividend out of profits which have borne the full rate of Australian corporate tax can attach franking credits to the dividend such that the dividend is fully franked. A fully franked dividend will not be subject to Australian dividend withholding tax. However, to the extent that dividends are declared from profits which have not borne the full rate of Australian corporate tax that portion of the dividend will be subject to dividend withholding tax at the rate of 15%, unless a lower rate of withholding tax or an exemption is provided by the Tax Agreement.





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**CUSTODIAN AND TRANSFER, DIVIDEND DISBURSING AND DIVIDEND REINVESTMENT PLAN AGENT**

Pursuant to a Custodian Contract dated November 25, 1985, as amended from time to time, State Street Bank and Trust Company ( State Street ), which has its principal business office at One Heritage Drive, North Quincy, Massachusetts 02171, acts as the Fund s custodian for assets of the Fund held in the United States. The Board has authorized the delegation of various foreign custody responsibilities to State Street, as the Foreign Custody Manager for the Fund to the extent permitted under the 1940 Act and the rules thereunder. State Street has entered into agreements with foreign sub-custodians in accordance with delegation instructions approved by the Board. State Street, its branches and sub-custodians generally hold certificates for the securities in their custody, but may, in certain cases, have book records with domestic and foreign securities depositories, which in turn have book records with the transfer agents of the issuers of the securities.

Pursuant to a Stock Transfer Agency Agreement dated July 19, 2004, as amended from time to time, The Bank of New York, which has its principal business office at 101 Barclay Street, New York, New York 10286, acts as the Fund s transfer, dividend disbursing and dividend reinvestment plan agent.

**EXPERTS**

The financial statements, insofar as they relate to the periods through October 31, 2004, included in this registration statement have been so included in reliance on the report of PricewaterhouseCoopers LLP ( PwC ), the Fund s independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing. The principal place of business of PwC is located at 300 Madison Avenue, New York, New York 10017. PwC provides audit services, tax return preparation, and assistance and consultation with respect to the preparation of filings with the SEC.

**LEGAL MATTERS**

The validity of the Shares offered hereby will be passed on for the Fund by Dechert LLP, 1775 I Street N.W., Washington D.C. 20006. Dechert LLP will rely as to matters of Maryland law on the opinion of Venable LLP, Two Hopkins Plaza, Suite 1800, Baltimore, Maryland 21201-2978. Matters of Australian law will be passed on for the Fund by Blake Dawson Waldron, Level 36, Grosvenor Place, 225 George Street, Sydney NSW 2000, Australia.

Dechert LLP, 1775 I Street N.W., Washington D.C. 20006, is counsel to the Fund and has represented the Fund in connection with this registration statement. Sander M. Bieber, a member of Dechert LLP, serves as an Assistant Secretary to the Fund.

McDermott, Will & Emery LLP, 50 Rockefeller Plaza, New York, New York 10020, is counsel to the Selling Stockholder and has represented the Selling Stockholder in connection with this registration statement.

**Table of Contents****Portfolio of Investments****October 31, 2004**

| Shares                              | Description                                   | Value<br>(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       |
|                                     |   | 22,250,351      |
| <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       |
|                                     |   | 28,143,232      |
| <b>Energy 1.5%</b>                  |   |                 |
| 188,000                             | Woodside Petroleum Limited                    | 2,734,105       |
| <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      |
|                                     |   | 60,976,249      |
| <b>Industrials 6.1%</b>             |   |                 |
| 981,000                             | Leighton Holdings Limited*                    | \$ 8,192,232    |
| 1,089,000                           | Quantas Airway Limited                        | 2,700,582       |
|                                     |   | 10,892,814      |
| <b>Materials 10.3%</b>              |   |                 |
| 1,026,000                           | BHP Billiton Limited                          | 10,614,232      |
| 283,000                             | Rio Tinto Limited                             | 7,736,757       |
|                                     |   | 18,350,989      |

|   |  |  |                       |
|---|--|--|-----------------------|
| <b>Property 4.2%</b>                                |  |  | <b>7,574,060</b>      |
| 675,999   | Westfield Group Limited                    |  |                       |
| <b>Telecommunication Services 9.5%</b>              |  |  |                       |
| 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<br>(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.

**Table of Contents****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.

**Table of Contents****Statement of Operations****Year Ended October 31, 2004****Net Investment Income**

|   |                      |
|---|----------------------|
| Income  |                      |
| Dividends (net of foreign withholding taxes of \$259,441)                           | \$ 7,343,711         |
| Interest  | 276,203              |
| Income from securities loaned, net  | 25,838               |
|   |                      |
| Total income  | 7,645,752            |
|   |                      |
| <b>Expenses</b>   |                      |
| 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               |
|   |                      |
| Total operating expenses  | 2,902,640            |
|   |                      |
| Net investment income   | 4,743,112            |
|   |                      |
| <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            |
|   |                      |
|   | 13,349,872           |
|   |                      |
| Net change in unrealized appreciation on investments                                | 16,279,442           |
| Net change in unrealized foreign exchange losses                                    | (154,910)            |
|   |                      |
|   | 16,124,532           |
|   |                      |
| Net gain on investments and foreign currencies                                      | 29,474,404           |
|   |                      |
| <b>Net Increase In Net Assets Resulting From Operations</b>                         | <b>\$ 34,217,516</b> |
|   |                      |

See Notes to Financial Statements.

**Table of Contents****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.

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**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 available prices are not reliable, shall be determined in a manner that most fairly reflects the asset's (or group of assets) fair value.



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(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

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**Notes to Financial Statements (Continued)**

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 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, 2004 was US\$0.75 to A\$1.00.

*Securities Transactions and Net Investment Income:*

Securities transactions are recorded on the trade date. Realized and unrealized gains (losses) from security and currency transactions are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis. Expenses are recorded on an accrual basis.

*Dividends and Distributions:*

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.

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**Notes to Financial Statements (Continued)**

On an annual basis, the Fund intends to distribute its net realized capital gains, if any, by way of a final distribution to be declared during the calendar quarter ending December 31. Dividends and distributions to shareholders are recorded on the ex-dividend date.

Income distributions and capital and currency gains distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences are primarily due to differing treatments for foreign currencies.

*Taxes:*

For federal income and excise tax purposes, substantially all of the Fund's transactions are accounted for using the Australian dollar as the functional currency. Accordingly, only realized currency gains (losses) resulting from the repatriation of Australian dollars into United States dollars are recognized for U.S. tax purposes.

It is the Fund's policy to continue to meet the requirements of the United States Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable net income and capital gains, if any, to shareholders. Therefore, no provision for United States income taxes is required. Australia imposes a withholding tax of 15% on certain dividends and 10% on certain interest.

*Securities Lending:*

The Fund's investment policies permit the Fund to lend to banks and broker-dealers, portfolio securities with an aggregate market value of up to one-third of the Fund's total assets when it deems advisable. Pursuant to a securities lending agreement ( Agreement ) between the Fund and State Street Bank and Trust Company ( State Street ), any loans made under the Agreement must be secured by collateral (consisting of any combination of U.S. currency and securities issued or guaranteed by the U.S. government or its agencies, or irrevocable bank letters of credit) in an amount at least equal, on a daily marked-to-market basis, to 100% of the current market value of the securities loaned.

The Agreement also provides that the Fund may terminate the loans at any time and demand the return of the securities, and that the Fund will continue to receive all interest, dividends and other distributions obtained on any of the loaned securities and will continue to have voting rights with respect to the securities.

In the event the Fund lends its portfolio securities, the Fund may be exposed to counterparty risk, which may result in the delay in recovery of the loaned securities or possible loss of right in the collateral should the borrower become insolvent.

*Use of Estimates:*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Note 2. Agreements**

In December 2003, the Fund's Board of Directors approved the transfer by Aberdeen Asset Managers (C.I.) Limited ( AAMCIL ) to Aberdeen Asset Management Asia Limited ( AAMAL ) of the rights and obligations of AAMCIL under the management agreement and the advisory agreement with the Fund. Effective March 8, 2004, AAMAL became the investment manager of the Fund (the Investment Manager ). Aberdeen Asset

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**Notes to Financial Statements (Continued)**

Management Limited (the Investment Adviser) serves as the investment adviser to the Fund pursuant to an advisory agreement. The Investment Manager and the Investment Adviser are direct or indirect wholly-owned subsidiaries, respectively, of Aberdeen Asset Management PLC.

The Investment Manager makes investment decisions on behalf of the Fund on the basis of recommendations and information furnished to it by the Investment Adviser, including the selection of and the placement of orders with brokers and dealers to execute portfolio transactions on behalf of the Fund.

The management agreement provides the Investment Manager with a fee, computed weekly and payable monthly, at the following annual rates: 1.10% of the Fund's average weekly Managed Assets up to \$50 million, 0.90% of Managed Assets between \$50 million and \$100 million and 0.70% of Managed Assets in excess of \$100 million. Managed Assets are defined in the management agreement as net assets plus the amount of any borrowings for investment purposes.

The Investment Manager pays fees to the Investment Adviser for its services rendered. AAMCIL, the Fund's investment manager through March 7, 2004 and AAMAL, the Fund's current investment manager, informed the Fund that it paid \$374,426 to the Investment Adviser during the year ended October 31, 2004.

During the year ended October 31, 2004, Prudential Investments LLC (Prudential) served as administrator to the Fund pursuant to an agreement which provided Prudential with a fee at the annual rate of the greater of \$25,000 or 0.05% of the Fund's average weekly net assets. Effective November 1, 2004, Aberdeen Asset Management Inc. (AAMI), an affiliate of the Fund's Investment Manager and Investment Adviser, became the Fund's administrator, pursuant to an agreement under which AAMI receives a fee at an annual rate equal to 0.04% of the Fund's average weekly net assets.

Under terms of an Investor Relations Services Agreement, AAMI serves as the Fund's investor relations services provider. This agreement provides AAMI with a monthly retainer fee of \$5,000 plus out-of-pocket expenses. During the year ended October 31, 2004, the Fund incurred fees of approximately \$60,000 for the services of AAMI. As of October 31, 2004, \$5,000 was due to AAMI. Investor relations fees and expenses in the Statement of Operations include certain out-of-pocket expenses.

**Note 3. Portfolio Securities**

Purchases and sales of investment securities, other than short-term investments, for the year ended October 31, 2004 aggregated \$37,279,094 and \$43,360,352, respectively.

As of October 31, 2004, the Fund had securities on loan with an aggregate market value of \$449,476. The Fund received \$507,725 in securities as collateral for securities on loan in accordance with the Fund's securities lending procedures. The collateral consisted of United States Treasury bonds and notes.

**Note 4. Distributions and Tax Information**

Distributions to shareholders, which are determined in accordance with federal income tax regulations and which may differ from generally accepted accounting principles, are recorded on the ex-dividend date. In order to present undistributed net investment income (loss) and accumulated net realized gains (losses) on the Statement of Assets and Liabilities in a way that more closely represents their tax character, certain adjustments have been made to paid-in capital in excess of par, undistributed net investment income (loss) and accumulated net realized gains (losses) on investments.

For the year ended October 31, 2004, the Fund decreased distributions in excess of net investment income by \$16,329, decreased accumulated net realized loss on investments by \$22,517 and increased accumulated

**Table of Contents****Notes to Financial Statements (Continued)**

realized foreign exchange losses by \$38,846. Net investment income, net realized gains and net assets were not affected by this change. These differences are primarily due to differing treatments for foreign currencies.

As of October 31, 2004, there were no distributable earnings.

For the year ended October 31, 2004, the tax character of total distributions paid was \$5,068,817 of ordinary income, \$6,088,832 of long-term capital gains and \$1,928,603 of return of paid-in capital. For the year ended October 31, 2003, the tax character of total dividends paid was \$1,677,682 of ordinary income and \$1,174,365 of long-term capital gains.

The United States federal income tax basis of the Fund's investments and the net unrealized appreciation as of October 31, 2004 were as follows:

| <b>Tax</b>        |                     |                       | <b>Other Cost<br/>Basis</b> | <b>Net</b>                         |
|-------------------|---------------------|-----------------------|-----------------------------|------------------------------------|
| <b>Cost Basis</b> | <b>Appreciation</b> | <b>(Depreciation)</b> | <b>Adjustment</b>           | <b>Unrealized<br/>Appreciation</b> |
| \$137,016,709     | \$39,066,612        | \$(2,623,989)         | \$(53,362)                  | \$36,389,261                       |

The difference between book and tax basis is primarily attributable to deferred losses on foreign currency transactions and tax straddles.

**Note 5. Capital**

There are 20 million shares of \$0.01 par value common stock authorized. At October 31, 2004 there were 16,777,298 shares issued and outstanding.

On March 1, 2001, the Board of Directors approved a stock repurchase program. The stock repurchase program allows the Fund to repurchase up to 10% of its outstanding common stock in the open market during any 12 month period if and when the discount to net asset value is at least 10%. For fiscal years ended October 31, 2004 and October 31, 2003, the Fund repurchased and cancelled under this program 0 and 116,200 shares, respectively.

Based on filings with the Securities and Exchange Commission, on February 26, 2004, Bankgesellschaft Berlin (A.G.) was the beneficial owner of 5,374,949 shares of common stock. This number of shares represented approximately 32% of the outstanding shares of the Fund as of the date of this report.



**Note 6. Distributions**

The Board of Directors of the Fund declared on December 20, 2004 a quarterly distribution of \$0.25 per share, payable on January 14, 2005 to shareholders of record on December 31, 2004.

**Note 7. Litigation**

As previously reported to shareholders, Full Value Partners, L.P. ( Full Value ) filed a purported class action on behalf of the Fund's shareholders, in Newark, New Jersey federal court in March 2003 against both the Fund and its Board of Directors. Full Value sought injunctive relief enjoining (i) the effectuation of a then proposed tender offer, (ii) the enforcement of certain bylaw amendments, and (iii) the overturning of any wrongful election of directors of the Fund. The Fund and its Directors believed, and continue to believe, that the claims were without merit. On March 31, 2004, as part of a settlement agreement, Full Value's claims were dismissed with prejudice. Full Value determined that it would not proceed with the suit if the Fund agreed to pay Full Value's legal fees of approximately \$81,000. The Fund has paid such amount to Full Value, without any admission of liability, in order to avoid additional litigation expense. The Fund has been reimbursed by its insurance carrier for 90% of the amount it paid in this settlement. Thus, the amount of the litigation settlement in the Statement of Operations is \$8,100.

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors of Aberdeen Australia Equity Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Aberdeen Australia Equity Fund, Inc. (the Fund ) at October 31, 2004, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements ) are the responsibility of the Fund s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2004 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, New York

December 21, 2004

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**Table of Contents****Portfolio of Investments (Unaudited)**

April 30, 2005

| Shares                             | Description                                   | (US\$)            |
|------------------------------------|---|-------------------|
| <b>LONG-TERM INVESTMENTS 97.8%</b> |   |                   |
| <b>Common Stocks 97.8%</b>         |   |                   |
| <b>Consumer Discretionary 9.5%</b> |   |                   |
| 1,265,000                          | APN News & Media Corporation Limited          | \$ 4,731,132      |
| 490,000                            | Billabong International Limited               | 4,380,671         |
| 720,000                            | TABCORP Holdings Limited                      | 8,713,712         |
|                                    |   | <b>17,825,515</b> |
| <b>Consumer Staples 13.5%</b>      |   |                   |
| 1,443,000                          | Foster s Group Limited                        | 5,768,665         |
| 870,000                            | Lion Nathan Limited                           | 4,952,059         |
| 1,396,533                          | McGuigan Simeon Wines Limited                 | 4,416,166         |
| 865,000                            | Woolworths Limited                            | 10,326,725        |
|                                    |   | <b>25,463,615</b> |
| <b>Energy 1.8%</b>                 |   |                   |
| 188,000                            | Woodside Petroleum Limited                    | <b>3,449,568</b>  |
| <b>Financials 34.9%</b>            |   |                   |
| 960,000                            | Australia & New Zealand Banking Group Limited | 16,168,153        |
| 294,000                            | Australian Stock Exchange Limited             | 4,572,731         |
| 530,000                            | Bendigo Bank Limited                          | 3,902,353         |
| 238,000                            | Commonwealth Bank of Australia                | 6,753,065         |
| 1,224,635                          | QBE Insurance Group Limited*                  | 14,247,280        |
| 470,000                            | Suncorp-Metway Limited                        | 7,236,754         |
| 860,000                            | Westpac Banking Corporation Limited           | 13,060,418        |
|                                    |   | <b>65,940,754</b> |
| <b>Shares</b>                      |   |                   |
| <b>Description</b>                 |   |                   |
| <b>(US\$)</b>                      |   |                   |
| <b>Industrials 8.0%</b>            |   |                   |
| 775,000                            | Downer EDI Limited                            | \$ 2,735,138      |
| 1,020,000                          | Leighton Holdings Limited                     | 7,884,504         |
| 1,810,000                          | Qantas Airways Limited                        | 4,550,650         |
|                                    |   | <b>15,170,292</b> |
| <b>Materials 11.7%</b>             |   |                   |
| 1,026,000                          | BHP Billiton Limited                          | 12,849,634        |
| 283,000                            | Rio Tinto Limited                             | 9,147,993         |
|                                    |   | <b>21,997,627</b> |
| <b>Property 5.0%</b>               |   |                   |
| 746,000                            | Westfield Group Limited                       | <b>9,447,757</b>  |

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|  |  |  |                       |
|--|--|--|-----------------------|
| <b>Telecommunications 10.1%</b>            |  |  |                       |
| 2,677,000                                  | Telecom Corporation of New Zealand Limited |  | 11,809,618            |
| 1,932,000                                  | Telstra Corporation Limited                |  | 7,301,154             |
|  |  |  | <b>19,110,772</b>     |
| <b>Utilities 3.3%</b>                      |  |  |                       |
| 550,000                                    | Australian Gas Light Company Limited       |  | 6,166,747             |
|  |  |  | <b>184,572,647</b>    |
| <b>Total long-term Investments 97.8%</b>   |  |  |                       |
| <b>(cost \$116,188,177)</b>                |  |  | <b>184,572,647</b>    |
| Other assets in excess of liabilities 2.2% |  |  | 4,147,570             |
|  |  |  | <b>\$ 188,720,217</b> |

\* Portion of security is on loan. (See Note 3)

**Tax Cost of Investments**

The United States federal income tax basis of the Fund's investments and net unrealized appreciation as of April 30, 2005 were as follows

| Cost           | Appreciation | Depreciation   | Net<br>Unrealized<br>Appreciation |
|----------------|--------------|----------------|-----------------------------------|
| \$ 142,878,308 | \$45,757,184 | \$ (4,062,845) | \$ 41,694,339                     |

See Notes to Financial Statements.

**Table of Contents****Statement of Assets and Liabilities (Unaudited)**

April 30, 2005

|   |                       |
|---|-----------------------|
| <b>Assets</b>   |                       |
| Investments, at value (including \$1,234,985 of securities on loan) (cost \$116,188,177) (Note 3) | \$ 184,572,647        |
| Foreign currency, at value (cost \$4,200,443)   | 4,219,790             |
| Cash  | 125,659               |
| Dividends receivable  | 211,516               |
| Other Assets  | 139,334               |
|   | <hr/>                 |
| Total assets  | 189,268,946           |
|   | <hr/>                 |
| <b>Liabilities</b>  |                       |
| Investment management fee payable   | 172,038               |
| Administration fee payable  | 7,794                 |
| Accrued expenses and other liabilities  | 368,897               |
|   | <hr/>                 |
| Total liabilities   | 548,729               |
|   | <hr/>                 |
| <b>Net Assets</b>   | <b>\$ 188,720,217</b> |
|   | <hr/>                 |
| <b>Composition of Net Assets</b>  |                       |
| Common Stock (par value \$.01 per share)  | \$ 167,773            |
| Paid-in capital in excess of par  | 134,082,419           |
| Distributions in excess of net investment income  | (5,407,987)           |
| Accumulated net realized gains on investment transactions   | 7,060,792             |
| Net unrealized appreciation on investments  | 41,694,339            |
| Accumulated net realized foreign exchange losses  | (15,589,667)          |
| Net unrealized foreign exchange gains   | 26,712,548            |
|   | <hr/>                 |
| <b>Net Assets</b>   | <b>\$ 188,720,217</b> |
|   | <hr/>                 |
| Net asset value per common share based on (16,777,298 shares issued and outstanding)              | \$11.25               |
|   | <hr/>                 |

See Notes to Financial Statements.

**Table of Contents****Statement of Operations (Unaudited)****For the Six Months Ended April 30, 2005****Net Investment Income**

|  |                      |
|--|----------------------|
| Income   |                      |
| Dividends (net of foreign withholding taxes of \$162,788)                                  | \$ 4,481,562         |
| Interest   | 81,187               |
| Income from securities loaned, net   | 1,127                |
|  | <u>4,563,876</u>     |
| Expenses   |                      |
| Investment management fee  | 822,887              |
| Insurance expense  | 114,055              |
| Directors' fees and expenses   | 104,261              |
| Legal fees and expenses  | 100,732              |
| Custodian's fees and expenses  | 75,213               |
| Independent auditors' fees and expenses  | 64,124               |
| Administration fee   | 38,521               |
| Reports to shareholders and proxy solicitation   | 36,933               |
| Investor relations fees and expenses   | 29,132               |
| Transfer agent's fees and expenses   | 18,755               |
| Miscellaneous  | 9,351                |
|  | <u>1,413,964</u>     |
| Total operating expenses   | 1,413,964            |
| Net investment income  | <u>3,149,912</u>     |
| <b>Realized and Unrealized Gains/(Losses) on Investments, Swaps and Foreign Currencies</b> |                      |
| Net realized gain/(loss) on:   |                      |
| Investment transactions  | 7,114,154            |
| Foreign currency transactions  | 333,105              |
|  | <u>7,447,259</u>     |
| Net change in unrealized appreciation/(depreciation) of:                                   |                      |
| Investment transactions  | 5,251,716            |
| Foreign currency translations  | 2,877,118            |
|  | <u>8,128,834</u>     |
| <b>Net Increase in Net Assets Resulting from Operations</b>                                | <u>\$ 18,726,005</u> |

See Notes to Financial Statements.

**Table of Contents****Statement of Changes in Net Assets**

|  | <b>For the<br/>Six Months<br/>Ended<br/>April 30, 2005<br/>(unaudited)</b> | <b>For the<br/>Year<br/>Ended<br/>October 31, 2004</b> |
|--|--|--|
| <b>Increase (Decrease) in Net Assets</b>   |  |  |
| <b>Operations</b>  |  |  |
| Net investment income  | \$ 3,149,912   | \$ 4,743,112   |
| Net realized gains/(losses) on investments   | 7,114,154  | 5,906,261  |
| Net realized gains/(losses) on foreign currency transactions                                       | 333,105  | 7,443,611  |
| Net change in unrealized appreciation/(depreciation) of investments                                | 5,251,716  | 16,279,442   |
| Net change in unrealized appreciation/(depreciation) on foreign currency translations              | 2,877,118  | (154,910)  |
|  | <u>18,726,005</u>  | <u>34,217,516</u>                                      |
| <b>Dividends and Distributions to Shareholders</b>   |  |  |
| From net investment income   | (3,149,912)  | (5,068,817)  |
| In excess of net investment income   | (5,406,511)  |  |
| From long-term capital gains   |  | (6,088,832)  |
| Tax return of capital  |  | (1,928,603)  |
|  | <u>(8,556,423)</u>   | <u>(13,086,252)</u>                                    |
| <b>Net Increase in Net Assets Resulting from Operations</b>  | <u>10,169,582</u>  | <u>21,131,264</u>                                      |
| <b>Net Assets</b>  |  |  |
| Beginning of period  | 178,550,635  | 157,419,371  |
| End of period (including accumulated investment loss of (\$5,407,987) and (\$1,476), respectively) | <u>\$ 188,720,217</u>  | <u>\$ 178,550,635</u>                                  |

See Notes to Financial Statements.

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**Notes to Financial Statements (Unaudited)**

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 available prices are not reliable, shall be determined in a manner that most fairly reflects the asset's (or group of assets) fair value.



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(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

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**Notes to Financial Statements (Unaudited) (Continued)**

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 April 30, 2005. 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 six months ended April 30, 2005.

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 exchange rate. Accumulated net realized and unrealized foreign exchange gains/(losses) shown in the composition of net assets at April 30, 2005 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 April 30, 2005 was US\$0.78 to A\$1.00.

*Securities Transactions and Net Investment Income:*

Securities transactions are recorded on the trade date. Realized and unrealized gains (losses) from security and currency transactions are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis. Expenses are recorded on an accrual basis.

*Dividends and Distributions:*

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. In March 2005, the Board of Directors determined the rolling distribution rate to be 10%, for the 12 month period commencing with the distribution payable in April 2005. 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.

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**Notes to Financial Statements (Unaudited) (Continued)**

On an annual basis, the Fund intends to distribute its net realized capital gains, if any, by way of a final distribution to be declared during the calendar quarter ending December 31. Dividends and distributions to shareholders are recorded on the ex-dividend date.

Income distributions and capital and currency gains distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences are primarily due to differing treatments for foreign currencies.

*Taxes:*

For federal income and excise tax purposes, substantially all of the Fund's transactions are accounted for using the Australian dollar as the functional currency. Accordingly, only realized currency gains/(losses) resulting from the repatriation of Australian dollars into United States dollars are recognized for U.S. tax purposes.

It is the Fund's policy to continue to meet the requirements of the United States Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable net income and capital gains, if any, to shareholders. Therefore, no provision for United States income taxes is required.

*Securities Lending:*

The Fund's investment policies permit the Fund to lend to banks and broker-dealers, portfolio securities with an aggregate market value of up to one-third of the Fund's total assets when it deems advisable. Pursuant to a securities lending agreement ( Agreement ) between the Fund and State Street Bank and Trust Company ( State Street ), any loans made under the Agreement must be secured by collateral (consisting of any combination of U.S. currency and securities issued or guaranteed by the U.S. government or its agencies, or irrevocable bank letters of credit) in an amount at least equal, on a daily marked-to-market basis, to 100% of the current market value of the securities loaned.

The Agreement also provides that the Fund may terminate the loans at any time and demand the return of the securities, and that the Fund will continue to receive all interest, dividends and other distributions obtained on any of the loaned securities and will continue to have voting rights with respect to the securities.

In the event the Fund lends its portfolio securities, the Fund may be exposed to counterparty risk, which may result in the delay in recovery of the loaned securities or possible loss of rights in the collateral should the borrower become insolvent.

*Use of Estimates:*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Note 2. Agreements**

Aberdeen Asset Management Asia Limited (the Investment Manager ) serves as investment manager to the Fund and Aberdeen Asset Management Limited (the Investment Adviser ) serves as investment adviser to the Fund, pursuant to a management agreement and an advisory agreement, respectively. The Investment Manager and the Investment Adviser are direct or indirect wholly-owned subsidiaries, respectively, of Aberdeen Asset Management PLC.

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**Notes to Financial Statements (Unaudited) (Continued)**

The Investment Manager makes investment decisions on behalf of the Fund on the basis of recommendations and information furnished to it by the Investment Adviser, including the selection of and responsibility for the placement of orders with brokers and dealers to execute portfolio transactions on behalf of the Fund.

The management agreement provides the Investment Manager with a fee, computed weekly and payable monthly, at the following annual rates: 1.10% of the Fund's average weekly Managed Assets up to \$50 million, 0.90% of Managed Assets between \$50 million and \$100 million and 0.70% of Managed Assets in excess of \$100 million. Managed Assets are defined in the management agreement as net assets plus the amount of any borrowings for investment purposes.

The Investment Manager pays fees to the Investment Adviser for its services rendered. The Fund's Investment Manager informed the Fund that it paid \$202,684 to the Investment Adviser during the six months ended April 30, 2005.

Aberdeen Asset Managers (C.I.) Limited ( AAMCIL ), an affiliate of the Investment Manager and the Investment Adviser, provided certain trading and administrative services to the Fund pursuant to memoranda of understanding among the Investment Manager, the Investment Adviser and AAMCIL. The Investment Manager informed the Fund that the Investment Manager and the Investment Adviser paid \$204,611 to AAMCIL during the six months ended April 30, 2005.

Aberdeen Asset Management Inc. ( AAMI ), an affiliate of the Fund's Investment Manager and Investment Adviser, is the Fund's administrator, pursuant to an agreement under which AAMI receives a fee at an annual rate equal to 0.04% of the Fund's average weekly net assets, computed based upon the net asset values applicable to the shares of common stock and the amount of any borrowings for investment purposes.

Under terms of an Investor Relations Services Agreement, AAMI serves as the Fund's investor relations services provider. This agreement provides AAMI with a monthly retainer fee of \$5,000 plus out-of-pocket expenses. During the six months ended April 30, 2005, the Fund incurred fees of approximately \$25,180 for the services of AAMI. Investor relations fees and expenses in the Statement of Operations include certain out-of-pocket expenses.

**Note 3. Portfolio Securities**

Purchases and sales of investment securities, other than short-term investments, for the six months ended April 30, 2005 aggregated \$21,867,717 and \$26,129,818, respectively.

As of April 30, 2005, the Fund had securities on loan with an aggregate market value of \$1,234,985. The Fund received \$1,305,694 in securities as collateral for securities on loan in accordance with the Fund's securities lending procedures. The collateral consisted of United States Treasury bonds and notes.

**Note 4. Capital**

There are 20 million shares of \$0.01 par value common stock authorized. At April 30, 2005 there were 16,777,298 shares issued and outstanding.

On March 1, 2001, the Board of Directors approved a stock repurchase program. The stock repurchase program allows the Fund to repurchase up to 10% of its outstanding common stock in the open market during any 12 month period if and when the discount to net asset value is at least 10%. For the six months ended April 30, 2005 and the fiscal year ended October 31, 2004, the Fund did not repurchase or cancel any shares under this program.

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**Notes to Financial Statements (Unaudited) (Concluded)**

Based on filings with the Securities and Exchange Commission, on May 23, 2005, Bankgesellschaft Berlin (A.G.) was the beneficial owner of 4,879,450 shares of common stock. This number of shares represented approximately 29% of the outstanding shares of the Fund as of June 20, 2005.

**Note 5. Distributions**

The Board of Directors of the Fund declared on June 20, 2005 a quarterly distribution of \$0.26 per share, payable on July 15, 2005 to shareholders of record on June 30, 2005.

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**Appendix A**

**THE ABERDEEN FUNDS**

**PROXY VOTING POLICY AND PROCEDURES**

**AMENDED AND RESTATED DECEMBER 9, 2004**

***I. Statement of Policy***

The following are general proxy voting policies and procedures ( Policies and Procedures ) adopted by the Aberdeen investment companies that are registered with the U.S. Securities and Exchange Commission ( SEC ) under the Investment Company Act of 1940, as amended ( 1940 Act ), ( Funds ) and each a Fund by the Boards of Directors ( Boards ) which oversee the Funds with respect to voting securities held by the Funds. These Policies and Procedures are adopted to ensure compliance with Rule 30b1-4 of the 1940 Act and other applicable obligations of the Funds under the rules and regulations of the SEC and interpretations of its staff ( Staff ). It is the policy of the Funds to seek to assure that proxies received by each Fund are voted in the best interest of each Fund's stockholders.

***II. Definitions***

A. Best interest of Fund stockholders means stockholders' best economic interest over the long term, *i.e.*, the common interest that all stockholders have in seeing the value of a common investment increase over time. Stockholders may have differing political or social interests, but their best economic interest is generally uniform.

B. Conflict of interest means circumstances when a proxy vote presents a conflict between the interests of Fund stockholders, on the one hand, and those of the Fund's investment manager,<sup>2</sup> investment adviser,<sup>3</sup> principal underwriter, or an affiliated person of the Fund, its Manager, Adviser, or principal underwriter, on the other, in how proxies are voted. In practical terms, these circumstances generally would arise when a Fund's Manager or Adviser knowingly does business with a particular proxy issuer or closely affiliated entity, and may appear to have a material conflict between its own interests and the interests of stockholders in how proxies of that issuer are voted. A conflict might exist in circumstances when the Fund's Manager or Adviser has actual knowledge of a material business arrangement between a particular proxy issuer (or closely affiliated entity) and the parent company or a corporate affiliate of the Fund's Manager or Adviser. The Funds believe that a conflict of interest generally would not arise merely because a proxy issuer has a material business arrangement with a Fund's principal underwriter, or with an affiliated person of the principal underwriter or the Funds (other than a Fund's Manager or Adviser or their respective parent company), because (1) each Fund's Manager or Adviser will generally make proxy voting decisions for the Fund under the delegation arrangements described below; (2) each Fund's principal underwriter is not affiliated with its Manager or Adviser and will not have any input into the Manager's or Adviser's proxy voting decisions for the Fund; (3) other affiliated persons of the principal underwriter or the Fund (other than the Fund's Manager or Adviser) likewise will not have any input into proxy voting decisions for the Fund; and (4) each Fund's Manager or Adviser is unlikely to be aware of, or have any interest in, any business arrangement between the proxy issuer and the Fund's principal underwriter, or between the proxy issuer and an affiliated person of the principal underwriter or the Fund.

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<sup>1</sup> Currently, the only Funds are closed-end funds consisting of Aberdeen Australia Equity Fund, Inc. ( IAF ), Aberdeen Asia-Pacific Income Fund, Inc. ( FAX ), and Aberdeen Global Income Fund, Inc. ( FCO ). These Policies and Procedures will only be implemented by the Funds to the extent that they invest in voting securities. At this time, FAX and FCO invest only in fixed income, or non-voting, securities. Each Fund

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will file a disclosure report to the extent required by law.

<sup>2</sup> Aberdeen Asset Management Asia Limited serves as investment manager ( **Manager** ) to each Fund.

<sup>3</sup> Aberdeen Asset Management Limited serves as investment adviser ( **Adviser** ) to each Fund.

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### ***III. Delegation of Responsibility for Proxy Voting***

A. Each Fund's Board annually evaluates its Fund's contract with its Manager and Adviser, and decides whether to renew the contract. This process gives each Fund an annual opportunity to ensure that its Manager's and Adviser's investment philosophy is generally consistent with its investment objectives and the best economic interests of its stockholders.

B. Because the investment philosophy of each Fund's Manager and Adviser is generally consistent with the investment objectives of the Fund and the best economic interests of Fund stockholders, investment decisions for each Fund should generally be consistent with its Manager's and Adviser's philosophy. In proxy voting decisions, as in other investment decisions, each Fund's Manager or Adviser is in the best position to determine whether a particular proxy proposal is consistent with its philosophy, and therefore generally consistent with the investment objectives of the Fund and the best economic interests of Fund stockholders.

C. Accordingly, each Fund has chosen to delegate all responsibility for proxy voting to its Manager and Adviser, provided that each Fund's Board has the opportunity to periodically review and approve their proxy voting policies and any material amendments (and that the policies contains provisions to address any conflicts of interest as described below). The Trade Processing Department of the Administrator<sup>4</sup> will serve as the Proxy Administrator and will take responsibility for ensuring, among other things, that the vote for each proxy is cast in accordance with the proxy voting policies and procedures of the Manager and the Adviser. A Proxy Committee of the Manager and Adviser will take responsibility for determining whether and how to vote each proxy, whether a conflict of interest exists, and how such conflicts are to be resolved in accordance with the proxy voting policies and procedures of the Manager and the Adviser.

Under this delegation, the Manager and Adviser may vote, abstain from voting, or take no action on proxies for a Fund in any manner consistent with the Manager's and Adviser's proxy voting policies (subject to provisions for addressing conflicts of interest). Each Fund may revoke all or part of such delegation at any time by a vote of its Board. In the event that a Fund revokes the delegation of proxy voting responsibility to its Manager and Adviser, the Fund will assume full responsibility for ensuring that proxies are voted in the best interest of its stockholders, and will promptly notify stockholders of the revocation. Thereafter, such Fund will vote proxies of portfolio securities consistently with the policies of its Manager and Adviser, or develop its own basis for voting on particular matters.

D. This delegation generally applies to all proxy voting matters on which each Fund may vote, such as corporate governance matters (including changes in the state of incorporation, mergers and other corporate restructurings, and anti-takeover provisions such as staggered boards, poison pills, and supermajority provisions); changes to capital structure, including increases and decreases of capital and preferred stock issuance; stock option plans and other management compensation issues; and social and corporate responsibility issues. This delegation permits the Manager and Adviser to vote (or abstain from voting or take no action on) proxies relating to matters that may affect substantially the rights or privileges of the holders of securities to be voted, and to vote based on the Adviser's decisions or on provisions of the Manager's and Adviser's proxy policies that may support or give weight to the views of management of a portfolio company.

### ***IV. Conflicts of Interest***

A. Each Fund recognizes that in unusual circumstances, a conflict of interest in how proxies are voted may appear to exist, such as when its Manager or Adviser knowingly does business with a particular proxy issuer or closely affiliated entity or has actual knowledge of a material business arrangement between a particular proxy issuer or closely affiliated entity, and the adviser's parent or an affiliated subsidiary.

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<sup>4</sup> Aberdeen Asset Management Inc. serves as administrator ( Administrator ) to each Fund.

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B. In those circumstances, to avoid any appearance concerns, each Fund believes it is appropriate for its Manager or Adviser to follow an alternative voting procedure rather than to vote proxies in the Manager's or Adviser's sole discretion. Some examples of acceptable alternative voting procedures for resolving conflicts of interest include the following:

- (1) Causing the proxies to be echo voted or mirror voted in the same proportion as the votes of other proxy holders that are not Fund stockholders;
- (2) Causing the proxies to be voted in accordance with the recommendations of an independent service provider that the Manager or Adviser may use to assist it in voting proxies;
- (3) Notifying a Fund's Board, a designated Board committee or a representative of either, of the conflict of interest and seeking a waiver of the conflict to permit the Manager or Adviser to vote the proxies as it chooses under its usual policy; or
- (4) Forwarding the proxies to a Fund's Board, a designated Board committee or a representative of either, so that the Board, the committee or the representative may vote the proxies itself.

C. Each Fund generally delegates all responsibility for resolving conflicts of interest to the Fund's Adviser, provided that the Adviser's proxy voting policy (as approved by the Fund's Board) includes acceptable alternative voting procedures for resolving material conflicts of interest, such as the procedures described above. Under this delegation, the Adviser may resolve conflicts of interest in any reasonable manner consistent with the alternative voting procedures described in its proxy voting policy. Each Fund may revoke all or part of this delegation at any time by a vote of its Board. In the event that a Fund revokes the delegation of responsibility for resolving conflicts of interest to the Adviser, the Fund will seek to resolve any conflicts of interest in the best interest of stockholders. In doing so, the Fund may follow any of the procedures described in Paragraph III.B., above.

## ***V. Disclosure of Policy or Description/Proxy Voting Record***

A. Each Fund, unless it invests exclusively in non-voting securities, will disclose its proxy voting policy or a description of it (and its Manager's and Adviser's proxy voting policy, or a description of them), in the Fund's annual report on Form N-CSR (beginning with the first annual report filed on or after July 1, 2003). The Fund will disclose that this proxy voting policy or a description of it (and the Manager's and Adviser's proxy voting policy or a description) is available without charge, upon request, (1) by calling, toll-free, 1-800-522-5465; and (2) on the SEC's website at <http://www.sec.gov>. Upon any request for a proxy voting policy or description of it, the policy or the description (or a copy of the most recent annual report containing the policy or description) will be sent by first-class mail or other equally prompt delivery method within three business days of receipt of the request.

B. Each Fund will also disclose in its annual report (beginning with the first annual report filed on or after August 31, 2004) that information is available about how the Fund voted proxies during the most recent twelve-month period ended June 30, (1) by calling, toll-free, 1-800-522-5465; and (ii) on the SEC's website at <http://www.sec.gov>. Upon any request for the Fund's proxy voting record, a copy of the information disclosed in its most recent Form N-PX will be sent by first-class mail or other equally prompt delivery method within three business days of receipt of the request.

C. Each Fund will file Form N-PX, completed and signed in the manner required, containing its proxy voting record for the most recent twelve-month period ended June 30 with the SEC.

D. Each Fund will disclose the following information on Form N-PX for each matter relating to a portfolio security considered at any stockholder meeting held during the period covered by the report and with respect to which the Fund was entitled to vote:

The name of the issuer of the portfolio security;

The exchange ticker symbol of the portfolio security except to the extent not available through reasonably practicable means;

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The Council on Uniform Securities Identification Procedures ( CUSIP ) number for the portfolio security except to the extent not available through reasonably practicable means;

The stockholder meeting date;

A brief identification of the matter voted on;

Whether the matter was proposed by the issuer or by a security holder;

Whether the Fund cast its vote on the matter;

How the Fund cast its vote (*e.g.*, for or against proposal, or abstain; for or withhold regarding election of directors); and

Whether the Fund cast its vote for or against management.

Adopted effective December 9, 2004.

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**Table of Contents****Appendix B****Aberdeen U.S. Registered Advisers****Proxy Voting Policies and Procedures**

The following are proxy voting policies and procedures ( Policies and Procedures ) adopted by affiliated investment advisers registered with the U.S. Securities and Exchange Commission ( SEC ) under the Investment Advisers Act of 1940, as amended ( Advisers Act ), that are subsidiaries of Aberdeen Asset Management PLC ( AAM ); including, specifically, Aberdeen Asset Management Inc., a Delaware Corporation, ( Aberdeen US ), Aberdeen Asset Management Asia Limited, a Singapore Corporation ( Aberdeen Singapore ), Aberdeen Asset Management Limited, an Australian Corporation ( Aberdeen AU ), and Aberdeen Asset Management Investment Services Limited ( AAMISL ), (collectively referred to herein as Aberdeen Advisers and each an Aberdeen Adviser ) (collectively with AAM, Aberdeen ). These policies and procedures address proxy voting considerations under U.S. law and regulation and do not address the laws or requirements of other jurisdictions. Pursuant to a Memorandum of Understanding ( MOU ), Aberdeen Asset Managers Limited ( Aberdeen UK ), a non-US registered adviser, provides advisory resources to certain U.S. clients of Aberdeen Singapore and Aberdeen AU. In addition, Aberdeen UK provides advisory resources to certain U.S. clients of Aberdeen US pursuant to another MOU. Under these MOUs, the affiliates of the Aberdeen Advisers may provide various portfolio management resources, including substantive advice on voting proxies for certain equity securities. To the extent that Aberdeen UK provides advisory services to any clients of Aberdeen US or to U.S. clients of Aberdeen Singapore or Aberdeen AU, Aberdeen UK will be subject to the control and supervision of the registered adviser and will follow these Policies and Procedures as part of providing such advisory services. These Policies and Procedures are adopted to ensure compliance by the Aberdeen Advisers with Rule 206(4)-6 under the Advisers Act and other applicable fiduciary obligations under rules and regulations of the SEC and interpretations of its staff with respect to proxies for voting securities held by client portfolios.

Clients may consist of investment companies registered under the Investment Company Act of 1940, as amended ( 1940 Act ) ( Funds and each a Fund ), and other U.S. residents as well as non-U.S. registered funds or clients. Any Aberdeen Adviser located in the United States follows these Policies and Procedures for each of its respective clients as required under the Advisers Act and other applicable law, unless expressly directed by a client in writing to refrain from voting that client's proxies or to vote in accordance with the client's proxy voting policies and procedures. Aberdeen Advisers located outside the U.S. may provide proxy voting services to their non-U.S. based clients in accordance with the jurisdiction in which the client is located. Aberdeen Advisers who advise or subadvise the Funds follow both these Policies and Procedures and the proxy voting policies and procedures adopted by the Funds and their Boards of Directors.

**I. Definitions**

A. Best interest of clients . Clients' best economic interests over the long term that is, the common interest that all clients share in seeing the value of a common investment increase over time. Clients may have differing political or social interests, but their best economic interest is generally uniform.

B. Material conflict of interest . Circumstances when an Aberdeen Adviser or any member of senior management, portfolio manager or portfolio analyst knowingly does business with a particular proxy issuer or closely affiliated entity, which may appear to create a material conflict between the interests of the Aberdeen Adviser and the interests of its clients in how proxies of that issuer are voted. A material conflict of interest might also exist in unusual circumstances when Aberdeen has actual knowledge of a material business arrangement between a particular proxy issuer or closely affiliated entity and an affiliate of an Aberdeen Adviser.



**II. General Voting Policies**

A. *Client's Best Interest.* These Policies and Procedures are designed and implemented in a way that is reasonably expected to ensure that proxies are voted in the best interests of clients. Proxies are voted with the aim

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of furthering the best economic interests of clients, promoting high levels of corporate governance and adequate disclosure of company policies, activities and returns, including fair and equal treatment of stockholders.

*B. Shareholder Activism.* Aberdeen Advisers seek to develop relationships with the management of portfolio companies to encourage transparency and improvements in the treatment of employees, owners and stakeholders. Thus, Aberdeen Advisers may engage in dialogue with the management of portfolio companies with respect to pending proxy voting issues.

*C. Case-by-Case Basis.* These Policies and Procedures are guidelines. Each vote is ultimately cast on a case-by-case basis, taking into consideration the contractual obligations under the advisory agreement or comparable document, and all other relevant facts and circumstances at the time of the vote. Aberdeen Advisers may cast proxy votes in favor of management proposals or seek to change the views of management, considering specific issues as they arise on their merits. Aberdeen Advisers may also join with other investment managers in seeking to submit a shareholder proposal to a company or to oppose a proposal submitted by the company. Such action may be based on fundamental, social, environmental or human rights grounds.

*D. Individualized.* These Policies and Procedures are tailored to suit Aberdeen's advisory business and the types of securities portfolios Aberdeen Advisers manage. To the extent that clients (*e.g.*, investment companies, corporations, pension plans) have adopted their own procedures, Aberdeen Advisers may vote the same securities differently depending upon clients' directions.

*E. Material Conflicts of Interest.* Material conflicts are resolved in the best interest of clients. When a material conflict of interest between an Aberdeen Adviser and its respective client(s) is identified, the Aberdeen Adviser will choose among the procedures set forth in Section IV.B.2. below, to resolve such conflict.

*F. Limitations.* The circumstances under which Aberdeen may take a limited role in voting proxies, include the following:

- 1. No Responsibility.* Aberdeen Advisers will not vote proxies for client accounts in which the client contract specifies that Aberdeen will not vote. Under such circumstances, the clients' custodians are instructed to mail proxy material directly to such clients.
- 2. Limited Value.* Aberdeen Advisers may abstain from voting a client proxy if the effect on shareholders' economic interests or the value of the portfolio holding is indeterminable or insignificant. Aberdeen Advisers may also abstain from voting the proxies of portfolio companies held in their passively managed funds. Proxies with respect to securities that have been sold before the date of the shareholders meeting and are no longer held by a client generally will not be voted.
- 3. Unjustifiable Costs.* Aberdeen may abstain from voting a client proxy for cost reasons (*e.g.*, non-U.S. securities).
- 4. Securities Lending Arrangements.* If voting securities are part of a securities lending program, Aberdeen may be unable to vote while the securities are on loan.

5. Share Blocking. Certain jurisdictions may impose share blocking restrictions at various times which may prevent Aberdeen from exercising its voting authority.

6. Special Considerations. Aberdeen's responsibilities for voting proxies are determined generally by its obligations under each advisory contract or similar document. If a client requests in writing that an Aberdeen Adviser vote its proxy in a manner inconsistent with these Policies and Procedures, Aberdeen may follow the client's direction or may request that the client vote the proxy directly.

G. *Sources of Information.* Aberdeen may conduct research internally and/or use the resources of an independent research consultant. Aberdeen may consider legislative materials, studies of corporate governance and other proxy voting issues, and/or analyses of shareholder and management proposals by a certain sector of companies, *e.g.*, Fortune 500 companies.

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H. *Subadvisers.* To the extent that an Aberdeen Adviser may rely on subadvisers, whether affiliated or unaffiliated, to manage any client portfolio on a discretionary basis, the Aberdeen Adviser will delegate responsibility for voting proxies to the subadviser. However, such subadvisers will be required either to follow these Policies and Procedures or to demonstrate that their proxy voting policies and procedures are consistent with these Policies and Procedures or otherwise implemented in the best interests of Aberdeen clients.

I. *Availability of Policies and Procedures.* Aberdeen Advisers will provide clients with a copy of these Policies and Procedures, as revised from time to time, upon request.

J. *Disclosure of Vote.* As disclosed in Part II of each Aberdeen Adviser's Form ADV, a client may obtain information on how its proxies were voted by requesting such information from its Aberdeen Adviser. Aberdeen Advisers do not generally disclose client proxy votes to third parties, other than as required for Funds, unless specifically requested, in writing, by the client.

## **III. Specific Voting Policies**

### *A. General Philosophy.*

Support existing management on votes on the financial statements of a company and the election of the Board of Directors;

Vote for the acceptance of the accounts unless there are grounds to suspect that either the accounts as presented or audit procedures used, do not present an accurate picture of company results; and

Support routine issues such as the appointment of independent auditors, allocation of income and the declaration of stock (scrip) dividend proposals provided there is a cash alternative.

B. *Anti-Takeover Measures.* Aberdeen Advisers vote on anti-takeover measures on a case-by-case basis taking into consideration such factors as the long-term financial performance of the target company relative to its industry competition. Key measures of performance will include the growth rates for sales, operating income, net income and total shareholder returns. Other factors which will be considered include margin analysis, cash flow and debt levels.

C. *Proxy Contests for Control.* Aberdeen Advisers vote on proxy contests for control on a case-by-case basis taking into consideration such factors as long-term financial performance of the target company relative to its industry, management's track record, background to the proxy contest, qualifications of director nominees, evaluation of what each side is offering shareholders as well as the likelihood that the proposed objectives and goals can be met, and stock ownership positions.

D. *Contested Elections.* Aberdeen Advisers vote on contested elections on a case-by-case basis taking into consideration such factors as the qualifications of all director nominees. Aberdeen Advisers also consider the independence of board and key committee members and the corporate governance practices of the company.

E. *Executive Compensation Proposals.* Aberdeen Advisers consider such proposals on a case-by-case basis taking into consideration such factors as executive pay and spending perquisites, particularly in conjunction with sub-par performance and employee layoffs.

F. *Shareholder Proposals.* Aberdeen Advisers consider such proposals on a case-by-case basis. Aberdeen Advisers support those proposals which will improve the company's corporate governance or business profile at a reasonable cost, but may oppose proposals which result in significant cost being incurred with little or no benefit to the company or its shareholders.

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### **IV. Proxy Voting Procedures**

This section applies to each Aberdeen Adviser except to the extent that certain procedures are identified as applicable only to a specific Aberdeen Adviser.

*A. Obtain Proxy.* Registered owners of record, *e.g.*, trustees or custodian banks, that receive proxy materials from the issuer or its information agent, are instructed to sign physical proxy cards in blank and forward directly to the relevant Aberdeen Adviser's proxy administrator ( PA ). Proxies may also be delivered electronically by custodians using proxy services such as ProxyEdge. Each proxy received is matched to the securities to be voted.

#### *B. Material Conflicts of Interest.*

1. Identify the existence of any material conflicts of interest relating to the securities to be voted or the issue at hand. Portfolio managers and research analysts ( Analysts ) and senior management of each Aberdeen Adviser have an affirmative duty to disclose to the relevant proxy committees any personal conflicts such as officer or director positions held by them, their spouses or close relatives in the portfolio company or attempts by the portfolio company to exert influence over such person with respect to their vote. Conflicts based on business relationships or dealings of affiliates of any Aberdeen Adviser will only be considered to the extent that the Aberdeen Adviser has actual knowledge of such business relationships.

2. When a material conflict of interest between an Aberdeen Adviser's interests and its clients' interests appears to exist, the Aberdeen Adviser may choose among the following options to eliminate such conflict: (1) vote in accordance with these Policies and Procedures if it involves little or no discretion; (2) vote as recommended by a third party service if the Aberdeen Adviser utilizes such a service; (3) echo vote or mirror vote the proxies in the same proportion as the votes of other proxy holders that are not Aberdeen clients; (4) if possible, erect information barriers around the person or persons making voting decisions sufficient to insulate the decision from the conflict; (5) if practical, notify affected clients of the conflict of interest and seek a waiver of the conflict; or (6) if agreed upon in writing with the client, forward the proxies to affected clients allowing them to vote their own proxies.

*C. Analysts.* The PA for each Aberdeen Adviser will ensure that each proxy statement is directed to the appropriate Analyst. If a third party recommendation service has been retained, the relevant PA will forward the proxy statement to the Analyst with the recommendation highlighted. The Analyst will determine whether to vote as recommended by the service provider or to recommend an alternative and shall advise the PA. The Analyst may consult with the PA as necessary. If the Analyst recommends voting against the third party recommendation, he or she is responsible for documenting the reasons for such recommendation and that no conflict of interest influenced such recommendation. If no third party recommendation service is utilized or if no recommendation is provided, the Analyst is responsible for documenting the rationale for his or her vote recommendation.

*D. Vote.* The following describes the breakdown of responsibilities between the PA and the Proxy Committee ( PC ) of each Aberdeen Adviser in voting portfolio securities and the extent to which the Aberdeen Advisers rely on third party service providers.

#### 1. Aberdeen US Clients

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The PA for Aberdeen US ( PA-FL ), who resides in Ft. Lauderdale, and the PA for Aberdeen UK ( PA-UK ), which is part of the Trade Processing Department resident in Scotland, are responsible for ensuring that votes for Aberdeen US clients are cast and cast in accordance with these Policies and Procedures. The PA-FL and the PA-UK are identified more specifically on Appendix A1. The PA-FL is primarily responsible for administering proxy votes for the Phoenix funds which are sub-advised by Aberdeen US and the US closed-end Funds for which Aberdeen Singapore is the Manager.

Responsibility for considering the substantive issues relating to any vote and for deciding how shares will be voted resides with the relevant Analyst whether located in Aberdeen US, Aberdeen UK, Aberdeen AU or Aberdeen Singapore. Under Aberdeen-FL's MOU with Aberdeen Singapore, the relevant Analyst for Far East equity securities will generally reside in Aberdeen Singapore.

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In the event that a material conflict of interest is identified by any Analyst, whether in Aberdeen US, Aberdeen UK, Aberdeen AU or Aberdeen Singapore, or AAMISL decisions on how to vote will be referred to the Aberdeen US proxy committee ( PC-FL/UK ). Under Aberdeen US s MOU with Aberdeen UK, the PC-FL/UK is headquartered in Glasgow, Scotland, and includes the Chief Investment Officer or Deputy Chief Investment Officer, the head of the Socially Responsible Investing ( SRI ) Team and a member of the Compliance team, who are more specifically identified on Appendix A1. The PC-FL/UK meets as needed to consider material conflicts of interest or any other items raising unique issues. If the PC-FL/UK determines that there is no material conflict of interest, the vote recommendation will be forwarded to the appropriate proxy administrator, either the PA-FL or PA-UK. If a material conflict of interest is identified, the PC-FL/UK will follow the conflict of interest procedures set forth in Section IV.B.2., above.

Aberdeen US has engaged ProxyEdge, a third party service provider, to cast votes electronically for certain clients and to maintain records of such votes electronically. The Phoenix Funds, sub-advised by Aberdeen US, require electronic voting through ProxyEdge. Custodians for certain other clients also provide the PA-FL with access to ProxyEdge. Votes for some of the wrap accounts are handled manually and hard copies of any manual votes cast are maintained in the Florida office of Aberdeen US. Pursuant to the MOU, Aberdeen UK votes proxies for certain U.S. clients of Aberdeen US. Aberdeen UK has engaged Institutional Shareholder Services ( ISS ), a third party service provider, to provide (1) notification of impending votes; (2) research into non-routine votes, including shareholder resolutions; (3) voting recommendations which may be viewed on-line; and (4) web-based voting. In the absence of any material conflict of interest, Aberdeen US may either vote in accordance with the ISS recommendation or decline to follow the ISS recommendation based on its own view of the agenda item provided that decisions to vote contrary to the ISS recommendation are documented as set forth in Section IV.C., above. For clients on the ISS system, votes are automatically entered in accordance with ISS recommendations unless the PA-UK expressly changes the vote prior to the voting deadline with appropriate analyst documentation. In the event of a material conflict of interest, Aberdeen US will follow the procedures outlined in Section IV.B.2, above.

## 2. Aberdeen Singapore Clients

Aberdeen AU and Aberdeen Singapore are responsible for deciding how to vote for the US closed-end Funds and will instruct the PA for the Florida office of Aberdeen US ( PA-Florida ) accordingly. The PA-Florida shall ensure that the votes are cast and cast in accordance with the relevant Proxy Voting Policy and Procedure of the relevant Fund. The PA-Florida uses ProxyEdge to electronically cast votes for the Funds and to maintain electronic records of the votes cast.

Responsibility for considering the substantive issues relating to any Fund vote and for deciding how the shares will be voted resides with relevant equity and/or fixed income Analyst. The relevant analyst may be a member of the Fund portfolio management team in Aberdeen Singapore, Aberdeen AU or Aberdeen UK or AAMISL. In the event that a material conflict of interest is identified, decisions on how to vote will be referred to the proxy committee ( PC-Asia ) located in Singapore and Australia, comprised of a representative from each of equity fund management, fixed income fund management and compliance teams respectively, as more specifically set out in Appendix A2. The PC-Asia meets as needed to consider a material conflict of interest or any other items raising unique issues. If the PC-Asia determines there is no material conflict of interest, the vote recommendation will be forwarded to the PA-Florida to be cast. If a material conflict of interest is identified, the PC-Asia will follow the conflict of interest procedures set forth in Section IV.B.2., above, and in the Aberdeen Funds Proxy Voting Policy and Procedures.

E. *Review.* Each PA is responsible for ensuring that proxy materials are received in a timely manner and reconciled against holdings on the record date of client accounts over which the Aberdeen Adviser has voting authority to ensure that all shares held on the record date, and for which a voting obligation exists, are voted.



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### **V. Documentation, Recordkeeping and Reporting Requirements**

A. *Documentation.* The Aberdeen PAs are responsible for:

1. Implementing and updating these Policies and Procedures;
2. Overseeing the proxy voting process;
3. Consulting with portfolio managers/analysts for the relevant portfolio security; and
4. Maintaining manual proxy voting records, if any, and overseeing and reviewing voting execution and recordkeeping by third party providers such as ISS and ProxyEdge.

B. *RecordKeeping.*

1. Each Aberdeen Adviser maintains or procures the maintenance of records of all proxies it has voted. As permitted by Rule 204-2(c), electronic proxy statements and the record of each vote cast by each client account of Aberdeen US will be maintained by either ISS and ProxyEdge, depending on the client account. Similarly, electronic proxy statements and the record of each vote cast by each U.S. client account of Aberdeen Singapore will be maintained by ProxyEdge. A Fund's proxy voting record must be filed with the SEC on Form N-PX. Form N-PX must be completed and signed in the manner required, containing a fund's proxy voting record for the most recent twelve-month period ended June 30<sup>th</sup> (beginning August 31, 2004). If an Aberdeen Adviser delegates this reporting responsibility to a third party service provider such as ISS or ProxyEdge, it will ensure that the third party service provider files Form N-PX accordingly. Aberdeen US shall obtain and maintain undertakings from both ISS and ProxyEdge to provide it with copies of proxy voting records and other documents relating to its clients' votes promptly upon request. Aberdeen Advisers, ISS and ProxyEdge may rely on the SEC's EDGAR system to keep records of certain proxy statements if the proxy statements are maintained by issuers on that system (*e.g.*, large U.S.-based issuers).
2. As required by Rule 204-2(c), such records will also include: (a) a copy of the Policies and Procedures; (b) a copy of any document created by the Aberdeen Adviser that was material to making a decision on how to vote proxies on behalf of a client or that memorializes the basis for that decision; and (c) each written client request for proxy voting records and the Aberdeen Adviser's written response to any (written or oral) client request for such records.
3. Duration. Proxy voting books and records will be maintained in an easily accessible place for a period of five years, the first two in an appropriate office of the Aberdeen Adviser.

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C. *Reporting.* Aberdeen US, Aberdeen AU and Aberdeen Singapore will initially inform clients of these Policies and Procedures by summary disclosure in Part II of their respective Forms ADV. Upon receipt of a client's request for more information, Aberdeen US, Aberdeen AU and Aberdeen Singapore will provide to the client a copy of these Policies and Procedures and/or, in accordance with the client's stated requirements, how the client's proxies were voted during the period requested subsequent to the adoption of these Policies and Procedures. Such periodic reports, other than those required for the US closed-end Funds, will not be made available to third parties absent the express written request of the client. However, to the extent that any Aberdeen Adviser may serve as a subadviser to another adviser to a Client, such Aberdeen Adviser will be deemed to be authorized to provide proxy voting records on such Client accounts to such other adviser.

D. *Review of Policies and Procedures.* These Policies and Procedures will be subject to review on a periodic basis as deemed appropriate by the Aberdeen Advisers.

**Effective Date:** [November 30, 2005]

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**APPENDIX A1**

**PA-FL**

Silvana Barrenechea

**PA-UK**

Members of Trade Processing Department in Scotland

**Names**

**Titles**

Barry McAllister

Investment Administration Supervisor

Eileen Reekie

Investment Administrator

**PC-FL/UK**

Chief Investment Officer/Deputy CIO/Head of SRI/Compliance Officer\*\*\*

**Names**

**Titles**

Anne Richards

Chief Investment Officer

Andrew Preston

Head of Socially Responsible Investing  
(SRI)

Susan Connerney

Compliance Officer

\*\*\* From time to time one or more members of the committee may be represented by an authorized representative of their respective Department.

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**APPENDIX A2**

**PC-Asia Members**

Shall comprise of three (3) members, but always to include at least one (1) representative from each of Group A, B and C respectively.

**GROUP A:**

Hugh Young

Equities Fund Manager

**GROUP B:**

Derek Fulton

Fixed Income Fund Manager

Alton Gwee

Fixed Income Fund Manager

Alison Briggs

Fixed Income Fund Manager

Ky Van Tang

Fixed Income Fund Manager

**GROUP C:**

Christopher Beard

Compliance Officer

Teo Puay-Wei

Compliance Officer

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