

ABERDEEN AUSTRALIA EQUITY FUND INC
Form N-CSR
January 06, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number:	811-04438
Exact name of registrant as specified in charter:	Aberdeen Australia Equity Fund, Inc.
Address of principal executive offices:	800 Scudders Mill Road, Plainsboro, New Jersey 08536
Name and address of agent for service:	Mr. Christian Pittard Aberdeen Asset Management Inc. 1735 Market Street 37 th Floor Philadelphia, PA 19103
Registrant's telephone number, including area code:	866-839-5205
Date of fiscal year end:	10/31/05
Date of reporting period:	10/31/05

Item 1 Reports to Stockholders

Invests primarily in equity securities of Australian companies listed on The Australian Stock Exchange.

Annual Report

October 31, 2005

Letter to Shareholders

December 19, 2005

Dear Shareholder,

We present this Annual Report which covers the activities of Aberdeen Australia Equity Fund, Inc. (the "Fund") for the year ended October 31, 2005. 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.

Net Asset Value Performance

The Fund's total return based on Net Asset Value ("NAV") was 21.1% over the year ended October 31, 2005, assuming reinvestment of distributions, compared with 23.2%, in U.S. dollar terms, for the S&P/ASX 200 Accumulation Index.

Share Price Performance

The Fund's share price rose 26.7% over the year, from \$10.25 on October 31, 2004 to \$12.99 on October 31, 2005. The Fund's share price on October 31, 2005 represented a premium of 10.6% to the NAV per share of \$11.75 on that date, compared with a discount of 3.7% to the NAV per share of \$10.64 on October 31, 2004. At the date of this letter, the share price was \$13.15, representing a premium of 7.1% to the NAV per share of \$12.28.

Managed Distribution Policy

The Fund has a managed distribution policy of paying quarterly distributions at an annual rate, set once a year, that is a percentage of the rolling average of the Fund's prior four quarter-end net asset values. 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.

On December 12, 2005 the Board of Directors authorized a quarterly distribution of 29 cents per share and a special distribution of 16 cents per share payable on January 13, 2006 to all shareholders of record as of December 30, 2005. The regular quarterly distribution of 29 cents is comprised of 27.9836 cents of long-term capital gains and 1.0164 cents of net investment income. The special distribution is comprised entirely of long-term capital gains for the fiscal year ended October 31, 2005.

Amendments to Bylaws

In December 2005, the Fund's Board of Directors adopted amendments to the Fund's bylaws pertaining to corporate governance matters. Certain of these bylaw amendments were adopted in connection with changes proposed by the Securities and Exchange Commission to regulations governing the structure of the boards of directors of funds. The amended bylaws include requirements that the Chairman of the Board and at

least 75% of

Aberdeen Australia Equity Fund, Inc.

Letter to Shareholders (continued)

the Board as a whole be composed of persons who are not classified as interested persons of the Fund or its Investment Manager or Investment Adviser, as the term interested person is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended. The Board also adopted a bylaw amendment which provides that, unless certain conditions are met, notwithstanding the election for the Fund to be subject to the Maryland Control Share Acquisition Act (the Act), a person who acquires control shares, as defined in the Act, shall be exempt from the Act. Any stockholder who would like a copy of the Fund's bylaws may obtain a copy by calling Investor Relations toll-free at 1-866-839-5205.

Registration Statement For Secondary Offering of Fund's Shares

On August 8, 2005, the Fund filed a registration statement with the Securities and Exchange Commission. The registration statement was declared effective by the Securities and Exchange Commission on December 8, 2005. The registration statement will permit Bankgesellschaft Berlin AG (the Bank), the beneficial owner of approximately 27.5% of the Fund's outstanding shares of Common Stock, to sell its shares of the Fund covered by the registration statement on the open market pursuant to the registration provisions of the Securities Act of 1933. The registration statement does not constitute an offering by the Fund, and the Fund will not receive any of the proceeds from the sale by the Bank of its shares. The expenses in connection with the preparation and filing of the registration statement are being paid by the Bank, and the Fund will not bear any of the expenses associated with such registration.

Portfolio Holdings Disclosure

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

Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the Fund voted proxies relating to portfolio securities during the twelve months ended June 30, 2005, is available: (i) upon request and without charge by calling Investor Relations toll-free at 1-866-839-5205; and (ii) on the SEC's website at <http://www.sec.gov>.

Aberdeen Australia Equity Fund, Inc.

Letter to Shareholders (continued)

Investor Relations Information

For information about the Fund, daily updates of share price, NAV and details of distributions, please contact Aberdeen Asset Management Inc. by:

Calling toll free on 1-866-839-5205 in the United States,

E-mailing to InvestorRelations@aberdeen-asset.com, or

Visiting the website at www.aberdeeniaf.com.

For information about the Aberdeen Group, visit the Aberdeen website at www.aberdeen-asset.com.

Yours sincerely,

Martin Gilbert

President

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

Aberdeen Australia Equity Fund, Inc.

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

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

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

The distributions for the fiscal year ended October 31, 2005 were comprised of 48% net investment income and 52% realized capital gains.

In January 2006, a Form 1099 DIV will be sent to shareholders, which will state the amount and composition of distributions and provide information with respect to their appropriate tax treatment for the 2005 calendar year.

Aberdeen Australia Equity Fund, Inc.

Dividend Reinvestment and Cash Purchase Plan

We invite you to participate in the Fund's Dividend Reinvestment and Cash Purchase Plan (the Plan), which allows you to automatically reinvest your distributions in shares of the Fund's common stock at favorable commission rates. Distributions made under the Plan are taxable to the same extent as are cash distributions. The Plan also enables you to make additional cash investments in shares of at least \$100 per transaction, with a maximum of \$10,000 per month, and an aggregate annual limit of \$120,000. Under this arrangement, The Bank of New York (the Plan Agent) will purchase shares for you on the American Stock Exchange or otherwise on the open market on or before the investment date. The investment date is the 15th day of each month, but if such date is not a business day, the preceding business day.

As a Participant in the Plan, you will have:

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

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

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

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

Aberdeen Australia Equity Fund, Inc.

Portfolio Composition

The following chart summarizes the composition of the Fund's portfolio, in industry classification standard sectors, expressed as a percentage of net assets. An industry classification standard sector can include more than one industry group. The Fund may invest between 25% and 35% of its total assets in the securities of any one industry group if, at the time of investment, that industry group represents 20% or more of the S&P/ASX 200 Accumulation Index. As of October 31, 2005, the Fund did not have more than 25% of its assets invested in any industry group. The financial industry sector is composed of several groups.

On October 31, 2005, the Fund held 96.2% of its net assets in equities and 3.8% in other assets in excess of liabilities.

Aberdeen Australia Equity Fund, Inc.

Top Ten Equity Holdings

The following were the Fund's top ten holdings at October 31, 2005.

<u>Name of Security</u>	<u>Percentage of Net Assets</u>
Rio Tinto Limited	7.0%
QBE Insurance Group Limited	6.9%
BHP Billiton Limited	6.9%
Australia & New Zealand Banking Group Limited	6.9%
Westpac Banking Corporation Limited	6.4%
Woolworths Limited	5.5%
Westfield Group Limited	5.0%
TABCORP Holdings Limited	4.7%
Telecom Corporation of New Zealand Limited	4.5%
Woodside Petroleum Limited	4.0%

Aberdeen Asset Management Asia Limited

December 2005

Aberdeen Australia Equity Fund, Inc.

Portfolio of Investments

October 31, 2005

Shares	Description	Value (US\$)
LONG-TERM INVESTMENTS 96.2%		
Common Stocks 96.2%		
Consumer Discretionary 9.1%		
1,323,000	APN News & Media Corporation Limited	\$ 4,695,275
423,000	Billabong International Limited	4,089,613
773,000	TABCORP Holdings Limited	9,240,747
		18,025,635
Consumer Staples 10.5%		
937,000	Foster s Group Limited	4,060,459
997,000	Lion Nathan Limited	5,877,325
893,000	Woolworths Limited	10,895,451
		20,833,235
Energy 4.0%		
335,500	Woodside Petroleum Limited	7,921,131
Financials 32.8%		
773,000	Australia & New Zealand Banking Group Limited	13,601,224
183,000	Australian Stock Exchange Limited	3,933,676
666,000	Bendigo Bank Limited	5,742,323
245,000	Commonwealth Bank of Australia	7,117,048
1,026,500	QBE Insurance Group Limited	13,651,694
549,500	Suncorp-Metway Limited	7,911,466
820,500	Westpac Banking Corporation Limited	12,720,502
		64,677,933
Value (US\$)		
Shares	Description	Value (US\$)
Industrials 11.4%		
1,075,000	Downer EDI Limited	\$ 4,883,370
608,500	Leighton Holdings Limited	6,933,268
2,370,000	Qantas Airways Limited	6,055,947
173,000	Wesfarmers Limited	4,614,471
		22,487,056
Materials 13.9%		
880,000	BHP Billiton Limited	13,642,952
326,500	Rio Tinto Limited	13,736,506
		27,379,458
Property 5.0%		
797,000	Westfield Group Limited	9,890,894
Telecommunication Services 7.5%		

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2,171,000	Telecom Corporation of New Zealand Limited	8,888,899
1,876,500	Telstra Corporation Limited	5,902,531
		<u>14,791,430</u>
Utilities 2.0%		
347,000	Australian Gas Light Company Limited	3,925,210
Total long-term Investments 96.2% (cost \$125,550,494)		
		<u>189,931,982</u>
Other assets in excess of liabilities 3.8%		7,488,846
Net assets 100.0%		\$ 197,420,828

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statement of Assets and Liabilities

October 31, 2005

Assets	
Investments, at value (cost \$125,550,494)	\$ 189,931,982
Foreign currency, at value (cost \$6,977,108)	6,910,661
Cash	249,717
Receivable for investments sold	469,996
Dividends receivable	48,990
Other assets	71,466
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Total assets	197,682,812
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Liabilities	
Investment management fee payable	143,172
Administration fee payable	6,725
Accrued expenses and other liabilities	112,087
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Total liabilities	261,984
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Net Assets	\$ 197,420,828
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Composition of Net Assets	
Common Stock (par value \$.01 per share)	\$ 168,035
Paid-in capital in excess of par	134,355,579
Distributions in excess of net investment income	(1,665,273)
Accumulated net realized gain on investment transactions	7,390,783
Net unrealized appreciation on investments	49,562,714
Accumulated net realized foreign exchange losses	(7,137,979)
Net unrealized foreign exchange gains	14,746,969
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Net Assets	\$ 197,420,828
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Net asset value per common share based on 16,803,510 shares issued and outstanding	\$11.75
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See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Statement of Operations

For the Year Ended October 31, 2005

Net Investment Income	
Income	
Dividends (net of foreign withholding taxes of \$335,656)	\$ 8,863,990
Interest	283,670
Income from securities loaned, net	2,259
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Total Income	9,149,919
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Expenses	
Investment management fee	1,664,623
Legal fees and expenses	239,750
Directors' fees and expenses	203,511
Insurance expense	188,368
Custodian's fees and expenses	176,613
Independent auditors' fees and expenses	129,811
Administration fee	77,978
Investor relations fees and expenses	58,397
Reports to shareholders and proxy solicitation	48,624
Transfer agent's fees and expenses	32,626
Tax expense	27,110
Miscellaneous	36,513
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Total operating expenses	2,883,924
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Net investment income	6,265,995
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Realized and Unrealized Gains/(Losses) on Investments and Foreign Currencies	
Net realized gain on:	
Investment transactions	16,748,538
Foreign currency transactions	9,143,219
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	25,891,757
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Net change in unrealized appreciation/(depreciation) on:	
Investments	13,120,091
Foreign currency translation	(9,088,461)
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	4,031,630
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Net gain on investments and foreign currencies	\$ 29,923,387
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Net Increase In Net Assets Resulting From Operations	\$ 36,189,382
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See Notes to Financial Statements.

Statements of Changes in Net Assets

	For the Year Ended October 31,	
	2005	2004
Increase in Net Assets		
Operations		
Net investment income	\$ 6,265,995	\$ 4,743,112
Net realized gains on investments	16,748,538	5,906,261
Net realized gains on foreign currency transactions	9,143,219	7,443,611
Net change in unrealized appreciation on investments	13,120,091	16,279,442
Net change in unrealized appreciation on foreign currency translation	(9,088,461)	(154,910)
Net Increase in Net Assets Resulting from Operations	36,189,382	34,217,516
Distributions to Shareholders from:		
Net investment income	(8,487,831)	(5,068,817)
Long-term capital gains	(9,131,890)	(6,088,832)
Tax return of capital		(1,928,603)
Total decrease in net assets from distributions to shareholders	(17,619,721)	(13,086,252)
Common Stock Transactions		
Reinvestment of dividends resulting in the issuance of 26,212 and 0 shares of common stock, respectively	300,532	
Total Increase in Net Assets Resulting from Operations	18,870,193	21,131,264
Net Assets		
Beginning of year	178,550,635	157,419,371
End of year (including distributions in excess of net investment income of (\$1,665,273) and (\$1,476), respectively)	\$ 197,420,828	\$ 178,550,635

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc.

Financial Highlights

	For the Year Ended October 31,				
	2005	2004	2003	2002	2001
PER SHARE OPERATING PERFORMANCE⁽¹⁾:					
Net asset value, beginning of year	\$ 10.64	\$ 9.38	\$ 6.84	\$ 5.97	\$ 6.86
Net investment income	0.37	0.28	0.12	0.15	0.12
Net realized and unrealized gains/(losses) on investments and foreign currencies	1.79	1.76	2.58	0.93	(0.33)