

ABERDEEN AUSTRALIA EQUITY FUND INC

Form N-2/A

July 18, 2006

Table of Contents

As filed with the Securities and Exchange Commission on July 18, 2006

1933 Act File No. 333-133618

1940 Act File No. 811-04438

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

x **Registration Statement Under the Securities Act of 1933**
x **Pre-effective Amendment No. 1**
.. **Post-effective Amendment No. __**

x **Registration Statement Under the Investment Company Act of 1940**
Amendment No. 17

ABERDEEN AUSTRALIA EQUITY FUND, INC.

(Exact name of Registrant as Specified in Charter)

800 Scudders Mill Road

Plainsboro, New Jersey 08536

(Address of Principal Executive Offices)

1-866-839-5205

(Registrant's telephone number, including Area Code)

Mr. Christian Pittard

Aberdeen Asset Management Inc.

1735 Market Street, 37th Floor

Philadelphia, PA 19103

(Name and Address of Agent for Service)

Copies to:

**Sander M. Bieber, Esq.
Dechert LLP
1775 I Street, N.W.
Washington, D.C. 20006**

**Cynthia G. Cobden, Esq.
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, NY 10017**

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement

Table of Contents

If any of the securities being registered on this form are offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. "

It is proposed that this filing will become effective when declared effective pursuant to section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

| Title of Securities Being Registered | Amount Being Registered (1)(2) | Proposed Maximum Offering Price Per Share (2) | Proposed Maximum Aggregate Offering Price (2) | Amount of Registration Fee |
|---|---------------------------------------|--|--|-----------------------------------|
| Common Stock (\$.01 par value) | 50,000 | \$13.67 | \$683,500 | \$73.13 |

(1) Includes shares that may be offered to the Underwriters pursuant to an option to cover over-allotments.

(2) Estimated solely for the purpose of calculating the registration fee, pursuant to Rule 457(c) under the Securities Act of 1933.

Table of Contents

The information in this Prospectus is not complete and may be changed. The Fund may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED July 18, 2006

PROSPECTUS

ABERDEEN AUSTRALIA EQUITY FUND, INC.

Common Shares

\$_____ Share

This Prospectus relates to the offer and sale of [] shares (Shares) of Common Stock par value \$.01 (Common Stock) of Aberdeen Australia Equity Fund, Inc. (Fund) by the Fund.

The Fund's Common Stock is traded on the American Stock Exchange (Amex) and the NYSE Arca, Inc. (NYSE Arca) (which includes the former Pacific Exchange) under the symbol IAF. The last reported sale price of the Fund's Common Stock, as reported by the Amex on June 30, 2006 was \$12.85 per share. The net asset value of the Fund's Common Stock at the close of business on June 30, 2006 was \$12.14 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.

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

This Prospectus sets forth concisely the information about the Fund that a prospective investor should know before investing. It should be retained for future reference. The Statement of Additional Information (SAI), dated [], 2006, contains more information about the Fund and is incorporated by reference into this Prospectus. The Table of Contents for the SAI is on page [] 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, material incorporated by reference into the Fund's registration statement and other information about the Fund.

The following table applies to the proposed offering of the Shares:

| | <u>Per Share</u> | <u>Total (2)</u> |
|--------------------------|------------------|------------------|
| Price to the Public | \$ | \$ |
| Sales Load | \$ | \$ |
| Proceeds to the Fund (1) | \$ | \$ |

- (1) Does not include expenses incurred in connection with this offering, which the Fund estimates will be approximately \$[].
- (2) The underwriters also may purchase up to an additional [] shares at the public offering price, less the sales load, within 45 days from the date of this prospectus to cover over-allotments. If all such shares are purchased, the total public offering price will be \$[], the total sales load will be \$[], and the total proceeds, before expenses, to the Fund will be \$[].

Citigroup

A.G. Edwards

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.

Shares of closed-end investment companies frequently trade at a discount to their net asset value. If the Fund's common stock trades at a discount to its net asset value, the risk of loss may increase for purchasers in this offering. This risk may be greater for investors who expect to sell their common stock in a relatively short period after completion of the public offering. See Risks and Special Considerations Net Asset Value Discount.

_____, 2006.

The underwriters expect to deliver the shares to purchasers on or about [], 2006.

Table of Contents

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| <u>PROSPECTUS SUMMARY</u> | 3 |
| <u>FUND EXPENSES</u> | 9 |
| <u>FINANCIAL HIGHLIGHTS</u> | 10 |
| <u>THE OFFERING</u> | 12 |
| <u>USE OF PROCEEDS</u> | 13 |
| <u>DESCRIPTION OF COMMON STOCK</u> | 13 |
| <u>THE FUND</u> | 14 |
| <u>INVESTMENT OBJECTIVES</u> | 15 |
| <u>INVESTMENT POLICIES</u> | 15 |
| <u>INVESTMENT RESTRICTIONS</u> | 17 |
| <u>RISKS AND SPECIAL CONSIDERATIONS</u> | 18 |
| <u>MANAGEMENT OF THE FUND</u> | 23 |
| <u>EXPENSES</u> | 27 |
| <u>DIVIDENDS AND DISTRIBUTIONS</u> | 28 |
| <u>DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN</u> | 29 |
| <u>TAXATION</u> | 30 |
| <u>CERTAIN PROVISIONS OF THE CHARTER AND BYLAWS</u> | 32 |
| <u>UNDERWRITING</u> | 34 |
| <u>LEGAL PROCEEDINGS</u> | 36 |
| <u>TABLE OF CONTENTS OF THE STATEMENT OF ADDITIONAL INFORMATION</u> | 37 |
| <u>APPENDIX A</u> | A-1 |

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. The Fund and the underwriters have not 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 Fund and the underwriters are 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 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.

Table of Contents

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 [] of the Prospectus.

| | |
|---------------------------|---|
| The Offering | The Fund is offering [] shares of its Common Stock, par value \$.01 per share, [excluding [] shares of Common Stock issuable pursuant to the over-allotment option granted to the underwriters]. Following the offering, [] shares of the Fund's Common Stock will be outstanding, [excluding [] shares of Common Stock issuable pursuant to the over-allotment option granted to the underwriters]. See The Offering. |
| Use of Proceeds | The net proceeds of this offering will be approximately \$[] [[\$[] if the underwriters exercise the over-allotment option in full)] after payment of the estimated offering expenses and the deduction of the underwriting discount. The Fund will invest the net proceeds of the offering in accordance with its investment objectives and policies. See Use of Proceeds. |
| Amex and NYSE Arca Listed | The Fund's shares of Common Stock are listed for trading on the Amex and on the NYSE Arca under the symbol IAF. As of June 30, 2006, the Fund had 16,837,444 shares of Common Stock, par value \$.01 per share, outstanding. As of June 30, 2006, 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 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 the approval of a majority of the Fund's outstanding voting securities. See Investment Objectives. |
| Investment Policies | The Fund will normally invest at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity |

Table of Contents

securities, consisting of common stock, preferred stock and convertible stock, of Australian companies listed on the ASX. For these purposes, Australian companies means companies that are tied economically to Australia. 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 would constitute a significant block of the Fund's Common Stock, their offering may exert downward pressure on the market price of the Fund's shares to the extent not offset by demand. Additionally, an offering of shares at less than market price may adversely impact the market price per share and any premium at which the shares are then trading.

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 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

Table of Contents

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 June 30, 2006, 32.6% of the Fund's total 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. Concentration in the financials sector may make the Fund vulnerable to risks of regulation, consolidation, financial innovation and technological progress. 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.

Table of Contents

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 \$26.5 billion in assets as of May 31, 2006, including the Fund and two other U.S. registered closed-end funds with aggregate net assets of approximately \$2.8 billion as of June 30, 2006. The Investment Manager, in accordance with the Fund's stated investment objectives,

Table of Contents

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 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 \$0.5 billion of assets, as of May 31, 2006. 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 the Investment Manager. The Investment Manager is a wholly-owned subsidiary of Aberdeen Asset Management PLC (Aberdeen PLC), a Scots company, that is the parent company of an asset management group (the Aberdeen Group) managing approximately \$132.1 billion of assets as of May 31, 2006, including approximately \$42.5 billion of investments in equity securities as of June 30, 2006, for pension funds, financial institutions, investment trusts, unit trusts, U.S. registered investment companies, offshore funds, charities and private clients. 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 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.

Table of Contents

| | |
|--|--|
| Administrator | Aberdeen Asset Management Inc., 1735 Market Street, 37 th 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) | []% |
| 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% |
| Other Expenses(2)(3) | 0.62% |
| Total Annual Operating Expenses | 1.47% |

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

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

(3) Includes an administration fee of 0.04% of average net assets attributable to the Fund's Common Stock. See Management of the Fund - Administrator for additional information.

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> |
|-----------------|--------------------|-------------------|------------------|
| \$15 | \$47 | \$80 | \$176 |

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.

Table of Contents**FINANCIAL HIGHLIGHTS**

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, 2006. 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, 2005, 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, 2005 Annual Report, and are included in the SAI, which is available upon request. The information for the six months ended April 30, 2006 is unaudited.

| | For the Six Months Ended April 30, 2006 (unaudited) | Year Ended October 31, | | | |
|--|--|------------------------|------------|------------|------------|
| | | 2005 | 2004 | 2003 | 2002 |
| Per share operating performance(1): | | | | | |
| Net asset value, beginning of year | \$ 11.75 | \$ 10.64 | \$ 9.38 | \$ 6.84 | \$ 5.97 |
| Net investment income | .18 | .37 | .28 | .12 | .15 |
| Net realized and unrealized gains/(losses) on investments and foreign currencies | 2.07 | 1.79 | 1.76 | 2.58 | .93 |
| Total from investment operations | 2.25 | 2.16 | 2.04 | 2.70 | 1.08 |
| Dividends and distributions from: | | | | | |
| Net investment income | (.08) | (.51) | (.30) | (.10) | (.15) |
| In excess of net investment income | (.23) | | | | |
| Long-term capital gains | (.44) | (.54) | (.36) | (.07) | (.07) |
| Tax return of capital | | | (.12) | | |
| Total distributions | (.75) | (1.05) | (.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 year | \$ 13.25 | \$ 11.75 | \$ 10.64 | \$ 9.38 | \$ 6.84 |
| Market price per share, end of year | \$ 13.62 | \$ 12.99 | \$ 10.25 | \$ 8.40 | \$ 5.73 |
| Total investment return based on(2): | | | | | |
| Market value | 11.14% | 38.98% | 32.53% | 50.40% | 12.55% |
| Net asset value | 19.54% | 21.11% | 23.19% | 40.69% | 19.04% |
| Ratio to average net assets/supplemental data: | | | | | |
| Net assets, end of year (000 omitted) | \$ 223,170 | \$ 197,421 | \$ 178,551 | \$ 157,419 | \$ 115,490 |
| Average net assets (000 omitted) | \$ 207,321 | \$ 194,946 | \$ 166,284 | \$ 128,662 | \$ 114,213 |
| Operating expenses | 1.39%(4) | 1.48% | 1.75% | 2.55% | 1.76% |
| Net investment income | 2.92%(4) | 3.21% | 2.85% | 1.66% | 2.33% |
| Portfolio turnover | 10% | 28% | 23% | 32% | 56% |

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

- (1) Based on average shares outstanding.
- (2) 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, if any, 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.
- (3) Less than \$0.005 per share.
- (4) Annualized.

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 (Continued)**

| | Year Ended October 31, | | | |
|--|------------------------|---------------|--------------|--------------|
| | 2001 | 2000 | 1999 | 1998 |
| Per share operating performance(1): | | | | |
| Net asset value, beginning of year | \$ 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) |
| Dividends and distributions from: | | | | |
| Net investment income | | (.12) | (.30) | (.23) |
| Long-term capital gains | | (.69) | (.51) | (.66) |
| Tax return of capital | (.68) | | | |
| Total 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 year | \$ 5.97 | \$ 6.86 | \$ 8.78 | \$ 8.25 |
| Market price per share, end of year | \$ 5.29 | \$ 5.875 | \$ 8.00 | \$ 6.5625 |
| Total investment return based on(2): | | | | |
| Market value | 1.06% | (17.31)% | 34.91% | (0.38)% |
| Net asset value | (2.32)% | (12.02)% | 17.77% | (0.34)% |
| Ratio to average net assets/supplemental data: | | | | |
| 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 |
| Operating expenses | 1.80% | 1.66% | 2.58% | 1.61% |
| Net investment income | 1.77% | 1.66% | .87% | 2.38% |
| Portfolio turnover | 50% | 120% | 143% | 180% |

(1) Based on average shares outstanding.

(2) 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, if any, 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.

(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)**

| | <u>Year Ended October 31,</u> | |
|--|-------------------------------|-----------------|
| | <u>1997</u> | <u>1996</u> |
| <u>Per share operating performance(1):</u> | | |
| Net asset value, beginning of year | \$ 10.98 | \$ 10.04 |
| Net investment income | .18 | .20 |
| Net realized and unrealized gains/(losses) on investments and foreign currencies | (1.45) | 1.25 |
| Total from investment operations | (1.27) | 1.45 |
| <u>Dividends and distributions from:</u> | | |
| Net investment income | (.17) | (.23) |
| Long-term capital gains | (.18) | (.26) |
| Tax return of capital | | |
| Total distributions | (.35) | (.49) |
| Capital reduction with respect to issuance of Fund shares | (.01) | (.02) |
| Increase resulting from Fund share repurchase | | |
| Net asset value, end of year | \$ 9.35 | \$ 10.98 |
| Market price per share, end of year | \$ 7.44 | \$ 9.125 |
| <u>Total investment return based on(2):</u> | | |
| Market value | (15.17)% | 17.76% |
| Net asset value | (11.37)% | 15.55% |
| <u>Ratio to average net assets/supplemental data:</u> | | |
| Net assets, end of year (000 omitted) | \$ 159,422 | \$ 185,756 |
| Average net assets (000 omitted) | \$ 182,588 | \$ 178,756 |
| Operating expenses | 1.39% | 1.41% |
| Net investment income | 1.68% | 1.86% |
| Portfolio turnover | 270% | 133% |

(1) Based on average shares outstanding.

(2) 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.

(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.

THE OFFERING

The Fund is offering [] shares of its Common Stock, par value \$.01 per share, [excluding [] shares of Common Stock issuable pursuant to the over-allotment option granted to the underwriters]. Following the offering, [] shares of the Fund's Common Stock will be outstanding, [excluding [] shares of Common Stock issuable pursuant to the over-allotment option granted to the underwriters].

Table of Contents**USE OF PROCEEDS**

The net proceeds of this offering of Common Stock will be approximately \$[] (\$[] if the underwriters exercise the over-allotment option in full) after the Fund pays all underwriting discounts and commissions and estimated offering costs.

The Fund anticipates that it will be able to invest substantially all of the net proceeds of this offering in accordance with its investment objectives and policies within approximately 60 days after completion of this offering. Pending such investment, the Fund anticipates investing the proceeds in short-term securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations or money market instruments.

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. In April 2006, the Board of Directors approved the reclassification of 10,000,000 of the Fund's authorized but unissued shares of preferred stock, \$.01 par value per share, as 10,000,000 shares of the Fund's Common Stock, \$.01 par value per share. There are currently authorized 30,000,000 shares of Common Stock, \$.01 par value per share, and 20,000,000 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 are, and, when issued, the Shares offered by this Prospectus will be, 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 June 30, 2006 was 16,837,444.

The Fund's outstanding shares are, and, when issued, the Shares offered by this Prospectus will be, publicly held and listed and traded on the Amex and the NYSE Arca. 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.

| During Quarter Ended | NAV per Share on Date of Market Price High and Low(1) | | Amex Market Price Per Share(2) | | Premium/(Discount) on Date of Market Price High and Low(3) | | Trading Volume(4) |
|----------------------|--|---------|-----------------------------------|---------|---|---------|----------------------|
| | High | Low | High | Low | High | Low | |
| 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 | 7.11 | (9.7) | (13.8) | 950,400 |
| January 31, 2004 | 10.39 | 9.41 | 9.50 | 8.16 | (8.6) | (13.3) | 1,685,378 |
| April 30, 2004 | 10.61 | 9.74 | 9.80 | 7.92 | (7.7) | (18.7) | 3,964,000 |
| July 31, 2004 | 9.94 | 9.15 | 8.90 | 7.65 | (10.5) | (16.0) | 1,657,200 |
| October 31, 2004 | 10.64 | 9.11 | 10.25 | 8.42 | (3.7) | (13.5) | 2,590,300 |
| January 31, 2005 | 11.84 | 10.68 | 11.94 | 10.36 | 0.8 | (3.0) | 4,229,700 |

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

| | | | | | | | |
|------------------|-------|-------|-------|-------|------|-------|-----------|
| April 30, 2005 | 12.33 | 11.13 | 13.50 | 10.50 | 9.5 | (5.7) | 4,386,200 |
| July 31, 2005 | 11.81 | 10.78 | 12.41 | 10.36 | 5.1 | (3.9) | 2,635,900 |
| October 31, 2005 | 12.49 | 11.62 | 13.99 | 11.75 | 12.0 | 1.1 | 2,435,300 |
| January 31, 2006 | 12.24 | 12.33 | 13.71 | 12.50 | 12.0 | 1.4 | 5,769,900 |
| April 30, 2006 | 12.63 | 12.42 | 13.90 | 12.85 | 10.1 | 3.5 | 2,167,900 |

(1) Based on the Fund's computations.

(2) Source: The American Stock Exchange.

(3) Based on the Fund's computations.

(4) Source: Bloomberg.

Table of Contents

On June 30, 2006, the per share net asset value of the Fund's Common Stock was \$12.14 and the per share market price was \$12.85, representing a 5.85% 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 \$2,424,386, 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 May 31, 2006.

| Title of Class | Amount Authorized | Amount Held by Fund for its own Account | Amount Outstanding Exclusive of Amount held by Fund |
|-----------------|----------------------|---|--|
| Common Stock | 30,000,000 | 0 | 16,837,444 |
| Preferred Stock | 20,000,000 | 0 | 0 |

THE FUND

The Fund is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (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.

Table of Contents

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 Board of Directors has adopted a 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, of Australian companies listed on the Australian Stock Exchange Limited. For these purposes, Australian companies means companies that are tied economically to Australia. The following criteria will be considered in determining if a company is tied economically to Australia: whether the company: (i) is a constituent of the S&P ASX 200 Accumulation Index (S&P/ASX 200); (ii) has its headquarters located in Australia; (iii) pays dividends on its stock in Australian dollars; (iv) has its accounts audited by Australian auditors; (v) is subject to Australian taxes levied by the Australian Taxation Office; (vi) holds its annual general meeting in Australia; or (vi) has common stock/ordinary shares and/or other principal class of securities registered with Australian regulatory authorities for sale in Australia. 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.

Table of Contents

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. 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, 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 held by 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, 2005 was 28%. 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.

Table of Contents

Loans of Portfolio Securities

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 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.

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

(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.

(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.

Table of Contents

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 Fund's offer of the Shares, which when issued would total approximately []% of the Fund's outstanding shares, may exert downward pressure on the market price for the Fund's shares to the extent not offset by demand for Fund shares. Any such pressure would continue at least until all the Shares are sold. Additionally, an offering of shares at less than market price may adversely impact the market price per share and any premium at which the shares are then trading. 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

Table of Contents

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 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. However, in the 12-month period ended June 30, 2006, the Fund's shares have traded in the market at an average premium over net asset value of 5.61%. 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 2005 and for the current fiscal year to date, distributions did not exceed 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

Table of Contents

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 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 company taxable income and net capital gains, if any, which it distributes to stockholders in accordance with requirements under the Code. In order to continue to meet the requirements of the Code applicable to regulated net investment companies and to minimize its U.S. federal tax liability, it is the Fund's policy to distribute substantially all of its 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 are not expected to 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. federal 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 paid by the Fund subject to 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;

Table of Contents

(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 a disinterested director then serving on the Board or who served on the Board in the two years prior to approval of such agreement; 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.

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. 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 June 30, 2006, 32.6% 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. Concentration in the financials sector may make the Fund vulnerable to risks of regulation, consolidation, financial innovation and technological progress. 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

Table of Contents

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 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

Table of Contents

(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 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

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

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

Table of Contents

(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 \$26.5 billion in assets as of May 31, 2006, including the Fund and two other U.S. registered closed-end funds with aggregate net assets of approximately \$2.8 billion as of June 30, 2006. 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 the Investment Manager. The registered office of 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 \$0.5 billion of assets, as of May 31, 2006. 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 Manager is a wholly-owned subsidiary of Aberdeen Asset Management PLC (Aberdeen PLC), a Scots company. 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 \$132.1 billion of assets as of May 31, 2006, including approximately \$42.5 billion of investments in equity securities as of June 30, 2006, 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.

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, 2005, 2004 and 2003, the Fund paid to the Investment Manager management fees of \$1,664,623, \$1,468,789, and \$1,223,725, respectively. The Investment Manager informed the Fund that, during the same periods, the Investment Manager paid advisory fees of \$412,069, \$374,426, and \$324,109, respectively, to the Investment Adviser. A discussion regarding the basis for the Board of Directors' approval of the Management Agreement and the Advisory Agreement appears in the SAI and is available in the Fund's semi-annual report to stockholders for the six-month period ended April 30, 2006.

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

Table of Contents

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. [to be provided]

Non-U.S.-Resident Directors and Officers

Although the Fund is a Maryland corporation, certain of its Directors and officers (Messrs. Elsum, Miles, 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

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

equities of the Aberdeen Group. Aberdeen Asia manages all of 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.

Table of Contents

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. 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

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

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

Table of Contents

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.

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.

Administrator

Aberdeen Asset Management Inc., 1735 Market Street, 37th 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

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

The Fund pays all of its expenses, including organization expenses; fees of the Investment Manager, Administrator, custodian and dividend disbursing and stock transfer agent; fees of Directors who are not interested persons (as defined in the 1940 Act) of any other party; 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

Table of Contents

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.

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. For the fiscal year ended October 31, 2005, the Fund made distributions in the amount of \$1.05 per share, of which \$0.51 represented net investment income and \$0.54 represented long-term capital gains.

If the Fund's assets do not generate sufficient income and net long-term capital gains, the Fund may be required to liquidate a portion of its portfolio to fund these distributions, and therefore, these payments may represent a reduction of a stockholder's principal investment. 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.

In 1998, the Fund obtained an order under section 6(c) of the 1940 Act granting an exemption from section 19(b) and rule 19b-1 under the 1940 Act, permitting the Fund to make up to four distributions of net long-term capital gains in any one taxable year, so long as it maintains in effect a distribution policy with respect to its Common Stock calling for quarterly distributions of an annually adjusted percentage of its net asset value. The order was subject to a condition providing for its termination upon the effective date of a registration statement under the Securities Act of 1933 for any future public offering by the Fund of its shares, subject to certain exceptions, unless the Fund has received from the staff of the SEC written assurance that the order will remain in effect. On July 13, 2006, the Fund received written assurance from the staff of the SEC that the exemptive order will remain in effect, subject to the undertaking that shares (including any shares sold pursuant to the exercise of an over-allotment option granted by the Fund to the underwriters) are sold in the public offering only within the eight-week period immediately following the record date of the most recent quarterly distribution, and that once the offering has been completed, the Fund cannot make any further public offerings of newly-issued shares or rights offerings for at least one year.

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

Table of Contents

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 2006, the Board of Directors set the rolling distribution rate at 10% for the 12-month period commencing with the distribution paid in April 2006.

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.

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

Table of Contents

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 15th 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, 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 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-

Table of Contents

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.

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. federal 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 paid by the Fund subject to 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.

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

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

Table of Contents

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.

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 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.

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

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.

Table of Contents

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 180th 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 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. Directors who served in such capacity as of January 16, 2003, the initial date of adoption of the qualifications for Fund Directors are exempted from these requirements (except compliance with the Fund's conflict of interest policy) because they had 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 any disinterested director then serving on the Board or who served on the Board within the preceding two years, be approved by at least 75% of all disinterested 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 on the Board on January 16, 2003 or who were, elected, or nominated 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 any disinterested director, (ii) a person (or his affiliate) who nominated any disinterested director serving on the Board at the time such agreement is considered for approval, or (iii) a

Table of Contents

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 on the Board 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.

UNDERWRITING

Citigroup Global Markets Inc. and A.G. Edwards & Sons, Inc. are acting as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this Prospectus, each underwriter named below has agreed to purchase, and the Fund has agreed to sell to that underwriter, the number of Shares set forth opposite the underwriter's name.

| Underwriters | Number of Shares |
|-------------------------------|------------------|
| Citigroup Global Markets Inc. | |
| A.G. Edwards & Sons, Inc. | |

The underwriting agreement provides that the obligations of the underwriters to purchase the Shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the Shares (other than those covered by the overallotment option described below) if they purchase any of the Shares.

The underwriters propose to offer some of the Shares directly to the public at the public offering price set forth on the cover page of this Prospectus and some of the Shares to dealers at the public offering price less a concession not to exceed \$[] per common share. The sales load the Fund will pay of \$[] per common share is equal to []% of the initial offering price. The underwriters may allow, and dealers may reallocate, a concession not to exceed \$[] per common share on sales to other dealers. If all of the Shares are not sold at the initial offering price, the representative may change the public offering price and other selling terms. Investors must pay for any Shares purchased on or before [], 2006. The representative has advised the Fund that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The Fund has granted to the underwriters an option, exercisable for 45 days from the date of this Prospectus, to purchase up to an additional [] Shares at the public offering price less the sales load. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional Shares approximately proportionate to that underwriter's initial purchase commitment.

The Fund has agreed that, for a period of 180 days from the date of this Prospectus, they will not, without the prior written consent of Citigroup Global Markets Inc., on behalf of the underwriters, dispose of or hedge any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock, provided, however, that the Fund may issue and sell shares of Common Stock pursuant to any dividend reinvestment plan of the Fund in effect at the time of execution of the underwriting agreement. Citigroup Global Markets Inc. in its sole

discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The Fund's shares of Common Stock are, and the Shares sold pursuant to this Prospectus will be, listed on the AMEX and the NYSE Arca under the symbol IAF.

Table of Contents

The following table shows the sales load that the Fund will pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional Shares.

| | Paid By Fund | |
|-----------|--------------|---------------|
| | No Exercise | Full Exercise |
| Per share | \$ | \$ |
| Total | \$ | \$ |

The Fund, the Investment Manager and the Investment Adviser have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Certain underwriters may make a market in the Shares after trading in the Shares has commenced on the AMEX and the NYSE Arca. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriter. No assurance can be given as to the liquidity of, or the trading market for, the Shares as a result of any market-making activities undertaken by any underwriter. This Prospectus is to be used by any underwriter in connection with the offering and, during the period in which a Prospectus must be delivered, with offers and sales of the Shares in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, Citigroup Global Markets Inc., on behalf of the underwriters, may purchase and sell Shares in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of shares of Common Stock in excess of the number of Shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Covered short sales are sales of shares of Common Stock made in an amount up to the number of Shares represented by the underwriters' over-allotment option. In determining the source of shares of Common Stock to close out the covered syndicate short position, the underwriters will consider, among other things, the price of shares of Common Stock available for purchase in the open market as compared to the price at which they may purchase Shares through the over-allotment option. Transactions to close out the covered syndicate short position involve either purchases of shares of Common Stock in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make naked short sales of shares of Common Stock in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares of Common Stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of shares of Common Stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares of Common Stock in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Citigroup Global Markets Inc. repurchases Shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of shares of Common Stock. They may also cause the price of shares of Common Stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the AMEX, the NYSE Arca or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

The Fund estimates that its portion of the total expenses of this offering, excluding the sales load, will be \$[].

Table of Contents

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representative may agree to allocate a number of Shares to underwriters for sale to their online brokerage account holders. The representative will allocate Shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, Shares may be sold by the underwriters to securities dealers who resell common shares to online brokerage account holders.

The Fund anticipates that, from time to time, certain underwriters may act as brokers or dealers in connection with the execution of the Fund's portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as brokers while they are underwriters.

Certain underwriters have performed investment banking and advisory services for the Investment Manager and its affiliates from time to time, for which they have received customary fees and expenses. Certain underwriters may, from time to time, engage in transactions with or perform services for the Investment Manager and its affiliates in the ordinary course of business.

The principal business address of Citigroup Global Markets Inc. is 388 Greenwich Street, New York, NY 10013.

LEGAL PROCEEDINGS

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

Table of Contents

TABLE OF CONTENTS OF THE STATEMENT OF ADDITIONAL INFORMATION

| | Page |
|--|-------------|
| <u>History of the Fund</u> | 3 |
| <u>Management of the Fund</u> | 3 |
| <u>Control Persons and Principal Holders of Securities</u> | 13 |
| <u>Investment Management, Investment Advisory and Other Agreements</u> | 14 |
| <u>Code of Ethics</u> | 21 |
| <u>Portfolio Managers</u> | 22 |
| <u>Portfolio Transactions and Brokerage</u> | 25 |
| <u>Proxy Voting Policies and Procedures</u> | 28 |
| <u>Taxation</u> | 28 |
| <u>Custodian and Transfer, Dividend Disbursing and Dividend Reinvestment Plan Agent</u> | 36 |
| <u>Experts</u> | 36 |
| <u>Legal Matters</u> | 37 |
| <u>Financial Statements</u> | 38 |
| <u>Appendix A The Aberdeen Funds Proxy Voting Policy and Procedures</u> | A-1 |
| <u>Appendix B Aberdeen U.S. Registered Advisers Proxy Voting Policies and Procedures</u> | B-1 |

Table of Contents**APPENDIX A****SELECTED AUSTRALIAN ECONOMIC DATA**

Since 1980-81, the Australian economy has recorded average annual GDP growth of 3.4%. 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. The average economic growth rate for 2005 was 2.5%

In recent years, the RBA has adopted a target for the underlying CPI inflation rate of 2-3% (averaged over a number of years). 2005 saw a 2.8% growth over the prior year.

External trade plays an important part in the Australian economy. In the five years ended December 31, 2005, merchandise exports and imports in current prices, calculated on a balance of payments basis, both averaged approximately 18% of GDP.

Australia's net foreign debt as of December 31, 2005 was US\$347 billion (A\$1.3635= US\$1), which is equivalent to approximately 52% 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 April 18, 2006, the RBA cash rate was 5.50%, after a 25 bp increase on March 1, 2005. As at April 18, 2006, the yield on the 10-Year Australian Commonwealth Government Bond was 5.63%, a spread of 63 bp over the 10-Year US Treasury Bond yield of 5.00%.

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\$1.3635 on December 31, 2005 and was US\$1 = A\$1.3564 as of April 18, 2006. 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.

A-1

Table of Contents

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. On December 19, 2005, the parliamentary secretary to the Treasury announced that the implementation of the *Refinements to Financial Services Legislation* had been finalized.

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

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.

A-2

Table of Contents

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.

Clearing House Electronic Subregister System (CHES) 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 CHES 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 14th largest exchange based upon domestic market capitalization as at March 31, 2006.

| | <u>Exchange</u> | <u>Market Capitalization</u> |
|-----|---|------------------------------|
| 1. | NYSE | \$ 14,072bn |
| 2. | Tokyo SE | \$ 4,775bn |
| 3. | Nasdaq | \$ 3,787bn |
| 4. | London SE | \$ 3,253bn |
| 5. | Osaka SE | \$ 3,143bn |
| 6. | Euronext | \$ 3,116bn |
| 7. | TSX Group | \$ 1,621bn |
| 8. | Deutsche Bourse | \$ 1,400bn |
| 9. | Hong Kong Exchanges | \$ 1,213bn |
| 10. | BME Spanish Exchanges | \$ 1,094bn |
| 11. | Swiss Exchange | \$ 1,016bn |
| 12. | OMX (Copenhagen, Helsinki, Stockholm, Tallin, Riga and Vilnius Exchanges) | \$ 918bn |
| 13. | Borsa Italiana | \$ 897bn |
| 14. | Australian SE | \$ 858bn |

The following table summarizes the growth in aggregate market capitalization and trading volumes of the ASX in each of the five years ending December 31, 2005:

| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Market Capitalization | \$ 370bn | \$ 376bn | \$ 632bn | \$ 773bn | \$ 814bn |
| No. of equity trades | 13.3mil | 14.0mil | 16.1mil | 18.8mil | 25.0m |
| Average daily trades | 52,400 | 55,315 | 63,435 | 78,889 | 99,339 |
| Turnover value | \$ 243bn | \$ 305bn | \$ 427bn | \$ 553bn | \$ 650bn |
| Average daily value | \$ 1.0bn | \$ 1.2bn | \$ 1.7bn | \$ 2.2bn | \$ 2.6bn |
| Exchange rate US\$1 = | A\$ 1.9629 | A\$ 1.7801 | A\$ 1.3298 | A\$ 1.2817 | A\$ 1.3635 |

Table of Contents

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>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| New entities listed | 84 | 102 | 124 | 202 | 232 |
| Entities listed as at December 31 | 1,463 | 1,484 | 1,573 | 1,709 | 1,873 |
| Capital raised | \$ 6.6bn | \$ 12.7bn | \$ 26.2bn | \$ 26.8bn | \$ 33.9bn |
| Secondary market raisings* | \$ 5.5bn | \$ 9.7bn | \$ 19.2bn | \$ 15.4bn | \$ 16.2bn |
| New floats | \$ 1.1bn | \$ 3.0bn | \$ 7.0bn | \$ 11.4bn | \$ 17.7bn |
| Capital raised | \$ 6.6bn | \$ 12.7bn | \$ 26.2bn | \$ 26.8bn | \$ 33.9bn |
| Exchange rate US\$1 = | A\$ 1.9629 | A\$ 1.7801 | A\$ 1.3298 | A\$ 1.2817 | A\$ 1.3635 |

* 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.

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

| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| S&P/ASX 200 | 3422.3 | 3007.1 | 3306.0 | 4053.1 | 4708.8 |
| Yield % | 2.5 | 2.4 | 2.9 | 3.3 | 4.1 |
| P/E* | 23.7 | 25.1 | 20.7 | 17.7 | 16.6 |

* This ratio is calculated excluding negative earnings.

The S&P/ASX 200 Accumulation Index by GICS sector as at December 31, 2005 is as follows:

| <u>GICS Sector</u> | <u>No. of Companies</u> | <u>Market Capitalization</u> |
|-------------------------------|-------------------------|---------------------------------|
| Energy | 14 | \$ 32.2bn |
| Materials | 34 | \$ 137.8bn |
| Industrials | 26 | \$ 55.4bn |
| Consumer Discretionary | 29 | \$ 35.0bn |
| Consumer Staples | 11 | \$ 41.9bn |
| Health Care | 15 | \$ 22.2bn |
| Information Technology | 6 | \$ 3.7bn |
| Telecommunications Services | 2 | \$ 21.3bn |
| Utilities | 8 | \$ 9.9bn |
| Property Trusts | 24 | \$ 63.4bn |
| Financials ex Property Trusts | 31 | \$ 227.8bn |
| Total | 200 | \$ 650.6bn |
| | | Exchange rate US\$1 = A\$1.3635 |

Edgar Filing: ABERDEEN AUSTRALIA EQUITY FUND INC - Form N-2/A

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 24 industry groups, 64 industries, and 139 sub-industries currently covering over 26,000 companies worldwide, representing more than 90 markets.

A-4

Table of Contents

The following table contains information about the 20 most actively traded shares on the ASX for March 2006. 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.

| Company | Value | No. of Trades | Average Price | GICS Sector |
|---|-------------------|----------------------|----------------------|-----------------------------|
| BHP Billiton Limited | \$ 15.5bn | 205,892 | \$ 18.42 | Materials |
| National Australia Bank Limited | \$ 6.3bn | 117,736 | \$ 26.78 | Financials |
| Rio Tinto Limited | \$ 6.3bn | 113,360 | \$ 51.32 | Materials |
| Telstra Corporation Limited | \$ 4.7bn | 107,762 | \$ 2.77 | Telecommunications Services |
| Commonwealth Bank of Australia | \$ 4.3bn | 92,806 | \$ 32.31 | Financials |
| Westpac Banking Corporation Limited | \$ 4.0bn | 87,324 | \$ 17.33 | Financials |
| Australia & New Zealand Banking Group Limited | \$ 3.7bn | 80,374 | \$ 19.05 | Financials |
| Westfield Group Limited | \$ 3.4bn | 77,866 | \$ 12.81 | Property Trusts |
| Woodside Petroleum Limited | \$ 2.6bn | 70,784 | \$ 31.01 | Energy |
| Macquarie Bank Limited | \$ 2.4bn | 65,300 | \$ 45.33 | Financials |
| Macquarie Infrastructure Group Limited | \$ 2.2bn | 62,554 | \$ 26.92 | Industrials |
| QBE Group Limited | \$ 2.0bn | 59,818 | \$ 15.77 | Financials |
| Woolworths Limited | \$ 2.0bn | 59,220 | \$ 13.88 | Consumer Staples |
| Rinker Group Limited | \$ 2.0bn | 58,558 | \$ 13.48 | Materials |
| Qantas Airways Limited | \$ 1.9bn | 56,462 | \$ 2.74 | Industrials |
| Coles Myer Limited | \$ 1.9bn | 53,950 | \$ 7.55 | Consumer Staples |
| Brambles Industries Limited | \$ 1.7bn | 53,568 | \$ 7.49 | Industrials |
| Zinfex Limited | \$ 1.7bn | 50,940 | \$ 6.05 | Materials |
| Newcrest Mining Limited | \$ 1.6bn | 49,428 | \$ 15.70 | Materials |
| AMP Limited | \$ 1.6bn | 48,814 | \$ 6.22 | Financials |
| | Exchange rate | Exchange rate | | |
| | US\$1 = A\$1.3635 | US\$1 = A\$1.3635 | | |

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 120 equities and 3 indices and warrants.

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, 2005.

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Options Contracts Traded | 13.7mil | 16.7 mil | 16.9 mil | 20.7 mil | 23.2mil |
| Notional value | \$ 83.5bn | \$ 116.8bn | \$ 161.7bn | \$ 230.9bn | \$ 303.6bn |
| Exchange Rate US\$1 = | A\$ 1.9629 | A\$ 1.7801 | A\$ 1.3298 | A\$ 1.2817 | A\$ 1.3635 |
| Warrant trades | 445,000 | 459,000 | 275,000 | 364,000 | 543,000 |

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

Table of Contents

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, 2005:

| | \$US Nominal Value | \$ US Market Value |
|-------------------------|------------------------------------|------------------------------------|
| | Billions | Billions |
| Commonwealth Government | 34.2 | 36.6 |
| Semi-government | 38.4 | 40.1 |
| Corporate | 66.5 | 68.0 |
| Total | 139.1 | 144.7 |
| | Exchange rate US\$1 = A\$1.3635 | Exchange rate US\$1 = A\$1.3635 |

Source: UBS Investment Bank

Table of Contents

The information in this Statement of Additional Information is not complete and may be changed. The Fund may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Statement of Additional Information is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to completion dated July 18, 2006

Aberdeen Australia Equity Fund, Inc.

Statement of Additional Information

[], 2006

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 [] shares (Shares) of the Fund's common stock, \$.01 par value per share (Common Stock) is not a prospectus, but should be read in conjunction with the Fund's prospectus, dated [], 2006 (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 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. 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 Fund in any jurisdiction in which such offering may not lawfully be made.

Table of Contents

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|--------------------|
| <u>HISTORY OF THE FUND</u> | 3 |
| <u>MANAGEMENT OF THE FUND</u> | 3 |
| <u>CONTROL PERSONS AND PRINCIPAL HOLDERS OF SECURITIES</u> | 13 |
| <u>INVESTMENT MANAGEMENT, INVESTMENT ADVISORY AND OTHER AGREEMENTS</u> | 14 |
| <u>CODE OF ETHICS</u> | 21 |
| <u>PORTFOLIO MANAGERS</u> | 22 |
| <u>PORTFOLIO TRANSACTIONS AND BROKERAGE</u> | 25 |
| <u>PROXY VOTING POLICIES AND PROCEDURES</u> | 28 |
| <u>TAXATION</u> | 28 |
| <u>CUSTODIAN AND TRANSFER, DIVIDEND DISBURSING AND DIVIDEND REINVESTMENT PLAN AGENT</u> | 36 |
| <u>EXPERTS</u> | 36 |
| <u>LEGAL MATTERS</u> | 37 |
| <u>FINANCIAL STATEMENTS</u> | 38 |
| <u>APPENDIX A The Aberdeen Funds Proxy Voting Policy and Procedures</u> | A-1 |
| <u>APPENDIX B Aberdeen U.S. Registered Advisers Proxy Voting Policies and Procedures</u> | B-1 |

Table of Contents

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. Aberdeen Asset Management Asia Limited (AAMAL or the Investment Manager) serves as the Fund's Investment Manager, and Aberdeen Asset Management Limited (AAML or the Investment Adviser) serves as the Fund's Investment Adviser.

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 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.

Interested Directors

| <u>Name, Address and Age</u> | <u>Position(s) Held With the Fund</u> | <u>Term of Office and Length of Time Served</u> | <u>Principal Occupation(s) During Past Five Years</u> | <u>Number of Funds in Fund Complex* Overseen by Director</u> |
|------------------------------|---|---|---|--|
|------------------------------|---|---|---|--|