

ABERDEEN AUSTRALIA EQUITY FUND INC  
Form N-30D  
January 02, 2003

(LOGO)  
Aberdeen  
Australia Equity  
Fund, Inc.

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

Annual Report

October 31, 2002

Letter to Shareholders

December 13, 2002

Dear Shareholder,

We present this Annual Report which covers the activities of Aberdeen Australia Equity Fund, Inc. (the "Fund") for the year ended October 31, 2002. Included in this report is a review of the Australian economy and investment markets, together with an overview of the Fund's investments prepared by Aberdeen Asset Managers (C.I.) Limited (the "Investment Manager").

Quarterly Distribution Rate

A cash distribution for the current quarter of 2.5 cents per share was paid on October 11, 2002.

On March 14, 2002 the Board of Directors determined to discontinue the Fund's managed distribution policy, in order to better enable the Investment Manager to achieve the Fund's principal investment objective of long-term capital appreciation. It is the Board's intention that the quarterly distribution of 2.5 cents per share be maintained for 12 months beginning with the April 12, 2002 distribution payment. This policy is subject to regular review at the Board's quarterly meetings. The next review is scheduled to take place in March 2003.

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, 2002.

Net Asset Value Performance

For the twelve months ended October 31, 2002, the Fund's total return based on NAV was 19.0% after expenses (assuming reinvestment of distributions) compared with 6.9%, in U.S. dollar terms, for the S&P/ASX 200 Accumulation Index.

Share Price Performance

The Fund's share price rose 8.3% over the year, from \$5.29 on October 31, 2001 to \$5.73 on October 31, 2002. The Fund's share price on October 31, 2002 represented a discount of 16.2% to the NAV per share of \$6.84 on that date. On October 31, 2001, the discount to NAV was 11.4%. At the date of this report the share price was \$5.99, representing a discount of 11.3% to the NAV of \$6.75.

Letter to Shareholders (continued)

(GRAPH)

Buy-Back Program

On March 19, 2001 the Fund announced the approval of a share buy-back program. Purchases of shares under this program commenced on June 6, 2001 and as of the date of this report 370,700 shares have been repurchased and cancelled.

For information about the Fund, including weekly updates of share prices, NAV and details of recent distributions, please contact Aberdeen Asset Management Investor Relations, by:

- Calling toll free on 1-800-522-5465 in the United States,
- E-mailing to [InvestorRelations@aberdeen-asset.com](mailto:InvestorRelations@aberdeen-asset.com), or
- Visiting the website at [www.aberdeen-asset.com.us](http://www.aberdeen-asset.com.us)

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

Yours sincerely,

Hugh Young  
Chairman and President

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

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

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

Therefore, the exact amount of distributable income for each fiscal year can only be determined as of the end of the Fund's fiscal year, October 31. However, under the U.S. Investment Company Act of 1940, the Fund is required to indicate the source of each distribution to shareholders.

This estimated distribution composition may vary from quarter to quarter because it may be materially impacted by future realized gains and losses on securities and fluctuations in the value of the currencies in which Fund assets are denominated.

The distributions for the fiscal year ended October 31, 2002 were comprised of \$0.15 per share of net investment income and \$0.07 per

share of realized long-term capital gains.

In January 2003, a Form 1099 DIV will be sent to shareholders, which will state the amount and composition of distributions and provide information with respect to their appropriate tax treatment.

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#### Dividend Reinvestment and Cash Purchase Plan

We invite you to participate in the Fund's Dividend Reinvestment and Cash Purchase Plan ("the Plan"), which allows you to automatically reinvest your distributions in shares of the Fund's common stock at favorable commission rates. Distributions made under the Plan are taxable to the same extent as are cash distributions. The Plan also enables you to make additional cash investments in shares of at least \$100 per month. Under this arrangement EquiServe Trust Company, N.A. (the "Plan Agent") will purchase shares for you on the stock exchange or otherwise on the open market on or about the 15th of each month, unless shares of the Fund are trading at a premium, in which case the Fund will issue additional shares.

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

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

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

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

To request a brochure containing information on the Plan, together with an authorization form, please contact the Plan Agent, EquiServe Trust Company, N.A., P.O. Box 43011, Providence, RI 02940-3011 or toll free on 1-800-451-6788.

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#### Report of the Investment Manager

##### Investment Strategy

The Investment Manager remains stock selective and value focused in investments, preferring companies with good quality management, solid cash flows and strong balance sheets. The bottom-up stock selection process has led to a portfolio with underweight positions in media, transport, health and biotech, while defensive sectors such as gaming, utilities and alcohol are well represented. The Fund's current stock holdings provide a defensive and domestic nature to the portfolio, which the Investment Manager believes to be appropriate in the current environment. Financial stocks within the portfolio contributed positively to performance and benefited from a strong weighting in QBE Insurance Group which was the best contributing stock over the quarter. Utilities significantly out-performed the overall index over the quarter and the Fund gained from its

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overweight position in this sector. The overweight position in Consumer Staples and the zero holding in Health Care also had a positive asset allocation effect. Materials and Telecommunications also produced gains. Of particular note were the contributions made by Telecom Corporation of New Zealand and Iluka Resources. The Fund's holding in Woodside Petroleum had a negative impact on performance.

### Portfolio Composition

The following chart summarizes the composition of the Fund's portfolio, expressed as a percentage of net assets. On October 31, 2002 the Fund held 95.2% of its assets in equities and 4.8% in short-term investments (including other assets in excess of liabilities).

(GRAPH)

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### Selected Equity Holdings

The following notes highlight the Fund's top ten holdings at October 31, 2002.

#### 6.9% of net assets

BHP Billiton Ltd is a major international resources company with a global portfolio of high quality assets. BHP's new strategic framework aims to focus on reducing operating costs, and free cash flow on a normalized basis as a result of the cost cutting. Management has identified \$10 billion of mature growth potential investment in the current portfolio. A high proportion of assets is being invested in petroleum, reflecting the high growth opportunities of the Exploration & Production sector, without some of the regulatory and market constraints that impact growth in some metals and mining sectors. The Company aims to substantially increase oil and natural gas production within five years as it starts up new fields in the Gulf of Mexico, Algeria and Australia. BHP's results for the quarter ended September 30, 2002 showed continued strong performance from its diversified asset base with earnings before interest and tax of \$819 million.

#### 6.8% of net assets

QBE Insurance Group Ltd is an international insurance and reinsurance group, with operations in over 40 countries, underwriting most forms of commercial, industrial and individual insurance policies. Europe represents over 58% of the Group's business. The Group's strategy is directed at growth through acquisitions, customer retention and the development of new products. As part of this strategy, International General Insurance operations is expanding its geographic spread, particularly in the growth markets of Asia, Eastern Europe and Latin America. For the half year to June 30, 2002, QBE reported earnings of \$63 million after tax (compared to a loss of \$13.7 million for the half year to December 31, 2001) and an increase in net revenue from policy sales of 18% to \$1.5 billion as the Company increased prices by more than a fifth and claims were lower than expected.

#### 6.4% of net assets

Rio Tinto Ltd is the third largest mining company in the world, focused on developing resource operations globally via acquisitions and organic growth. Rio Tinto's strategy has seen the company make a number of acquisitions in the last two years across five of its core product groups. Rio's management is looking to increased benefits from acquisitions to flow through over the next two years.

## Selected Equity Holdings (continued)

## 5.4% of net assets

BRL Hardy Ltd is an Australian producer and exporter of wine. The Company's wines are distributed worldwide through a network of sales and marketing operations, and its brands include Hardys, Houghton, Banrock, Station, Leasingham and Nobile Wines. BRL's strategy is to provide a sufficient volume of quality wine to satisfy demand in Australia and overseas, prompting a vineyard expansion program. In June 2002 BRL formed a joint venture with South Africa's Stellenbosch Vineyards. The joint venture arrangements will create a new branded wine from Stellenbosch Vineyards, which will be marketed in Europe through BRL's sales and marketing network. The Group announced results for the six months ended June 30, 2002 with a 29% increase in net profit before tax from \$24 million to \$31 million. The results reflected higher sales and earnings from each of its three key world wine markets -- Australasia, Europe and North America.

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## 4.8% of net assets

Australia & New Zealand Banking Group Ltd ("ANZ") consists of a financial network extending across Asia and the Pacific. The network offers financial services including retail and corporate banking, project and structured finance, foreign exchange, unit trusts, managed investments, trust funds, insurance, and fund management services. ANZ's strategy has been refocused toward lower risk retail operations in the Asia Pacific region. In early 2002 ANZ and ING combined their wealth management divisions to become one of the largest wealth management groups in Australia and New Zealand.

## 4.4% of net assets

National Australia Bank Ltd ("NAB") is a financial services group, providing a comprehensive, integrated range of financial services across 15 countries. NAB is ranked as one of the 50 largest banks in the world. NAB is undergoing a strategic shift from a provider of traditional banking services to an integrated global financial services group. The Group has been restructured into three regional banking operations and two internationally focused operations -- Wholesale Financial Services and Wealth Management. NAB has also implemented a Group-wide productivity improvement program that it hopes will deliver annual expense reductions of \$204 million by September 2004.

## 4.3% of net assets

Foster's Group Ltd's principal activities are the production and marketing of alcoholic and non-alcoholic beverages, with Foster's also holding major investments in licensed properties. Foster's Group has won a ten-year contract to brew the Stella

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## Selected Equity Holdings (continued)

Arto's brand premium beer, which is the fourth-ranked imported premium beer in Australia. With the acquisition of Beringer Blass in February (a premium, multi-brand business) Foster's has achieved some

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diversification from the traditional beer production and marketing business. In 2002 sales from its global wine business exceeded beer for the first time.

4.2% of net assets

Leighton Holdings Ltd is an Australian project development and construction group. The Group also produces over 60 million tons of coal annually across Australia and Asia. The Group consists of five operating companies. Leighton hopes to deliver further growth in the medium-term driven by increased work in Asia, particularly in the Philippines. Management also hopes to achieve growth in the property development market through to 2006, with road and rail projects planned for NSW and Victoria over the next few years.

4.2% of net assets

Westpac Banking Corporation Ltd is a provider of banking and financial services in Australia, New Zealand and nine Pacific Island nations. Westpac operates four main business divisions, including Australian Retail Financial Services, Westpac Institutional Bank, Westpac Trust and Pacific Banking. Following Westpac's acquisition of Rothschild Australia Asset Management in April 2002 and Bankers Trust in September 2002, the company has confirmed its desire to become a force in wealth management in Australia. The latter of the two acquisitions is hoped by Westpac to become profitable within two years.

4.2% of net assets

Commonwealth Bank of Australia ("CBA") provides financial services including retail, business, fund management, insurance, investment banking, brokerage services and financing, operating primarily in Australia and New Zealand. While the bank has made some inroads into Asia, its strategy is focused on the domestic market and the expansion of financial services and non-interest income. Cost controls have come through outsourcing non-core operations and investment in e-commerce in order to improve efficiencies.

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 the investment, that industry group represents 20% or more of the S&P/ASX 200 Accumulation Index.

As of October 31, 2002, the Fund did not have more than 25% of its assets invested in any industry group.

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### Market Review and Outlook

#### Economy

The Australian economy is currently in its eleventh year of expansion. Recent economic data indicated that the economy's annual growth rate was 3.8% in the second quarter of 2002. This result was underpinned by strong consumer demand, with retail sales 8% higher than the second quarter of 2001, and a strong housing sector, with building approvals recently pulling back from 8 year highs. In the labor market, employment growth is currently running at an annual rate of 2% and the unemployment level has dropped to a 12-month low of 6.2%. Business conditions improved throughout 2002 to reach their highest levels since late 1999, reflecting better profitability and employment and trading conditions at 2-year highs. Business confidence has also strengthened in the face of weaker equity markets

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and threats of war. Following two 0.25% tightenings earlier in 2002, the Reserve Bank of Australia (RBA) has opted to leave interest rates unchanged since June 2002, with its decisions likely to have been influenced by uncertainty about the strength of the global recovery, the threat of military action in Iraq and volatility in global equity markets. This has maintained Australian interest rates at historically low levels and an accommodative stance of monetary policy, although the RBA still retains a bias to raise interest rates further.

Stock Market

Following a strong first quarter of 2002 for equity markets, the second quarter saw a rise in investor uncertainty over the prospects for an economic recovery and the third quarter has seen the Australian share market record its second largest quarterly fall in ten years. This was principally driven by offshore factors, not least the crisis of confidence suffered in the U.S. following a series of bankruptcies and accounting scandals. Increasing concern over the possibility of a war with Iraq towards the end of the quarter also clouded global investor sentiment, economic forecasts and earnings outlooks.

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Currency

The Australian dollar surged through the first half of 2002 before losing ground in July, with investors heading for the relative safety of the Euro and the U.S. dollar as the equity market fallout prompted renewed fears of a global recession. The Investment Manager's long-held view that the Australian dollar would appreciate towards 56 cents was achieved, and exceeded, in recent months as an ebbing of support for the U.S. dollar benefited peripheral currencies. The widening of the differential between Australian and U.S. interest rates continued throughout 2002, reaching levels not seen since the mid 1990s. This should remain a key source of support to the currency in the near term--particularly given the likelihood that an easing in U.S. interest rates will see the differential widen further - as will the relative strength of domestic fundamentals. The Investment Manager retains the view that a target of 60 cents is achievable over the next 12 months.

The Australian dollar rose during the year, closing at \$0.55 on October 31, 2002.

Aberdeen Asset Managers (C.I.) Limited  
December 2002

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Portfolio of Investments  
October 31, 2002

| Shares | Description | Value<br>(US\$) |
|--------|-------------|-----------------|
|--------|-------------|-----------------|

-----  
LONG-TERM INVESTMENTS--95.2%

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|                               |   |              |
|-------------------------------|---|--------------|
| Common Stocks--95.2%          |   |              |
| Diversified Industries--27.1% |   |              |
| 2,920,000                     | Australian Agricultural Company Limited       | \$ 1,183,088 |
| 1,450,000                     | BRL Hardy Limited                             | 6,212,931    |
| 285,000                       | Foodland Associated Limited                   | 3,013,361    |
| 1,880,000                     | Foster's Group Limited                        | 4,956,359    |
| 936,000                       | Leighton Holdings Limited                     | 4,883,317    |
| 1,190,000                     | Lion Nathan Limited                           | 3,441,089    |
| 2,000,000                     | Pacifica Group Limited                        | 4,351,383    |
| 480,000                       | Woolworths Limited                            | 3,279,522    |
|                               |   | -----        |
|                               |   | 31,321,050   |
|                               |   | -----        |
| Resources and Mining--16.7%   |   |              |
| 1,488,000                     | BHP Billiton Limited                          | 8,002,726    |
| 1,438,448                     | Iluka Resources Limited                       | 3,832,187    |
| 417,968                       | Rio Tinto Limited*                            | 7,411,825    |
|                               |   | -----        |
|                               |   | 19,246,738   |
|                               |   | -----        |
| Services--51.4%               |   |              |
| 671,004                       | Aristocrat Leisure Limited*                   | 1,817,424    |
| 530,000                       | Australia & New Zealand Banking Group Limited | 5,539,077    |
| 530,000                       | Australian Gas Light Company Limited          | 3,000,456    |
| 355,275                       | Australian Stock Exchange Limited             | 2,267,638    |
| 2,530,664                     | AXA Asia Pacific Holdings Limited             | 3,441,215    |
| 1,116,119                     | Collection House Limited                      | 1,901,780    |
| 288,000                       | Commonwealth Bank of Australia                | \$ 4,859,340 |
| 2,260,000                     | GasNet Australia Trust                        | 2,445,988    |
| 266,000                       | National Australia Bank Limited               | 5,074,257    |
| 1,850,000                     | QBE Insurance Group Limited                   | 7,906,308    |
| 487,000                       | TAB Queensland Limited                        | 1,189,304    |
| 459,000                       | TABCORP Holdings Limited                      | 2,950,071    |
| 1,623,000                     | Telecom Corporation of New Zealand Limited*   | 4,008,573    |
| 1,812,000                     | Telstra Corporation Limited                   | 4,787,143    |
| 618,000                       | Westpac Banking Corporation Limited           | 4,870,663    |
| 503,000                       | Woodside Petroleum Limited                    | 3,355,704    |
|                               |   | -----        |
|                               |   | 59,414,941   |
|                               |   | -----        |
|                               | Total common stocks (cost \$101,735,130)      | 109,982,729  |
|                               |   | -----        |



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Principal  
Amount  
(000)  
-----

SHORT-TERM INVESTMENT--4.4%

Demand Deposit--4.4%

A\$

|       |   |           |
|-------|---|-----------|
| 9,208 | Banque Nationale de<br>Paris,<br>4.50%, 10/1/02<br>(cost \$5,059,107) | 5,110,534 |
|-------|---|-----------|

|   |             |
|---|-------------|
| Total Investments--99.6% (cost \$106,794,237; Note 4) | 115,093,263 |
| Other assets in excess of liabilities--0.4%           | 396,508     |

|                  |               |
|------------------|---------------|
| Net assets--100% | \$115,489,771 |
|------------------|---------------|

\* Portion of security on loan, see Note 3.  
12 Aberdeen Australia Equity Fund, Inc. See Notes to Financial Statements.

Statement of Assets and Liabilities  
October 31, 2002

Assets

|   |               |
|---|---------------|
| Investments, at value (cost \$106,794,237)  | \$115,093,263 |
| Foreign currency, at value (cost \$139,100) | 138,184       |
| Cash  | 88,761        |
| Receivable for investments sold             | 367,692       |
| Dividends and interest receivable           | 196,161       |
| Other assets                                | 105,741       |
| Total assets                                | 115,989,802   |

Liabilities

|  |         |
|--|---------|
| Accrued expenses and other liabilities | 307,371 |
| Payable for investments purchased      | 104,403 |
| Investment management fee payable      | 83,912  |
| Administration fee payable             | 4,345   |
| Total liabilities                      | 500,031 |

|            |               |
|------------|---------------|
| Net Assets | \$115,489,771 |
|------------|---------------|

Net assets were comprised of:

|   |               |
|---|---------------|
| Common stock, \$.01 par value                                   | \$ 168,935    |
| Paid-in capital in excess of par                                | 136,697,780   |
| Accumulated net realized gain on investments                    | 136,866,715   |
| Net unrealized appreciation on investments                      | 607,351       |
| Accumulated net realized and unrealized foreign exchange losses | 7,271,546     |
| Net assets  | (29,255,841)  |
| Net assets  | \$115,489,771 |

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Net asset value per share:

(\$115,489,771 / 16,893,498 shares of common stock issued  
and outstanding)..... \$6.84

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc. 13

Statement of Operations  
Year Ended October 31, 2002  
Net Investment Income

|  |              |
|--|--------------|
| Income   |              |
| Dividends (net of foreign withholding taxes of \$124,048).....                                 | \$ 4,466,184 |
| Interest.....  | 182,201      |
| Income from securities loaned, net.....  | 22,775       |
|  | -----        |
| Total income.....  | 4,671,160    |
|  | -----        |
| Expenses   |              |
| Investment management fee.....   | 1,099,493    |
| Custodian's fees and expenses.....   | 181,000      |
| Directors' fees and expenses.....  | 140,000      |
| Reports to shareholders.....   | 121,000      |
| Legal fees and expenses.....   | 120,000      |
| Insurance expense.....   | 87,000       |
| Independent accountant's fees and expenses.....  | 75,000       |
| Investor relations fees and expenses.....  | 71,000       |
| Administration fee.....  | 57,107       |
| Transfer agent's fees and expenses.....  | 42,000       |
| Miscellaneous.....   | 11,149       |
|  | -----        |
| Total operating expenses.....  | 2,004,749    |
|  | -----        |
| Net investment income.....   | 2,666,411    |
|  | -----        |
| Realized and Unrealized Gains on Investments and Foreign Currencies                            |              |
| Net realized gain on investment transactions.....  | 4,690,241    |
| Net increase in unrealized appreciation on investments.....                                    | 1,234,408    |
|  | -----        |
| Net gain on investments.....   | 5,924,649    |
|  | -----        |
| Net increase in net assets resulting from operations before net<br>foreign exchange gains..... | 8,591,060    |
| Net realized and unrealized foreign exchange gains.....  | 9,882,629    |
|  | -----        |
| Net Increase In Net Assets Resulting From Operations.....                                      | \$18,473,689 |
|  | -----        |
|  | -----        |

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See Notes to Financial Statements.

Statement of Changes in Net Assets

Year Ended October 31,

-----  
2002

-----  
2001

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|   |               |               |
|---|---------------|---------------|
| Increase (Decrease) in Net Assets   |               |               |
| Operations  |               |               |
| Net investment income.....  | \$ 2,666,411  | \$ 2,037,541  |
| Net realized gains (losses) on<br>investment transactions.....  | 4,690,241     | (2,376,854)   |
| Net increase (decrease) in unrealized<br>appreciation on investments.....   | 1,234,408     | (618,229)     |
| Net increase (decrease) in net assets<br>resulting from operations before net<br>foreign exchange gains (losses)..... | 8,591,060     | (957,542)     |
| Net realized and unrealized foreign<br>exchange gains (losses).....   | 9,882,629     | (2,829,055)   |
| Net increase (decrease) in net assets<br>resulting from operations.....   | 18,473,689    | (3,786,597)   |
| Dividends to shareholders from net<br>investment income.....  | (2,602,055)   | --            |
| Tax return of capital.....  | --            | (11,592,876)  |
| Distributions to shareholders from<br>long-term capital gains.....  | (1,207,190)   | --            |
| Cost of Fund shares reacquired in<br>repurchase program (263,300 and 33,200<br>shares, respectively).....             | (1,536,167)   | (200,299)     |
| Total increase (decrease).....  | 13,128,277    | (15,579,772)  |
| Net Assets  |               |               |
| Beginning of year.....  | 102,361,494   | 117,941,266   |
| End of year(a).....   | \$115,489,771 | \$102,361,494 |
| (a) Includes undistributed net investment<br>income of:.....  | \$ --         | \$ 34,742     |

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc. 15

Notes to Financial Statements

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

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obligations may be affected by economic or political developments in a specific industry or region.

### Note 1. Accounting Policies

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

#### Basis of Presentation:

The financial statements of the Fund are prepared in accordance with accounting principles generally accepted in the United States of America using the United States dollar as both the functional and reporting currency.

#### Securities Valuation:

The Fund's Board of Directors has adopted Pricing and Valuation Procedures (the 'Procedures') to be used in determining the value of the assets held by the Fund. In accordance with the Procedures, investments are stated at value. Investments for which market quotations are readily available are valued at the last trade price on the date of determination as obtained from a pricing source. If no such trade price is available, such investments are valued at the quoted bid price or the mean between the quoted bid and asked price on the date of determination as obtained from a pricing source. Short-term securities which mature in more than 60 days are valued at current market quotations. Short-term securities which mature in 60 days or less are valued at amortized cost. Securities for which

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### Notes to Financial Statements (continued)

market quotations are not readily available are valued at fair value in good faith using methods set forth in the Procedures.

#### Repurchase Agreements:

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

#### Foreign Currency Translation:

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

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

(ii) purchases and sales of investment securities, income and expenses--at the rate of exchange prevailing on the respective dates of such transactions. The Fund isolates that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities held at October 31, 2002. Similarly, the Fund isolates the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of portfolio securities sold during the reporting period.

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

Aberdeen Australia Equity Fund, Inc. 17

### Notes to Financial Statements (continued)

shown in the composition of net assets at October 31, 2002 represent foreign exchange gains (losses) for book purposes that have not yet been recognized for tax purposes.

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

The exchange rate at October 31, 2002 was US\$0.55 to A\$1.00 for the Australian dollar.

#### Securities Transactions and Net Investment Income:

Securities transactions are recorded on the trade date. Realized and unrealized gains (losses) from security and currency transactions are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis. Expenses are recorded on the accrual basis. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

#### Dividends and Distributions:

It is the Fund's current policy to pay quarterly distributions from net investment income, which may be supplemented by net realized capital gains and, to the extent necessary, return of paid-in capital, on a quarterly basis. On an annual basis, the Fund intends to distribute its net realized capital gains, if any, by way of a final distribution to be declared during the calendar quarter ending December 31. Dividends and distributions to shareholders are recorded on the ex-dividend date.

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

#### Taxes:

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

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

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18 Aberdeen Australia Equity Fund, Inc.

Notes to Financial Statements (continued)

United States income taxes is required. Australia imposes a withholding tax of 15% on certain dividends and 10% on certain interest.

### Securities Lending:

The Fund may lend its portfolio securities to qualified institutions. The loans are secured by collateral in the form of other securities at least equal, at all times, to the market value of the securities loaned. The Fund may bear the risk of delay in recovery of, or even loss of rights in, the securities loaned should the borrower of the securities fail financially. The Fund receives compensation for lending its securities in the form of fees or it retains a portion of interest on the investment of any cash received as collateral. The Fund also continues to receive dividends on the securities loaned and any gain (loss) in the market price of the securities loaned that may occur during the term of the loan will be for the account of the Fund.

### Note 2. Agreements

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

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

The management agreement provides the Investment Manager with a fee, computed weekly and payable monthly, at the following annual rates: 1.10% of the Fund's average weekly net assets 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. The Investment Manager pays fees to the Investment Adviser for its services rendered. The Investment Manager informed the Fund that it paid \$296,320 to the Investment Adviser during the year ended October 31, 2002.

Prudential Investments LLC (the 'Administrator') serves as administrator to the Fund pursuant to an agreement which provides the Administrator with a fee at the annual rate of the greater of \$25,000, or 0.05%, of the Fund's average weekly net assets.

Aberdeen Australia Equity Fund, Inc. 19

Notes to Financial Statements (continued)

Under terms of an Investor Relations Services Agreement, Aberdeen Fund Managers, Inc. ('Aberdeen'), an affiliate of the Fund's Investment Manager and Investment Adviser, serves as the Fund's investor relations services provider. This agreement provides Aberdeen with a monthly retainer fee of \$5,000 plus out-of-pocket expenses. During the year ended October 31, 2002, the Fund incurred fees of approximately \$60,000 for the services of Aberdeen. As of October 31, 2002, \$5,000 was due to Aberdeen. Investor relations fees and expenses in the Statement of Operations include certain out-of-pocket expenses.

### Note 3. Portfolio Securities

Purchases and sales of investment securities, other than short-term investments,

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for the year ended October 31, 2002 aggregated \$62,563,127 and \$61,227,912, respectively.

As of October 31, 2002, the Fund had securities on loan with an aggregate market value of \$6,638,144. The Fund received \$7,269,298 in securities as collateral for securities on loan in accordance with the Fund's securities lending procedures.

### Note 4. Distributions and Tax Information

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

For the year ended October 31, 2002, the Fund decreased undistributed net investment income by \$99,098, decreased accumulated net realized gain on investments by \$93,018, decreased accumulated realized and unrealized foreign exchange losses by \$157,374 and increased paid-in capital in excess of par by \$34,742. Net investment income, net realized gains and net assets were not affected by this change.

For the year ended October 31, 2002, the tax character of total dividends paid was \$2,602,055 of ordinary income and \$1,207,190 of long-term capital gains. The Fund utilized a capital loss carryforward of \$2,467,381.

As of October 31, 2002, the accumulated undistributed long-term gains on a tax basis were \$1,145,495.

20 Aberdeen Australia Equity Fund, Inc.

### Notes to Financial Statements (continued)

The United States federal income tax basis of the Fund's investments and the net unrealized appreciation as of October 31, 2002 were as follows:

| Tax Basis     | Appreciation | Depreciation  | Net<br>Unrealized<br>Appreciation |
|---------------|--------------|---------------|-----------------------------------|
| \$108,306,499 | \$12,706,151 | \$(5,919,387) | \$6,786,764                       |

The difference between book and tax basis is primarily attributable to deferred losses on wash sales.

### Note 5. Capital

There are 20 million shares of \$.01 par value common stock authorized. At October 31, 2002 there were 16,893,498 shares issued and outstanding. On March 1, 2001, the Board of Directors approved a stock repurchase program. The stock repurchase program allows the Fund to repurchase up to 10% of its outstanding common stock in the open market during any 12 month period if and when the discount to net asset value is at least 10%. The weighted average discount for the year ended October 31, 2002 was 14.16%. During the fiscal years ended October 31, 2002 and October 31, 2001, the Fund repurchased and cancelled under this program 263,300 and 33,200 shares, respectively.

### Note 6. Dividends and Distributions

The Board of Directors of the Fund approved on December 11, 2002 a quarterly

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distribution of \$0.025 per share of ordinary income and a special distribution of \$0.070 per share of long-term capital gains, payable on January 13, 2003 to shareholders of record on December 31, 2002.

### Note 7. Beneficial Ownership; Change of Control

Based on filings with the Securities and Exchange Commission, on October 17, 2002, Bankgesellschaft Berlin (A.G.) ('Bankgesellschaft') acquired 5,348,149 shares of common stock of the Fund from Mira L.P. in a private placement and subsequently otherwise acquired an additional 22,000 shares of common stock of the Fund. This number of shares represented 31.7% of the outstanding shares of the Fund as at the date of this report. As of October 31, 2002, Bankgesellschaft was the beneficial owner of 31.8% of the outstanding shares of the Fund.

Aberdeen Australia Equity Fund, Inc. 21

### Financial Highlights

|  | Year<br>Ended<br>October 31, 2002<br>----- |
|--|--|
| <b>PER SHARE OPERATING PERFORMANCE:</b>  |  |
| Net asset value, beginning of year.....  | \$ 5.97<br>-----                           |
| Net investment income.....   | .15  |
| Net realized and unrealized gains (losses) on investments and foreign<br>currencies..... | .93<br>-----                               |
| Total from investment operations.....  | 1.08<br>-----                              |
| Dividends from net investment income.....  | (.15)                                      |
| Distributions from net capital and currency gains.....                                   | (.07)                                      |
| Tax return of capital.....   | --<br>-----                                |
| Total dividends and distributions.....   | (.22)<br>-----                             |
| Capital reduction with respect to issuance of Fund shares.....                           | --   |
| Increase resulting from Fund share repurchase.....                                       | .01<br>-----                               |
| Net asset value, end of year.....  | \$ 6.84<br>-----                           |
| Market price per share, end of year.....   | \$ 5.73<br>-----<br>-----                  |
| <b>TOTAL INVESTMENT RETURN BASED ON POUND:</b>   |  |
| Market value.....  | 12.55%                                     |
| Net asset value.....   | 19.04%                                     |
| <b>RATIOS/SUPPLEMENTAL DATA:</b>   |  |
| Ratio of expenses to average net assets.....   | 1.76%                                      |
| Ratio of net investment income to average net assets.....                                | 2.33%                                      |
| Portfolio turnover rate.....   | 56%  |
| Net assets, end of year (000 omitted).....   | \$115,490                                  |
| Average net assets (000 omitted).....  | \$114,213                                  |

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Pound 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.

D Less than \$0.005 per share.

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

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See Notes to Financial Statements.

### Financial Highlights (continued)

| Year Ended October 31, |            |            |            |
|------------------------|------------|------------|------------|
| 2001                   | 2000       | 1999       | 1998       |
| \$ 6.86                | \$ 8.78    | \$ 8.25    | \$ 9.35    |
| .12                    | .14        | .08        | .21        |
| (.33)                  | (1.25)     | 1.26       | (.41)      |
| (.21)                  | (1.11)     | 1.34       | (.20)      |
| --                     | (.12)      | (.30)      | (.23)      |
| --                     | (.69)      | (.51)      | (.66)      |
| (.68)                  | --         | --         | --         |
| (.68)                  | (.81)      | (.81)      | (.89)      |
| --                     | --         | --         | (.01)      |
| --D                    | --         | --         | --         |
| \$ 5.97                | \$ 6.86    | \$ 8.78    | \$ 8.25    |
| \$ 5.29                | \$ 5.875   | \$ 8.00    | \$ 6.5625  |
| 1.06%                  | (17.31)%   | 34.91%     | (0.38)%    |
| (2.32)%                | (12.02)%   | 17.77%     | (0.34)%    |
| 1.80%                  | 1.66%      | 2.58%      | 1.61%      |
| 1.77%                  | 1.66%      | .87%       | 2.38%      |
| 50%                    | 120%       | 143%       | 180%       |
| \$ 102,361             | \$ 117,941 | \$ 150,916 | \$ 141,794 |
| \$ 115,051             | \$ 143,801 | \$ 157,565 | \$ 149,827 |

See Notes to Financial Statements.

Aberdeen Australia Equity Fund, Inc. 23

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

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In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Aberdeen Australia Equity Fund, Inc. (the 'Fund') at October 31, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as 'financial statements') are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2002 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
 1177 Avenue of the Americas  
 New York, New York  
 December 16, 2002

24 Aberdeen Australia Equity Fund, Inc.

**Federal Tax Information:**  
 Dividends and Distributions (Unaudited)

We are required by the Internal Revenue Code to advise you within 60 days of the Fund's fiscal year end (October 31, 2002) as to the federal income tax status of dividends paid by the Fund during such fiscal year.

The Fund has elected to give the benefit of foreign tax credits to its shareholders. Accordingly, shareholders who must report their gross income dividends and distributions in a federal income tax return will be entitled to a foreign tax credit or an itemized deduction in computing their United States income tax liability. It is generally more advantageous to claim a credit rather than take a deduction. For the fiscal year ended October 31, 2002 the Fund intends on passing through approximately \$89,000 of ordinary income distributions as a foreign tax credit.

|                           | Gross<br>Amount | Foreign<br>Taxes<br>Paid | Net<br>Dividends and<br>Distributions<br>Paid |
|---------------------------|-----------------|--------------------------|---|
|                           | -----           | -----                    | -----   |
| Australia                 |                 |                          |   |
| --dividends               | \$.158          | \$.005                   | \$ .153                                       |
| United States             |                 |                          |   |
| --long-term capital gains | .07             | --                       | .07   |
|                           | -----           | -----                    | -----   |
|                           | \$.228          | \$.005                   | \$ .223                                       |
|                           | -----           | -----                    | -----   |

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In January 2003, you will be advised on IRS Form 1099 DIV or substitute 1099 DIV as to the federal tax status of the dividends and distributions received by you in calendar year 2002.

Aberdeen Australia Equity Fund, Inc. 25

## Capital Structure (Unaudited)

### SHARE CAPITAL

| Authorized | Issued     |   |
|------------|------------|---|
| 20,000,000 | 16,893,498 | Common stock, at \$0.01 par value per share |

### CAPITAL HISTORY

| Common Stock                               |           |   |
|--|-----------|---|
| December 15, 1985                          | 10,810    | Seed shares issued to Equitilink International Management Ltd. (former name of the Investment Manager of the Fund) at \$9.25. |
| December 19, 1985                          | 6,000,000 | Initial public offering of common stock at \$9.25.  |
| Semi-Annual period ended December 31, 1987 | (10,500)  | Buy back of common stock  |
| Quarter ended June 30, 1987                | (289,500) | Buy back of common stock  |
| Quarter ended January 31, 1988*            | 295,630   | Shares issued through dividend reinvestment program   |
| Quarter ended April 30, 1990               | 12,760    | Shares issued through dividend reinvestment program   |
| August 13, 1993                            | 3,762,000 | Rights offering of common stock at \$8.74 per share   |
| May 20, 1994                               | 6,113,250 | Rights offering of common stock at \$9.78 per share   |
| Quarter ended January 31, 1995             | 848,706   | Shares issued through dividend reinvestment program   |
| Quarter ended January 31, 1996             | 171,122   | Shares issued through dividend reinvestment program   |
| Quarter ended January 31, 1997             | 144,988   | Shares issued through dividend reinvestment program   |
| Quarter ended January 31, 1998             | 130,732   | Shares issued through dividend reinvestment program   |
| Quarter ended July 31, 2001                | (33,200)  | Buy back of common stock  |
| Quarter ended January 31, 2002             | (9,900)   | Buy back of common stock  |
| Quarter ended April 30, 2002               | (39,000)  | Buy back of common stock  |
| Quarter ended July 31, 2002                | (77,300)  | Buy back of common stock  |
| Quarter ended October 31,                  | (137,100) | Buy back of common stock  |

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2002

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\* The Fund changed fiscal year end from September 30 to October 31.

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### Other Information (Unaudited)

Dividend Reinvestment and Cash Purchase Plan. Shareholders may elect to have all distributions of dividends and capital gains automatically reinvested in Fund shares pursuant to the Fund's Dividend Reinvestment and Cash Purchase Plan (the 'Plan'). Generally, shareholders who do not participate in the Plan will receive distributions in cash paid by check in United States dollars mailed directly to the shareholders of record (or if the shares are held in street or other nominee name, then to the nominee) by the custodian, as dividend disbursing agent. Shareholders who wish to participate in the Plan should contact the Fund at (800) 451-6788.

EquiServe Trust Company, N.A. (the 'Plan Agent') serves as agent for the shareholders in administering the Plan. Dividends and capital gains distributions payable to Plan participants will be promptly invested. If the Plan declares an income dividend or capital gains distribution payable in stock to shareholders who are not Plan participants, then Plan participants will receive that dividend or distribution in newly issued shares on identical terms and conditions.

In every other case Plan participants will receive shares on the following basis: If the market price of the Fund's common stock plus any brokerage commission is equal to or exceeds net asset value, Plan participants will receive newly issued shares valued at the greater of net asset value or 95% of current market price. If, on the other hand, the net asset value plus any brokerage commission exceeds the market price, the Plan Agent will buy shares in the open market. If the market price plus any applicable brokerage commission exceeds net asset value before the Plan Agent has completed its purchases, the Fund will issue new shares to complete the program. All reinvestments are in full and fractional shares carried to three decimal places.

There is no charge to participants for reinvesting dividends or capital gain distributions, except for certain brokerage commissions, as described below. The Plan Agent's fees for the handling of the reinvestment of dividends and distributions will be 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 in connection with the reinvestment of dividends and distributions. The automatic reinvestment of dividends and distributions will not relieve participants of any federal income tax that may be payable on such dividends and distributions.

Aberdeen Australia Equity Fund, Inc. 27

### Other Information (Unaudited) (continued)

The Plan also allows participants to make optional cash investments of at least \$100 in Fund shares as frequently as monthly through the Plan Agent on the open market. Participants must pay a service fee of \$0.75 for each investment and a pro rata share of the brokerage commissions.

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The Fund reserves the right to amend or terminate the Plan either in full or partially upon 90 days' written or telephone notice to shareholders of the Fund. Participants in the Plan may withdraw some or all of their shares from the Plan upon written notice to the Plan Agent and will receive certificates for whole shares and cash for fractional shares. In the alternative, by giving proper notice to the Plan Agent, participants may receive cash in lieu of shares in an amount which is reduced by brokerage commissions in connection with the sale of shares and a \$2.50 service fee.

All correspondence concerning the Plan should be directed to the Plan Agent, EquiServe Trust Company, N.A., P.O. Box 43011, Providence, RI 02940-3011. 28 Aberdeen Australia Equity Fund, Inc.

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Management of the Fund (Unaudited)

Board of Directors Information

The names of the Directors and officers of the Fund, their addresses, ages and principal occupations during the past five years are provided in the tables below. Directors that are deemed 'interested persons' (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended) of the Fund, the Investment Manager or the Investment Adviser are included in the table below under the heading 'Interested Directors.' Directors who are not interested persons as described above are referred to in the table below under the heading 'Independent Directors.'

Interested Directors

| Name, Address and Age   | Position(s) Held With the Fund | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years  | Number of Funds Managed by Director |
|---|--------------------------------|--|---|-------------------------------------|
| Laurence S. Freedman, A.M.**<br>25 Lime Street<br>Suite 405<br>Sydney, NSW 2000<br>Australia<br>Age: 59 | Class III<br>Director          | Term expires 2003; Director since 1985   | Mr. Freedman has over 35 years of experience in funds management with a focus on global investment analysis. Prior to founding EquitiLink in 1981, he was Director of Investment at BT Australia Limited. Mr. Freedman's areas of fund management specialization include investment in resource and development companies, international economies and the geo-political impact on investment markets. He was Chairman of the Fund from 1995 to 2001 and President of the | 3                                   |

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Fund from its inception until 2000. Mr. Freedman was founder of the Fund's Investment Adviser, and until December 2000, he was Joint Managing Director of the Fund's Investment Adviser, and a Director of the Fund's Investment Manager. Mr. Freedman was also Chairman from 1995 to 2000, Vice-President from 1986 to 2001, and Director from 1986 to 2000, of Aberdeen Asia-Pacific Income Fund, Inc.; Chairman from 2000 to 2001, President from 1992 to 2001 and a Director since 1992 of Aberdeen Global Income Fund, Inc. Joint Managing Director from 1986 to 2000 of Aberdeen Asia-Pacific Income Investment Company Limited; and Joint Managing Director from 1986 to 2000 of EquitiLink Limited (holding company).

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Management of the Fund (Unaudited) (continued)

| Name, Address and Age  | Position(s)<br>Held With<br>the Fund                            | Term of<br>Office<br>and Length of<br>Time Served              | Principal Occupation(s)<br>During Past Five Years   | Number<br>Funds<br>Fun<br>Compl<br>Overse<br>Direc |
|--|---|--|---|--|
| Hugh Young**<br>21 Church Street<br>Pound01-01 Capital Square Two<br>Singapore 049480<br>Age: 44 | Chairman of<br>the Board,<br>Class II<br>Director;<br>President | Term as<br>Director<br>expires 2005;<br>Director since<br>2001 | Mr. Young has been<br>Managing Director of<br>Aberdeen Asset Management<br>PLC (parent company of the<br>Fund's Investment Manager<br>and Investment Adviser)<br>(from 1991 to 2002);<br>Managing Director of<br>Aberdeen Asset Management<br>Asia Limited (affiliate of<br>the Fund's Investment<br>Manager and Investment<br>Adviser) (since 1992);<br>Managing Director of<br>Aberdeen International | 1  |

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Fund Managers Limited  
 (affiliate of the Fund's  
 Investment Manager and  
 Investment Adviser) (since  
 2000); Director of the  
 Investment Manager and the  
 Investment Adviser (since  
 2001); President (since  
 2001) of the Fund and of  
 Aberdeen Asia-Pacific  
 Income Fund, Inc. and  
 Aberdeen Global Income  
 Fund, Inc.

- 
- \* Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc. have a common Investment Manager and Investment Adviser with the Fund, and may thus be deemed to be part of the same 'Fund Complex' as the Fund.
  - \*\* Mr. Freedman is deemed to be an interested person because of his ownership of securities of Aberdeen Asset Management PLC, the parent company of the Fund's Investment Manager and Investment Adviser. Mr. Young is deemed to be an interested person because of his affiliation with the Fund's Investment Manager and Investment Adviser.

Independent Directors

| Name, Address and Age  | Position(s)<br>Held With<br>the Fund | Term of<br>Office<br>and Length of<br>Time Served | Principal Occupation(s)<br>During Past Five Years   | Number<br>of<br>Funds<br>in<br>Fund<br>Complex<br>Overseas<br>Director |
|--|--------------------------------------|---|---|--|
| Anthony E. Aaronson<br>110 E. 9th Street<br>Suite 721B<br>Los Angeles, CA 90079<br>Age: 65 | Class I<br>Director                  | Term expires<br>2004; Director<br>since 1985      | Mr. Aaronson is owner of Tony Aaronson Textiles. He was Director of the Textile Association of Los Angeles from 1997 to 2000. Mr. Aaronson has extensive experience in the management of private investments. He served as Chairman of the Audit Committee of the Fund from the inception of the Fund until 2000. | 2  |

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Management of the Fund (Unaudited) (continued)

Number  
of  
Funds

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| Name, Address and Age   | Position(s)<br>Held With<br>the Fund | Term of<br>Office<br>and Length of<br>Time Served | Principal Occupation(s)<br>During Past Five Years   | Fun<br>Compl<br>Overse<br>Direc |
|---|--------------------------------------|---|---|---------------------------------|
| David L. Elsum, A.M.<br>9 May Grove<br>South Yarra, Victoria 3141<br>Australia<br>Age: 65 | Class III<br>Director                | Term expires<br>2003; Director<br>since 1985      | Mr. Elsum has over 20 years of experience in investment and insurance markets. He was a member of the Corporations and Securities Panel of the Australian Securities Commission until 2000, a member of the Australian Federal Government Administrative Appeals Tribunal until 2001, Chairman of Audit Victoria (government statutory authority) from 1997 to 2000, and has been a member of the State of Victoria Regulator-General Appeal Panel since 2001. Mr. Elsum is Chairman of Stodart Investment Pty. Ltd. Previously, he was founding Managing Director of Capel Court Investment Bank, and Chief Executive of several major public companies, including The MLC Limited (insurance) and President of the State of Victoria Superannuation Fund (pension fund management). | 3                               |
| Howard A. Knight<br>421 Glenbrook Road, Pound2<br>Stamford, CT 06906<br>Age: 60           | Class II<br>Director                 | Term expires<br>2005; Director<br>since 1993      | Mr. Knight has over 30 years of experience in financial markets and has been actively involved in the Australian financial markets for more than 25 years. From 1991 to 1994, he served as President of Investment Banking, Equity Transactions and Corporate Strategy at Prudential Securities. From 1996 to 2001, Mr. Knight served as Vice Chairman and Chief Operating Officer of SBS Broadcasting SA (European television and radio broadcasting), where he was actively involved in investment management and capital markets. Mr. Knight is currently an independent director and  | 2                               |



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management adviser.

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Management of the Fund (Unaudited) (continued)

| Name, Address and Age   | Position(s)<br>Held With<br>the Fund | Term of<br>Office<br>and Length of<br>Time Served | Principal Occupation(s)<br>During Past Five Years   | Number<br>Funds<br>Fun<br>Compl<br>Overse<br>Direc |
|---|--------------------------------------|---|---|--|
| Neville J. Miles<br>2 Paddington Street<br>Paddington, NSW 2021 Australia<br>Age: 56                  | Class I<br>Director                  | Term expires<br>2004; Director<br>since 1996      | Mr. Miles has over 20 years of international investment banking experience. He was formerly head of Corporate Treasury at Westpac Banking Corporation and Managing Director of Ord Minnett Securities Limited (stockbrokers). Mr. Miles has extensive experience in the areas of corporate acquisitions and equity offerings. Mr. Miles is currently an investor and real estate developer. He has served, for over five years, as a Director of Ballyshaw Pty. Ltd. (investing/consulting) and Dawnglade Pty. Ltd. (real estate investment), and has served as a Director of Villepen Pty. Ltd. (real estate investment company) since 1999; Sonic Communications Pty. Ltd. since 2000, and Commsecure Limited since 2002. | 3  |
| Peter J. O'Connell<br>3 Spring Street<br>Suite 8, Level 6<br>Sydney, NSW 2000<br>Australia<br>Age: 49 | Class III<br>Director                | Term expires<br>2003; Director<br>since 1999      | Mr. O'Connell is involved in modern technology developments, has extensive business experience in the Asian region, and has served as an international mergers and acquisitions lawyer in this region. Mr. O'Connell is admitted as a solicitor in Australia and he has been Chief Executive Officer of Smart Device  | 2  |

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Marketing Company since 2001. Mr. O'Connell has also served as Chief Executive Officer of Lang Holdings (Aust) Pty. Ltd. (technology consulting) since 2001; and Chief Executive Officer of Ten Ventures Pty. Ltd. (establishment of media-based internet businesses) from 1999 until 2000. Mr. O'Connell was Chief of Operations of Consolidated Press Holdings Pty. Limited (supervision of private equity investments) from 1997 to 1999; Chief Executive Officer (from 1994 to 1996) and Director (from 1994 to 1999) of Hargrave Consultants Pty. Ltd., (technology consulting).

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Management of the Fund (Unaudited) (continued)

| Name, Address and Age   | Position(s)<br>Held With<br>the Fund | Term of<br>Office<br>and Length of<br>Time Served | Principal Occupation(s)<br>During Past Five Years   | Number<br>Funds<br>Fun<br>Compl<br>Overse<br>Direc |
|---|--------------------------------------|---|---|--|
| William J. Potter<br>236 West 27th Street<br>3rd Floor<br>New York, NY 10001<br>Age: 54 | Class II<br>Director                 | Term expires<br>2003; Director<br>since 1985      | Mr. Potter has extensive experience in investment banking and fund management. Mr. Potter has held senior positions with Toronto Dominion Bank, Barclays Bank PLC, and Prudential Securities, Inc., as well as board of director positions with investment funds involving over \$20 billion in assets since 1983. Mr. Potter has been involved in the Australian capital markets since 1974, including management and board of director positions with a noted Australian brokerage house. Mr. Potter is | 3  |

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President of a U.S. investment bank and has securities licenses in both the U.S. and Canada. Mr. Potter also has extensive securities underwriting experience in various capital markets with an emphasis on natural resources. Mr. Potter is currently President of Ridgewood Group International Ltd., an international consulting and merchant banking company, and President of Ridgewood Capital Funding, Inc., a private placement securities firm.

Peter D. Sacks  
445 King Street West,  
4th Floor  
Toronto, Ontario M5V 1K4  
Canada  
Age: 57

Class II  
Director

Term expires  
2005; Director  
since 1999

Mr. Sacks is currently Managing Partner of Toron Capital Markets, Inc., a company he established in 1988 to design and manage customized equity, fixed income and currency portfolios for individual and corporate clients. Mr. Sacks also serves on the Boards of Directors of Toron Capital Markets, Inc. (portfolio management), Toron Capital Management, Ltd. and Toron Asset Management, Inc.

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Management of the Fund (Unaudited) (continued)

| Name, Address and Age  | Position(s)<br>Held With<br>the Fund | Term of<br>Office<br>and Length of<br>Time Served | Principal Occupation(s)<br>During Past Five Years  | Number<br>Funds<br>Fun<br>Compl<br>Overse<br>Direc |
|--|--------------------------------------|---|--|--|
| John T. Sheehy<br>560 Sylvan Avenue<br>Englewood Cliffs, NJ 07632<br>Age: 60 | Class III<br>Director                | Term expires<br>2003; Director<br>since 1985      | Mr. Sheehy has over 30 years' experience in investment banking with companies such as J.P. Morgan & Company and Bear, Stearns & Co. Inc. His specialty areas include securities valuation, | 3  |

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public offerings and private placements of debt and equity securities, mergers and acquisitions and management buyout transactions. He has been Senior Managing Director of B.V. Murray and Company (investment banking) since 2001, and Managing Member of The Value Group LLC (private equity) since 1997.

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

Information Regarding Officers who are not Directors

| Name, Address and Age   | Position(s)<br>Held With<br>the Fund*      | Term of<br>Office**<br>and Length of<br>Time Served | Principal Occupation(s)<br>During Past Five Years  |
|---|--|---|--|
| -----<br>Michael Karagianis<br>One Bow Churchyard<br>London EC4M 9HH<br>United Kingdom<br>Age: 37                 | Vice<br>President                          | Since 2002  | Vice President (since 2002) and Assistant Vice President (from 2001 to 2002) of the Fund; Director of Economics and Investment Strategy of the Fund's Investment Adviser (since 1999); Director of Portfolio Investment of County Investment Management (from 1995 to 1999). |
| Christian Pittard<br>P.O. Box 641<br>One Seaton Place<br>St. Helier, Jersey JE4 8YJ<br>Channel Islands<br>Age: 29 | Treasurer<br>and<br>Assistant<br>Secretary | Since 2001  | Managing Director of the Fund's Investment Manager (since 2001); Managing Director of Aberdeen Private Wealth Management (affiliate of the Fund's Investment Manager and Investment Adviser); Chartered Accountant, KPMG (from 1994 to 1998) and Quorum Trust Group (1998).  |

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Management of the Fund (Unaudited) (continued)

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| Name, Address and Age   | Position(s)<br>Held With<br>the Fund* | Term of<br>Office**<br>and Length of<br>Time Served | Principal Occupation(s)<br>During Past Five Years                   |
|---|---------------------------------------|---|---|
| Roy M. Randall<br>Level 40, Chifley Tower<br>Two Chifley Square<br>Sydney, NSW 2000<br>Australia<br>Age: 66 | Secretary                             | Since 1986  | Partner of Stikeman,<br>Elliott, Australian<br>counsel to the Fund. |

\* The named officer holds the same position(s) with Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc., both of which may be deemed to be part of the same 'Fund Complex' as the Fund.

\*\* Officers hold their positions with the Fund until a successor has been duly elected and qualified. Officers are generally elected annually at the meeting of the Board of Directors next following the annual meeting of stockholders. The officers were last elected on June 19, 2002.

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### Directors

Hugh Young, Chairman  
Anthony E. Aaronson  
David L. Ellum  
Laurence S. Freedman  
Howard A. Knight  
Neville J. Miles  
Peter J. O'Connell  
William J. Potter  
Peter D. Sacks  
John T. Sheehy

### Officers

Hugh Young, President  
Michael Karagianis, Vice President  
Christian Pittard, Treasurer and  
Assistant Secretary  
Roy M. Randall, Secretary  
James Blair, Assistant Vice President  
Beverley Hendry, Assistant Treasurer  
Timothy Sullivan, Assistant Treasurer  
Simon Bignell, Assistant Treasurer  
Jack R. Benintende, Assistant Treasurer  
Allan S. Mostoff, Assistant Secretary  
Margaret A. Bancroft, Assistant Secretary  
Sander M. Bieber, Assistant Secretary

This report, including the financial statements herein, is transmitted to the shareholders of Aberdeen Australia Equity Fund, Inc. for their general information only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock in the open market.

### Corporate Information

Investment Manager      Aberdeen Asset Managers (C.I.) Limited  
P.O. Box 578, 17 Bond Street  
St. Helier, Jersey, JE4 5XB Channel Islands

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Investment Adviser      Aberdeen Asset Management Limited  
Level 6, 201 Kent Street  
Sydney, NSW 2000, Australia

Administrator            Prudential Investments LLC  
Gateway Center Three  
100 Mulberry Street  
Newark, NJ 07102-4077

Custodian                State Street Bank and Trust Company  
One Heritage Drive  
North Quincy, MA 02171

Transfer Agent          EquiServe Trust Company, N.A.  
P.O. Box 43011  
Providence, RI 02940-3011

Independent Accountants PricewaterhouseCoopers LLP  
1177 Avenue of the Americas  
New York, NY 10036

Legal Counsel          Dechert  
1775 Eye Street N.W.  
Washington, DC 20006-2401

                                 Stikeman Elliott  
Level 40, Chifley Tower  
Two Chifley Square  
Sydney, NSW 2000, Australia

Investor Relations      Aberdeen Asset Management  
45 Broadway, 31st Floor  
New York, NY 10006  
(800) 522-5465 or (212) 968-8800  
InvestorRelations@aberdeen-asset.com

(LOGO)  
Aberdeen  
ASSET MANAGERS  
Aberdeen Asset Managers (C.I.) Limited

Shares of Aberdeen Australia Equity Fund, Inc. are traded on the American Stock Exchange and on the Pacific Stock Exchange under the symbol "IAF". Information about the Fund's net asset value and market price is published weekly in Barron's and in the Monday edition of The Wall Street Journal.

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