

ABERDEEN AUSTRALIA EQUITY FUND INC
Form N-2
August 08, 2005
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As filed with the Securities and Exchange Commission on August 8, 2005

Securities Act File No. _____

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

Registration Statement Under the Securities Act of 1933

Pre-effective Amendment No. __

Post-effective Amendment No. __

Registration Statement Under the Investment Company Act of 1940

Amendment No. __

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. Beverley Hendry

Aberdeen Asset Management Inc.

300 S.E. 2nd Street, Suite #820

Fort Lauderdale, Florida 33301

(Name and Address of Agent for Service)

Copies to:

Sander M. Bieber, Esq.

Dechert LLP

1775 I Street, N.W.

Washington, D.C. 20006

BANKGESELLSCHAFT BERLIN AG

Alexanderplatz 2-10178

Berlin, Germany

(Name and Address of Selling Stockholder)

Approximate date of proposed public offering: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be 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 (check appropriate box)

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	Proposed Maximum Offering Price Per	Proposed Maximum Aggregate Offering	Amount of Registration Fee
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			Unit*		Price		
Common Stock (\$.01 par value)	3,975,000	\$	11.96	\$	47,541,000	\$	5,596

* Estimated pursuant to Rule 457(c) on the basis of market value per share on July 22, 2005. The price at which securities will be offered pursuant to this Registration Statement will be the then current market price of such shares on the American Stock Exchange, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which such shares are traded, which may differ from the market value per share on July 22, 2005.

The Registrant hereby amends this Registration Statement under the Securities Act of 1933 on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with the provisions of Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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Prospectus dated _____, 2005

ABERDEEN AUSTRALIA EQUITY FUND, INC.

3,975,000 Shares of Common Stock

Par value \$.01 per Share

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

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

The Fund's Common Stock is traded on the Amex and the Pacific Stock Exchange (PSE) under the symbol IAF. The last reported sale price of the Fund's Common Stock, as reported by the Amex on July 22, 2005 was \$11.96 per share.

The Fund is a non-diversified, closed-end management investment company. The Fund's principal investment objective is long-term capital appreciation through investment primarily in equity securities of Australian companies listed on the Australian Stock Exchange Limited. The Fund's secondary investment objective is current income. The Fund's investment manager is Aberdeen Asset Management Asia Limited (Investment Manager), an affiliate of the Fund's investment adviser, Aberdeen Asset Management Limited (Investment Adviser), and of the Fund's administrator, Aberdeen Asset Management Inc. (Administrator). The Fund's address is 800 Scudders Mill Road, Plainsboro, New Jersey 08536, and its telephone number is 1-866-839-5205.

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

This Prospectus sets forth concisely the information about the Fund and the Selling Stockholder that a prospective investor should know before investing. It should be retained for future reference. The Statement of Additional Information (SAI), dated _____, 2005, contains more information about the Fund and the Selling Stockholder and is incorporated by reference into this Prospectus. The Table of Contents for the SAI is on page 32 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.aberdeeni.af.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.

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

	<u>Price to the Public(1)</u>	<u>Sales Load</u>	<u>Proceeds to the Selling Stockholder(2)</u>
Per Share	\$11.96	\$.02	\$11.94
Total	\$47,541,000	\$79,500	\$47,461,500

- (1) Based on the market price of the Fund's shares at the close of trading on the Amex on July 22, 2005. The price at which securities will be offered pursuant to this registration statement will be the then current market price of such shares on the Amex, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which such shares are traded, which may differ from the market price at the close of trading on the Amex on July 22, 2005.
- (2) The total expenses of the offering, estimated to be approximately [\$ _____], will be borne by the Selling Stockholder, and have not been deducted from the Proceeds to the Selling Stockholder.

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

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

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PROSPECTUS SUMMARY

The following information is only a summary. You should consider the more detailed information contained in the Prospectus and the SAI before purchasing Shares, especially the information under Risks and Special Considerations on page 17 of the Prospectus.

The Selling Stockholder	The Selling Stockholder is Bankgesellschaft Berlin AG, a German banking corporation organized under the laws of the Federal Republic of Germany (Selling Stockholder). The Selling Stockholder has advised the Fund that, as of July 15, 2005, it was the beneficial owner of 4,812,650 shares, and the owner of record and beneficially of 7,500 shares, of the Fund's Common Stock. Of such shares, 3,975,000 shares (the Shares) are registered hereunder and are being offered by this Prospectus. One of the Fund's Directors is a representative of the Selling Stockholder. See Selling Stockholder.
Use of Proceeds	The Fund will not receive any of the proceeds from sale of the Shares. The Selling Stockholder has indicated that such proceeds will be used by the Selling Stockholder for general corporate purposes. See Use of Proceeds.
Plan of Distribution	The Shares will be sold at their then current price on the Amex, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which such shares are traded, at such times and in such numbers as the Selling Stockholder may determine from time to time. The Selling Stockholder reserves the right to terminate sales of Shares pursuant to this offering at any time. See Plan of Distribution.
Amex and PSE Listed	The Fund's shares of Common Stock are listed for trading on the Amex and on the PSE, under the symbol IAF. As of July 22, 2005, the Fund had 16,777,298 shares of Common Stock, par value \$.01 per share, outstanding. As of July 22, 2005, the last reported sale price of a Fund share on the Amex was \$11.96. 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

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	<p>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 approval of stockholders. See Investment Objectives.</p>
Investment Policies	<p>The Fund normally invests at least 80% of its net assets, plus borrowings for investment purposes, in common, preferred and convertible stock listed on the ASX. The Fund may invest up to 10% of its total assets in unlisted equity securities. It may also invest in debt securities issued by Australian companies, Australian Federal and State governments and the U.S. government. The Fund s investments in any one industry or group of industries are generally limited to 25% of its total assets, except that it may invest between 25% and 35% of its total assets in securities of an industry group that, at the time of investment, represents 20% or more of the S&P/ASX 200 Accumulation Index. The Fund has authority to engage in options transactions, to enter into repurchase agreements, and to lend its portfolio securities. See Investment Policies.</p>
Investment Restrictions	<p>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.</p>
Risks (See generally Risks and Special Considerations for more information on these and other risks)	<p>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:</p> <p><u>Offer of Shares.</u> Because the Shares constitute a significant block of the Fund s outstanding Common Stock, their offering may exert downward pressure on the market price of the Fund s shares to the extent not offset by demand.</p> <p><u>Currency Exchange Rate Fluctuations.</u> 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.</p> <p><u>Foreign Securities: Concentration.</u> 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</p>

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

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

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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 \$14.8 billion in assets, including two other U.S. registered closed-end funds with aggregate net assets of approximately \$2.5 billion, as of May 31, 2005. The Investment Manager, in accordance with the Fund's stated investment objectives, policies and limitations and subject to the supervision of the Fund's Board of Directors, manages the Fund's investments and makes investment decisions on behalf of the Fund, including the selection of, and being responsible for the placement of orders with, brokers and dealers to execute the Fund's portfolio transactions.

The 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

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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 \$409.5 million of assets, as of May 31, 2005. The Investment Adviser makes recommendations to the Investment Manager as to specific portfolio securities to be purchased, retained or sold by the Fund and provides or obtains such research and statistical data as may be necessary in connection therewith.

The Investment Adviser is a wholly-owned subsidiary of Aberdeen Asset Management Holdings Limited (AAMHL), an Australian corporation. Both the Investment Manager and AAMHL are wholly-owned subsidiaries of Aberdeen Asset Management PLC (Aberdeen PLC), a United Kingdom corporation, that is the parent company of an asset management group (the Aberdeen Group) managing approximately \$47.3 billion of assets, including approximately \$27.7 billion of investments in equity securities, as of May 31, 2005 for pension funds, financial institutions, investment trusts, unit trusts, U.S. registered investment companies, offshore funds, charities and private clients. Aberdeen PLC entered into an agreement with Deutsche Asset Management Group Limited (Deutsche Bank) on July 7, 2005 to acquire certain fund management businesses (the Target Businesses) of Deutsche Bank. The Target Businesses comprise a global fixed income business, itself made up of a London-based business and a Philadelphia-based business, a UK open-ended investment company business, a London-based UK and global equities business and a London-based multi-asset business. As at May 31, 2005, the Target Businesses had assets under management of approximately \$84.1 billion. See Management of the Fund - The Investment Manager and the Investment Adviser.

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

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

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Portfolio Managers	The following persons have day-to-day management of the Fund's portfolio: Hugh Young, Managing Director of the Investment Manager; and Augustine Mark Daniels, Michelle Casas and Natalie Tam, investment professionals of the Investment Adviser. See Management of the Fund - Portfolio Management.
Administrator	Aberdeen Asset Management Inc., 1114 Avenue of the Americas, 34 th Floor, New York, New York 10036, 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.

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

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

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

* The sales load of \$.02 cents per Share sold pursuant to this Prospectus will be borne entirely by the Selling Stockholder.

- (1) See Management of the Fund - The Investment Manager and the Investment Adviser for additional information.
(2) See Management of the Fund - Administrator for additional information.
(3) Other Expenses have been estimated for the current fiscal year.

Example

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

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

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

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

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

	For the Six Months Ended April 30, 2005 (unaudited)	Year Ended October 31, 2004
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period	\$ 10.64	\$ 9.38
Net investment income	0.19	.28
Net realized and unrealized gains (losses) on investments and foreign currencies	0.93	1.76
Total from investment operations	1.12	2.04
DIVIDENDS AND DISTRIBUTIONS FROM:		
Net investment income	(0.19)	(.30)
In excess of net investment income	(0.32)	
Net capital and currency gains		(.36)
Tax return of capital		(.12)
Total dividends and distributions	(0.51)	(.78)
Capital reduction with respect to issuance of Fund shares		
Increase resulting from Fund share repurchase		
Net asset value, end of period	\$ 11.25	\$ 10.64
Market price per share, end of period	\$ 11.16	\$ 10.25
TOTAL INVESTMENT RETURN BASED ON(1):		
Market value	13.97%	32.53%
Net asset value	10.68%	23.19%
RATIOS/SUPPLEMENTAL DATA:		
Ratio of expenses to average net assets	1.47%(2)	1.75%
Ratio of net investment income to average net assets	3.27%(2)	2.85%
Portfolio turnover rate	12%	23%
Net assets, end of year (000 omitted)	\$ 188,720	\$ 178,551
Average net assets (000 omitted)	\$ 194,202	\$ 166,284

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

(2) Annualized.

(3) Less than \$0.005 per share.

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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.

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Year Ended October 31,								
2003	2002	2001	2000	1999	1998	1997	1996	1995
\$ 6.84	\$ 5.97	\$ 6.86	\$ 8.78	\$ 8.25	\$ 9.35	\$ 10.98	\$ 10.04	\$ 11.76
.12	.15	.12	.14	.08	.21	.18	.20	.22
2.58	.93	(.33)	(1.25)	1.26	(.41)	(1.45)	1.25	(.71)
2.70	1.08	(.21)	(1.11)	1.34	(.20)	(1.27)	1.45	(.49)
(.10)	(.15)		(.12)	(.30)	(.23)	(.17)	(.23)	(.22)
(.07)	(.07)		(.69)	(.51)	(.66)	(.18)	(.26)	(.94)
		(.68)						
(.17)	(.22)	(.68)	(.81)	(.81)	(.89)	(.35)	(.49)	(1.16)
					(.01)	(.01)	(.02)	(.07)
.01	.01	(3)						
\$ 9.38	\$ 6.84	\$ 5.97	\$ 6.86	\$ 8.78	\$ 8.25	\$ 9.35	\$ 10.98	\$ 10.04
\$ 8.40	\$ 5.73	\$ 5.29	\$ 5.875	\$ 8.00	\$ 6.5625	\$ 7.44	\$ 9.125	\$ 8.19
50.40%	12.55%	1.06%	(17.31)%	34.91%	(0.38)%	(15.17)%	17.76%	(7.84)%
40.69%	19.04%	(2.32)%	(12.02)%	17.77%	(0.34)%	(11.37)%	15.55%	(2.70)%
2.55%	1.76%	1.80%	1.66%	2.58%	1.61%	1.39%	1.41%	1.50%
1.66%	2.33%	1.77%	1.66%	.87%	2.38%	1.68%	1.86%	2.24%
32%	56%	50%	120%	143%	180%	270%	133%	45%
\$ 157,419	\$ 115,490	\$ 102,361	\$ 117,941	\$ 150,916	\$ 141,794	\$ 159,422	\$ 185,756	\$ 168,111
\$ 128,662	\$ 114,213	\$ 115,051	\$ 143,801	\$ 157,565	\$ 149,827	\$ 182,588	\$ 178,756	\$ 162,228

See Notes to Financial Statements.

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SELLING STOCKHOLDER

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

The Selling Stockholder has advised the Fund that, as of July 15, 2005, it was the beneficial owner of 4,812,650 shares (constituting approximately 28.6% of the then outstanding shares), and the owner of record and beneficially of 7,500 shares (constituting less than .04% of the then outstanding shares), of the Fund's Common Stock. Of such shares, 3,975,000 shares (the Shares) are registered hereunder and are being offered by this Prospectus.

The Selling Stockholder has advised the Fund that the Selling Stockholder acquired a total of 5,370,349 shares of the Fund's Common Stock in October and November 2002, of which 5,348,149 shares were purchased from Mira L.P. in a private transaction that closed on October 22, 2002 and 22,200 shares were purchased in open market transactions in November 2002. Together with 4,600 shares of Common Stock previously owned by the Selling Stockholder, after these purchases, the Selling Stockholder owned a total of 5,374,949 shares, or approximately 31.4% of the then outstanding shares, of the Fund. The Selling Stockholder has informed the Fund that, since November 2004, the Selling Stockholder has sold a total of 562,299 shares of Common Stock in at-the-market transactions pursuant to the provisions of Rule 144 under the Securities Act of 1933, as amended (1933 Act). The Selling Stockholder has informed the Fund that the Selling Stockholder intends to sell Shares in this offering periodically in at-the-market sales on the Amex, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which such Shares are traded, at such times and in such manner as the Selling Stockholder may determine to be advantageous. See Plan of Distribution. The Selling Stockholder has informed the Fund that the Selling Stockholder has not determined how many Shares it will sell pursuant to this offering and reserves the right to terminate sales and this offering at any time. The Selling Stockholder has also informed the Fund that the Selling Stockholder may continue to sell its shares of the Fund's Common Stock under Rule 144, to the extent permitted by Rule 144, at the same time as it is selling Shares pursuant to this offering. Any Shares sold pursuant to Rule 144 will not be covered by this registration statement.

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

The Board of Directors indicated in the proxy statement for the Fund's 2004 Annual Meeting of Stockholders that, if the Fund's stockholders voted to recommend the adoption of the alternative directors qualifications set forth in such proxy statement, the Board would amend the Fund's bylaws accordingly. The Board of Directors further indicated in the proxy statement that, in the event the bylaws were so amended by the Board, then it was the intention of the Board of Directors promptly thereafter to increase the size of the Board by one Director and to elect one representative of the Selling Stockholder to the Board of Directors for a three-year term as a Class I Director, provided that, at the time of such appointment, the Selling Stockholder continued to own at least 25% of the Fund's Common Stock, and further provided that such representative then satisfied the alternative director qualifications. At the 2004 Annual Meeting of Stockholders, the stockholders voted to recommend that the Board amend such provisions of the Fund's bylaws by adopting the alternative director qualifications. The Selling Stockholder submitted Mr. Moritz Sell as its proposed representative to serve on the Board of Directors. The Fund's Nominating Committee, composed entirely of directors who are not deemed interested persons (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (1940 Act)) of the Fund, the Investment Manager or the Investment Adviser (Independent Directors), determined that Mr. Sell met the alternative director qualifications and was otherwise an appropriate candidate to serve as a Director of the Fund. In May 2004, the Board of Directors amended the Fund's bylaws to adopt the alternative director qualifications and increased the size of the Board of Directors by one Director. Upon the recommendation of the Nominating Committee, the Board of Directors appointed Mr. Sell as a Class I Director to serve for the remainder of a three-year term expiring at the Annual Meeting of Stockholders to be held in 2007. The Selling Stockholder has informed the Fund that Mr. Sell has been a director, market strategist with the Selling Stockholder since 1996. The Selling Stockholder has informed the Fund that the

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Selling Stockholder has agreed to indemnify Mr. Sell in connection with his service as a Director of the Fund.

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USE OF PROCEEDS

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

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

PLAN OF DISTRIBUTION

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

The last reported sale price of the Fund's Common Stock, as reported by the Amex on July 22, 2005 was \$11.96 per share. The price at which securities will be offered pursuant to this registration statement will be the then current market price of such shares on the Amex, or on such other registered national securities exchanges, inter-dealer quotation systems, or alternative trading systems, through which such shares are traded, which may differ from the market price at the close of trading on the Amex on July 22, 2005.

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

The Selling Stockholder has informed the Fund that the Selling Stockholder intends to use the services of one or more brokers to sell Shares pursuant to this Registration Statement, and that the Selling Stockholder will pay such brokers commissions of 2 ¢ per share.

It is anticipated that the Fund and the Selling Stockholder will enter into an agreement prior to the effective date of this registration statement, pursuant to which they will indemnify each other against certain liabilities, including liabilities under the 1933 Act.

DESCRIPTION OF COMMON STOCK

The Fund, which was incorporated under the laws of the State of Maryland on September 30, 1985, is authorized to issue 50,000,000 shares, consisting of 20,000,000 shares of Common Stock, \$.01 par value per share, and 30,000,000 shares of preferred stock, \$.01 par value per share.

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As of the date of this Prospectus, the Fund has not issued any shares of preferred stock and the Board of Directors has no present intention to issue shares of preferred stock. All references to stock or shares herein refer to Common Stock, unless otherwise indicated. Each share of Common Stock has equal voting, dividend, distribution and liquidation rights. The shares of Common Stock outstanding, including the Shares offered hereby, are fully paid and non-assessable. Shares of Common Stock are not redeemable and have no preemptive, conversion or cumulative voting rights. The number of shares of Common Stock outstanding as of July 22, 2005, including the Shares offered hereby, was 16,777,298.

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

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During Quarter Ended	NAV per Share on Date of Market Price High and Low		Amex Market Price		Premium/(Discount) on Date of Market Price High and Low		Amex Volume (4)
	(1)		Per Share (2)		(3)		
	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	7.12	(9.7)	(13.7)	950,400
January 31, 2004	10.39	9.41	9.50	8.14	(8.6)	(13.5)	1,685,378
April 30, 2004	10.61	9.74	9.79	7.92	(7.7)	(18.7)	3,964,000
July 31, 2004	9.94	9.15	8.90	7.60	(10.5)	(16.9)	1,657,200
October 31, 2004	10.64	9.73	10.25	8.42	(3.7)	(13.5)	2,590,300
January 31, 2005	11.84	10.68	11.94	10.37	0.8	(2.9)	4,229,700
April 30, 2005	12.33	11.13	13.53	10.54	9.7	(5.3)	4,386,200
July 31, 2005	11.81	10.78	12.41	10.37	5.1	(3.8)	2,635,900

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

On July 22, 2005, the per share net asset value of the Fund's Common Stock was \$11.73 and the per share market price was \$11.96, representing a 1.96% premium over such net asset value.

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

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

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

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The following information regarding the Fund's authorized shares is as of July 22, 2005.

<u>Title of Class</u>	<u>Amount Authorized</u>	<u>Amount Held by Fund for its own Account</u>	<u>Amount Outstanding Exclusive of Amount held by Fund</u>
Common Stock	20,000,000	0	16,777,298
Preferred Stock	30,000,000	0	0

THE FUND

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

INVESTMENT OBJECTIVES

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

INVESTMENT POLICIES

The Fund has adopted a policy that, so long as its name remains Aberdeen Australia Equity Fund, Inc., it will invest, under normal conditions, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity securities, consisting of common stock, preferred stock and convertible stock, listed on the ASX. This 80% investment policy is a non-fundamental policy of the Fund and may be changed by the Board of Directors upon 60 days' prior written notice to stockholders. However, it is a fundamental policy of the Fund to normally invest at least 65% of its total assets in equity securities, consisting of common stock, preferred stock and convertible preferred stock, listed on the ASX. The Fund's equity investments are generally limited to securities of companies that are listed on the ASX. These investments may include securities of New Zealand issuers that are listed on the ASX. However, up to 10% of the value of the Fund's total assets (at the time of purchase) may be invested in unlisted equity securities.

The Fund may also invest in debt securities, consisting of notes and debentures of Australian companies, bills and bonds of the Federal and State governments of Australia and U.S. Government securities. During periods when, in the Investment Manager's judgment, changes in the

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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

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and export markets, technology, research and development, productivity, labor costs, raw material costs and sources, profit margins, return on investment, capital resources, management and government regulation. The Fund's investments in Australian debt securities and Australian money market instruments are limited to obligations of Australian Federal and State governments, governmental agencies and authorities, listed corporate issuers and banks considered to be creditworthy by the Investment Manager.

In 1999, the Fund received a no-action assurance letter from the SEC staff to permit the Fund to concentrate its portfolio investments under certain circumstances. The Fund will not invest in a security if, after the investment, more than 25% of its total assets would be invested in any one industry or group of industries, provided that the Fund may invest between 25% and 35% of its total assets in the securities of any one industry group if, at the time of investment, that industry group represents 20% or more of the S&P/ASX 200 Accumulation Index. The no-action letter issued by the SEC staff referred to industry sectors of the Australian All Ordinaries Index, then the Fund's performance benchmark. The Fund's performance benchmark was subsequently changed to the S&P/ASX 200 Accumulation Index (S&P/ASX 200), as reported to stockholders in the Fund's semi-annual report for the period ended April 30, 2000. The S&P/ASX 200 comprises the top 200 companies listed on the ASX by market capitalization, and was introduced by the ASX in April 2000. The S&P/ASX 200 most closely represents the universe of stocks that are considered the Fund. Standard & Poor's subsequently discontinued the use of the ASX classification system for the S&P/ASX 200 and replaced such classification system with the Global Industry Classification Standard (GICS). The GICS classification tier of 23 Industry Groupings, which the Fund currently uses for its concentration policy, is the classification most comparable to the 24 ASX sectors formerly used by both the Australian All Ordinaries Index and the S&P/ASX 200.

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

Options Strategies

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

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

Repurchase Agreements

The Fund may enter into repurchase agreements with banks and broker-dealers when it deems it advisable. A repurchase agreement is a contract under which the Fund acquires a security for a relatively short period (usually no more than one week) subject to the obligations of the seller to repurchase and the Fund to resell such security at a fixed time and price (representing the Fund's cost plus interest). The Investment Manager will

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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.

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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.

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(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).

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.

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Risks From the Offer of Shares. The Selling Stockholder's offer of the Shares, totaling approximately 28.6% 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. Neither the extent of any dampening effect, or the extent of offsetting demand, on share price or the length of time either would continue can be predicted.

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

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

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

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

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

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

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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.

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

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

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

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

Stock Repurchase Risk. Any acquisition by the Fund of its shares, pursuant to its stock repurchase program, will decrease the total assets of the Fund and therefore may increase the Fund's expense ratio. Furthermore, if the Fund borrows to finance share repurchases, interest on such borrowings would reduce the Fund's net investment income. If the Fund liquidates a portion of its investment portfolio in connection with a share repurchase, such liquidation might be at a time when independent investment judgment would not dictate such action, increasing the Fund's overall portfolio turnover (and related transaction costs) and making it more difficult for the Fund to achieve its investment objective. There are also tax implications for both tendering and non-tendering stockholders in the event the Fund offers to repurchase its shares. See Taxation.

Tax Considerations. The Fund intends to qualify and to continue to qualify as a regulated investment company under the Code. If it so qualifies, it generally will be relieved of U.S. federal income tax on its net investment income and capital gains, if any, which it generally distributes to stockholders in accordance with requirements

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

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

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

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

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 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.

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

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

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

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

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

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

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

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The Investment Manager and the Investment Adviser

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

The Investment Manager is a Singapore corporation organized 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 \$14.8 billion in assets, including two other U.S. registered closed-end funds with aggregate net assets of approximately \$2.5 billion, as of May 31, 2005. The Investment Manager, in accordance with the Fund's stated investment objectives, policies and limitations and subject to the supervision of the Fund's Board of Directors, manages the Fund's investments and makes investment decisions on behalf of the Fund, including the selection of, and being responsible for the placement of orders with, brokers and dealers to execute the Fund's portfolio transactions.

The Investment Adviser is an Australian corporation, which is a wholly-owned subsidiary of Aberdeen Asset Management Holdings Limited (AAMHL), an Australian corporation. The registered office of the Investment Adviser and AAMHL are located at Level 6, 201 Kent Street, Sydney, NSW 2000, Australia. The 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 \$409.5 million of assets, as of May 31, 2005. The Investment Adviser makes recommendations to the Investment Manager as to specific portfolio securities to be purchased, retained or sold by the Fund and provides or obtains such research and statistical data as may be necessary in connection therewith.

Both the Investment Manager and AAMHL are wholly-owned subsidiaries of Aberdeen Asset Management PLC (Aberdeen PLC), a United Kingdom corporation. The registered offices of Aberdeen PLC are located at 10 Queen's Terrace, Aberdeen, Scotland AB10 1YG. Aberdeen PLC is the parent company of an asset management group managing approximately \$47.3 billion of assets, including approximately \$27.7 billion of investments in equity securities, as of May 31, 2005, for a range of pension funds, financial institutions, investment trusts, unit trusts, offshore funds, charities and private clients, in addition to U.S. registered investment companies. Aberdeen PLC entered into an agreement with Deutsche Asset Management Group Limited (Deutsche Bank) on July 7, 2005 to acquire certain fund management businesses (the Target Businesses) of Deutsche Bank. The Target Businesses comprise a global fixed income business, itself made up of a London-based business and a Philadelphia-based business, a UK open-ended investment company business, a London-based UK and global equities business and a London-based multi-asset business. As at May 31, 2005, the Target Businesses had assets under management of approximately \$84.1 billion.

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

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

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For the fiscal years ended October 31, 2004, 2003 and 2002, the Fund paid to the Investment Manager management fees of \$1,468,789, \$1,223,725, and \$1,099,493, respectively. The Investment Manager informed the Fund that, during the same periods, the Investment Manager paid advisory fees of \$374,426, \$324,109, and \$296,320, respectively, to the Investment Adviser. A discussion regarding the basis for the Board of Directors approval of the

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Management Agreement and the Advisory Agreement is available in the Fund's semi-annual report to stockholders for the six-month period ended April 30, 2005, and also appears in the SAI.

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

Non-U.S.-Resident Directors and Officers

Although the Fund is a Maryland corporation, certain of its Directors and officers (Messrs. Elsum, Miles, O'Connell, Sacks, Sell, Young, Gilbert, Pittard, and Randall) 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, Canada and Jersey, the foreign jurisdictions (other than Australia and Singapore) in which Fund Directors and/or officers reside, that it is unlikely that 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 unless obtained by fraud or otherwise than in accordance with the principles of natural justice and public policy or unless the United States court did not have jurisdiction in respect of the defendant in the original action.

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

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

Portfolio Management

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

Hugh Young is Managing Director of Singapore-based Aberdeen Asset Management Asia Limited, the Fund's Investment Manager (Aberdeen Asia). Mr. Young established Aberdeen Asia in 1992 as the Aberdeen Group's Asia-Pacific headquarters. He is also a member of the executive committee responsible for the day-to-day management of the Aberdeen Group's parent company, Aberdeen Asset Management PLC, and head of equities of the Aberdeen Group. Aberdeen Asia manages all the Aberdeen Group's regional funds. Domestic funds are additionally managed from the Aberdeen Group's offices in Sydney, Australia and Bangkok, Thailand, over which Mr. Young is also in overall charge. In January 2002, he became the Aberdeen Group's head of emerging markets,

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having responsibility for Europe, Middle East and Africa and Latin America, as well as Asia. 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.

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. 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.

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., 1114 Avenue of the Americas, 34th Floor, New York, New York 10036, 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

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regulations; maintenance of the Fund's books and records; and other administrative services. The Administrator, a subsidiary of Aberdeen PLC, is an affiliate of the Investment Manager and the Investment Adviser. The Fund pays a fee to the Administrator at an annual rate equal to 0.04% of the Fund's average weekly net assets, computed based upon the net asset values applicable to the shares of Common Stock plus the amount of any borrowings for investment purposes.

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

Custodian and Transfer Agent

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

EXPENSES

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

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

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gains and, to the extent necessary, paid-in capital. Persons who purchase Shares in this offering will be entitled to any regular quarterly distributions the record date for which occurs after such Shares are purchased.

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

Background of Managed Distribution Policy

In order to try to reduce the discount of the Fund's Common Stock share price to net asset value, the Fund

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

After a period of strong capital performance in U.S. dollar terms beginning in early 2003, the Board of Directors approved in February 2004, the implementation of a managed distribution policy of paying quarterly distributions at an annual rate, set once a year, that is a percentage of the rolling average of the Fund's prior four quarter-end net asset values. The initial rolling distribution rate was set at 10%. In March 2005, the Board of Directors set the rolling distribution rate at 10% for the 12-month period commencing with the distribution payable in April 2005.

General Distribution Policy

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

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

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

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

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

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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.

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

Plan participants also have the option of making voluntary cash investments by sending additional funds by a check drawn on a U.S. bank, in U.S. dollars, payable to The Bank of New York - Aberdeen Australia Equity Fund, Inc. Plan. Additional voluntary cash investments must be for at least \$100 per transaction with a maximum of \$10,000 per month, and with an aggregate annual maximum of \$120,000, for the purchase of Fund shares on the open market. Voluntary cash investments will be invested on or before the 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.

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

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

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

If, pursuant to an offer by the Fund to repurchase its shares, a stockholder tenders all shares of the Fund that such stockholder owns or is considered to own, the stockholder may realize a capital gain or loss. This gain or loss will be treated as capital gain or loss if the Fund shares are held as capital assets, and will be long-term or short-term, depending on the stockholder's holding period for the shares. If, pursuant to an offer by the Fund to repurchase its shares, a stockholder tenders less than all of the shares of the Fund that such stockholder owns or is considered to own, the redemption may not qualify as an exchange, and the proceeds received may be treated as a dividend, return of capital or

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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.

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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.
2. Establish procedures for stockholder-requested special meetings, including procedures for setting the record date for the stockholders entitled to request a special meeting, procedures for setting the record date for the meeting and the time, place and date of the meeting and specific provisions governing who shall chair the meeting. Consistent with the Maryland General Corporation Law, stockholders requesting a meeting would be required to disclose the purpose of the meeting and the matters to be proposed for action at the meeting.
3. Enhance bylaw provisions that require a stockholder to give written advance notice and other information to the Fund of the stockholder's nominees for Directors and proposals for other business to be considered at stockholders meetings.
4. Disclose that the Board has elected on behalf of the Fund to be subject to the Maryland Control Share Acquisition Act, which provides that MSCAA "control shares" acquired in a MSCAA "control share acquisition" may not be voted except to the extent approved by a vote of two-thirds

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of the votes entitled to be cast on the matter. (Generally, MSCAA 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)).

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

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

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

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

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

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

LEGAL PROCEEDINGS

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

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APPENDIX A

SELECTED AUSTRALIAN ECONOMIC DATA

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

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

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

Australia's net foreign debt as of March 31, 2005 was US\$328 billion (A\$1.2933 = US\$1), which is equivalent to approximately 48% 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 June 30, 2005, the RBA cash rate was 5.5%, after a 25 bp increase on March 2, 2005. As at June 30, 2005, the yield on the 10-Year Australian Commonwealth Government Bond was 5.11%, a spread of 120bp over the 10-Year US Treasury Bond yield of 3.91%.

With Australian cash rates currently the second highest in the G10 countries (Belgium and the Netherlands, Canada, France, Germany, Italy, Japan, Sweden, Switzerland, United Kingdom and United States), the Australian dollar has benefited from its high yielding currency status. The Australian dollar rose from an exchange rate of US\$1 = A\$2.0595 on March 31, 2001 to an exchange rate of US\$1 = A\$1.2817 on December 31, 2004 and was US\$1 = A\$1.3118 as of June 30, 2005. US based investors have therefore enjoyed a significant currency uplift in addition to a strong Australian equity market performance.

THE AUSTRALIAN SECURITIES MARKET

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

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.

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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.

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

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

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

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

Clearing House Electronic Subregister System (CHESS) 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 CHESS and settle trades made on their own behalf or on behalf of their clients.

Table of Contents**ASX Market Statistics****(All values in this section are US Dollars)**The ASX is the 12th largest exchange based upon domestic market capitalization as at March 31, 2005.

	<u>Exchange</u>	<u>Market Capitalization</u>
1.	NYSE	\$ 12,627bn
2.	Tokyo SE	\$ 3,515bn
3.	Nasdaq	\$ 3,275bn
4.	London SE	\$ 2,800bn
5.	Euronext	\$ 2,466bn
6.	Osaka SE	\$ 2,256bn
7.	TSX Group	\$ 1,224bn
8.	BME Spanish Exchanges	\$ 930bn
9.	Hong Kong Exchanges	\$ 843bn
10.	Swiss Exchange	\$ 820bn
11.	Borsa Italiana	\$ 803bn
12.	Australian SE	\$ 726bn

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

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

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
New entities listed	182	84	102	124	202
Entities listed as at December 31	1,450	1,463	1,484	1,573	1,709
Capital raised	\$ 17.6bn	\$ 6.6bn	\$ 12.7bn	\$ 26.2bn	\$ 26.8bn
Secondary market raisings*	\$ 8.3bn	\$ 5.5bn	\$ 9.7bn	\$ 19.2bn	\$ 15.4bn
New floats	\$ 9.3bn	\$ 1.1bn	\$ 3.0bn	\$ 7.0bn	\$ 11.4bn
Capital raised	\$ 17.6bn	\$ 6.6bn	\$ 12.7bn	\$ 26.2bn	\$ 26.8bn
Exchange rate US\$1 =	A\$ 1.7897	A\$ 1.9629	A\$ 1.7801	A\$ 1.3298	A\$ 1.2817

* *Secondary market raisings comprise inter alia rights issues, placements, reinvested dividends, payment of options and issues to employees. Placements of up to 15% of issued share capital can be made without shareholder approval. There are proposals, extant since October 2003, to increase this to 20% with additional provisions to introduce a facility whereby a company can obtain shareholder approval for a general mandate to issue securities with an unlimited discretion for a period of up to 13 months thus permitting these mandates to be renewed at subsequent annual general meetings of shareholders. These proposals have yet to be adopted.*

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

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

* This ratio is calculated excluding negative earnings.

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

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

Exchange rate US\$1 = A\$1.2817

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

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

<u>Company</u>	<u>Value</u>	<u>No. of Trades</u>	<u>Average Price</u>	<u>GICS Sector</u>
BHP Billiton Limited	\$ 9.3bn	145,996	\$ 13.26	Materials
National Australia Bank Limited	\$ 4.9bn	82,828	\$ 23.21	Financials
Rio Tinto Limited	\$ 4.1bn	56,914	\$ 31.66	Materials
Commonwealth Bank of Australia	\$ 4.0bn	68,120	\$ 28.76	Financials
Westpac Banking Corporation Limited	\$ 3.4bn	66,300	\$ 14.86	Financials
Telstra Corporation Limited	\$ 3.4bn	72,322	\$ 3.86	Telecommunications Services
News Corporation Inc Class B Common	\$ 3.3bn	38,570	\$ 17.21	Consumer Discretionary
Australia & New Zealand Banking Group Limited	\$ 3.3bn	66,544	\$ 16.71	Financials
News Corporation Inc, Class A Common (NV)	\$ 3.0bn	18,922	\$ 16.48	Consumer Discretionary
Woodside Petroleum Limited	\$ 2.5bn	52,862	\$ 20.84	Energy
WMC Resources Limited	\$ 2.3bn	5,872	\$ 5.97	Materials
AMP Limited	\$ 2.2bn	68,828	\$ 5.02	Financials
Westfield Group Limited	\$ 2.1bn	38,380	\$ 13.29	Property Trusts
Macquarie Bank Limited	\$ 1.8bn	46,720	\$ 43.49	Financials
Rinker Group Limited	\$ 1.6bn	33,608	\$ 10.14	Materials
Promina Group Limited	\$ 1.6bn	25,474	\$ 3.69	Financials
Macquarie Infrastructure Group Limited	\$ 1.6bn	31,472	\$ 3.14	Industrials
Woolworths Limited	\$ 1.5bn	38,470	\$ 12.46	Consumer Staples
Coles Myer Limited	\$ 1.5bn	43,462	\$ 7.09	Consumer Staples
St George Bank Limited	\$ 1.5bn	35,988	\$ 19.79	Financials
	Exchange rate US\$1 = A\$1.3118		Exchange rate US\$1 = A\$1.3118	

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

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Options Contracts Traded	9.5 mil	13.7 mil	16.7 mil	16.9 mil	20.7 mil
Notional value	n/a	\$ 83.5bn	\$ 116.8bn	\$ 161.7bn	\$ 230.9bn
Exchange Rate US\$1 =		A\$ 1.9629	A\$ 1.7801	A\$ 1.3298	A\$ 1.2817

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Warrant trades	197,000	445,000	459,000	275,000	364,000
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Table of Contents**AUSTRALIAN DEBT SECURITIES**

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

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

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

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

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

Source: UBS Australia Bond Indices, Dec 2004

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Aberdeen Australia Equity Fund, Inc.

Statement of Additional Information

, 2005

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

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

You may call 1-866-839-5205 or email InvestorRelations@aberdeen-asset.com 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 Selling Stockholder in any jurisdiction in which such offering may not lawfully be made.

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HISTORY OF THE FUND

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

MANAGEMENT OF THE FUND

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

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

Table of Contents**Interested Directors**

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 in Fund Complex* Overseen by Director	Other Directorships Held by Director
Moritz Sell** 1 Crown Court, Cheapside London EC2V 6LR United Kingdom Age: 37	Class I Director	Term expires 2007; Director since 2004	Mr. Sell has been a director, market strategist of Bankgesellschaft Berlin AG (banking) since 1996. He also served as a Director of the France Growth Fund from 2000 until 2004.	1	
Hugh Young*** 21 Church Street #01 01 Capital Square Two Singapore 049480 Age: 47	Class II Director	Term expires 2008; Director since 2001	Mr. Young was a Director of Aberdeen Asset Management PLC, parent company of the Fund's Investment Manager and Investment Adviser, from 1991 to 2002 and is currently a member of the Executive Management Committee of Aberdeen Asset Management PLC. He has been Managing Director of Aberdeen Asset Management Asia Limited, the Fund's Investment Manager (effective March 8, 2004) since 1991. Mr. Young has also served as a Director of Aberdeen Asset Managers (C.I.) Limited (the Fund's Investment Manager to March 8, 2004) and the Investment Adviser since 2000. From 2001 to February 2004, Mr. Young was President of the Fund and of Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc.	1	

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

** Mr. Sell is deemed to be an interested person because he was appointed as a Director as the representative of the Selling Stockholder, the owner of approximately 28.6% of the outstanding shares of the Fund's Common Stock as of July 15, 2005.

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

Table of Contents**Independent Directors**

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 in Fund Complex* Overseen by Director	Other Directorships Held by Director
Anthony E. Aaronson 116 South Anita Avenue Los Angeles, CA 90049 Age: 68	Class I Director	Term expires 2007; Director since 1985	Mr. Aaronson has been a textile agent for over ten years, representing European and Asian textile mills.	2	Aberdeen Asia-Pacific Income Fund, Inc.
David L. Elsum, A.M. ° c/o Aberdeen Asset Management Asia Limited 21 Church Street #01 01 Capital Square Two Singapore 049480 Age: 67	Class II Director	Term expires 2008; Director since 1985	Mr. Elsum has been a member of the State of Victoria Regulator General Appeal Panel since 2001 and is Chairman, director or adviser to several government and privately owned organizations in Australia.	3	Aberdeen Global Income Fund, Inc.; Aberdeen Asia-Pacific Income Fund, Inc.
Neville J. Miles ° 504 Pacific Highway 5 th Floor St. Leonards, NSW 2065 Australia Age: 58	Chairman of the Board, Class I Director	Term expires 2007; Director since 1996	Mr. Miles has been Chief Executive Officer of Pulse International Pty. Ltd. (financial transaction processing) since 2004. Mr. Miles has also served, for over five years, as a Director of a number of Australian companies.	3	Aberdeen Asia-Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc.
Peter J. O Connell 110 Lang Road Centennial Park	Class III Director	Term expires 2006; Director since	Mr. O Connell is admitted as a solicitor in Australia and has been Managing Director of Multiplex Infrastructure Pty. Ltd. (infrastructure	2	Aberdeen Asia-Pacific Income Fund, Inc.

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development) since 2003. Mr. O'Connell also served as Managing Director (from 2002 to 2003) and Director (from 1999 to 2002) of Lang Holdings (Aust) Pty. Ltd. (technology consulting).

Australia

Age: 52

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<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>	<u>Other Directorships Held by Director</u>
William J. Potter ^o 712 Fifth Avenue New York, New York 10018 Age: 56	Class III Director	Term expires 2006; Director since 1985	Mr. Potter has been Chairman of Robert Meredith & Co., Inc. (investment management) since 2004. He was President of Kingsdale Capital Markets (USA) Inc. (private placement broker) from 2004 through June 2005, and President of Ridgewood Group International Ltd., (international consulting and merchant banking company) from 1989 to 2004.	3	Aberdeen Global Income Fund, Inc.; Aberdeen Asia-Pacific Income Fund, Inc.; Voicenet Inc.; EC Power Inc.
Peter D. Sacks 445 King Street West 4 th Floor Toronto, Ontario M5V 1K4 Canada Age: 60	Class II Director	Term expires 2008; Director since 1999	Mr. Sacks has been Managing Partner of Toron Capital Markets, Inc. (investment management) since 1988.	3	Aberdeen Asia-Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc.
John T. Sheehy ^o 560 Sylvan Avenue Englewood Cliffs, NJ 07632 Age: 62	Class III Director	Term expires 2006; Director since 1985	Mr. Sheehy has been Senior Managing Director of B.V. Murray and Company (investment banking) since 2001, and Managing Member of The Value Group LLC (venture capital) since 1997.	3	Aberdeen Global Income Fund, Inc.; Aberdeen Asia-Pacific 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.
Messrs. Elsum, Miles and Potter are members of the Contract Review Committee.
Messrs. Aaronson, Sacks and Sheehy are members of the Audit and Valuation Committee.
- ^o Messrs. Elsum, Miles, Potter and Sheehy are members of the Nominating and Corporate Governance Committee.

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

appointment, the Selling Stockholder continued to own at least 25% of the Fund's Common Stock, and further provided that such

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

Officers Who Are Not Directors

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

Name, Address and Age	Position(s) Held With the Fund	Term of Office* and Length of Time Served	Principal Occupation(s) During Past Five Years
Martin J. Gilbert c/o Aberdeen Asset Management Asia Limited 21 Church Street #01-01 Capital Square Two Singapore 049480 Age: 49	President**	Since 2004	Chief Executive and an Executive Director of Aberdeen Asset Management PLC (parent company of the Fund's Investment Manager and Investment Adviser) (since 1983); Director of Aberdeen Asset Management Asia Limited (the Fund's current Investment Manager) (since 1991); Director of Aberdeen Asset Management Limited (the Fund's Investment Adviser) and Aberdeen Asset Managers (C.I.) Limited (the Fund's former investment manager) (since 2000); Director and President of Aberdeen Asset Management Inc. (the Fund's Administrator, effective November 1, 2004) (since 1995).
Beverly Hendry Las Olas Place 300 S.E. 2 nd Street Suite 820 Fort Lauderdale, FL 33301	Vice President***	Since 2003	Chief Executive Officer and a Director of Aberdeen Asset Management Inc. (since 1995); Director of Aberdeen Asset Managers (C.I.) Limited (since 2001); Executive Director of Aberdeen Asset Management PLC (from 1991 to 2002).

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Age: 51

Andrew Smith

Vice President
Compliance**

Since 2004

Vice President (since 2000) and a Director (since 2005) of
Aberdeen Asset Management Inc.; Vice President of Murray
Johnstone Group (from 1988 through 2000).

45 Broadway, 21st Floor

New York, New York

10006

Age: 37

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Name, Address and Age	Position(s)	Term of Office*	Principal Occupation(s) During Past Five Years
	Held With the	and Length of	
	Fund	Time Served	
Christian Pittard c/o Aberdeen Asset Management Asia Limited 21 Church Street #01 01 Capital Square Two Singapore 049480	Treasurer and Assistant Secretary**	Since 2001	Managing Director of Aberdeen Asset Managers (C.I.) Limited (from 2000 to June 2005); Managing Director of Aberdeen Private Wealth Management (affiliate of the Fund's Investment Manager and Investment Adviser) (from 2000 to June 2005); Managing Director of Aberdeen Asset Managers Jersey Limited (since 2000); Employed by Aberdeen Asset Management Inc. (since June 2005).
Age: 32			
Roy M. Randall Level 12, Chifley Tower 2 Chifley Square Sydney, NSW 2000 Australia	Secretary**	Since 1986	Consultant to The Seidler Law Firm, Australian counsel to the Fund (from 2003 through 2004); Partner of Stikeman Elliott, former Australian counsel to the Fund (from 1997 through 2002).
Age: 68			

- * Officers hold their positions with the Fund until a successor has been duly elected and qualifies. Officers are generally elected annually at the meeting of the Board of Directors next following the annual meeting of stockholders. The officers were last elected on June 8, 2005.
- ** Messrs. Gilbert, Smith, Pittard and Randall hold the same position(s) with Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc., both of which may be deemed to be a part of the same Fund Complex as the Fund.
- *** Mr. Hendry serves as Assistant Treasurer of Aberdeen Global Income Fund, Inc., which may be deemed to be part of the same Fund Complex as the Fund.

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

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

the conduct of his or her office.

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

Standing Committees of the Board of Directors

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

Audit and Valuation Committee

The Audit and Valuation Committee, established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the 1934 Act), is responsible for the selection and engagement of the Fund's independent registered public accounting firm (subject to ratification by the Fund's Independent Directors), pre-approves and reviews both the audit and non-audit work of the Fund's independent registered public accounting firm, and reviews

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compliance by the Fund with regulations of the SEC and the Internal Revenue Service, and other related matters. The members of the Fund's Audit and Valuation Committee are Messrs. Anthony E. Aaronson, Peter D. Sacks and John T. Sheehy.

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

Contract Review Committee