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(Registrant's telephone number, including Area Code)

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

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

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

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

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

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

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

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

SUBJECT TO COMPLETION DATED July 18, 2006

PROSPECTUS

ABERDEEN AUSTRALIA EQUITY FUND, INC.

Common Shares

\$_____ Share

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

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

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

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

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This Prospectus sets forth concisely the information about the Fund that a prospective investor should know before investing. It should be retained for future reference. The Statement of Additional Information (SAI), dated [], 2006, contains more information about the Fund and is incorporated by reference into this Prospectus. The Table of Contents for the SAI is on page [] of the Prospectus. You may call 1-866-839-5205 or email InvestorRelations@aberdeen-asset.com to obtain, free of charge, copies of the SAI and the Fund's annual and semi-annual reports to stockholders, as well as to obtain other information about the Fund and to make stockholder inquiries. The Fund's SAI, as well as the annual and semi-annual reports to stockholders, is also available on the Fund's website at www.aberdeeniaf.com. The Securities and Exchange Commission (SEC) maintains a website at <http://www.sec.gov> that contains the SAI, material incorporated by reference into the Fund's registration statement and other information about the Fund.

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

	Per Share	Total (2)
Price to the Public	\$	\$
Sales Load	\$	\$
Proceeds to the Fund (1)	\$	\$

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

Citigroup

A.G. Edwards

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

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

_____, 2006.

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

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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. The Fund and the underwriters have not authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund and the underwriters are not making an offer to sell the Shares in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this Prospectus, or in any amendment or supplement thereto, is accurate only as of the date of this Prospectus, or of such amendment or such supplement, as applicable. The Fund's business, financial condition and prospects may have changed since the date of its description in this Prospectus, or since the date of any such description in an amendment or supplement thereto.

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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 [] of the Prospectus.

The Offering	The Fund is offering [] shares of its Common Stock, par value \$.01 per share, [excluding [] shares of Common Stock issuable pursuant to the over-allotment option granted to the underwriters]. Following the offering, [] shares of the Fund's Common Stock will be outstanding, [excluding [] shares of Common Stock issuable pursuant to the over-allotment option granted to the underwriters]. See The Offering.
Use of Proceeds	The net proceeds of this offering will be approximately \$[] [[\$[] if the underwriters exercise the over-allotment option in full)] after payment of the estimated offering expenses and the deduction of the underwriting discount. The Fund will invest the net proceeds of the offering in accordance with its investment objectives and policies. See Use of Proceeds.
Amex and NYSE Arca Listed	The Fund's shares of Common Stock are listed for trading on the Amex and on the NYSE Arca under the symbol IAF. As of June 30, 2006, the Fund had 16,837,444 shares of Common Stock, par value \$.01 per share, outstanding. As of June 30, 2006, the last reported sale price of a Fund share on the Amex was \$12.85. See Description of Common Stock.
Stock Repurchase Program	Under the Fund's stock repurchase program, the Fund is permitted to repurchase up to 10% of its outstanding shares on the open market during any 12-month period if and when the discount from net asset value is at least 10%. The Fund may borrow to repurchase shares under this program. There have not been any repurchases of shares under this program since 2002. Applicable law may prevent such repurchases during the offering of the Shares described herein. See Description of Common Stock Stock Repurchase Program.
The Fund	The Fund is a non-diversified, closed-end management investment company organized as a Maryland corporation. See The Fund.
Investment Objectives	The Fund's principal investment objective is long-term capital appreciation through investment primarily in equity securities of Australian companies listed on the Australian Stock Exchange Limited (ASX). Its secondary objective is current income, which is expected to be derived primarily from dividends and interest on Australian corporate and governmental securities. The Fund's investment objectives may not be changed without the approval of a majority of the Fund's outstanding voting securities. See Investment Objectives.
Investment Policies	The Fund will normally invest at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity

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

Investment Restrictions

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

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

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

Offer of Shares. Because the Shares would constitute a significant block of the Fund's Common Stock, their offering may exert downward pressure on the market price of the Fund's shares to the extent not offset by demand. Additionally, an offering of shares at less than market price may adversely impact the market price per share and any premium at which the shares are then trading.

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

Foreign Securities. In addition to foreign currency risks, investments in non-U.S. securities involve risk of loss in the event of tax increases or adverse political, economic or diplomatic developments in Australia and New Zealand. The Australian securities market for both listed and unlisted securities may be more volatile and is less liquid than the major U.S. markets, and

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investing in non-U.S. securities may involve greater costs plus more uncertainty regarding legal protections. Regulatory oversight of markets and custody facilities may differ from that in the U.S.

Concentration. The Fund may invest up to 35% of its total assets in securities of an industry group that, at the time of investment, represents 20% or more of the S&P/ASX 200 Accumulation Index. An industry sector can include more than one industry group. As of June 30, 2006, 32.6% of the Fund's total assets were invested in the financials sector of the Standard & Poor's Global Industry Classification Sectors. Such a concentration of investments in a single industry sector makes the Fund particularly vulnerable to adverse economic, political or other developments affecting that sector. Concentration in the financials sector may make the Fund vulnerable to risks of regulation, consolidation, financial innovation and technological progress. Also, because the Fund's investments are primarily in Australian securities, the Fund will be particularly affected by adverse political, economic and other developments impacting Australia.

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

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

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

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

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

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

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

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

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

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

Investment Manager and Investment Adviser

The Fund's Investment Manager is Aberdeen Asset Management Asia Limited, a Singapore corporation located at 21 Church Street, #01-01 Capital Square Two, Singapore 049480. The Investment Manager serves as investment manager to both equity and fixed income investment portfolios for a range of clients, with approximately \$26.5 billion in assets as of May 31, 2006, including the Fund and two other U.S. registered closed-end funds with aggregate net assets of approximately \$2.8 billion as of June 30, 2006. The Investment Manager, in accordance with the Fund's stated investment objectives,

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policies and limitations and subject to the supervision of the Fund's Board of Directors, manages the Fund's investments and makes investment decisions on behalf of the Fund, including the selection of, and being responsible for the placement of orders with, brokers and dealers to execute the Fund's portfolio transactions.

The Fund's Investment Adviser is Aberdeen Asset Management Limited, an Australian corporation affiliated with the Investment Manager. The Investment Adviser is located at Level 6, 201 Kent Street, Sydney, NSW 2000, Australia. The Investment Adviser's principal business focus is to provide investment management services with regard to equity and fixed income investments in Australian securities. The Investment Adviser managed approximately \$0.5 billion of assets, as of May 31, 2006. The Investment Adviser makes recommendations to the Investment Manager as to specific portfolio securities to be purchased, retained or sold by the Fund and provides or obtains such research and statistical data as may be necessary in connection therewith.

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

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

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

Portfolio Managers

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

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Administrator	Aberdeen Asset Management Inc., 1735 Market Street, 37 th Floor, Philadelphia, Pennsylvania 19103, acts as the Fund's administrator (Administrator). The Administrator is a subsidiary of Aberdeen PLC and an affiliate of the Investment Manager and Investment Adviser. The Fund pays a fee to the Administrator at an annual rate equal to 0.04% of the Fund's average weekly net assets plus the amount of any borrowings for investment purposes. The Administrator delegates certain of its responsibilities to a sub-administrator, Princeton Administrators, L.P. See Management of the Fund Administrator.
Custodian and Transfer Agent	State Street Bank and Trust Company, One Heritage Drive, North Quincy, Massachusetts 02171, acts as the Fund's custodian. The Bank of New York, 101 Barclay Street, New York, New York 10286, acts as the Fund's stock transfer agent, dividend paying agent and agent for the Fund's Dividend Reinvestment and Cash Purchase Plan. See Management of the Fund Custodian and Transfer Agent.
Dividends and Distributions	The Board of Directors has implemented a managed distribution policy of paying quarterly distributions at an annual rate, set once a year, that is a percentage of the rolling average of the Fund's prior four quarter-end net asset values. The current rolling distribution rate is 10%, but this rate may be changed by the Board. There can be no assurance that the Board will continue a managed distribution policy. See Dividends and Distributions.
Dividend Reinvestment and Cash Purchase Plan	Stockholders may elect to have their distributions automatically reinvested in Fund shares which will be either issued by the Fund or purchased on the open market, depending on the market price per share plus any brokerage commissions, relative to the Fund's net asset value per share.
Taxation	Withholding and/or other taxes may apply in the countries in which the Fund invests, which will reduce the Fund's cash return in those countries. The Fund intends to elect, when eligible, to pass-through to the Fund's stockholders the ability to claim (subject to limitations) a deduction or credit for the amount of foreign income and similar taxes paid by the Fund. Tax considerations for an investor in the Fund are summarized under Taxation. See also Risks and Special Considerations.

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Stockholder Transaction Expenses	
Maximum Sales Load (as a percentage of offering price)	[]%
Dividend Reinvestment and Cash Purchase Plan Fees	0%
Annual Operating Expenses (As a Percentage of Average Net Assets Attributable to the Fund's Common Stock)	
Management Fee(1)	0.85%
Other Expenses(2)(3)	0.62%
Total Annual Operating Expenses	1.47%

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

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

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

Example

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

<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>	<u>Ten Years</u>
\$15	\$47	\$80	\$176

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

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

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The financial highlights table is intended to help you understand the Fund's financial performance. Information is shown for the Fund's last ten fiscal years, and for the six months ended April 30, 2006. Certain information reflects financial results for a single Fund share. The following information, insofar as it relates to each year of the ten-year period ended October 31, 2005, has been audited by PricewaterhouseCoopers LLP, independent registered public accounting firm for the Fund, whose reports thereon were unqualified. The report of PricewaterhouseCoopers LLP, together with the financial statements of the Fund, are included in the Fund's October 31, 2005 Annual Report, and are included in the SAI, which is available upon request. The information for the six months ended April 30, 2006 is unaudited.

	For the Six Months Ended April 30, 2006 (unaudited)	Year Ended October 31,			
		2005	2004	2003	2002
Per share operating performance(1):					
Net asset value, beginning of year	\$ 11.75	\$ 10.64	\$ 9.38	\$ 6.84	\$ 5.97
Net investment income	.18	.37	.28	.12	.15
Net realized and unrealized gains/(losses) on investments and foreign currencies	2.07	1.79	1.76	2.58	.93
Total from investment operations	2.25	2.16	2.04	2.70	1.08
Dividends and distributions from:					
Net investment income	(.08)	(.51)	(.30)	(.10)	(.15)
In excess of net investment income	(.23)				
Long-term capital gains	(.44)	(.54)	(.36)	(.07)	(.07)
Tax return of capital			(.12)		
Total distributions	(.75)	(1.05)	(.78)	(.17)	(.22)
Capital reduction with respect to issuance of Fund shares					
Increase resulting from Fund share repurchase				.01	.01
Net asset value, end of year	\$ 13.25	\$ 11.75	\$ 10.64	\$ 9.38	\$ 6.84
Market price per share, end of year	\$ 13.62	\$ 12.99	\$ 10.25	\$ 8.40	\$ 5.73
Total investment return based on(2):					
Market value	11.14%	38.98%	32.53%	50.40%	12.55%
Net asset value	19.54%	21.11%	23.19%	40.69%	19.04%
Ratio to average net assets/supplemental data:					
Net assets, end of year (000 omitted)	\$ 223,170	\$ 197,421	\$ 178,551	\$ 157,419	\$ 115,490
Average net assets (000 omitted)	\$ 207,321	\$ 194,946	\$ 166,284	\$ 128,662	\$ 114,213
Operating expenses	1.39%(4)	1.48%	1.75%	2.55%	1.76%
Net investment income	2.92%(4)	3.21%	2.85%	1.66%	2.33%
Portfolio turnover	10%	28%	23%	32%	56%

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

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

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	Year Ended October 31,			
	2001	2000	1999	1998
Per share operating performance(1):				
Net asset value, beginning of year	\$ 6.86	\$ 8.78	\$ 8.25	\$ 9.35
Net investment income	.12	.14	.08	.21
Net realized and unrealized gains/(losses) on investments and foreign currencies	(.33)	(1.25)	1.26	(.41)
Total from investment operations	(.21)	(1.11)	1.34	(.20)
Dividends and distributions from:				
Net investment income		(.12)	(.30)	(.23)
Long-term capital gains		(.69)	(.51)	(.66)
Tax return of capital	(.68)			
Total distributions	(.68)	(.81)	(.81)	(.89)
Capital reduction with respect to issuance of Fund shares				(.01)
Increase resulting from Fund share repurchase	(3)			
Net asset value, end of year	\$ 5.97	\$ 6.86	\$ 8.78	\$ 8.25
Market price per share, end of year	\$ 5.29	\$ 5.875	\$ 8.00	\$ 6.5625
Total investment return based on(2):				
Market value	1.06%	(17.31)%	34.91%	(0.38)%
Net asset value	(2.32)%	(12.02)%	17.77%	(0.34)%
Ratio to average net assets/supplemental data:				
Net assets, end of year (000 omitted)	\$ 102,361	\$ 117,941	\$ 150,916	\$ 141,794
Average net assets (000 omitted)	\$ 115,051	\$ 143,801	\$ 157,565	\$ 149,827
Operating expenses	1.80%	1.66%	2.58%	1.61%
Net investment income	1.77%	1.66%	.87%	2.38%
Portfolio turnover	50%	120%	143%	180%

(1) Based on average shares outstanding.

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

(3) Less than \$0.005 per share.

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

information provided in the financial statements and market value data for the Fund's shares.

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

(1) Based on average shares outstanding.

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

(3) Less than \$0.005 per share.

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

THE OFFERING

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

Table of Contents**USE OF PROCEEDS**

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

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

DESCRIPTION OF COMMON STOCK

The Fund, which was incorporated under the laws of the State of Maryland on September 30, 1985, is authorized to issue 50,000,000 shares. In April 2006, the Board of Directors approved the reclassification of 10,000,000 of the Fund's authorized but unissued shares of preferred stock, \$.01 par value per share, as 10,000,000 shares of the Fund's Common Stock, \$.01 par value per share. There are currently authorized 30,000,000 shares of Common Stock, \$.01 par value per share, and 20,000,000 shares of preferred stock, \$.01 par value per share. As of the date of this Prospectus, the Fund has not issued any shares of preferred stock and the Board of Directors has no present intention to issue shares of preferred stock. All references to stock or shares herein refer to Common Stock, unless otherwise indicated. Each share of Common Stock has equal voting, dividend, distribution and liquidation rights. The shares of Common Stock outstanding are, and, when issued, the Shares offered by this Prospectus will be, fully paid and non-assessable. Shares of Common Stock are not redeemable and have no preemptive, conversion or cumulative voting rights. The number of shares of Common Stock outstanding as of June 30, 2006 was 16,837,444.

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

During Quarter Ended	NAV per Share on Date of Market Price High and Low(1)		Amex Market Price Per Share(2)		Premium/(Discount) on Date of Market Price High and Low(3)		Trading Volume(4)
	High	Low	High	Low	High	Low	
January 31, 2003	\$ 7.16	\$ 6.73	\$ 6.30	\$ 5.70	(12.0)%	(15.3)%	1,084,500
April 30, 2003	7.44	6.66	6.39	5.90	(14.1)	(11.4)	1,135,900
July 31, 2003	8.29	7.62	7.36	6.39	(11.2)	(16.1)	1,457,800
October 31, 2003	9.35	8.25	8.44	7.11	(9.7)	(13.8)	950,400
January 31, 2004	10.39	9.41	9.50	8.16	(8.6)	(13.3)	1,685,378
April 30, 2004	10.61	9.74	9.80	7.92	(7.7)	(18.7)	3,964,000
July 31, 2004	9.94	9.15	8.90	7.65	(10.5)	(16.0)	1,657,200
October 31, 2004	10.64	9.11	10.25	8.42	(3.7)	(13.5)	2,590,300
January 31, 2005	11.84	10.68	11.94	10.36	0.8	(3.0)	4,229,700

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

(1) Based on the Fund's computations.

(2) Source: The American Stock Exchange.

(3) Based on the Fund's computations.

(4) Source: Bloomberg.

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On June 30, 2006, the per share net asset value of the Fund's Common Stock was \$12.14 and the per share market price was \$12.85, representing a 5.85% premium over such net asset value.

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

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

When the Fund repurchases its shares for a price below their net asset value, the net asset value of the shares that remain outstanding will be enhanced, but this does not necessarily mean that the market price of those outstanding shares will be affected. Any acquisition of shares by the Fund will decrease the total assets of the Fund and therefore may increase the Fund's expense ratio. Furthermore, if the Fund borrows to finance share repurchases, interest on such borrowings will reduce the Fund's net investment income. (The Fund's fundamental investment restrictions permit it to borrow to the extent permitted, or not prohibited, by the 1940 Act, and related rules and regulatory interpretations.) If the Fund must liquidate a portion of its investment portfolio in connection with a share repurchase, such liquidation might be at a time when independent investment judgment would not dictate such action, increasing the Fund's overall portfolio turnover and making it more difficult for the Fund to achieve its investment objective. Since inception of the stock repurchase program, the Fund has repurchased 412,700 shares of Common Stock, for a total consideration of \$2,424,386, with a cumulative effect of increasing the Fund's per share net asset value by 2.35 cents. There have not been any repurchases of shares under this program since 2002.

The following information regarding the Fund's authorized shares is as of May 31, 2006.

<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	30,000,000	0	16,837,444
Preferred Stock	20,000,000	0	0

THE FUND

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

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INVESTMENT OBJECTIVES

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

INVESTMENT POLICIES

The Board of Directors has adopted a policy that, for as long as the name of the Fund remains Aberdeen Australia Equity Fund, Inc., it shall be the policy of the Fund normally to invest at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity securities, consisting of common stock, preferred stock and convertible stock, of Australian companies listed on the Australian Stock Exchange Limited. For these purposes, Australian companies means companies that are tied economically to Australia. The following criteria will be considered in determining if a company is tied economically to Australia: whether the company: (i) is a constituent of the S&P ASX 200 Accumulation Index (S&P/ASX 200); (ii) has its headquarters located in Australia; (iii) pays dividends on its stock in Australian dollars; (iv) has its accounts audited by Australian auditors; (v) is subject to Australian taxes levied by the Australian Taxation Office; (vi) holds its annual general meeting in Australia; or (vi) has common stock/ordinary shares and/or other principal class of securities registered with Australian regulatory authorities for sale in Australia. This 80% investment policy is a non-fundamental policy of the Fund and may be changed by the Board of Directors upon 60 days prior written notice to stockholders. However, it is a fundamental policy of the Fund to normally invest at least 65% of its total assets in equity securities, consisting of common stock, preferred stock and convertible preferred stock, listed on the ASX. The Fund's equity investments are generally limited to securities of companies that are listed on the ASX. These investments may include securities of New Zealand issuers that are listed on the ASX. However, up to 10% of the value of the Fund's total assets (at the time of purchase) may be invested in unlisted equity securities.

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

The Fund invests its assets in a broad spectrum of Australian and New Zealand industries, including metals and minerals, other natural resources, construction, electronics, food, appliances and household goods, transport, tourism, the media and financial institutions. In selecting industries and companies for equity investment, the Investment Manager may, among other factors, consider overall growth prospects, competitive positions in domestic and export markets, technology, research and development, productivity, labor costs, raw material costs and sources, profit margins, return on investment, capital resources, management and government regulation.

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The Fund's investments in Australian debt securities and Australian money market instruments are limited to obligations of Australian Federal and State governments, governmental agencies and authorities, listed corporate issuers and banks considered to be creditworthy by the Investment Manager.

In 1999, the Fund received a no-action assurance letter from the SEC staff to permit the Fund to concentrate its portfolio investments under certain circumstances. The Fund will not invest in a security if, after the investment, more than 25% of its total assets would be invested in any one industry or group of industries, provided that the Fund may invest between 25% and 35% of its total assets in the securities of any one industry group if, at the time of investment, that industry group represents 20% or more of the S&P/ASX 200. The no-action letter issued by the SEC staff referred to industry sectors of the Australian All Ordinaries Index, then the Fund's performance benchmark. The Fund's performance benchmark was subsequently changed to the S&P/ASX 200, as reported to stockholders in the Fund's semi-annual repo