

ABERDEEN AUSTRALIA EQUITY FUND INC

Form N-2

May 08, 2007

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As filed with the Securities and Exchange Commission on May 8, 2007

1933 Act File No. 333-\_\_\_\_\_

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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. \_\_

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**ABERDEEN AUSTRALIA EQUITY FUND, INC.**

(Exact name of Registrant as Specified in Charter)

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**800 Scudders Mill Road**

**Plainsboro, New Jersey 08536**

(Address of Principal Executive Offices)

**1-866-839-5205**

(Registrant's telephone number, including Area Code)

**Mr. Christian Pittard**

**Aberdeen Asset Management Inc.**

**1735 Market Street, 37<sup>th</sup> Floor**

**Philadelphia, PA 19103**

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(Name and Address of Agent for Service)

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*Copies to:*

Sander M. Bieber, Esq.

Dechert LLP

1775 I Street, N.W.

Washington, D.C. 20006

Landesbank 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

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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 (check appropriate box)

when declared effective pursuant to Section 8(c).

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

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<b>Title of Securities Being Registered</b>	<b>Amount Being Registered</b>	<b>Proposed Maximum Offering Price Per Unit*</b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee</b>
Common Stock (\$.01 par value)	2,592,641	\$15.91	\$41,248,918	\$1,266.34

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\* Estimated pursuant to Rule 457(c) on the basis of market value per share on May 4, 2007. 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 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 May 4, 2007.

**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**

**ABERDEEN AUSTRALIA EQUITY FUND, INC.**

**2,592,641 Common Shares**

Par value \$.01 per Share

This Prospectus relates to the offer and sale of 2,592,641 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 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 the Shares by the Selling Stockholder. See Use of Proceeds.

The Fund s Common Stock is traded on the Amex under the symbol IAF. The last reported sale price of the Fund s Common Stock, as reported by the Amex on May 4, 2007 was \$15.91 per share. The net asset value of the Fund s Common Stock at the close of business on May 4, 2007 was \$15.49 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 that a prospective investor should know before investing. It should be retained for future reference. The Statement of Additional Information ( SAI ), dated May 8, 2007, contains more information about the Fund 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.aberdeeniaf.com](http://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.

**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 of the Shares. This risk may be greater for investors who expect to sell their Common Stock in a relatively short period after purchasing the Shares. See Risks and Special Considerations Net Asset Value Discount.**

**Neither the SEC 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.**

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

**Sales Load**

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	Price to the Public(1)		Proceeds to the Selling Stockholder(2)
Per Share	\$ 15.91	\$ .06(3)	\$ 15.85(4)
Total	\$ 41,248,918	\$ 155,558(3)	\$ 41,093,359(4)

- (1) Based on the market price of the Fund's shares at the close of trading on the Amex on May 4, 2007. 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 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 May 4, 2007.
- (2) The total expenses of the offering, estimated to be approximately \$80,000, will be borne by the Selling Stockholder (except for a portion of the fees which may be borne by Aberdeen Asset Management Inc.), and have not been deducted from the Proceeds to the Selling Stockholder.
- (3) 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 Prospectus, and that the Selling Stockholder will pay such brokers commissions of between \$.01 to \$.06 per share. For purposes of this table, the maximum estimated commission of \$.06 per share has been used.
- (4) In the event the Selling Stockholder pays the minimum estimated commission of \$.01 per share, the proceeds to the Selling Stockholder would be \$15.90 per share, or an aggregate of \$41,222,991.

May 8, 2007

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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 has 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 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 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 18 of the Prospectus.*

The Selling Stockholder	The Selling Stockholder is Landesbank Berlin AG, a German banking corporation organized under the laws of the Federal Republic of Germany ( Selling Stockholder or LB ). The Selling Stockholder has advised the Fund that, as of April 11, 2007, it was the beneficial owner of 2,592,641 shares of the Fund's Common Stock. Of such shares, 2,592,641 shares (the Shares ) are registered hereunder and are being offered by this Prospectus. 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 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 Listed	The Fund's shares of Common Stock are listed for trading on the Amex under the symbol IAF. The last reported sale price of the Fund's Common Stock, as reported by the Amex on May 4, 2007 was \$15.91 per share. The net asset value of the Fund's Common Stock at the close of business on May 4, 2007 was \$15.49 per share. 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 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

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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.

*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 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 March 31, 2007, 33.6% 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.

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*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 charter and 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 Maryland General Corporation Law and 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 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



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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, is 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 \$10.8 billion in assets as of March 31, 2007, including the Fund and two other U.S. registered closed-end funds with aggregate net assets of approximately \$2.2 billion in assets as of March 31, 2007. 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 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 \$0.6 billion in assets as of March 31, 2007. 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 \$157.7 billion in assets as of March 31, 2007, including approximately \$54.6 billion of investments in equity securities as of March 31, 2007, 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.

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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.
Administrator	Aberdeen Asset Management Inc., 1735 Market Street, 37 <sup>th</sup> 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, LLC. 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)	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%
Other Expenses(2)(3)	0.62%
<b>Total Annual Operating Expenses</b>	<b>1.47%</b>

- (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:

One Year	Three Years	Five Years	Ten Years
\$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. Certain information reflects financial results for a single Fund share. The following information 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, 2006 Annual Report, and are included in the SAI, which is available upon request.

	Year Ended October 31,				
	2006	2005	2004	2003	2002
<b><u>Per share operating performance(1):</u></b>					
Net asset value, beginning of year	\$ 11.75	\$ 10.64	\$ 9.38	\$ 6.84	\$ 5.97
Net investment income	0.41	0.37	0.28	0.12	0.15
Net realized and unrealized gains/(losses) on investments and foreign currencies	2.47	1.79	1.76	2.58	.93
<b>Total from investment operations</b>	<b>2.88</b>	<b>2.16</b>	<b>2.04</b>	<b>2.70</b>	<b>1.08</b>
<b><u>Distributions from:</u></b>					
Net investment income	(0.48)	(0.51)	(0.30)	(0.10)	(0.15)
Long-term capital gains	(0.90)	(0.54)	(0.36)	(0.07)	(0.07)
Tax return of capital			(0.12)		
<b>Total distributions</b>	<b>(1.38)</b>	<b>(1.05)</b>	<b>(0.78)</b>	<b>(0.17)</b>	<b>(0.22)</b>
Payment by shareholder of short-swing profit		(3)			
Capital reduction with respect to issuance of Fund shares					
Increase resulting from Fund share repurchase				0.01	0.01
Net asset value, end of year	\$ 13.25	\$ 11.75	\$ 10.64	\$ 9.38	\$ 6.84
Market price per share, end of year	\$ 14.00	\$ 12.99	\$ 10.25	\$ 8.40	\$ 5.73
<b><u>Total investment return based on(2):</u></b>					
Market value	20.09%	38.98%	32.53%	50.40%	12.55%
Net asset value	25.66%	21.11%	23.19%	40.69%	19.04%
<b><u>Ratio to average net assets/supplemental data:</u></b>					
Net assets, end of year (000 omitted)	\$ 223,588	\$ 197,421	\$ 178,551	\$ 157,419	\$ 115,490
Average net assets (000 omitted)	\$ 209,507	\$ 194,946	\$ 166,284	\$ 128,662	\$ 114,213
Net expense	1.45%	1.48%	1.75%	2.55%	1.76%
Expenses without reimbursement expenses	1.55%	1.48%	1.75%	2.55%	1.76%
Net investment income	3.31%	3.21%	2.85%	1.66%	2.33%
Portfolio turnover	16%	28%	23%	32%	56%

(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) Amount is 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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	2001	Year Ended October 31,		1998
		2000	1999	
<b>Per share operating performance(1):</b>				
Net asset value, beginning of year	\$ 6.86	\$ 8.78	\$ 8.25	\$ 9.35
Net investment income	0.12	0.14	0.08	0.21
Net realized and unrealized gains/(losses) on investments and foreign currencies	(0.33)	(1.25)	1.26	(0.41)
Total from investment operations	(0.21)	(1.11)	1.34	(0.20)
<b>Distributions from:</b>				
Net investment income		(0.12)	(0.30)	(0.23)
Long-term capital gains		(0.69)	(0.51)	(0.66)
Tax return of capital	(0.68)			
Total distributions	(0.68)	(0.81)	(0.81)	(0.89)
<b>Payment by shareholder of short-swing profit</b>				
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
<b>Total investment return based on(2):</b>				
Market value	1.06%	(17.31)%	34.91%	(0.38)%
Net asset value	(2.32)%	(12.02)%	17.77%	(0.34)%
<b>Ratio to average net assets/supplemental data:</b>				
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
Net expense	1.80%	1.66%	2.58%	1.61%
Expenses without reimbursement expenses	1.80%	1.66%	2.58%	1.61%
Net investment income	1.77%	1.66%	.87%	2.38%
Portfolio turnover	50%	120%	143%	180%

(1) Based on average shares outstanding.

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

(3) Less than \$0.005 per share.

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



**Table of Contents****FINANCIAL HIGHLIGHTS (Concluded)**

	<b>Year Ended October 31, 1997</b>
<b>Per share operating performance(1):</b>	
Net asset value, beginning of year	\$ 10.98
Net investment income	0.18
Net realized and unrealized gains/(losses) on investments and foreign currencies	(1.45)
Total from investment operations	(1.27)
<b>Distributions from:</b>	
Net investment income	(0.17)
Long-term capital gains	(0.18)
Tax return of capital	
Total distributions	(0.35)
Payment by shareholder of short-swing profit	
Capital reduction with respect to issuance of Fund shares	(0.01)
Increase resulting from Fund share repurchase	
Net asset value, end of year	\$ 9.35
Market price per share, end of year	\$ 7.44
<b>Total investment return based on(2):</b>	
Market value	(15.17)%
Net asset value	(11.37)%
<b>Ratio to average net assets/supplemental data:</b>	
Net assets, end of year (000 omitted)	\$ 159,422
Average net assets (000 omitted)	\$ 182,588
Net expense	1.39%
Expenses without reimbursement expenses	1.39%
Net investment income	1.68%
Portfolio turnover	270%

- (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.





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**SELLING STOCKHOLDER**

The Shares to be offered and sold pursuant to this Prospectus are beneficially owned by Landesbank Berlin AG (the Selling Stockholder or LB ), 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 Shares were formerly owned by Bankgesellschaft Berlin AG ( BGB ), the Selling Stockholder's parent corporation, which is now called Landesbank Berlin Holding AG ( LBH ).

The Selling Stockholder has advised the Fund that, as of April 11, 2007, it was the beneficial owner of 2,592,641 shares (constituting approximately 13.6% of the then outstanding shares) of the Fund's Common Stock. All of such shares (the Shares ) are registered hereunder and are being offered by this Prospectus. If all of the Shares being offered under this Prospectus are sold, after completion of the offering the Selling Stockholder will not hold any shares of the Fund's Common Stock.

The Selling Stockholder has advised the Fund that BGB initially 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 BGB, after these purchases, BGB 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, from November 2004 through November 21, 2005, BGB sold a total of 753,999 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 ).

On August 8, 2005, a registration statement on Form N-2 was filed with the SEC, covering 3,975,000 shares of the Fund's common stock then owned by BGB (the 2005 Registration Statement ). The 2005 Registration Statement was declared effective on December 8, 2005. The Selling Stockholder has advised the Fund that BGB commenced sales pursuant to the 2005 Registration Statement on December 21, 2005, and subsequently completed the sale of all shares that were registered for sale under the 2005 Registration Statement. Of the shares sold by BGB pursuant to the 2005 Registration Statement, BGB sold 1,600,000 shares to Credit Suisse and bought over-the-counter call options to purchase 1,600,000 shares of the Fund's Common Stock from such counterparty, sold 810,000 shares to HypoVereinsBank and bought over-the-counter call options to purchase 810,000 shares of the Fund's Common Stock from such counterparty, and sold 810,000 shares to Dresdner Bank AG and bought over-the-counter call options to purchase 810,000 shares of the Fund's Common Stock from such counterparty. The Selling Stockholder has advised the Fund that such options were exercisable only on July 3, 2006, and that on such date, BGB exercised the 810,000 options purchased from HypoVereinsBank in accordance with their terms, exercised the 810,000 options purchased from Dresdner Bank AG in accordance with their terms, and exercised 685,991 options purchased from Credit Suisse in accordance with their terms. The Selling Stockholder has advised the Fund that of the remaining options purchased by BGB from Credit Suisse, 114,009 options and 800,000 options were cancelled on July 3, 2006, upon payments by Credit Suisse, resulting in the disposition by BGB of all interest in the shares of the Fund's Common Stock to which such options related.

The Selling Stockholder has advised the Fund that, effective August 29, 2006, BGB, the parent corporation of the Selling Stockholder, changed its name to Landesbank Berlin Holding AG and all of the assets of BGB were transferred to the Selling Stockholder, which was newly organized (the Reorganization ). The Selling Stockholder has advised the Fund that upon the closing of the Reorganization on August 29, 2006, the 2,783,741 shares of the Fund's Common Stock previously held by BGB were transferred to the Selling Stockholder. The Selling Stockholder has informed the Fund that, during March and April of 2007, the Selling Stockholder sold a total of 191,100 shares of Common Stock in at-the-market transactions pursuant to the provisions of Rule 144 under the 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 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 Prospectus.

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



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promptly thereafter to increase the size of the Board by one Director and to elect one representative of BGB to the Board of Directors for a three-year term as a Class I Director, provided that, at the time of such appointment, BGB 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. BGB 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 BGB had agreed to indemnify Mr. Sell in connection with his service as a Director of the Fund for an initial term expiring at the Annual Meeting of Stockholders to be held in 2007. At the 2007 Annual Meeting of Stockholders, Mr. Sell was elected, not as the representative of LB or LBH, but in his own capacity, as a Class I Director of the Fund to serve a three-year term expiring at the Annual Meeting of Stockholders to be held in 2010. The Selling Stockholder has informed the Fund that, because Mr. Sell no longer serves as a Director as a representative of LB or LBH, he is no longer indemnified by LB or LBH in connection with such service. The Selling Stockholder has informed the Fund that Mr. Sell has been a director, market strategist with LB and its predecessor, now holding company, LBH (formerly BGB) since 1996.

### **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 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 May 4, 2007 was \$15.91 per share. The price at which securities will be offered pursuant to this offering will be the then current market price of such shares on the Amex, or on 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 May 4, 2007.

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 offering could be conducted over an extended period of time, lasting one year or more. 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 (collectively, Selling Brokers), which may include, without limitation, [\_\_\_\_], to sell Shares pursuant to this Prospectus, and that the Selling Stockholder will pay the Selling Brokers commissions of 1 ¢ to 6 ¢ per share.

The Fund and the Selling Stockholder will enter into an agreement, upon the effectiveness of the Fund's Registration Statement, pursuant to which they will agree to indemnify each other against certain liabilities, including liabilities under the 1933 Act.

The Selling Stockholder has informed the Fund that pursuant to the sales agreement that the Selling Stockholder intends to enter into with each Selling Broker, the Selling Stockholder will agree to indemnify the Selling Broker in connection with the accuracy and completeness of the information provided by the Selling Stockholder to the Fund for inclusion in and/or preparation of the Fund's Registration Statement and in fact included herein.



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The Fund anticipates entering into an agreement with each Selling Broker, pursuant to which the Fund will agree to indemnify the Selling Broker in connection with the accuracy and completeness of the information provided by the Fund for inclusion in this Registration Statement.

**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. 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. In December 2006, pursuant to a registration statement on Form N-2, the Fund issued 2,225,000 shares of Common Stock. The number of shares of Common Stock outstanding as of April 30, 2007 was 19,128,968.

The Fund's outstanding shares are publicly held and listed and traded on the Amex. 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				Premium/(Discount)				
	Price High and Low(1)		Amex Market Price Per Share(2)		Price High and Low(3)		on Date of Market		
High	Low	High	Low	High	Low	High	Low	Trading Volume(4)	
January 31, 2005	\$ 11.84	\$ 10.68	\$ 11.94	\$ 10.36	0.8%	(3.0)%			4,229,700
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
July 31, 2006	13.69	11.93	14.11	11.66	3.1	(2.3)			3,021,900
October 31, 2006	13.25	12.15	13.99	12.71	5.5	4.6			2,447,500
January 31, 2007	13.38	13.17	14.79	13.59	10.5	3.2			4,107,700
April 30, 2007	15.36	13.50	16.70	13.90	8.7	3.0			3,857,234

(1) Based on the Fund's computations.

(2) Source: The American Stock Exchange.

(3) Based on the Fund's computations.

(4) Source: Bloomberg.

On May 4, 2007, the per share net asset value of the Fund's Common Stock was \$15.49 per share and the per share market price was \$15.91, representing a 2.7% 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.



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**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 April 30, 2007.

Title of Class	Amount Authorized	Amount Held by Fund for its own Account	Amount Outstanding Exclusive of Amount held by Fund
Common Stock	30,000,000	0	19,128,968
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 was incorporated under the laws of the State of Maryland on September 30, 1985. 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 Board of Directors has adopted a policy that, for as long as the name of the Fund remains Aberdeen Australia Equity Fund, Inc., the Fund will 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; (vii) has common stock/ordinary shares and/or other principal class of securities registered with





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Australian regulatory authorities for sale in Australia; or (viii) is incorporated 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. The Fund's investments in Australian debt securities and Australian money market instruments are limited to obligations of Australian Federal and State governments, governmental agencies and authorities, listed corporate issuers and banks considered to be creditworthy by the Investment Manager.

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

The Fund does not trade in securities for short-term gain. The Fund's annual portfolio turnover rate for its fiscal year ended October 31, 2006 was 16%. 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.

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### **Repurchase Agreements**

The Fund may enter into repurchase agreements with banks and broker-dealers when it deems it advisable. A repurchase agreement is a contract under which the Fund acquires a security for a relatively short period (usually no more than one week) subject to the obligations of the seller to repurchase and the Fund to resell such security at a fixed time and price (representing the Fund's cost plus interest). The Investment Manager will monitor the value of such securities daily to determine that the value equals or exceeds the repurchase price. Under the 1940 Act, repurchase agreements are considered to be loans made by the Fund which are collateralized by the securities subject to repurchase. See also Risks and Special Considerations.

### **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.
- (5) Make loans (except that the Fund may purchase debt securities whether or not publicly traded or privately placed or may enter into repurchase and securities lending agreements consistent with the Fund's investment policies).
- (6) Make investments for the purpose of exercising control or management.
- (7) Act as an underwriter (except to the extent the Fund may be deemed to be an underwriter in connection with the sale of securities in the Fund's investment portfolio).
- (8) Invest more than 25% of its assets in a particular industry or group of industries, provided, however, that the Fund may invest between 25% and 35% of its total assets in the securities of any one industry group if, at the time of investment, that industry group represents 20% or more of

the S&P/ASX 200 Accumulation Index.

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**RISKS AND SPECIAL CONSIDERATIONS**

An investment in the Fund involves certain risks and considerations, including risks and considerations not typically associated with funds that invest only in U.S. securities. These risks and considerations are described below.

***Risks From the Offer of Shares.*** The Selling Stockholder's offer of the Shares, totaling approximately 13.6% 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 Fund's ability to recover its assets in the even