

ABERDEEN AUSTRALIA EQUITY FUND INC

Form N-2

December 31, 2009

As filed with the Securities and Exchange Commission on December 31, 2009

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

Registration Statement Under the Securities Act of 1933
 Pre-Effective Amendment No.
 Post-Effective Amendment No.

and/or

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

Aberdeen Australia Equity Fund, Inc.

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(Exact Name of Registrant as Specified In Charter)

1735 Market Street, 32nd Floor

Philadelphia, Pennsylvania 19103

(Address of Principal Executive Offices)

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Registrant's Telephone Number, including Area Code: **1-866-839-5205**

Lucia Sitar, Esq.

c/o Aberdeen Asset Management Inc.

1735 Market Street, 32nd Floor

Philadelphia, Pennsylvania 19103

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(Name and Address of Agent For Service)

Copies of information to:

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Rose F. DiMartino, Esq.

Willkie Farr & Gallagher

787 Seventh Avenue

New York, New York 10019

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

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

It is proposed that this filing will become effective (check appropriate box)

when declared effective pursuant to section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, \$0.01 par value per share	50,000	\$ 12.59	\$ 629,500	\$ 44.88

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

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT THAT SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.

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 December 31, 2009

PROSPECTUS

[] **Common Shares**

ABERDEEN AUSTRALIA EQUITY FUND, INC.

[\$] Per 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 NYSE Amex LLC (Amex) under the symbol IAF. The last reported sale price of the Fund's Common Stock, as reported by the Amex on December 15, 2009, was \$12.47 per share. The net asset value of the Fund's Common Stock at the close of business on December 15, 2009, was \$11.42 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 1735 Market Street, 32nd Floor, Philadelphia, Pennsylvania 19103, 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 January [], 2010, 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.

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.

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

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	Per Share	Total (3)
Public Offering Price	\$ []	\$ []
Sales Load (1)	\$ []	\$ []
Proceeds to the Fund (2)	\$ []	\$ []

-
- (1) Of this amount, \$[] per share of Common Stock (or 1% of the initial offering price) will be paid by the Investment Manager.
 - (2) Does not include expenses incurred in connection with this offering, which the Fund estimates will be approximately \$[].
 - (3) The underwriters also may purchase up to an additional [] shares at the public offering price, less the sales load, within 30 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 \$[].

The underwriters expect to deliver the shares to purchasers on or about [] [], 2010.

[]
 [] [], 2010. **[underwriters]** []

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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.

Until [], 2010 (25 days after the date of this Prospectus) all dealers that buy, sell or trade the Shares, whether or not participating in this offering, may be required to deliver a Prospectus. This is in addition to the dealer's obligation to deliver a Prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

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. You must purchase at least 100 shares of Common Stock in this Offering. 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	<p>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 sales load of \$[] per common share is equal to 4% of the initial offering price, of which \$[] per share will be paid by the Investment Manager.</p> <p>The Fund will invest the net proceeds of the offering in accordance with its investment objectives and policies. See Use of Proceeds.</p>
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 December 15, 2009 was \$12.47 per share. The net asset value of the Fund's Common Stock at the close of business on December 15, 2009 was \$11.42 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 December 2008. 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 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 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 October 31, 2009, 30.3% 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 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 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.

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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. 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 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 \$[] billion of assets as of [], 2009 for both institutions and private individuals from offices around the world. 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; Augustine Mark Daniels, a Director of the Investment Adviser; and Michelle Lopez and Natalie Tam. See Management of the Fund Portfolio Management.

Administrator

Aberdeen Asset Management Inc., 1735 Market Street, 32nd 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, State Street Bank and Trust Company. 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 Mellon Corporation, 480 Washington Boulevard, Jersey City, New Jersey 07310, 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.

FUND EXPENSES

Stockholder Transaction Expenses	
Maximum Sales Load (as a percentage of offering price)(1)	[]%
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(2)	0.85%
Other Expenses(3)(4)	[0.]%
Total Annual Operating Expenses	[1.]%

-
- (1) Of this amount, 1.0% of the offering price will be paid by the Investment Manager.
 - (2) See Management of the Fund The Investment Manager and the Investment Adviser for additional information.
 - (3) Other Expenses have been estimated for the current fiscal year.
 - (4) Includes an administration fee of 0.08% 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
\$ []	\$ []	\$ []	\$ []

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.

FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the Fund's financial performance. Information is shown for the Fund's last ten fiscal years. Certain information reflects financial results for a single Fund share. The following information has been audited by KPMG LLP, independent registered public accounting firm for the Fund, for the fiscal year ended October 31, 2009, and by another independent registered public accounting firm for the fiscal years prior to the fiscal year ended October 31, 2009, each of whose reports thereon were unqualified. The report of KPMG LLP, together with the financial statements of the Fund, are included in the Fund's October 31, 2009 Annual Report, and are included in the SAI, which is available upon request.

	Year Ended October 31,				
	2009	2008	2007	2006	2005
<u>Per share operating performance(1):</u>					
Net asset value, beginning of year	\$ 8.37	\$ 18.53	\$ 13.25	\$ 11.75	\$ 10.64
Net investment income	0.29	0.51	0.39	0.41	.37
Net realized and unrealized gains/(losses) on investments and foreign currencies	3.34	(8.83)	6.47	2.47	1.79
Total from investment operations	3.63	(8.32)	6.86	2.88	2.16
<u>Distributions from:</u>					
Net investment income	(0.31)	(0.24)	(0.53)	(0.48)	(.51)
Long-term capital gains		(0.84)	(0.98)	(0.90)	(.54)
Tax return of capital	(0.73)	(0.76)			
Total distributions	(1.04)	(1.84)	(1.51)	(1.38)	(1.05)
Payment by shareholder of short-swing profit				(3)	
Capital reduction with respect to issuance of Fund shares					
Increase resulting from Fund share repurchase			(0.07)		
Net asset value, end of year	\$ 10.96	\$ 8.37	\$ 18.53	\$ 13.25	\$ 11.75
Market price per share, end of year	\$ 11.40	\$ 8.60	\$ 18.25	\$ 14.00	\$ 12.99
<u>Total investment return based on(2):</u>					
Market value	50.76%	(45.57)%	43.46%	20.09%	38.98%
Net asset value	48.92%	(47.83)%	53.91%	25.66%	21.11%
<u>Ratio to average net assets/supplemental data:</u>					
Net assets, end of year (000 omitted)	\$ 210,866	\$ 160,886	\$ 354,970	\$ 223,588	\$ 197,421
Average net assets (000 omitted)	\$ 163,795	\$ 282,702	\$ 283,749	\$ 209,507	\$ 194,946
Net expense	1.73%	1.26%	1.44%	1.45%	1.48%
Expenses without reimbursement expenses	1.73%	1.26%	1.51%		
				1.55%	1.48%
Net investment income	3.41%	3.46%	2.56%	3.31%	3.21%
Portfolio turnover	16%	22%	30%	16%	28%

(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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	Year Ended October 31,				
	2004	2003	2002	2001	2000
<u>Per share operating performance(1):</u>					
Net asset value, beginning of year	\$ 9.38	\$ 6.84	\$ 5.97	\$ 6.86	\$ 8.78
Net investment income	.28	.12	.15	.12	.14
Net realized and unrealized gains/(losses) on investments and foreign currencies	1.76	2.58	.93	(.33)	(1.25)
Total from investment operations	2.04	2.70	1.08	(.21)	(1.11)
<u>Distributions from:</u>					
Net investment income	(.30)	(.10)	(.15)		(.12)
Long-term capital gains	(.36)	(.07)	(.07)		(.69)
Tax return of capital	(.12)			(.68)	
Total distributions	(.78)	(.17)	(.22)	(.68)	(.81)
Payment by shareholder of short-swing profit					
Capital reduction with respect to issuance of Fund shares					
Increase resulting from Fund share repurchase		.01	.01	(3)	
Net asset value, end of year	\$ 10.64	\$ 9.38	\$ 6.84	\$ 5.97	\$ 6.86
Market price per share, end of year	\$ 10.25	\$ 8.40	\$ 5.73	\$ 5.29	\$ 5.875
<u>Total investment return based on(2):</u>					
Market value	32.53%	50.40%	12.55%	1.06%	(17.31)%
Net asset value	23.19%	40.69%	19.04%	(2.32)%	(12.02)%
<u>Ratio to average net assets/supplemental data:</u>					
Net assets, end of year (000 omitted)	\$ 178,551	\$ 157,419	\$ 115,490	\$ 102,361	\$ 117,941
Average net assets (000 omitted)	\$ 166,284	\$ 128,662	\$ 114,213	\$ 115,051	\$ 143,801
Net expense	1.75%	2.25%	1.76%	1.80%	1.66%
Expenses without reimbursement expenses	1.75%	2.55%	1.76%	1.80%	1.66%
Net investment income	2.85%	1.66%	2.33%	1.77%	1.66%
Portfolio turnover	23%	32%	56%	50%	120%

(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.

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.

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 sales load of \$[] per common share is equal to []% of the initial offering price, of which \$[] per common share will be paid by the Investment Manager.

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 December 15, 2009 was 19,235,840.

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. 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.

Trading

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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)		Volume(4)
	High	Low	High	Low	High	Low	
January 31, 2008	[]	[]	[]	[]	[]	[]	[]
April 30, 2008	[]	[]	[]	[]	[]	[]	[]
July 31, 2008	[]	[]	[]	[]	[]	[]	[]
October 31, 2008	[]	[]	[]	[]	[]	[]	[]
January 31, 2009	[]	[]	[]	[]	[]	[]	[]
April 30, 2009	[]	[]	[]	[]	[]	[]	[]
July 31, 2009	[]	[]	[]	[]	[]	[]	[]
October 31, 2009	[]	[]	[]	[]	[]	[]	[]

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- (1) Based on the Fund's computations.
 - (2) Source: The NYSE Amex Equities.
 - (3) Based on the Fund's computations.
 - (4) Source: Bloomberg.

On December 15, 2009, the per share net asset value of the Fund's Common Stock was \$11.42 per share and the per share market price was \$12.47, representing a 9.19% 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 435,000 shares of Common Stock, for a total consideration of \$2,567,294, with a cumulative effect of increasing the Fund's per share net asset value by 3.11 cents. There have not been any repurchases of shares under this program since December 2008.

The following information regarding the Fund's authorized shares is as of October 31, 2009.

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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]	[]
Preferred Stock	20,000,000	[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.

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 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

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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, 2009 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.

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.

RISKS AND SPECIAL CONSIDERATIONS

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

Risks From the Offer of Shares. The Fund's offer of the Shares, which when issued would total approximately []% of the Fund's outstanding shares, may exert downward pressure on the market price for the Fund's shares to the extent not offset by demand for Fund shares. Any such pressure would continue at least until all the Shares are sold. Additionally, an offering of shares at less than market price may adversely impact the market price per share and any premium at which the shares are then trading. Neither the extent of any dampening effect, or the extent of offsetting demand, on share price or the length of time either would continue can be predicted.

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

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

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

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

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

oversight of the Australian securities market may differ from that of U.S. markets. There also may be difficulty in invoking legal protections across borders.

Foreign Custody. The Fund's custodian generally holds the Fund's non-U.S. securities and cash in non-U.S. bank sub-custodians and securities depositories generally in Australia. (See Management of the Fund Custodian and Transfer Agent.) Regulatory oversight of non-U.S. banks and securities depositories may differ from that in the U.S. Additionally, laws applicable to non-U.S. banks and securities depositories may limit the Fund's ability to recover its assets in the event the non-U.S. bank, securities depository or issuer of a security held by the Fund goes bankrupt.

Net Asset Value Discount. Shares of closed-end investment companies frequently trade at a discount from net asset value. This characteristic is a risk separate and distinct from the risk that net asset value will decrease. The Fund's shares have frequently traded in the market below net asset value since the commencement of the Fund's operations. However, in the 12-month period ended October 31, 2009, the Fund's shares have traded in the market at an average premium over net asset value of 0.597%. The Fund cannot predict whether its shares in the future will trade at, below or above net asset value. This risk that shares of a closed-end fund might trade at a discount is more significant for investors who wish to sell their shares in a relatively short period of time. For those investors, realization of gain or loss on their investment is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance.

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

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

Non-Diversified Status. The Fund is classified as a non-diversified management investment company under the 1940 Act. This means that the Fund is not subject to limits under the 1940 Act as to the proportion of its assets that may be

invested in the securities of a single issuer. As a non-diversified investment company, the Fund may therefore invest its assets in securities of a smaller number of issuers, and, as a result, would be subject to greater risk with respect to its portfolio securities. Although the Fund must comply with certain diversification requirements in order to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended (Code), the Fund may be more susceptible to any single economic, political or regulatory occurrence than would be the case if it had elected to diversify its holding sufficiently to be classified as a diversified management investment company under the 1940 Act.

Stock Repurchase Risk. Any acquisition by the Fund of its shares, pursuant to its stock repurchase program, will decrease the total assets of the Fund and therefore may increase the Fund's expense ratio. Furthermore, if the Fund borrows to finance share repurchases, interest on such borrowings would reduce the Fund's net investment income. If the Fund liquidates a portion of its investment portfolio in connection with a share repurchase, such liquidation might be at a time when independent investment judgment would not dictate such

action, increasing the Fund's overall portfolio turnover (and related transaction costs) and making it more difficult for the Fund to achieve its investment objective. There are also tax implications for both tendering and non-tendering stockholders in the event the Fund offers to repurchase its shares. See *Taxation*.

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

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

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

to such conditions as provided in the bylaws, reserve to the Board the power to adopt, alter, or repeal the bylaws or any provision of the bylaws.

Articles Supplementary approved by the Board of Directors subject the Fund to certain provisions of the Maryland General Corporation Law with respect to unsolicited takeovers. These provisions: (a) require a two-thirds vote of the stockholders to remove Directors; (b) provide that the number of Directors may be fixed only by the Board; (c) provide that certain vacancies on the Board of Directors may be filled only by the vote of the remaining Directors and those vacancies shall be filled until the end of the term of the directorship in which the vacancy occurs; and (d) require that a stockholder-requested special meeting be called only on the request of the holders of a majority of the outstanding shares.

The foregoing provisions may be regarded as anti-takeover provisions and may have the effect of depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices. See Certain Provisions of the Maryland General Corporation Law and the Charter and Bylaws.

Concentration. The Fund's investment policies permit it to invest up to 35% of its total assets in the securities of a single industry group, provided that, at the time of investment, that group represents 20% or more of the S&P/ASX 200. At any time the Fund has such a concentration of investments in a single industry group, it will be particularly vulnerable to adverse economic, political and other factors that affect that industry group. An industry sector can include more than one industry group. As of October 31, 2009, 30.3% of the Fund's net assets were invested in the financials sector of the Standard & Poor's Global Industry Classification Sectors, making the Fund particularly vulnerable to developments that negatively affect that sector. Concentration in the financials sector may make the Fund vulnerable to risks of regulation, consolidation, financial innovation and technological progress. Also, the fact that the Fund invests primarily in Australian securities makes it particularly vulnerable to loss in the event of adverse political, economic, financial and other developments that affect Australia, including fluctuations of Australian currency versus the U.S. dollar.

Securities Lending Risk. In connection with its loans of portfolio securities, the Fund may be exposed to the risk of delay in recovery of the loaned securities or possible loss of rights in the collateral should the borrower become insolvent. The Fund also bears the risk of loss on the investment of cash collateral. There is also the risk that, in the event of default by the borrower, the collateral might not be sufficient to cover any losses incurred by the Fund. There can be no assurance that the return to the Fund from a particular loan, or from its loans overall, will exceed the related costs and any related losses.

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

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

Risks of Options. The options market in Australia may be more volatile and less liquid than options markets in the U.S. Currently, on the ASX, options are traded on securities of only a limited number of companies. The extent to which options strategies may reduce the inherent risks in equity investment will depend on the Investment Adviser's ability to predict price movements in underlying stocks, as to which there can be no assurance. In addition, the Fund's ability to

engage in options transactions will be limited by certain requirements that the Fund must satisfy in order to qualify as a regulated investment company under the Code. See Taxation. The Fund's options activities also may have an impact upon the level of its portfolio turnover and brokerage commissions.

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

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

would also reduce the Fund's net asset value. The requirement to pay dividends on the preferred stock in full before any dividends may be paid on the Common Stock means that dividends on the Common Stock from earnings may be reduced or eliminated.

Voting Rights. Voting rights in the Fund are non-cumulative. The voting rights of the holders of the current outstanding Common Stock would be limited by the issuance of any preferred shares because the holders of any preferred shares would have the following class voting rights. Pursuant to current applicable law, holders of preferred shares, voting as a separate class, would be entitled to elect two of the Fund's Directors (the remaining Directors would be elected by holders of the Fund's Common Stock.) Additionally, if dividends on preferred shares were unpaid in an amount equal to two years' dividends, holders of such preferred shares, voting as a separate class and subject to any prior rights of any other outstanding class of senior securities, would be entitled to elect a majority of the Fund's Directors and to continue to be so represented until all dividends in arrears have been paid or otherwise provided for. Approval by the holders of a majority of the outstanding preferred shares, voting as a separate class, would also be required for a plan of reorganization that would adversely affect their shares, for changes in fundamental investment restrictions, for a change to an open-end classification, or for a proposal for the Fund to cease to be an investment company.

Asset Coverage. The Fund would be required to have asset coverage with respect to its preferred stock of at least 200 per cent immediately after the issuance of the preferred stock. The Fund would not be permitted to pay any dividend (except a dividend paid in Common Stock) or distribution, or to purchase its Common Stock, unless the asset coverage test is met at the time of declaring the dividend or distribution, or purchasing the stock, after deducting the amount of the dividend, distribution or stock purchase price, as applicable.

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

Risks of Borrowing and Leverage to Holders of Common Stock. The Fund's fundamental investment policies permit it to borrow to the extent permitted, or not prohibited, by the 1940 Act and related rules and regulatory interpretations. The Board has not yet exercised this authority and has no current intention of exercising this authority. Borrowing is a form of leverage, as is the issuance of preferred stock. Certain risks of leverage are discussed under **Risks of Issuance of Preferred Shares** above. Borrowing, either by the issuance of debt obligations or through loans from banks or private sources, would involve interest and other costs to the Fund. If the return to the Fund from investments made with proceeds of a borrowing does not exceed the interest and costs of the borrowing, such costs could reduce the return to

the holders of Common Stock. Moreover, leveraging would generally exaggerate the positive and negative effects of market, interest rate and currency fluctuations on the net asset value and market value of the Fund's Common Stock, as well as on distributions to common stockholders. By increasing the Fund's invested assets, and thus its market exposure, leveraging would increase the volatility of both the net asset value and, consequently, the market value of the Fund's Common Stock. Any decline in the value of the Fund's investments would be borne entirely by the holders of its Common Stock. Thus, although leveraging may enhance benefits to holders of Common Stock in a rising market environment, a market downturn can be particularly disadvantageous to holders of Common Stock of a leveraged fund. Because the Fund invests primarily in securities that are not U.S. dollar-denominated and because it pays dividends and other distributions in U.S.

dollars, any leveraging or the issuance of debt securities that also pay interest in U.S. dollars would exaggerate the effects of currency fluctuations on the prices of, and distributions on, the Fund's Common Stock. Moreover, a decline in the value of the Fund's assets, and thus its asset coverage for any senior securities, could prevent the Fund from paying dividends or distributions on its Common Stock, which could, in turn, jeopardize the Fund's qualification as a regulated investment company under the Code and/or subject the Fund to income and excise taxes and/or force the Fund to sell portfolio securities at a time or price that is not favorable.

Borrowings by the Fund generally require asset coverage of 300 per cent. The Fund would be prohibited from declaring a dividend (other than a dividend payable in stock of the Fund) or distribution on any class of its stock, and from purchasing Fund stock, unless this asset coverage requirement is met at the time such dividend or distribution is declared, or stock is purchased, after deducting the amount of such dividend, distribution or stock purchase price, as applicable. However, the Fund would be permitted to pay dividends on any preferred stock if, at the time of declaring the dividend, the Fund has asset coverage of at least 200% for its borrowings, after deducting the amount of the dividend. Holders of senior securities representing indebtedness would have the right to elect a majority of the Fund's directors if the Fund failed to have asset coverage for its debt of at least 100 per cent on the last business day of each of twelve consecutive calendar months. This right would continue until such asset coverage was 110 per cent or more on the last business day of each of three consecutive calendar months. An event of default would be deemed to have occurred if the Fund failed to have asset coverage for its debt of at least 100 per cent for 24 consecutive months.

MANAGEMENT OF THE FUND

The Board of Directors

The Board of Directors directs the management of the business and affairs of the Fund, including general supervision of the duties performed by the Investment Manager, the Investment Adviser and other service providers.

The Investment Manager and the Investment Adviser

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

The Investment Manager is a Singapore corporation incorporated in 1991. The registered office of the Investment Manager is located at 21 Church Street, #01-01 Capital Square Two, Singapore 049480. The Investment Manager serves as investment manager to both equity and fixed income investment portfolios for a range of clients, including the Fund and three other U.S. registered closed-end funds. 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.

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The Investment Adviser is an Australian corporation which is a wholly-owned subsidiary of the Investment Manager. The registered office of the Investment Adviser is located at Level 6, 201 Kent Street, Sydney, NSW 2000, Australia. The Investment Adviser's principal business focus is to provide investment management services with regard to equity and fixed income investments in Australian securities. The Investment Adviser makes recommendations to the Investment Manager as to specific portfolio securities to be purchased, retained or sold by the Fund and provides or obtains such research and statistical data as may be necessary in connection therewith.

The Investment Manager is a wholly-owned subsidiary of Aberdeen Asset Management PLC (Aberdeen PLC), a Scots company. The registered offices of Aberdeen PLC are located at 10 Queen's Terrace, Aberdeen, Scotland AB 10 1 YG. Aberdeen PLC is the parent company of an asset management group managing

approximately \$[] billion of assets as of [], 2009 for both institutions and private individuals from offices around the world.

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

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

For the fiscal years ended October 31, 2009, 2008 and 2007, the Fund paid to the Investment Manager management fees of \$1,446,566, \$2,278,916 and \$2,286,243, respectively. The Investment Manager informed the Fund that, during the same periods, the Investment Manager paid advisory fees of \$369,484, \$557,873 and \$546,796, respectively, to the Investment Adviser. A discussion regarding the basis for the Board of Directors' approval of the Management Agreement and the Advisory Agreement appears in the SAI and is available in the Fund's semi-annual report to stockholders for the six-month period ended April 30, 2009.

In rendering investment advisory services, the Investment Manager and Investment Adviser (the Advisers) may use the resources of Aberdeen Asset Managers Limited (Aberdeen UK), a United Kingdom corporation which is a wholly-owned investment adviser subsidiary of Aberdeen PLC. The Investment Manager and Investment Adviser have entered into a Memorandum of Understanding with Aberdeen UK, pursuant to which investment professionals from Aberdeen UK may render portfolio management, research or trading services to the U.S. clients of the Advisers, including the Fund.

Non-U.S.-Resident Directors and Officers

Although the Fund is a Maryland corporation, certain of its Directors and officers (Messrs. Daniels, Gilbert, Malone, Miles, Pittard, Sacks, Sell, Sherman and Young) are non-residents of the United States and have all, or a substantial part, of their assets located outside the United States. None of the Directors or officers has authorized an agent for service of process in the United States. As a result, it may be difficult for U.S. investors to effect service of process upon such Directors and officers within the United States or to effectively enforce judgments of courts of the United States predicated upon civil liabilities of the Directors or officers under the federal securities laws of the United States.

[The Fund has been advised by local counsel in the United Kingdom and Canada, the foreign jurisdictions (other than Australia and Singapore) in which Fund Directors and/or officers reside, that it is uncertain whether the courts of those jurisdictions would adjudge civil liability against Directors and officers resident in those jurisdictions in an original action in such jurisdictions predicated solely on a violation of the federal securities laws of the United States. However, although there is no arrangement in place between those jurisdictions and the United States for the reciprocal enforcement of judgments, a final and conclusive monetary judgment against the Directors and officers in an original action predicated on such provisions rendered by a court in the United States may be enforceable by action or counterclaim or be recognized by the courts of those jurisdictions as a defense to an action or as conclusive of an issue in that action if it was not obtained by fraud or otherwise than in accordance with the principles of natural justice, the enforcement would not be contrary to public policy and the United States court had jurisdiction in respect of the defendant in the original action.]

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

The Fund has been advised by local counsel in Singapore, a foreign jurisdiction in which certain Fund Directors and/or officers reside, that the judgments of U.S. courts based on the civil liability provisions of the U.S. federal or state securities laws may be difficult to enforce in Singapore courts as there is uncertainty whether the courts of Singapore would recognize and enforce judgments of the United States courts. In addition, there is doubt as to whether Singapore courts will entertain original actions brought in Singapore courts predicated upon the federal securities laws of the United States or the securities laws of any state in the United States, unless the facts surrounding such a violation would constitute or give rise to a cause of action under the laws of Singapore.

Portfolio Management

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

Hugh Young, Global Head of Equity Hugh is managing director of the Investment Manager, the Aberdeen Group's regional HQ, and group head of equities as well as a member of the executive committee responsible for the Aberdeen Group's day-to-day running. He co-founded Singapore-based Aberdeen Asia in 1992, having been recruited in 1985 to manage Asian equities from London. Since then he has built the company into one of the largest managers of such assets globally. Singapore employs over 150 staff, while there are 65 investment managers stationed across the region, with offices also in Australia, China, Hong Kong, Japan, Korea, Malaysia, Taiwan and Thailand over which Hugh is in overall charge. Aberdeen's regional funds have won many awards for performance over the years, including open end and closed-end funds. Hugh is a regular commentator for the financial media. His early career included spells at Fidelity International and MGM Assurance. Hugh graduated with a BA (Hons) in politics from Exeter University.

Peter Hames, Head of Asian Equities Peter is the head of Asian equities. Peter has principal responsibility for day-to-day management of all regional portfolios. He has oversight of a team of nine on Asian ex-Japan equities, with a further 14 investment managers who provide local market input, as well as running specialist country portfolios from offices across the region. Peter joined Aberdeen in 1990 as a European investment manager and then transferred to the Asian equity desk, co-founding the Investment Manager's office in 1992. Previously, Peter worked for the Guinness family as an investment manager specializing in overseas investment. Prior to that, Peter worked for National Westminster Bank. Peter graduated with a BSc (Hons) in Economics and Accounting from Bristol University.

Augustine Mark Daniels, Head of Australian Equities Mark is head of Australian equities, having transferred in 2005 from Aberdeen Group's office in London. Mark has spent over 20 years with Aberdeen, much of that as a UK equity manager, in particular of closed end funds. Since moving to Sydney, Mark has helped embed the Group's highly regarded, bottom-up investment process. Before joining the Aberdeen Group, Mark worked for Cork Gully where he was a supervisor responsible for receiverships and liquidations. Prior to that, Mark worked as an articled clerk at Coopers & Lybrand. Mark graduated with a BA in Economics from University College, Cardiff in the UK.

Michelle Lopez, CFA*, Investment Manager Michelle is an investment manager on the Australian equities desk. Michelle joined Aberdeen in 2004 upon graduation. Previously, Michelle worked for KPMG Corporate Finance as an intern. Prior to that, Michelle worked for Watson Wyatt as a quant analyst. Michelle graduated with a BA in Applied Finance and Commerce (Marketing) from Macquarie University, Sydney. Michelle is a CFA Charterholder.

Natalie Tam, CFA*, Investment Manager Natalie is a investment manager on the Australian equity desk. Natalie joined Aberdeen in 2005 from Deutsche Bank, where she worked as an equity research analyst. She was earlier an intern at Coca Cola Amatil (business development), Rothschild (corporate finance) and Promina Group (management accounting). Natalie graduated with a Bachelor of Commerce from the University of New South Wales where she was awarded a UNSW co-op program scholarship in accounting & finance. She is a CFA charterholder.

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Portfolio Management Structure

Mr. Young is head of the Asia-Pacific Division of the Aberdeen Group and has overall responsibility for the Aberdeen Group's Asia-Pacific offices, including the Sydney office. Mr. Hames is Head of Asian Equities, including Australia, for the Aberdeen Group. He has principal responsibility for the day-to-day management of all Asia ex-Japan portfolios.

Mr. Daniels is head of Australian equities of the Aberdeen Group. He is primarily responsible for: ensuring that the Australian equities investment team adheres to the Australian equities investment strategy; undertaking and supervising equities research and analysis; producing equities reports and recommendations on a range of equities products in the Australian market; portfolio management, including setting portfolio strategies; undertaking or assisting in equities trading; making recommendations regarding corporate actions and takeover analysis; providing advice/input for the management of the Fund and the Investment Adviser's other Australian equities accounts; assisting in marketing activities for his designated accounts and attending and coordinating investment strategy meetings.

Ms. Lopez and Miss Tam are investment managers that provide company-specific analysis across all industry groups of the S&P/ASX 200, and support the management of the Australian equity portfolios, including open-ended unit trusts, as well as the Fund and an Australian closed-end fund. Both Ms. Lopez and Miss Tam are an integral part of the Australian equity team and report directly to Mr. Daniels.

Mr. Young is the Managing Director of the Fund's Investment Manager and head of equities for the Aberdeen Group. Mr. Hames is a Director of the Fund's Investment Manager and Head of Asian Equities of the Aberdeen Group. In their roles, both Mr. Young and Mr. Hames oversee consistency of adherence to the equity process by the Australian equities team. Mr. Young and Mr. Hames, individually or together, make investment decisions on behalf of the Fund, in conjunction with the members of the Australian equities team. Mr. Daniels is in charge of the Australian equities team of the Aberdeen Group (including the Investment Adviser) and is responsible, with the assistance of Ms. Lopez and Miss Tam, investment managers, for research and investment decisions in respect of Australian equities holdings. In relation to the management of the assets of the Fund, the Investment Adviser makes recommendations to the Investment Manager as to specific portfolio securities, which are denominated in Australian or New Zealand dollars, to be purchased, retained, or sold by the Fund, and provides or obtains such research and statistical data as may be necessary in connection therewith.

The Australian equities team based in Sydney is closely supported by the substantial Singapore-based equities team who have been investing in Australian equities over many years. It is integral to the Aberdeen Group's investment management process that all equities teams investing in the same or similar universe of securities, such as Singapore and Sydney equities desks, work together as a team. As such, the Singapore-based equities team offers additional technical support and research analysis to the Sydney-based portfolio managers.

Administrator

Aberdeen Asset Management Inc., 1735 Market Street, 32nd Floor, Philadelphia, Pennsylvania 19103, is the Fund's administrator (Administrator). Subject to the control, supervision and direction of the Board of Directors, the Administrator is responsible for, among other things, providing operational management; coordination of communication between, and oversight of, the Fund's service providers; negotiation of the Fund's service provider contracts; preparation of financial information and reports; arranging for payment of Fund expenses; monitoring compliance with the Fund's investment

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

The Administrator delegates certain of its responsibilities to a sub-administrator, State Street Bank and Trust Company (State Street). Pursuant to a Sub-administration agreement between the Administrator and State Street, effective [], 2010 (Sub-administration Agreement), State Street has been retained to perform

certain administrative services with respect to the Fund. Under the terms of the Sub-administration Agreement, the Administrator will pay to State Street a fee at an annual rate equal to 0.[]% of the Fund's Managed Assets, which are defined in that agreement as the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities, which liabilities exclude debt relating to leverage, short-term debt and the aggregate liquidation preference of any outstanding preferred stock. [Prior to [], 2010, Princeton Administrators, L.P. served as sub-administrator to the Fund.]

Custodian and Transfer Agent

State Street, One Heritage Drive, North Quincy, Massachusetts 02171, acts as the Fund's custodian, with responsibility for selecting foreign sub-custodian(s) for the Fund's assets. Such foreign sub-custodian is currently Westpac Banking Corporation, Level 5, 255 Elizabeth Street, Sydney 2000 Australia. The Bank of New York Mellon Corporation, 480 Washington Boulevard, Jersey City, New Jersey 07310, acts as the Fund's stock transfer agent, dividend paying agent and agent for the Fund's Dividend Reinvestment and Cash Purchase Plan. See Dividend Reinvestment and Cash Purchase Plan.

EXPENSES

The Fund pays all of its expenses, including organization expenses; fees of the Investment Manager, Administrator, custodian and dividend disbursing and stock transfer agent; fees of Directors who are not interested persons (as defined in the 1940 Act) of any other party; out of pocket expenses of all Fund Directors and officers, including those affiliated with Fund management which may be reimbursed under the Fund's reimbursement policy regarding fund-related expenses; other expenses related to meetings of Directors; legal fees and expenses; costs of insurance; costs of stockholders' meetings, proxy statements and stockholder reports; investors' relation fees and expenses, interest expenses; taxes and governmental fees, including original issue taxes or transfer taxes related to portfolio transactions; brokerage commissions and other portfolio transaction expenses; auditing and accounting fees and expenses; and costs of regulatory filings and compliance.

DIVIDENDS AND DISTRIBUTIONS

Managed Distribution Policy

The Board of Directors has implemented a managed distribution policy of paying quarterly distributions at an annual rate, set once a year, that is a percentage of the rolling average of the Fund's prior four quarter-end net asset values. The current rolling distribution rate is 10%. This policy is subject to regular review by the Fund's Board of Directors. The distributions are made from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital. Persons who purchase Shares in this offering will be entitled to any regular quarterly distributions the record date for which occurs after such Shares are purchased. For the fiscal year ended October 31, 2009, the Fund made distributions in the amount of \$1.04 per share, of which 30% represented net investment income, 0% represented long-term capital gains and 70% represented return of capital. On December 10, 2009, the Board of Directors declared a quarterly distribution of 22 cents per share, payable on January 15, 2010 to all shareholders of record as of December 31, 2009. [Pursuant to the terms of the Fund's exemptive relief obtained for Section 19(b) of the 1940 Act and other guidance received from the staff of the Securities and Exchange Commission, the Fund is limited to making a public offering within a specified period following the record date of a distribution.]

If the Fund's assets do not generate sufficient income and net long-term capital gains, the Fund may be required to liquidate a portion of its portfolio to fund these distributions, and therefore, these payments may represent a reduction of a stockholder's principal investment. There can be no assurance that the current rolling distribution rate will be maintained in the future. The Board of Directors may determine not to maintain the managed distribution rate at its current level, and it is possible, depending on market conditions, that it may determine to abandon the managed distribution policy altogether.

[In 1998, the Fund obtained an order under section 6(c) of the 1940 Act granting an exemption from section 19(b) and rule 19b-1 under the 1940 Act, permitting the Fund to make up to four distributions of net long-term

capital gains in any one taxable year, so long as it maintains in effect a distribution policy with respect to its Common Stock calling for quarterly distributions of an annually adjusted percentage of its net asset value. The order was subject to a condition providing for its termination upon the effective date of a registration statement under the Securities Act of 1933 for any future public offering by the Fund of its shares, subject to certain exceptions, unless the Fund has received from the staff of the SEC written assurance that the order will remain in effect.] [On [], 2010, the Fund received written assurance from the staff of the SEC that the exemptive order will remain in effect, subject to the undertaking that shares (including any shares sold pursuant to the exercise of an over-allotment option granted by the Fund to the underwriters) are sold in the public offering only within the eight-week period immediately following the record date of the most recent quarterly distribution, and that once the offering has been completed, the Fund cannot make any further public offerings of newly-issued shares or rights offerings for at least one year.]

Background of Managed Distribution Policy

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

After a period of strong capital performance in U.S. dollar terms beginning in early 2003, the Board of Directors approved in February 2004, the implementation of a managed distribution policy of paying quarterly distributions at an annual rate, set once a year, that is a percentage of the rolling average of the Fund's prior four quarter-end net asset values. The initial rolling distribution rate was set at 10%. In March 2009, the Board of Directors set the rolling distribution rate at 10% for the 12-month period commencing with the distribution paid in April 2009.

General Distribution Policy

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

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

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

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

Distributions payable to Plan participants will be promptly invested. If the Fund declares a distribution payable in stock to stockholders who are not Plan participants, the Plan participants will receive that distribution in newly issued shares of the Fund's Common Stock on identical terms and conditions.

In every other case, Plan participants will receive shares on the following basis: if, on the valuation date (the date the distribution becomes payable, or such other date as may be specified by the Fund's Board), the market price of the Fund's Common Stock plus any applicable brokerage commission is equal to or exceeds the net asset value per share, Plan participants will receive newly issued shares of the Fund's Common Stock valued at the greater of net asset value per share or 95% of the then current market price. If, on the other hand, the net asset value per share exceeds the market price plus any brokerage commission, the Plan Agent will buy shares of Common Stock on the open market. If, before the Plan Agent has completed its purchases, the market price plus any applicable brokerage commission exceeds the net asset value per share as last determined before the Plan Agent has completed its purchases, the Plan Agent will suspend making open market purchases and shall invest the balance available in newly-issued shares valued at the greater of the net asset value per share as last so determined or 95% of the then-current market value. All reinvestments are in full and fractional shares carried to four decimal places.

There is no direct charge to participants for reinvesting distributions, since the Plan Agent's fees for handling the reinvestment of distributions are paid by the Fund. There will be no brokerage commissions charged with respect to shares issued directly by the Fund. However, each participant will pay a pro-rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases. Purchases and sales may be made through a broker affiliated with the Plan Agent.

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

Plan participants also have the option of making voluntary cash investments by sending additional funds by a check drawn on a U.S. bank, in U.S. dollars, payable to The Bank of New York Mellon Corporation - Aberdeen Australia Equity Fund, Inc. Plan. Additional voluntary cash investments must be for at least \$100 per transaction with a maximum of \$10,000 per month, and with an aggregate annual maximum of \$120,000, for the purchase of Fund shares on the open market. Voluntary cash investments will be invested on or before the 15th day of the month, and in no event more than 45 days after such date except where temporary curtailment or suspension of purchases is necessary to comply with applicable provisions of the federal securities laws. Cash investments may be commingled with the funds held by the Plan Agent for other stockholders of the Fund, and the average price (including brokerage commissions) of all shares purchased by the Plan Agent will be the price per share allocated to each Plan participant. In the event a Plan participant's voluntary cash investment check is returned unpaid for any reason, the Plan participant will be charged a \$20.00 return fee.

Participants in the Plan may withdraw some or all of their shares from the Plan by notifying the Plan Agent in writing, via the internet by visiting The Bank of New York Mellon Corporation's website at www.stockbny.com, or pursuant to telephonic procedures established by the Plan Agent. Unless otherwise specified, upon any withdrawal, partial withdrawal or termination, a Plan participant will receive stock certificates for all full shares. The Plan Agent will convert any fractional shares to cash at the then current market price, less the sales fee and brokerage commissions, and send a check to the participant for the proceeds. The sales fee payable will be the lesser of \$10 or the net proceeds from the sale of the fractional shares. If the fees and commissions exceed the proceeds from the sale of a fractional share, Plan participants will receive a transaction advice instead of a check. There is no sales fee for the issuance of a certificate for all full shares. If, by giving proper notice to the Plan Agent, Plan participants request cash, the Plan Agent will sell the shares and send the participants the proceeds, less the sales fee of \$10 (subject to change) and brokerage commissions of \$0.10 per share.

The Fund or the Plan Agent reserves the right to amend or terminate the Plan upon 90 days' written notice to Fund stockholders.

For additional information regarding the Plan, all correspondence should be directed to the Plan Agent, The Bank of New York Mellon Corporation, Shareholder Relations Department, 480 Washington Boulevard, Jersey City, NJ 07310, or by calling 1-866-221-1606 or 1-610-382-7833 (internationally).

TAXATION

[The following is intended to be a general summary of certain tax consequences that may result to the Fund and its stockholders. It is not intended as a complete discussion of all such tax consequences, nor does it purport to deal with all categories of investors. Investors are therefore advised to consult with their tax advisers before making an investment in the Fund.

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

No portion of the dividends paid by the Fund is expected to be eligible for the dividends-received deduction for corporate stockholders.

A portion of the dividends received from the Fund by an individual stockholder may be treated as qualified dividend income which is taxable to individuals at the same rates that are applicable to long-term capital gains. A Fund distribution will be treated as qualified dividend income to the extent that the Fund receives dividend income from taxable domestic corporations and certain qualified foreign corporations, provided that certain holding period and other requirements are met. Fund distributions generally will not qualify as qualified dividend income to the extent attributable to interest, capital gains, REIT distributions and, in many cases, distributions from non-U.S. corporations.

Fund distributions are taxable to stockholders in the same manner whether received in cash or reinvested in additional Fund shares.

Fund distributions may also subject stockholders to alternative minimum tax liability. Because of the complexity of the alternative minimum tax rules, stockholders should consult their tax advisers as to their applicability to a Fund investment.

A distribution will be treated as paid to stockholders on December 31 of the current calendar year if it is declared by the Fund in October, November or December with a record date in such a month and paid by the Fund during January of the following calendar year.

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Each year, the Fund will notify stockholders of the tax status of dividends and other distributions.

A stockholder who invests through a tax-deferred account, such as a retirement plan, generally will not pay tax on Fund dividends or other taxable distributions until they are distributed from the account. These accounts are subject to complex rules. Stockholders should consult their tax advisers about investment through a tax-deferred account.

Subject to certain limitations imposed by the Code, foreign taxes withheld from distributions or otherwise paid by the Fund may be creditable or deductible by U.S. stockholders for U.S. federal income tax purposes, if the Fund is eligible to and makes an election to treat the stockholders as having paid those taxes for U.S. federal income

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

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

If, pursuant to an offer by the Fund to repurchase its shares, a stockholder tenders all shares of the Fund that such stockholder owns or is considered to own, the stockholder may realize a capital gain or loss. This gain or loss will be treated as capital gain or loss if the Fund shares are held as capital assets, and will be long-term or short-term, depending on the stockholder's holding period for the shares. If, pursuant to an offer by the Fund to repurchase its shares, a stockholder tenders less than all of the shares of the Fund that such stockholder owns or is considered to own, the redemption may not qualify as an exchange, and the proceeds received may be treated as a dividend, return of capital or capital gain, depending on the Fund's earnings and profits and the stockholders basis in the tendered shares. In such event, there is a risk that non-tendering stockholders may be considered to have received a deemed distribution as a result of the Fund's purchase of the tendered shares, and all or a portion of that deemed distribution may be taxable as a dividend.

The Fund may be required to withhold U.S. federal income tax at the rate of 28% of all taxable distributions payable to a stockholder if the stockholder fails to provide the Fund with such stockholder's correct taxpayer identification number or to make required certifications, or if the stockholder has been notified by the IRS that such stockholder is subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be credited against a stockholder's U.S. federal income tax liability.

Fund distributions also may be subject to state, local and foreign taxes. Stockholders should consult their own tax advisers regarding the particular tax consequences of an investment in the Fund.

CERTAIN PROVISIONS OF THE MARYLAND GENERAL CORPORATION LAW AND THE CHARTER AND BYLAWS

The Fund's charter and bylaws contain certain provisions, described below, that may be regarded as anti-takeover provisions and that may deprive stockholders of certain opportunities to sell their shares at a premium over prevailing market prices. The following is only a summary and is qualified in its entirety by reference to the Fund's charter and bylaws, and to the provisions of the Maryland General Corporation Law.

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets or engage in a share exchange, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. The Fund's charter generally provides for approval of charter amendments by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. However, the Fund's charter does not contain a provision reducing the supermajority vote of the stockholders required to approve a dissolution, merger, sale of all or substantially all of its assets or a share exchange.

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The Fund, by supplement to its charter, has elected to be subject to certain provisions of Maryland law that make it more difficult for challengers to gain control of the Board. Articles Supplementary approved by the Board of Directors in 2000 subject the Fund to certain provisions of Subtitle 8 of the Maryland General Corporation Law with respect to unsolicited takeovers. These provisions: (i) provide that the stockholders of the Fund may remove any Director by the affirmative vote of at least two-thirds of all the votes entitled to be cast by the stockholders generally in the election of Directors (and since the Fund's directors have been divided into classes, a director may

not be removed without cause), (ii) require that the number of Directors of the Fund shall be fixed only by the vote of the Board of Directors, (iii) provide that a vacancy on the Board of Directors due to an increase in the size of the Board or the death, resignation or removal of a Director, may be filled only by the affirmative vote of the majority of the remaining Directors in office, even if the remaining Directors do not constitute a quorum, and (iv) provide that the Secretary of the Fund may call a stockholder-requested special meeting only on the written request of the stockholders entitled to cast at least a majority of all votes entitled to be cast at the meeting.

Additionally, as described below, the Fund's bylaws contain certain provisions that may tend to make a change of control of the Fund more difficult.

The bylaws:

1. Provide for three classes of Directors elected by common stockholders, with staggered terms. Each year, directors are elected for three-year terms and until their successors are duly elected and qualify. Only one class of those Directors is up for election each year, so that two years would be required to change a majority of the Fund's Directors.
2. Establish procedures for stockholder-requested special meetings, including procedures for setting the record date for the stockholders entitled to request a special meeting, procedures for setting the record date for the meeting and the time, place and date of the meeting and specific provisions governing who shall chair the meeting. Consistent with the Maryland General Corporation Law, stockholders requesting a meeting would be required to disclose the purpose of the meeting and the matters to be proposed for action at the meeting.
3. Require a stockholder to give written advance notice and other information to the Fund of the stockholder's nominees for Directors and proposals for other business to be considered at stockholders meetings.
4. Disclose that the Board has elected on behalf of the Fund to be subject to the Maryland Control Share Acquisition Act (MCSAA), which provides that MCSAA control shares acquired in a MCSAA control share acquisition may not be voted except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. (Generally, MCSAA control shares are voting shares of stock which would entitle the acquirer of the shares to exercise voting power within one of the following ranges of voting power: (1) one-tenth or more but less than one-third, (2) one-third or more but less than a majority, or (3) a majority or more of all voting power. This limitation does not apply to matters for which the 1940 Act requires the vote of a majority of the Fund's outstanding voting securities (as defined in that Act)). The bylaws further provide that, notwithstanding the election to be subject to the MCSAA, but subject to the following sentence, a person who acquires control shares shall be exempt from the MCSAA. Upon the final judgment of a federal court of competent jurisdiction or the issuance of a rule or regulation of the SEC or published interpretation by the SEC or its staff that the provisions of the MCSAA are not inconsistent with the provisions of the 1940 Act, or a change to the provisions of the 1940 Act having the same effect, the provisions of the prior sentence shall terminate and any exemption under the prior sentence shall be without force or

effect upon the 180th day after the Fund provides notice of the judgment, rule, regulation, published interpretation or change to the provisions of the 1940 Act, to any holder of control shares who became exempt from the MCSAA in accordance with the prior sentence.

5. Establish qualifications for Fund Directors. These qualifications are designed to assure that individuals have the type of background and experience necessary to provide competent service as Directors of a closed-end fund that invests in Australian equity securities. To qualify as a nominee for a Fund Directorship, a candidate must (a) have at least 5 years' experience in either investment management, economics, public accounting or Australian business; (b) have a college undergraduate degree in economics, finance, business administration, accounting, or engineering, or a professional degree in law, engineering, or medicine from an accredited university or college in the United States or Australia or the equivalent degree from an equivalent institution of higher learning in another country; and (c) not have violated any provision of the U.S. federal or state securities laws, or comparable laws of another country. In addition, the Fund's Nominating and Corporate Governance Committee shall apply the Fund's Conflict

of Interest and Corporate Opportunities Policy as a standard in selecting nominees to ensure that an incumbent nominee has not violated the Policy and that a non-incumbent nominee would not be in violation of the Policy if elected. Directors who served in such capacity as of January 16, 2003, the initial date of adoption of the qualifications for Fund Directors are exempted from these requirements (except compliance with the Fund's conflict of interest policy) because they had become qualified through past experience as Directors of the Fund. Nevertheless, almost all current Directors satisfy the Fund's qualification requirements. No person shall be qualified to be a Director unless the Nominating and Corporate Governance Committee, in consultation with Fund counsel, determines that such person, if elected, would not cause the Fund to be in violation of applicable law, regulation or regulatory policy, the Fund's charter or any general policy adopted by the Board regarding retirement age or specifying proportions of Directors who may be interested persons, as defined in the 1940 Act.

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

7. Require that any proposed advisory, sub-advisory or management agreement between the Fund and an affiliate of any disinterested director then serving on the Board or who served on the Board within the preceding two years, be approved by at least 75% of all disinterested directors who are not affiliates of a proposed party to the contract. This provision cannot be changed except by 75% of the directors who were on the Board on January 16, 2003 or who were, elected, or nominated to succeed such a director, by a majority of such directors then on the Board.

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

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

10. Provide that Directors and officers are entitled to indemnification and that the Fund may pay or reimburse expenses of Directors and officers to the maximum extent permitted by Maryland law and the 1940 Act.

UNDERWRITING

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[] are acting as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this Prospectus, each underwriter named below has agreed to purchase, and the Fund has agreed to sell to that underwriter, the number of Shares set forth opposite the underwriter's name.

Underwriters	Number of Shares
[]	[]
[]	[]
[]	[]
Total	[]

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

The underwriters propose to offer some of the Shares directly to the public at the public offering price set forth on the cover page of this Prospectus and some of the Shares to dealers at the public offering price less a concession not to exceed \$[] per common share. The sales load of [] per common share is equal to 4% of the initial offering price, of which \$[] per common share will be paid by the Investment Manager. If all of the Shares are not sold at the initial offering price, the representative may change the public offering price and other selling terms. Investors must pay for any Shares purchased on or before [] [], 2010. The representative has advised the Fund that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The Fund has granted to the underwriters an option, exercisable for 30 days from the date of this Prospectus, to purchase up to an additional [] Shares at the public offering price less the sales load. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional Shares approximately proportionate to that underwriter's initial purchase commitment.

The Fund has agreed that, for a period of 180 days from the date of this Prospectus, they will not, without the prior written consent of [], on behalf of the underwriters, dispose of or hedge any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock, provided, however, that the Fund may issue and sell shares of Common Stock pursuant to any dividend reinvestment plan of the Fund in effect at the time of execution of the underwriting agreement. [] in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

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

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

	No Exercise		Full Exercise	
Per share*	\$	[]	\$	[]
Total	\$	[]	\$	[]

Of this amount, \$[] per share of Common Stock (or [1]% of the initial offering price) will be paid by the Investment Manager.

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

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

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

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

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

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

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

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

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

The principal business address of [] is [].

LEGAL PROCEEDINGS

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

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APPENDIX A

The information set forth below has been extracted from publicly available sources, including the Australian Stock Exchange website (www.asx.com.au/), the Reserve Bank of Australia website (www.rba.gov.au), and the World Federation of Exchanges website (www.world-exchanges.org/WFE/home.Asp). While the Fund believes that the information taken from these sources is reliable, the Fund makes no assurances that such information is accurate or complete.

SELECTED AUSTRALIAN ECONOMIC DATA

Following the 1990-91 recession, economic activity accelerated with strong growth in private consumption and housing investment. Concern about the possible inflation consequences of strong growth prompted the Reserve Bank of Australia (RBA) to raise interest rates in the second half of 1994. The tightening in monetary policy saw growth return to more sustainable levels. Annual GDP growth peaked at 6.2% in the September quarter of 1994 and slowed to an annual rate of 2.8% by the March quarter of 1997. Weaker economic growth during 1996 and early 1997, combined with low inflation, encouraged the RBA to lower cash rates (the rate charged on overnight loans between financial intermediaries operating in the Australian money market), which promoted a reacceleration of economic growth driven mostly by business investment spending and residential real estate activity. Rising inflation once again saw the RBA increase rates in early 2000, but this was quickly followed by rate cuts in 2001 due to the dramatic slow down in domestic and global growth. The easy monetary settings fostered strong domestic growth fueled by consumption and housing activity. This allowed the domestic economy to grow at an average rate of 3.7% over 2002-2003, a period when global economic growth was anemic. The robust growth in consumer credit posed a risk for longer term economic growth and the RBA recommenced tightening in November 2003 to counter this perceived risk. As such, economic growth eased back to its long run average of 3.2% over 2004. From 2004, robust global demand for resources saw business investment replace consumption and housing as the economy's main engine of growth. The rising prices for minerals and resources resulted in a significant boost to the terms of trade, adding to the growth impetus from solid business investment. With the economic expansion extending into 2007, the economy had for some time operated near full capacity resulting in heightened inflationary pressures. As such the RBA continued on a protracted tightening cycle from 2003 to August 2008 with cash rates peaking at 7.25%. After an extended period of strong growth, the pace of economic activity slowed noticeably in 2008. Retail sales were weak with consumer sentiment falling and conditions in the housing market softening. The escalation of pressures in the international markets were reflected in Australian financial markets, although generally to a lesser extent. Beginning in September 2008 the RBA began easing cash rates as the strains in the global economy saw subdued consumer demand and slowing of overall economic growth. This easing cycle continued through January 2009 with cash rates bottoming at 3.0%. In Australia, the economic downturn was relatively mild, and measures of confidence and business conditions suggest that the economy is in gradual recovery. With the risk of serious economic contraction in Australia having passed the RBA began raising cash rates by 25 basis points in each of 3 successive months to 3.75% as of December 1, 2009. In the case of the U.S. and Europe, cash rates continue to be maintained at 0.25% and 1.00%, respectively, which are the lows since the economic downturn began in mid-2007.

As of November 30, 2009, the yield on the 10-Year Australian Commonwealth Government Bond was 5.31%, a spread of 211 bp over the 10-Year US Treasury Bond yield of 3.20%.

For the past several years, the RBA has adopted a target for the underlying CPI inflation rate of 2-3% (averaged over a number of years).

With Australian cash rates currently the highest in the G12 countries (Belgium, the Netherlands, Canada, France, Germany, Italy, Japan, Spain, Sweden, Switzerland, United Kingdom and United States), the Australian dollar has benefited from its high yielding currency status. The Australian dollar fluctuated from an exchange rate of US\$1 = A\$1.3617 on December 31, 2005 to an exchange rate of US\$1 = A\$1.4232 on December 31, 2008 in the wake of the difficult global economic environment. However, as the global economy has stabilized the Australian dollar has appreciated to US\$1 = A\$1.0918 as of November 30, 2009. U.S. based investors have therefore enjoyed a significant currency uplift

while the Australian equity market at November 30, 2009 was roughly equal to its level as of December 31, 2005.

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THE AUSTRALIAN SECURITIES MARKET

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

ASX was originally a mutual organization of stockbrokers, like its predecessor State stock exchanges. However, in 1996, its members decided to demutualize and become a listed company, which required legislation of the Australian parliament. The change of status took place on October 13, 1998, and the following day ASX shares were listed for trading on ASX's own market. On July 25, 2006 the ASX merged with SFE Corporation Limited, the holding company of the Sydney Futures Exchange and related businesses. Effective December 5, 2006 the Australian Stock Exchange Limited changed its name to ASX Limited and the group operates under the brand Australian Securities Exchange .

ASX Limited is the holding company for the group that includes licensed businesses spanning the equity, interest rate, commodity and energy markets, offering a full range of listing, trading, clearing, depository, settlement and market data services to domestic and international customers.

ASX's Listing Rules govern the admission of entities to the official list, quotation of securities, suspension of securities from quotation and removal of entities from the official list. They also govern disclosure and some aspects of a listed entity's conduct. Compliance with the Listing Rules is a requirement for admission to the official list.

The objectives of ASX include:

- providing a fair and well-informed market for financial securities; and
- providing an internationally competitive market.

The Australian Securities and Investments Commission (ASIC) is the statutory body to regulate companies and the financial services markets in Australia. ASIC actively supervises ASX's activities as a market operator and listed company and enforces and regulates company and financial services laws to protect consumers, investors and creditors.

ASX Market Statistics

(All values in this section are US Dollars)

The ASX is the 13th largest exchange based upon domestic market capitalization as of November 30, 2009.

	Exchange	Market Capitalization November 30, 2009
1.	NYSE Euronext (US)	\$ 11,583bn
2.	Tokyo SE	\$ 3,289bn
3.	Nasdaq OMX	\$ 3,053bn
4.	NYSE Euronext (Europe)	\$ 2,808bn
5.	London SE	\$ 2,719bn
6.	Shanghai SE	\$ 2,617bn
7.	Hong Kong Exchanges	\$ 2,260bn
8.	TSX Group	\$ 1,612bn
9.	BME Spanish Exchanges	\$ 1,391bn
10.	BM&F BOVESPA	\$ 1,298bn
11.	Deutsche Borse	\$ 1,283bn
12.	Bombay SE	\$ 1,246bn
13.	Australian SE	\$ 1,241bn
14.	National Stock Exchange India	\$ 1,167bn

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The following table summarizes the growth in aggregate market capitalization and trading volumes of the ASX in each of the five years ending June 30:

	2005	2006	2007	2008	2009*
Market Capitalization	\$ 814bn	\$ 1,207bn	\$ 1,598bn	\$ 1,415bn	\$ 1,098bn
No. of equity trades	25.0mil	31.6mil	48.9mil	91.3mil	106.7m
Average daily trades	99,339	125,000	194,000	361,000	420,000
Turnover value	\$ 650bn	\$ 984bn	\$ 1,324bn	\$ 1,616bn	\$ 1,129bn
Average daily value	\$ 2.6bn	\$ 3.9bn	\$ 5.3bn	\$ 6.4bn	\$ 4.4bn
Exchange rate US\$1 =	A\$ 1.3635	A\$ 1.3453	A\$ 1.1774	A\$ 1.0432	A\$ 1.2402

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

	2005	2006	2007	2008	2009
New entities listed	232	227	284	236	45
Entities listed as at December 31	1,873	1,930	2,090	2,226	2,198
Capital raised	\$ 33.9bn	\$ 51.4bn	\$ 77.9bn	\$ 61.8bn	\$ 89.9bn
Secondary market raisings	\$ 16.2bn	\$ 28.3bn	\$ 58.2bn	\$ 50.6bn	\$ 88.1bn
New floats	\$ 17.7 bn	\$ 23.1bn	\$ 19.7bn	\$ 11.2bn	\$ 1.9bn
Capital raised	\$ 6.6bn	\$ 12.7bn	\$ 26.2bn	\$ 26.8bn	\$ 33.9bn
Exchange rate US\$1 =	A\$ 1.3635	A\$ 1.3453	A\$ 1.1774	A\$ 1.0432	A\$ 1.2402

* Secondary market raisings comprise inter alia rights issues, placements, reinvested dividends, payment of options and issues to employees. Placements of up to 15% of issued share capital can be made without shareholder approval.

There are a number of market indices but the most widely used is the S&P/ASX 200 Accumulation Index, representing approximately 80% by value of the market capitalization of the ASX. The closing values as of December 31 for 2005 through 2008 and November 30, 2009 are as follows:

	2005	2006	2007	2008	2009
S&P/ASX 200	4708.8	5,669.9	6,339.8	3,722.3	4,701.3
Yield %	4.1	3.13	3.47	6.43	3.89
P/E*	16.6	15.03	14.03	9.03	15.08

* This ratio is calculated excluding negative earnings.

The S&P/ASX 200 Accumulation Index by GICS sector as at December 14, 2009 is as follows:

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GICS Sector	Market Capitalization
Energy	\$ 75.4bn
Materials	\$ 270.4bn
Industrials	\$ 69.1bn
Consumer Discretionary	\$ 42.5bn
Consumer Staples	\$ 92.9bn
Health Care	\$ 36.3bn
Information Technology	\$ 6.3bn
Telecommunications Services	\$ 43.6bn
Utilities	\$ 13.7bn
Property Trusts	\$ 62.9bn
Financials ex Property Trusts	\$ 362.2bn
Total	\$1,075.3bn
	Exchange rate US\$1 = A\$1.0909

A-3

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Global Industry Classification Standard (GICS) is a joint Standard and Poor's/Morgan Stanley Capital International product aimed at standardizing industry definitions. To conform Australia to global practice, effective July 1, 2002, Standard and Poor's reclassified all ASX listed entities according to GICS. GICS consists of 10 economic sectors aggregated from 24 industry groups, 67 industries, and 147 sub-industries currently covering over 27,000 companies worldwide.

The following table contains information about the 20 most actively traded shares on the ASX for December 15, 2009. Although the Fund may invest in the companies below, the table is not necessarily indicative of the investment the Fund has or proposes to make in equity securities.

Company	Value (000)	No of Trades	Closing Price	GICS Sector
BHP Billiton Limited	\$485,452	13,507	\$ 41.10	Materials
AXA Asia	\$186,548	4,991	\$ 5.78	Insurance
Australia & New Zealand Banking Group Banking Group Limited	\$167,399	9,175	\$ 21.43	Banks
Commonwealth Bank of Australia	\$144,340	9,393	\$ 52.72	Banks
AMP	\$143,217	4,763	\$ 6.20	Insurance
Rio Tinto Limited	\$134,456	8,666	\$ 70.85	Materials
Westpac Banking Corporation Limited	\$127,562	9,166	\$ 23.80	Banks
National Australia Bank Limited	\$108,501	8,433	\$ 27.99	Banks
Santos Limited	\$100,014	8,355	\$ 13.61	Energy
Telstra Corporation Limited	\$98,724	na	\$ 3.46	Telecommunications Services
QBE Group Limited	\$92,190	6,402	\$ 23.34	Insurance
Westfield Group Limited	\$79,914	5,440	\$ 12.02	Real Estate
Incitec Pivot Limited	\$78,487	4,846	\$ 3.32	Materials
Wesfarmers Limited	\$64,601	6,985	\$ 29.73	Food & Staples Retailing
CSL Limited	\$61,869	5,792	\$ 30.60	Pharmaceuticals, Biotech & Life Sciences
Newcrest Mining Limited	\$59,605	7,671	\$ 35.89	Materials
Woolworths Limited	\$56,929	9,266	\$ 27.20	Food & Staples Retailing
Oil Search Limited	\$49,822	na	\$ 5.52	Energy
Lihir Gold Limited	\$49,730	na	\$ 3.30	Materials
Macquarie Group Limited	\$49,157	6,195	\$ 47.53	Diversified Financials
	Exchange rate US\$1 = A\$1.1035		Exchange rate US\$1 = A\$1.1035	

Derivatives. As stated above, in addition to operating the exchange for equities, the ASX also operates trading and settlement for derivatives. These comprise equity derivatives, contracts for difference (CFDs), futures and options on futures.

AUSTRALIAN DEBT SECURITIES

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

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

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

The Australian debt securities market is summarized in the table below as at November 30, 2009:

	\$US Nominal Value Billions	\$US Market Value Billions
Commonwealth Government	86.0	89.7
Semi-government	105.1	108.3
Corporate	138.5	140.0
Total	329.6	338.0
	Exchange rate	Exchange rate
	US\$1 = A\$1.0952	US\$1 = A\$1.0952

Source: UBS Investment Bank

[] Common Shares

ABERDEEN AUSTRALIA EQUITY FUND, INC.

PROSPECTUS

January [], 2010

[]
[]
[]



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

Aberdeen Australia Equity Fund, Inc.

Statement of Additional Information
January [], 2010

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

This Statement of Additional Information relating to the offer and sale of [] shares (Shares) of the Fund's common stock, \$.01 par value per share (Common Stock) is not a prospectus, but should be read in conjunction with the Fund's prospectus, dated January [], 2010 (the Prospectus). The Statement of Additional Information does not include all information that a prospective investor should consider before purchasing the Shares, and investors should obtain and read the Prospectus prior to purchasing such Shares. Capitalized terms used but not defined in this Statement of Additional Information have the meanings ascribed to them in the Prospectus.

You may call 1-866-839-5205 or email InvestorRelations@aberdeen-asset.com to obtain, free of charge, copies of the Prospectus. The Fund's Prospectus is also available on the Fund's website at www.aberdeeniaf.com. You may also obtain a copy of the Prospectus on the SEC's website (<http://www.sec.gov>).

No person has been authorized to give any information or to make any representations not contained in the Prospectus or in this Statement of Additional Information in connection with the offering made by the Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Fund. The Prospectus and Statement of Additional Information do not constitute an offering by the Fund in any jurisdiction in which such offering may not lawfully be made.

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HISTORY OF THE FUND

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

MANAGEMENT OF THE FUND

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

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

Interested Directors

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Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex* Overseen by Director	Other Directorships Held by Director
Moritz Sell** 1 Crown Court Cheapside London EC2V 6LR United Kingdom Age: 42	Class I Director	Term expires 2010; Director since 2004	Mr. Sell has been a director, market strategist of Landesbank Berlin AG (banking) and its predecessor, now holding company, Landesbank Berlin Holding AG (formerly named Bankgesellschaft Berlin AG) since 1996. He also served as a Director of the France Growth Fund from 2000 until 2004.	1	

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Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex* Overseen by Director	Other Directorships Held by Director
Hugh Young*** Aberdeen Asset Management Asia Limited 21 Church Street #01 01 Capital Square Two Singapore 049480 Age: 51	Class II Director	Term expires 2011; Director since 2001	Mr. Young is currently a member of the Executive Management Committee of Aberdeen Asset Management PLC, parent company of the Fund's Investment Manager and Investment Adviser. He has been Managing Director of Aberdeen Asset Management Asia Limited, the Fund's Investment Manager, since 1991. Mr. Young also served as a Director of Aberdeen Asset Managers (C.I.) Limited (the Fund's former investment manager) from 2000 to June 2005 and a Director of the Investment Adviser since 2000. From 2001 to February 2004, Mr. Young was President of the Fund and of Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc.	1	

* Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Global Income Fund, Inc., The Chile Fund, Inc., The First Israel Fund, Inc., The Indonesia Fund, Inc., The Latin America Equity Fund, Inc., The Emerging Markets Telecommunications Fund, Inc. and Aberdeen Funds have a common Investment Manager and/or Investment Adviser with the Fund, or an investment adviser that is affiliated with the Investment Manager and Investment Adviser of the Fund, and may thus be deemed to be part of the same Fund Complex as the Fund.

** Mr. Sell is deemed to be an interested person because he is an executive officer of Landesbank Berlin AG, the owner of approximately 7.1% of the outstanding shares of the Fund's Common Stock as of November 24, 2009.

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

Independent Directors

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Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex* Overseen by Director	Other Directorships Held by Director
P. Gerald Malone ^o 48 Barmouth Road Wandsworth, London SW18 2DP United Kingdom Age: 59	Class II Director	Term expires 2011; Director since 2008	Mr. Malone has been a solicitor for more than five years. He has served as a Minister of State in the United Kingdom Government. Mr. Malone currently serves as Independent Chairman of one London AIM-listed company (healthcare software) in addition to two privately owned pharmaceutical companies. He is Chairman of the Board of Directors of Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc. and Chairman of the Board of Trustees of the Aberdeen Funds. He also serves as a director of Regent-GM Ltd. (pharmaceutical manufacturing).	26	Aberdeen Asia-Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc.; Aberdeen Funds
Neville J. Miles (1) c/o Ballyshaw Pty. Ltd 62 Caledonia Street Paddington NSW 2021 Australia Age: 63	Chairman of the Board; Class I Director	Term expires 2010; Director since 1996	Mr. Miles is, and has been for a period in excess of ten years, Chairman of Ballyshaw Pty. Ltd. (share trading, real estate development, and investment). He also is a non-executive director of a number of Australian companies. Mr. Miles served as Chief Executive Officer of Pulse International Pty. Ltd. (financial transaction processing) from 2004 to 2006.	3	Aberdeen Asia-Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc.
William J. Potter ^o c/o Aberdeen Asset	Class III	Term expires 2012; Director	Mr. Potter has been Chairman of	3	Aberdeen Asia-Pacific Income

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Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex* Overseen by Director	Other Directorships Held by Director
Management Asia Limited 21 Church Street #01-01 Capital Square Two Singapore 049480 Age: 61	Director	since 1985	Meredith Financial Group (investment management) since 2004. He was President of Kingsdale Capital Markets (USA) Inc. (private placement broker) from 2004 through June 2005, and President of Ridgewood Group International Ltd., (international consulting and merchant banking company) from 1996 to 2004.		Fund, Inc.; Aberdeen Global Income Fund, Inc.
Peter D. Sacks (1) c/o Aberdeen Asset Management Asia Limited 21 Church Street #01-01 Capital Square Two Singapore 049480 Age: 64	Class II Director	Term expires 2011; Director since 1999	Mr. Sacks has been a Trustee of Aberdeen Funds since December 2007 and Managing Partner of Toron Capital Markets, Inc. (investment management) since 1988.	26	Aberdeen Asia Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc.; Aberdeen Funds
John T. Sheehy (1) B.V. Murray and Company 666 Godwin Avenue Suite 300 Midland Park, NJ 07432 Age: 67	Class III Director	Term expires 2012; Director since 1985	Mr. Sheehy has been a Trustee of Aberdeen Funds since December 2007, Managing Member of Pristine Capital Partners, LLC (venture capital) since 2007, Senior Managing Director of B.V. Murray and Company (investment banking) since 2001, and Managing Member of The Value Group LLC (venture capital) since 1997.	26	Aberdeen Asia Pacific Income Fund, Inc.; Aberdeen Global Income Fund, Inc.; Aberdeen Funds
Brian M. Sherman 2 Paddington Street Paddington, NSW 2021 Australia Age: 66	Class III Director	Term expires 2012; Director since 2008	Mr. Sherman has been Chairman of Sherman Group Limited (investment company) since 2001 and Chairman of Aberdeen Leaders	2	Aberdeen Asia Pacific Income Fund, Inc.

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Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex* Overseen by Director	Other Directorships Held by Director
			Limited (investment company) since 1987. He was President of the Board of Trustees of the Australian Museum from 2001 to October 2007. He was also a Director of Ten Network Holdings Ltd. (television) since 1998.		

* Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Global Income Fund, Inc., The Chile Fund, Inc., The First Israel Fund, Inc., The Indonesia Fund, Inc., The Latin America Equity Fund, Inc., The Emerging Markets Telecommunications Fund, Inc. and Aberdeen Funds have a common Investment Manager and/or Investment Adviser with the Fund, or an investment adviser that is affiliated with the Investment Manager and Investment Adviser of the Fund, and may thus be deemed to be part of the same Fund Complex as the Fund.

Messrs. Miles, Potter and Sheehy are members of the Contract Review Committee.

Messrs. Miles, Sacks and Sheehy are members of the Audit and Valuation Committee.

° Messrs. Malone, Miles and Potter are members of the Nominating and Corporate Governance Committee.

(1) Messrs. Miles, Sacks and Sheehy are members of the Cost Review Committee.

The Board of Directors indicated in the proxy statement for the Fund's 2004 Annual Meeting of Stockholders that, if the Fund's stockholders voted to recommend the adoption of the alternative Director qualifications set forth in such proxy statement, the Board would amend the Fund's bylaws accordingly. The Board of Directors further indicated in such proxy statement that, in the event the bylaws were so amended by the Board, then it was the intention of the Board of Directors promptly thereafter to increase the size of the Board by one director and to elect one representative of Bankgesellschaft Berlin AG (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 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 Independent Directors, determined that Mr. Sell met the alternative director qualifications and was otherwise an appropriate candidate to serve as a Director of the Fund. In May 2004, the Board amended the Fund's bylaws to adopt the alternative director qualifications and increased the size of the Board of Directors by one Director. Upon the recommendation of the Nominating Committee, the Board of Directors appointed Mr. Sell as a Class I Director to serve for the remainder of a three-year term expiring at the Annual Meeting of Stockholders to be held in 2007. BGB informed the Fund that Mr. Sell had been a director, market strategist, with BGB since 1996. Upon Mr. Sell's initial appointment, BGB informed the Fund that BGB

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agreed to indemnify Mr. Sell in connection with his service as a Director of the Fund. Based upon information in an amendment to BGB's Statement on Schedule 13D with respect to the Fund's shares, effective August 29, 2006, the name of BGB was changed to Landesbank Berlin Holding AG and all of the assets of BGB were transferred to Landesbank Berlin AG (LB). Mr. Sell is now employed by LB, the entity which owns the shares of the Fund's Common Stock previously owned by BGB. At the 2007 Annual Meeting of Stockholders, Mr. Sell was elected by stockholders, not as the

representative of LB or BGB, 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. BGB has informed the Fund that, because Mr. Sell no longer serves as a Director who is a representative of LB or BGB, he is no longer indemnified by LB or BGB in connection with such service.

Officers Who Are Not Directors

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

Name, Address and Age	Position(s) Held With the Fund	Term of Office* and Length of Time Served	Principal Occupation(s) During Past Five Years
William Baltrus** Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Age: 42	Vice President	Since 2008	Currently, Head of Fund Operations for Aberdeen Asset Management Inc. Prior to joining Aberdeen Asset Management Inc. in November 2007, he was Vice President of Administration for Nationwide Funds Group from 2000-2007.
Alan Goodson** Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Age: 35	Vice President	Since 2009	Currently, Head of US Collective Funds and Vice President of Aberdeen Asset Management Inc. Head of Finance (from 2000 to May 2005) and Company Secretary (from 2001 to May 2005) of Aberdeen Private Wealth Management Limited; Finance Director and Company Secretary of Aberdeen Asset Managers Jersey Limited (from 2002 to November 2005); Company Secretary of Aberdeen Asset Managers (C.I.) Limited (from 2001 to June 2005).
Mark Daniels Aberdeen Asset Management Limited Level 6, 201 Kent Street Sydney, NSW 2000 Australia Age: 54	Vice President	Since 2005	Currently, Head of Australian Equities of the Aberdeen Group (asset management group consisting of subsidiaries of Aberdeen Asset Management PLC) (since 2005); Fund Manager of Aberdeen Asset Managers Limited (affiliate of the Fund's Investment Manager and Investment Adviser) (1990 to 2005).

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Name, Address and Age	Position(s) Held With the Fund	Term of Office* and Length of Time Served	Principal Occupation(s) During Past Five Years
<p>Martin J. Gilbert Aberdeen Asset Management PLC 10 Queen s Terrace Aberdeen, Scotland ABIO 1YG Age: 54</p>	Vice President	Since 2008	<p>Mr. Gilbert is one of the founding directors, and has been the Chief Executive and an Executive Director, of Aberdeen Asset Management PLC, the parent company of the Fund s Investment Manager and Investment Adviser, since 1983. He was President of the Fund, of Aberdeen Global Income Fund, Inc. and of Aberdeen Asia-Pacific Income Fund, Inc. from February 2004 to March 2008. He was Chairman of the Board of the Fund and Aberdeen Asia-Pacific Income Fund, Inc. from 2001 to September 2005. He has been a Director of Aberdeen Asset Management Asia Limited, the Fund s Investment Manager, since 1991, a Director of Aberdeen Asset Management Limited, the Fund s Investment Adviser, since 2000, and a Director of Aberdeen Asset Managers (C.I.) Limited, the Fund s former investment manager, from 2000 to 2005. He has been a Director since 1995, and was President since September 2006 of Aberdeen Asset Management Inc., the Fund s Administrator. Mr. Gilbert has also served as Trustee of Aberdeen Funds since December 2007.</p>
<p>Sharon Greenstein** Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Age: 32</p>	Assistant Treasurer	Since 2009	<p>Currently, Fund Accounting Manager for Aberdeen Asset Management Inc. Joined Aberdeen Asset Management Inc. as a Senior Fund Administrator in 2008. Prior to joining Aberdeen Asset Management Inc., Ms. Greenstein was an Accounting Analyst at Delaware Investments.</p>
<p>Matthew Keener** Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Age: 33</p>	Assistant Treasurer	Since 2008	<p>Currently, Senior Product Manager for Aberdeen Asset Management Inc. Mr. Keener joined Aberdeen Asset Management Inc. in 2006 as a Fund Administrator. Prior to joining Aberdeen Asset Management Inc., Mr. Keener was a Private Equity Supervisor with SEI Investments (2004-2006).</p>
<p>Megan Kennedy** Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Age: 35</p>	Vice President, Secretary	Since 2008	<p>Currently, Head of Product Management for Aberdeen Asset Management Inc. Ms. Kennedy joined Aberdeen Asset Management Inc. in 2005 as a Senior Fund Administrator. Ms. Kennedy was promoted to Assistant Treasurer Collective Funds/North American Mutual Funds in February 2008 and promoted to Treasurer Collective Funds/North American Mutual Funds in July 2008. Prior to joining Aberdeen Asset Management Inc., Ms. Kennedy was a Private Equity Manager with PFPC (2002-2005).</p>

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Name, Address and Age	Position(s) Held With the Fund	Term of Office* and Length of Time Served	Principal Occupation(s) During Past Five Years
<p>Vincent McDevitt** Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Age: 43</p>	<p>Chief Compliance Officer, Vice President Compliance</p>	<p>Since 2008</p>	<p>Currently, Chief Compliance Officer Registered Funds for Aberdeen Asset Management Inc. Mr. McDevitt joined Aberdeen Asset Management Inc. in January 2008. He has ten years experience in the investment securities industry. Formerly with ING Clarion Real Estate Securities LP (from 2006 to 2007), Turner Investment Partners, Inc. (from 2004 to 2006), and the Vanguard Group (from 1998 to 2004).</p>
<p>Andrea Melia** Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Age: 40</p>	<p>Treasurer, Principal Accounting Officer</p>	<p>Since 2009</p>	<p>Currently, Head of Fund Accounting for Aberdeen Asset Management Inc. Ms. Melia joined Aberdeen Asset Management Inc. in September 2009. Prior to joining Aberdeen, Ms. Melia was Director of fund administration and accounting oversight for Princeton Administrators LLC, a division of BlackRock Inc. and had worked with Princeton Administrators since 1992.</p>
<p>Jennifer Nichols** Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Age: 31</p>	<p>Vice President</p>	<p>Since 2008</p>	<p>Currently, Vice President and Head of Legal - US for Aberdeen Asset Management Inc. Ms. Nichols joined Aberdeen Asset Management Inc. in October 2006. Prior to that, Ms. Nichols was an associate attorney in the Financial Services Group of Pepper Hamilton LLP (law firm) (2003-2006). Ms. Nichols graduated in 2003 with a J.D. from the University of Virginia School of Law.</p>
<p>Christian Pittard** Aberdeen Asset Management Investment Services Limited One Bow Churchyard London EC4 M9HH United Kingdom Age: 36</p>	<p>President</p>	<p>Since 2009</p>	<p>Currently Group Development Director, Collective Funds for Aberdeen Asset Management Investment Services Limited. Previously Director and Vice President (2006-2008), Chief Executive Officer (from October 2005 to September 2006) and employee (since June 2005) of Aberdeen Asset Management Inc.; Member of Executive Management Committee of Aberdeen Asset Management PLC (since August 2005); Managing Director of Aberdeen Asset Managers (C.I.) Limited (from 2000 to June 2005); Managing Director of Aberdeen Private Wealth Management Limited (affiliate of the Fund's Investment Manager Investment Adviser and Investment Sub-Adviser) (from 2000 to May 2005).</p>
<p>Lucia Sitar** Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Age: 38</p>	<p>Assistant Secretary</p>	<p>Since 2008</p>	<p>Currently, U.S. Counsel for Aberdeen Asset Management Inc. Ms. Sitar joined Aberdeen Asset Management Inc. in July 2007. Prior to that, Ms. Sitar was an associate attorney in the Investment Management Group of Stradley Ronon Stevens & Young LLP (law firm)</p>

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Name, Address and Age	Position(s) Held With the Fund	Term of Office* and Length of Time Served	Principal Occupation(s) During Past Five Years
Timothy Sullivan** Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 Age: 48	Vice President	Since 2008	Currently, Head of Product Development Collective Funds/North American Mutual Funds and Vice President of Aberdeen Asset Management Inc. Mr. Sullivan joined Aberdeen Asset Management Inc. in 2000.

* Officers hold their positions with the Fund until a successor has been duly elected and qualified. Officers are generally elected annually at the meeting of the Board of Directors next following the annual meeting of stockholders. The officers were last elected on March 6, 2009.

** Mr. Baltrus, Mr. Goodson, Ms. Greenstein, Mr. Keener, Ms. Kennedy, Mr. McDevitt, Ms. Melia, Ms. Nichols, Mr. Pittard, Ms. Sitar and Mr. Sullivan hold the same position(s) with Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Global Income Fund, Inc., The Chile Fund, Inc., The First Israel Fund, Inc., The Indonesia Fund, Inc., The Latin America Equity Fund, Inc., and The Emerging Markets Telecommunications Fund, Inc. and Aberdeen Funds, each of which may be deemed to be a part of the same Fund Complex as the Fund.

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

The Fund's bylaws provide that the Fund shall indemnify its current and former Directors and officers against liabilities and expenses, and that such Directors and officers shall be entitled to advances from the Fund for payment of reasonable expenses incurred by them to the maximum extent permitted by the Maryland General Corporation Law and the Investment Company Act of 1940, as amended, in connection with matters as to which they are seeking indemnification in which they may be involved because of their position with the Fund. The Fund's bylaws do not, however, indemnify any current or former Director or officer against any liability to the Fund or any stockholder to which such Director or officer would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

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

Standing Committees of the Board of Directors

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

Audit and Valuation Committee

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

related matters. The members of the Fund's Audit and Valuation Committee are Messrs. Neville J. Miles, Peter D. Sacks and John T. Sheehy.

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

Contract Review Committee

The Contract Review Committee reviews and makes recommendations to the Board of Directors with respect to entering into, renewing or amending the Fund's management agreement, advisory agreement, administration agreement, investor relations services agreement and other agreements. The members of the Fund's Contract Review Committee are Messrs. Neville J. Miles, William J. Potter and John T. Sheehy.

Nominating and Corporate Governance Committee; Consideration of Potential Director Nominees

The Nominating and Corporate Governance Committee recommends nominations for membership on the Board of Directors and reviews and evaluates the effectiveness of the Board in its role in governing the Fund and overseeing the management of the Fund. It evaluates candidates qualifications for Board membership and, with respect to nominees for positions as Independent Directors, their independence from the Fund's Investment Manager and Investment Adviser and other principal service providers. The Committee generally meets twice annually to identify and evaluate nominees for Director and makes its recommendations to the Board at the time of the Board's December meeting. The Committee also periodically reviews Director compensation and will recommend any appropriate changes to the Board as a group. The Committee also reviews and may make recommendations to the Board relating to those issues that pertain to the effectiveness of the Board in carrying out its responsibilities in governing the Fund and overseeing the management of the Fund. The members of the Fund's Nominating and Corporate Governance Committee are Messrs. P. Gerald Malone, Neville J. Miles and William J. Potter.

The Committee will consider potential Director candidates recommended by Fund stockholders. In 2004, the Fund's Board approved Policies for Consideration of Board Member Candidates submitted by Fund Stockholders (Policies). These Policies set forth requirements that stockholder candidates must meet in order to be considered as either an Independent Director or interested Director of the Fund, as defined by Section 2(a)(19) of the 1940 Act. A stockholder or stockholder group submitting a candidate to the Nominating and Corporate Governance Committee must direct the submission to the attention of the Fund's Secretary, who will forward such submission to the Committee for consideration. Beginning with the 2010 Annual Meeting of Stockholders, notice of stockholder proposals must be provided to the Fund's Secretary not earlier than the 150th day and not later than 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the date of the preceding year's proxy statement. The submission must include the following:

- (1) **Contact information for the nominating stockholder or stockholder group;**

(2) A certification from the nominating stockholder or stockholder group providing that the shares have been held continuously for at least two years as of the date of the submission of the candidate, and will continue to be held through the date of the Stockholders Meeting;

(3) The candidate's contact information and the number of applicable Fund shares owned by the candidate;

(4) All information regarding the candidate that would be required to be disclosed in solicitations of proxies for elections of Directors required by Regulation 14A under the 1934 Act;

(5) A notarized letter executed by the candidate, stating his or her intention to serve as a candidate and consent to be named in the Fund's proxy statement and form of proxy, if so designated by the Fund's Board, and to serve as a Director if so elected;

(6) A representation that, to the knowledge of the nominating stockholder or stockholder group, the nominee's candidacy or, if elected, board membership, would not violate controlling state law or federal law or rules of a national securities exchange or national securities association applicable to the Fund; and

(7) A statement as to whether or not, during the past ten years, the nominating stockholder or any member of the nominating stockholder group has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) and, if so, the dates, the nature of the conviction, the name or other disposition of the case; and whether the individual has been involved in any other legal proceedings during the last five years, as specified in Item 401(f) of Regulation S-K. When the nominating stockholder or any member of the nominating stockholder group is a general or limited partnership, syndicate or other group, the foregoing information must be provided with respect to (i) each partner of the general partnership; (ii) each partner who is, or functions as, a general partner of the limited partnership; (iii) each member of the syndicate or group; and (iv) each person controlling the partner or member. If the nominating stockholder or any member of the nominating stockholder group is a corporation or if a person referred to in (i)-(iv) of the preceding sentence is a corporation, the foregoing information must be provided with respect to (a) each executive officer and director of the corporation; (b) each person controlling the corporation; and (c) each executive officer and director of any corporation or other person ultimately in control of the corporation.

In addition, with respect to Independent Director candidates, the stockholder or stockholder group submitting the candidate must also furnish a copy of the Schedule 13G or Schedule 13D filed with the SEC by the nominating stockholder or the nominating stockholder group.

In the event that a submission is deficient, the Committee will have sole discretion whether to seek corrections of such submission or to exclude a candidate from consideration.

Cost Review Committee

The Cost Review Committee reviews on an ongoing basis the fees and expenses incurred by the Fund, to ensure that such expenses are commensurate with the services provided. The members of the Fund's Cost Review Committee are Messrs. Neville J. Miles, Peter D. Sacks and John T. Sheehy.

Board and Committee Meetings in Fiscal 2009

During the Fund's fiscal year ended October 31, 2009, the Board of Directors held [] regular meetings; the Audit and Valuation Committee held [] meetings; the Contract Review Committee held [] meeting, the Nominating and Corporate Governance Committee held [] meetings and the Cost Review Committee held [] meeting. Each incumbent Director attended at least 75% of the aggregate number of meetings of the Board of Directors and of all the Committees of the Board on which he served.

Ownership of Securities by Directors and Officers

As of October 31, 2009, based upon filings made with the SEC, the Fund's Directors and officers, as a group, owned less than 1% of the Fund's outstanding shares of Common Stock. Mr. Moritz Sell is a director, market strategist of Landesbank Berlin AG (LB), and was initially appointed as a Director of the Fund as the representative of Bankgesellschaft Berlin AG (BGB), now known as Landesbank Berlin Holding AG (LBH), the parent company of LB. At the 2007 Annual Meeting of Stockholders, Mr. Sell was elected by stockholders to serve a three-year term as a Class I Director of the Fund expiring at the Annual Meeting of Stockholders to be held in 2010. Based solely upon information contained in filings made by LB with the SEC with respect to the Fund's shares, as of November 24, 2009, LB was the beneficial owner of 1,367,574 shares of the

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Fund's Common Stock (constituting approximately 7.1% of the Fund's shares then outstanding). See Principal Holders of Securities.

The information as to ownership of securities which appears below is based on statements furnished to the Fund by its Directors and officers.

As of December 31, 2009, the dollar range of equity securities owned beneficially by each Director in the Fund and in any registered investment companies overseen by the Director within the same family of investment companies as the Fund was as follows:

Name of Director	Dollar Range of Equity Securities in the Fund	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Director in Family of Investment Companies*
Interested Directors		
Moritz Sell	[\$0**]	\$0**]
Hugh Young	[\$10,001- \$50,000]	\$10,001- \$50,000]
Independent Directors		
P. Gerald Malone	[\$10,001- \$50,000]	\$10,001- \$50,000]
Neville J. Miles	[\$10,001- \$50,000]	\$50,001- \$100,000]
William J. Potter	[\$10,001- \$50,000]	\$10,001- \$50,000]
Peter D. Sacks	[\$10,001- \$50,000]	\$10,001- \$50,000]
John T. Sheehy	[\$10,001- \$50,000]	\$10,001- \$50,000]
Brian M. Sherman	[\$10,001- \$50,000]	\$10,001- \$50,000]

* Aggregate Dollar Range shown includes equity securities of the Fund, and of Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Global Income Fund, Inc. and The Indonesia Fund, Inc., all of which may be deemed to be in the same Family of Investment Companies.

** Does not include shares of the Fund's Common Stock owned by LB. Mr. Sell is a director, market strategist of LB and was initially appointed as a Director of the Fund as the representative of BGB. At the 2007 Annual Meeting of Stockholders, Mr. Sell was elected as a Director of the Fund in his own capacity and not as the representative of LB or LBH.

[As of December 31, 2009, none of the Independent Directors or their immediate family members owned any shares of the Investment Manager, Investment Adviser, or of any person (other than a registered investment company) directly or indirectly controlling, controlled by, or under common control with the Investment Manager or Investment Adviser.

As of the date of this Statement of Additional Information, none of the Independent Directors or their immediate family members owned any shares of the Fund's principal underwriter, or of any person directly or indirectly controlling, controlled by, or under common control with, the Fund's principal underwriter.

As of December 31, 2009, the officers of the Fund owned no shares of the Fund's Common Stock.]

Compensation of Directors and Certain Officers

The following table sets forth information regarding compensation of Directors by the Fund and by the fund complex of which the Fund is a part for the fiscal year ended October 31, 2009. Officers of the Fund and Directors who are interested persons of the Fund do not receive any compensation directly from the Fund or any other fund in the fund complex for performing their duties as officers or Directors, respectively.

Each Independent Director receives a retainer fee of \$19,000 per year and a fee of \$2,000 per meeting for attendance at Board meetings. In addition, the Chairman of the Board receives a fee of \$12,000 per year, the Chairman of the Contract Review Committee receives a fee of \$5,000 per year, and the Chairman of the Audit and Valuation Committee receives a fee of \$5,000 per year. There are no per meeting fees for attendance at meetings of

the Board's standing committees (Contract Review Committee, Audit and Valuation Committee, and Nominating and Corporate Governance Committee). Members of ad hoc committees of the Board receive a fee of \$500 per meeting attended and the Chairman of each ad hoc committee receives an additional fee of \$500 per meeting attended. However, the fees for attendance at ad hoc committee meetings may be less than \$500 per meeting, in certain instances where committee meetings are held jointly with committee meetings of other funds in the same Fund Complex.

Compensation Table
Fiscal Year Ended October 31, 2009

Name of Director	Aggregate Compensation From Fund	Pension or Retirement Benefits Accrued as Part of Fund Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation From Fund and Fund Complex Paid to Directors*
P. Gerald Malone	\$ 29,167	N/A	N/A	\$ 160,500[()]
Neville J. Miles	\$ 46,833	N/A	N/A	\$ 113,500[()]
William J. Potter	\$ 29,167	N/A	N/A	\$ 94,500[()]
Peter D. Sacks	\$ 30,000	N/A	N/A	\$ 125,000[()]
Moritz Sell	\$ 0	N/A	N/A	\$ 0[()]
John T. Sheehy	\$ 34,833	N/A	N/A	\$ 139,500[()]
Brian M. Sherman	\$ 28,500	N/A	N/A	\$ 59,500[()]
Hugh Young	\$ 0	N/A	N/A	\$ 0[()]

* The number in parentheses indicates the total number of boards in the fund complex on which the Director serves or served at any time during the fiscal year ended October 31, 2009.

PRINCIPAL HOLDERS OF SECURITIES

To the best of the Fund's knowledge, based upon filings made by the respective entities with the SEC, as of November 24, 2009, the following entities beneficially owned five percent or more of the voting securities of the Fund:

Title of Class	Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
Common Stock, par value \$0.01 per share	Landesbank Berlin AG Alexanderplatz 2 D-10178 Berlin, Germany	1,367,574	7.1%

INVESTMENT MANAGEMENT, INVESTMENT ADVISORY AND OTHER AGREEMENTS

Background

Aberdeen Asset Management Asia Limited serves as the investment manager to the Fund (the "Investment Manager") and Aberdeen Asset Management Limited serves as investment adviser to the Fund (the "Investment Adviser") pursuant to a management agreement dated as of March 8, 2004 (the "Management Agreement") and an investment advisory agreement dated as of March 8, 2004 (the "Advisory Agreement"), respectively. The Investment Manager, in accordance with the Fund's stated investment objectives, policies and limitations and subject to the supervision of the Fund's Board of Directors, manages the Fund's investments and makes investment decisions on behalf of the Fund, including the selection of, and being responsible for the placement of orders with, brokers and dealers to execute the Fund's portfolio transactions. The Investment Adviser 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.

Upon the organization of the Fund in 1985, EquitiLink International Management Limited, an Australian corporation ("EIML"), served as the Fund's investment manager, and EquitiLink Australia Limited, an Australian corporation ("EAL"), served as the Fund's investment adviser. In December 2000, Aberdeen Asset Management PLC, a Scots company ("Aberdeen PLC"), acquired the business of EIML and EAL, which continued to serve as the

investment manager and investment adviser, respectively, of the Fund. In connection with this acquisition, EIML entered into a new management agreement with the Fund, and EAL and EIML entered into a new investment advisory agreement with the Fund. Each of such agreements was approved by the Fund's Board of Directors and separately by a majority of the Fund's Independent Directors, and subsequently by the Fund's stockholders. Following this acquisition, the name of EIML was changed to Aberdeen Asset Managers (C.I.) Limited (AAMCIL) and the name of EAL was changed to Aberdeen Asset Management Limited (AAML).

In December 2003, the Board of Directors approved the transfer by AAMCIL to Aberdeen Asset Management Asia Limited (AAMAL , an affiliate of AAMCIL), of the rights and obligations of AAMCIL under the management agreement and the investment advisory agreement entered into in December 2000. This transfer was effected pursuant to the current Management Agreement and Advisory Agreement, both dated as of March 8, 2004. Prior to becoming the Fund's Investment Manager, AAMAL and its personnel had been providing portfolio management, research and trading services to the Fund pursuant to a Memorandum of Understanding with AAMCIL and AAML. The transfer was not intended to, and did not result in, any change in the fundamental investment processes, investment strategies or investment techniques employed by portfolio managers and investment professionals in providing investment advisory services to the Fund, and did not result in any change in the terms of the Fund's management and advisory agreements, other than in the name of the investment manager.

The Investment Manager, Aberdeen Asset Management Asia Limited, is a Singapore corporation incorporated in 1991. The registered office of the Investment Manager is located at 21 Church Street, #01-01 Capital Square Two, Singapore 049480. The Investment Manager serves as Investment Manager to both equity and fixed income investment portfolios for a range of clients, with approximately \$[] billion in assets as of [], 2009, including the Fund and three other U.S. registered closed-end funds with aggregate net assets of approximately \$[] billion as of [], 2009.

The Investment Adviser, Aberdeen Asset Management Limited, is an Australian corporation which is a wholly-owned subsidiary of the Investment Manager. The registered office of the Investment Adviser is located at Level 6, 201 Kent Street, Sydney, NSW 2000, Australia. The Investment Adviser's principal business focus is to provide investment management services with regard to equity and fixed income investments in Australian securities. The Investment Adviser managed approximately \$[] billion of assets, as of [], 2009.

The Investment Manager is a wholly-owned subsidiary of Aberdeen PLC. The registered offices of Aberdeen PLC are located at 10 Queen's Terrace, Aberdeen, Scotland AB10 1YG. Aberdeen PLC is the parent company of an asset management group managing approximately \$[] billion of assets, as of [], 2009, including approximately \$[] billion of investments in equity securities as of [], 2009, for a range of pension funds, financial institutions, investment trusts, unit trusts, offshore funds, charities and private clients, in addition to U.S. registered investment companies.

Considerations in Approving Renewal of Management Agreement and Advisory Agreement

The Management Agreement and the Advisory Agreement (collectively, the Agreements) became effective as of March 8, 2004, for an initial term through December 21, 2004. At an in-person meeting of the Board of Directors (the Board) of the Fund held in September, 2009, the Board of Directors, including all of the Independent Directors, considered and approved for an additional twelve-month term the continuation of the Fund's management agreement with the Investment Manager and the investment advisory agreement among the Fund, the Investment Manager and the Investment Adviser (collectively, Agreements). The Investment Manager and the Investment Adviser are sometimes each referred to as an Adviser and, collectively, as the Advisers.

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The Independent Directors were advised by separate independent legal counsel throughout the process. In advance of the meeting, the Independent Directors received a memorandum from their independent legal counsel discussing the legal standards for their consideration of the proposed continuation of the Agreements. At the meeting, the Directors reviewed a report prepared by the Advisers in response to a request submitted by the Independent Directors independent legal counsel on behalf of such Directors, and discussed this report with representatives of the Advisers. The Independent Directors also consulted in executive sessions with counsel to the Independent Directors regarding the renewal of the Agreements. The Directors also considered the recommendation of the Contract Review Committee of the Board (the Committee), consisting solely of Independent Directors, that

the Agreements be renewed, noting that the Committee also had discussed, with representatives of management and separately in executive session with independent counsel at which no representatives of management were present, among other factors, the nature, extent and quality of the management and advisory services provided to the Fund by the Advisers, the level of the management and advisory fees, the costs of the services provided and the profits realized by the Advisers and their affiliates, the Fund's expense ratio, Fund performance, the Fund's and Adviser's compliance programs, any economies of scale with respect to the management of the Fund, and any ancillary benefits received by the Advisers and their affiliates as a result of their relationship with the Fund, and various other matters included within the report of the Advisers.

In considering whether to approve the renewal of the Agreements, the Directors received a variety of information provided by the Advisers relating to the Fund, the Agreements and the Advisers, including comparative performance, fee and expense information of a peer group of funds selected by an independent third-party provider of investment company data, performance information for relevant benchmark indices and other information regarding the nature, extent and quality of services provided by the Advisers under their respective Agreements. The Board's materials also contained information as to the profitability of the Advisers and their affiliates from their relationship with the Fund. The Committee and the Board of Directors, including the Independent Directors, also considered other matters such as (i) the Advisers' financial results and financial condition, (ii) the Fund's investment objective and strategies and the Advisers' investment personnel and operations, (iii) the procedures employed to determine the value of the Fund's assets, (iv) the allocation of the Fund's brokerage, if any, including, if applicable, allocations to brokers affiliated with the Advisers and the use, if any, of soft commission dollars to pay Fund expenses and to pay for research and other similar services, and (v) possible conflicts of interest. Throughout the process, the Directors were afforded the opportunity to ask questions of and request additional information from management.

In addition to the materials requested by the Directors in connection with their consideration of the renewal of the Agreements, the Directors receive materials in advance of each regular quarterly meeting that provide information relating to the services provided by the Advisers. In this regard, the Board reviews reports of the Advisers which include, among other things, a portfolio review and Fund performance reports.

In approving (or, in the case of the Committee, recommending) the renewal of the Agreements, the Committee and the Board of Directors reached, among others, the following conclusions:

- *Nature, Extent and Quality of Services.* The Committee and the Board were satisfied with the nature, quality and extent of services provided by the Advisers. In reaching this conclusion, the Committee and the Board reviewed, among other things, the Advisers' investment experience, including the growth and development of their Far East operations as well as the Aberdeen Group's global investment management activities, including in emerging markets, and the Aberdeen Group's growth in Australia. The Board (and the Committee) received information regarding the Advisers' compliance with applicable laws and SEC and other regulatory inquiries or audits of the Fund and the Advisers. The Committee and the Board also considered the background and experience of the Advisers' senior management personnel and the qualifications, background and responsibilities of the portfolio managers primarily responsible for the day-to-day portfolio management services for the Fund. The Committee and the Board also considered the allocation of responsibilities among the Advisers. In addition, the Committee and the Board considered the financial condition of the Advisers and whether they had the financial wherewithal to provide a high level and quality of service to the Fund. The Committee and the Board also considered information received from the Fund's Chief Compliance Officer regarding the Advisers' compliance policies and procedures. The Committee and the Board also considered the Advisers' brokerage policies and practices. Management also reported to the Committee and the Board on, among other things, its business plans and organizational changes. The Committee and the Board also noted that the Board reviewed and assessed the quality of the services the Fund receives from the Advisers throughout the year, and received detailed portfolio review and performance reports on a regular basis. The Committee and the Board determined that the advisory services provided were extensive in nature and of high quality.

- *Fees and Expenses.* The effective annual management fee rate paid by the Fund to the Investment Manager for investment management services was within a reasonable range relative to the effective

advisory fee rates of a peer group consisting of all closed-end funds in the Pacific Asia ex-Japan stock Morningstar category as compiled by Strategic Insight (SI), an independent third-party provider of mutual fund data (the Peer Group). The SI data indicated that the Fund's effective management fee rate (computed based on average managed assets for the six months ended April 30, 2009, and which reflects both the advisory fee and the administration fee) was below the Peer Group's median and average fee rates, respectively. The Committee and the Board noted that, among other information, the SI data also indicated that the Fund's annualized expense ratio based on average net assets, excluding the principal amount of borrowings, for the six months ended April 30, 2009 was above the average and median expense ratios, respectively, of the Peer Group. The Committee and the Board also took into account the management fee structure, including that management fees for the Fund were based on the Fund's total Managed Assets, whether attributable to common stock, preferred stock or bank borrowings. The Committee and the Board also considered that the compensation paid to the Investment Adviser is paid by the Investment Manager and not the Fund, and, accordingly that the retention of the Investment Adviser does not increase the fees or expenses otherwise incurred by the Fund's shareholders. The Committee and the Board also took into account the size of the Fund and its effect on the Fund's expense ratio. The Committee and the Board also took into account management's discussion of the Fund's expenses, including other factors that impacted the Fund's expenses, as well as certain actions taken by the Board during the past year to reduce the Fund's operating expenses. The Committee and the Board noted that the expense information in the SI report did not fully reflect such potential cost savings. The Committee and the Board also received information from management regarding the fees charged by the Advisers to a non-open-end and a closed-end fund, both incorporated outside of the U.S., investing primarily in an asset class similar to that of the Fund. The Committee and the Board concluded that the fee paid by the Fund was reasonable, given the differences in the funds' sizes, investment objectives and restrictions, and diversification requirements.

- *Performance.* The Committee and the Board received and reviewed, among other performance data, information compiled by SI as to the Fund's total return, as compared to the funds in the Fund's Morningstar category (the Morningstar Group). The SI report indicated that the Fund ranked 3rd out of 19 for the year-to-date period ended April 30, 2009, 11th out of 19 for the one-year period ended April 30, 2009, 8th out of 18 for the three-year period ended April 30, 2009 and 10th out of 19 for the five-year period ended April 30, 2009. The Committee and the Board also received performance information from management that compared the Fund's return to comparable non-U.S. investment companies in its Lipper category, which indicated that the Fund had outperformed the average of such group of funds for the one-year, three-year and five-year periods ended June 30, 2009 and was below the average for the year-to-date period ended June 30, 2009.

The Committee and the Board received and considered information for each of the last five fiscal years regarding the Fund's total return on a gross and net basis and relative to the Fund's benchmark, the Fund's share performance and premium/discount information and the impact of foreign currency movements on the Fund's performance. The Committee and the Board also received and reviewed information as to the Fund's total return for each of the last five fiscal years as compared with the total returns of each of the funds in the Morningstar Group, and other Aberdeen-managed funds. The Committee and the Board considered management's discussion of the factors contributing to differences in performance, including differences in the investment strategies of each of these other funds. The Committee and the Board also reviewed information as to the Fund's discount/premium ranking relative to the Morningstar Group. The Committee and the Board also noted that the Fund outperformed its benchmark for the one- year period ended April 30, 2009, and underperformed its benchmark for the three- and five-year periods ended April 30, 2009. The Board took into account management's discussion of the Fund's performance, including the factors that contributed to the Fund's underperformance relative to its benchmark over the longer-term, including the impact of market conditions on the Advisers' investment style. The Committee and the Board concluded that overall performance results were satisfactory and supported renewal of the Agreements.

- *Economies of Scale.* The Board determined that the management fee structure was reasonable and reflects economies of scale being shared between the Fund and the Advisers. This determination was based on factors including that the Fund's management fee schedule provides breakpoints at higher

asset levels, and that profitability of the Investment Manager and the Investment Adviser were determined to be reasonable based upon the Board's review of the Peer Group data and other information provided to the Committee and the Board.

- *Profitability; Ancillary Benefits.* The Committee and the Board considered information indicating the costs and profitability of the Advisers and their affiliates in providing services to the Fund, as well as any ancillary benefits. In addition, the Committee and the Board received information with respect to management's allocation methodologies used in preparing this profitability data. The Board noted that AAMI, an affiliate of the Advisers, provides administrative and investor relations services to the Fund, for which it receives fees. The Committee and the Board determined that in light of the nature, extent and quality of services provided to the Fund, the profitability of the Advisers and its affiliates from their relationship with the Fund was reasonable, and any ancillary benefits received by the Advisers and their affiliates as a result of their relationship with the Fund were reasonable.

In considering the Agreements, the Committee and the Board considered a variety of factors, including those factors discussed above. The Board did not identify any factor as all-important or all-controlling and instead considered these factors collectively in light of the Fund's surrounding circumstances, and each Director may have attributed different weight to the various factors. Based on their deliberations and their evaluation of the information provided to them, the Committee and the Board, including a majority of the Independent Directors, concluded that approval of the renewal of the Agreements was in the best interests of the Fund and its shareholders. Accordingly, the Board, and the Independent Directors voting separately, approved the renewal of the Agreements.

Terms of the Management Agreement

The Management Agreement provides that the Investment Manager will manage, in accordance with the Fund's stated investment objective, policies and limitations and subject to the supervision of the Fund's Board of Directors, the Fund's investments and make 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 portfolio transactions on behalf of the Fund. The Management Agreement further provides that the Investment Manager will not be liable for any error of judgment or for any loss suffered by the Fund in connection with matters to which the Management Agreement relates, except a loss resulting from a breach of fiduciary duty with respect to receipt of compensation for services (in which case any award of damages shall be limited to the period and the amount set forth in Section 36(b)(3) of the 1940 Act) or a loss resulting from willful misfeasance, bad faith or gross negligence on its part in the performance of, or from reckless disregard by the Investment Manager of, its duties and obligations under the Management Agreement.

The Management Agreement provides that the Investment Manager may, at its expense, employ, consult or associate with itself, such person or persons as it believes necessary to assist it in carrying out its obligations thereunder, provided, however, that if any such person would be an investment adviser (as that term is defined under the 1940 Act) to the Fund, (a) the Fund is a party to any contract with such a person and (b) the contract is approved by the Fund's stockholders and Directors, including Independent Directors, as required by the 1940 Act.

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

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For the fiscal years ended October 31, 2009, 2008 and 2007, the Fund paid management fees of \$1,446,566, \$2,278,916, and \$2,286,243, respectively. The investment manager has informed the Fund that, during the same periods, the investment manager paid advisory fees of \$369,484, \$557,873, and \$546,796, respectively, to the Investment Adviser.

Payment of Expenses. The Management Agreement obligates the Investment Manager to bear all expenses of its employees, except as provided in the following sentence, and overhead incurred in connection with its duties

under the Management Agreement and to pay all salaries and fees of the Fund's Directors and officers who are interested persons (as defined in the 1940 Act) of the Investment Manager. The Fund will bear all of its own expenses, including: expenses of organizing the Fund; fees of the Fund's Independent Directors; out-of-pocket expenses for all Directors and officers of the Fund, including expenses incurred by the Investment Manager's employees who serve as Directors and officers of the Fund, which may be reimbursed by the Fund under the Fund's policy governing reimbursement of Fund-related expenses; and other expenses incurred by the Fund in connection with meetings of Directors and stockholders; interest expense; taxes and governmental fees including any original issue taxes or transfer taxes applicable to the sale or delivery of shares or certificates therefor; brokerage commissions and other expenses incurred in acquiring or disposing of the Fund's portfolio securities; expenses in connection with the issuance, offering, distribution, sale or underwriting of securities issued by the Fund; expenses of registering and qualifying the Fund's shares for sale with the SEC and in various states and foreign jurisdictions; auditing, accounting, insurance and legal costs; custodian, dividend disbursing and transfer agent expenses; and the expenses of stockholders' meetings and of the preparation and distribution of proxies and reports to stockholders. The expenses of the offering of the shares covered by this registration statement include a sales load calculated as []% of the public offering price. Of this amount, []% of the public offering price will be paid by the Investment Manager.

Duration and Termination. The Management Agreement became effective as of March 8, 2004 for an initial term until December 22, 2004. The Management Agreement provides that it will continue in effect for successive 12-month periods, if not sooner terminated, provided that each such continuance is specifically approved annually by (1) the vote of a majority of the Fund's Board of Directors who are not parties to the Management Agreement or interested persons (as defined in the 1940 Act) of any such party, cast in person at a meeting called for the purpose of voting on such approval and (2) either (a) the vote of a majority of the outstanding voting securities of the Fund, or (b) the vote of a majority of the Fund's Board of Directors. The Management Agreement may be terminated at any time by the Fund without the payment of any penalty, by a vote of a majority of the Fund's Board of Directors or a majority of the outstanding voting securities of the Fund upon at least 60 days written notice to the Investment Manager. The Management Agreement will terminate automatically in the event of its assignment (as defined in the 1940 Act). In addition, the Investment Manager may terminate the Management Agreement upon at least 90 days written notice to the Fund. Continuation of the Management Agreement was most recently approved unanimously by the Fund's Board of Directors, and by the Fund's Independent Directors voting separately, at an in-person meeting held on September 10, 2009.

Terms of the Advisory Agreement

The Advisory Agreement provides that the Investment Adviser will make recommendations to the Investment Manager as to specific portfolio securities, which are denominated in Australian or New Zealand dollars, to be purchased, retained or sold by the Fund and will provide or obtain such research and statistical data as may be necessary in connection therewith. The Advisory Agreement further provides that the Investment Adviser will give the Investment Manager and the Fund the benefit of the Investment Adviser's best judgment and efforts in rendering services under the Advisory Agreement.

The Advisory Agreement provides that neither the Investment Manager nor the Investment Adviser will be liable for any error of judgment or for any loss suffered by the Fund in connection with matters to which the Advisory Agreement relates, except a loss resulting from a breach of fiduciary duty with respect to receipt of compensation for services (in which case any award of damages shall be limited to the period and the amount set forth in Section 36(b)(3) of the 1940 Act) or a loss resulting from willful misfeasance, bad faith or gross negligence on the part of the Investment Manager or the Investment Adviser, as appropriate, in the performance of, or from reckless disregard by such party of such party's obligations and duties under, the Advisory Agreement.

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

Payment of Expenses. The Advisory Agreement obligates the Investment Adviser to bear all expenses of its employees, except certain expenses incurred by the Investment Adviser's employees who serve as officers and Directors of the Fund which are reimbursed by the Fund under the Fund's policy governing reimbursement of Fund-related expenses. The Advisory Agreement also obligates the Investment Adviser to bear all overhead incurred in connection with its duties under the Advisory Agreement and to pay all salaries and fees of the Fund's Directors and officers who are interested persons (as defined in the 1940 Act) of the Investment Adviser but who are not interested persons of the Investment Manager.

Duration and Termination. The Advisory Agreement became effective as of March 8, 2004 for an initial term until December 22, 2004. The Advisory Agreement provides that it will continue in effect for successive 12-month periods, if not sooner terminated, provided that each such continuance is specifically approved annually by (1) the vote of a majority of the Fund's Board of Directors who are not parties to the Advisory Agreement or interested persons (as defined in the 1940 Act) of any such party, cast in person at a meeting called for the purpose of voting on such approval and (2) either (a) the vote of a majority of the outstanding voting securities of the Fund, or (b) the vote of a majority of the Fund's entire Board of Directors. The Advisory Agreement may be terminated at any time by the Fund without the payment of any penalty, by a vote of a majority of the Fund's Board of Directors or a majority of the outstanding voting securities of the Fund, upon at least 60 days' written notice to the Investment Manager and the Investment Adviser. The Advisory Agreement will terminate automatically as to any party in the event of its assignment (as defined in the 1940 Act) by that party. In addition, the Investment Manager or the Investment Adviser may terminate the Advisory Agreement as to such party upon at least 90 days' written notice to the Fund and the other party, but any such termination shall not affect continuance of the Advisory Agreement as to the remaining parties. Continuation of the Advisory Agreement was most recently approved unanimously by the Fund's Board of Directors, and by the Fund's Independent Directors voting separately, at an in-person meeting held on September 10, 2009.

Experience of the Investment Manager and Investment Adviser and of the Aberdeen Group; Location of the Investment Manager and Investment Adviser

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The Investment Manager and the Investment Adviser also serve in these capacities for Aberdeen Global Income Fund, Inc., a non-diversified, closed-end management investment company investing in global fixed income securities, which commenced operations in 1992 and the shares of which are listed on the Amex; Aberdeen Asia-Pacific Income Fund, Inc., a non-diversified closed-end management investment company investing primarily in Australian and Asian debt securities, which commenced operations in 1986 and the shares of which are listed on the Amex; and Aberdeen Asia-Pacific Income Investment Company Limited, a closed-end management investment company investing primarily in Australian and Asian debt securities, which commenced operations in 1986 and the shares of which are listed on the Toronto Stock Exchange. The Investment Manager also serves as the Investment Adviser of The Indonesia Fund, Inc., a non-diversified closed-end management investment company investing primarily in equity and debt securities of Indonesian companies, which commenced operations in 1990 and the shares of which are listed on the Amex. The Investment Manager and the Investment Adviser are registered with the SEC under the Investment Advisers Act of 1940, as amended.

The Advisers, together with other affiliates of Aberdeen Asset Management PLC (collectively, the Aberdeen Group) form a globally diversified management firm. As of [], 2009 the Aberdeen Group had approximately \$[] billion in assets under management.

In rendering investment advisory services, the Investment Manager and Investment Adviser may use the resources of Aberdeen Asset Managers Limited (Aberdeen UK), a United Kingdom corporation which is a wholly-owned investment adviser subsidiary of Aberdeen PLC. The Investment Manager and Investment Adviser have entered into a Memorandum of Understanding with Aberdeen UK, pursuant to which investment professionals from Aberdeen UK may render portfolio management, research or trading services to the U.S. clients of the Advisers, including the Fund.

Each of the Advisers has all, or a substantial part, of its assets located outside of the United States. As a result, it may be difficult for U.S. investors to enforce judgments of the courts of the United States against the Advisers predicated solely on the civil liability provisions of the U.S. federal or state securities laws. The Fund has been advised that there is doubt as to the enforceability in the courts of Australia, in original actions or in actions for enforcement of judgments of U.S. courts against the Investment Adviser, predicated solely upon the civil liability

provisions of the federal securities laws of the United States. The Fund has also been advised that there is uncertainty as to whether the courts of Singapore would recognize and enforce judgments of the United States courts obtained against the Advisers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state in the United States or entertain original actions brought in Singapore courts against the Advisers predicated upon the federal securities laws of the United States or the securities laws of any state in the United States, unless the facts surrounding such a violation would constitute or give rise to a cause of action under the laws of Singapore.

Relationship of Certain Directors, Officers and Service Providers to Investment Manager and Investment Adviser

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Mr. Hugh Young, a Director of the Fund, also serves as the Managing Director of the Investment Manager and a Director of the Investment Adviser, and as a member of the Executive Management Committee of Aberdeen Asset Management PLC. Mr. Martin Gilbert, a Vice President of the Fund, also serves as a Director of the Investment Manager and the Investment Adviser, and is the Chief Executive and an Executive Director of Aberdeen Asset Management PLC. Mr. Mark Daniels, a Vice President of the Fund, also serves as a Director of the Investment Adviser. Messrs. Young, Gilbert and Daniels are also stockholders of Aberdeen Asset Management PLC.

Aberdeen Asset Management Inc. (AAMI or Administrator), an affiliate of the Investment Manager and the Investment Adviser, serves as the Fund's administrator, see Other Agreements Administration Agreement with Aberdeen Asset Management Inc. below. AAMI is a Delaware corporation with its principal business office located at 1735 Market Street, 32nd Floor, Philadelphia PA 19103. AAMI also provides investor relations services to the Fund under an investor relations services agreement. Mr. Martin Gilbert, Mr. Alan Goodson and Ms. Jennifer Nichols, who serve as officers of the Fund, are also directors and/or officers of AAMI. See Management of the Fund-Officers who are not Directors for further information.

Other Agreements

Administration Agreement with Aberdeen Asset Management Inc.

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Pursuant to an administration agreement effective November 1, 2004 (Administration Agreement), AAMI is responsible, subject to the control, supervision and direction of the Board of Directors, for providing to the Fund operational management, coordination and oversight of the Fund's service providers, negotiation of the Fund's service contracts, preparation of various financial information and reports, arrangements for payment of Fund expenses, monitoring of compliance with the Fund's investment objectives, policies and restrictions and with applicable tax law and regulations, maintenance of the Fund's books and records and other administrative services. AAMI receives a fee at an annual rate equal to 0.08% of the Fund's average weekly net assets plus the amount of any borrowings for investment purposes. Pursuant to the Administration Agreement, AAMI may also delegate certain of its duties and obligations to third parties. Presently, AAMI delegates certain of its responsibilities to a sub-administrator, State Street Bank and Trust Company. Prior to January 31, 2010, AAMI had delegated certain of its responsibilities to another sub-administrator, Princeton Administrators, L.P.

For the fiscal years ended October 31, 2009, 2008 and 2007, the Fund paid administration fees of \$139,226, \$240,296, and \$113,500, respectively.

CODE OF ETHICS

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The Fund and the Advisers have each adopted a code of ethics (each, a Code of Ethics) in accordance with Rule 17j-1 under the 1940 Act. Subject to certain conditions and restrictions, each Code of Ethics permits personnel who are subject to the Code of Ethics to invest in securities, including securities that may be purchased or held by the Fund.

Each Code of Ethics may be reviewed and copied at the Public Reference Room of the SEC in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-551-

8090. Each Code of Ethics is also available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. Copies of each Code of Ethics may be obtained, after paying a duplicating fee, by electronic request to publicinfo@sec.gov, or by writing to the SEC's Public Reference Section, Washington, D.C. 20549-0102.

PORTFOLIO MANAGERS

Other Accounts Managed by Portfolio Managers

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The portfolio managers who are primarily responsible for the day-to-day management of the Fund also manage other registered investment companies, other pooled investment vehicles and other accounts, as indicated below. The following table identifies, as of October 31, 2009: (i) the portfolio(s) managed by the specified portfolio manager; (ii) the number of other registered investment companies, pooled investment vehicles and other accounts managed by the portfolio manager; and (iii) the total assets of such companies, vehicles and accounts.

Name of Portfolio Manager	Registered Investment Companies Managed by Portfolio Manager		Pooled Investment Vehicles Managed by Portfolio Manager		Other Accounts Managed by Portfolio Manager	
	Number	Total Assets (in \$millions)	Number	Total Assets (in \$millions)	Number	Total Assets (in \$millions)
Hugh Young				*		*
Peter Hames				*		*
Mark Daniels				**		
Michelle Lopez						