

ABERDEEN AUSTRALIA EQUITY FUND INC

Form 497

December 08, 2010

The information in this Preliminary Prospectus Supplement is not complete and may be changed. This Preliminary Prospectus Supplement and the accompanying Prospectus are part of an effective registration statement filed with the Securities and Exchange Commission. This Preliminary Prospectus Supplement is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 8, 2010

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus dated December 8, 2010)

2,000,000 Shares

Aberdeen Australia Equity Fund, Inc.

Common Stock
\$ per Share

Aberdeen Australia Equity Fund, Inc. (the "Fund") is offering for sale 2,000,000 shares of its common stock ("Common Shares"). 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. There can be no assurance that the Fund will achieve its investment objectives.

The Fund's currently outstanding Common Shares are, and the Common Shares offered by this Prospectus Supplement and the accompanying Prospectus will be, subject to notice of issuance, listed on NYSE Amex ("Amex") under the symbol "IAF." The last reported sale price for the Fund's Common Shares on December 7, 2010 was \$12.95 per share. The net asset value of the Fund's Common Shares at the close of business on December 7, 2010 was \$11.71 per share.

You should review the information set forth under "Risks and Special Considerations" on page 17 of the accompanying Prospectus before investing in the Fund's Common Shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this Prospectus Supplement or the accompanying Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total (1)
Public offering price	\$	\$
Sales load (underwriting discounts and commissions)	\$	\$
Proceeds, before expenses, to the Fund(2)	\$	\$

(1) The Fund has granted the underwriters an option to purchase up to an additional _____ Common Shares, within 45 days after the date of this Prospectus Supplement, at the public offering price, less the sales load, solely to cover over-allotments, if any. If the over-allotment option is exercised in full, the total public offering price would be \$ _____, the total sales load would be \$ _____ and the total proceeds, before expenses, to the Fund would be \$ _____.

(2) The aggregate expenses of the offering (excluding sales load) are estimated to be \$263,300, which represents approximately \$ _____ per share.

The underwriters expect to deliver the Common Shares on or about December _____, 2010.

Citi Morgan Stanley

The date of this Prospectus Supplement is December , 2010.

You should rely only on the information contained in or incorporated by reference into this Prospectus Supplement and the accompanying Prospectus. This Prospectus Supplement and the accompanying Prospectus set forth certain information about the Fund that a prospective investor should carefully consider before deciding whether to invest in the Fund's Common Shares. This Prospectus Supplement, which describes the specific terms of this offering, also adds to and updates information contained in the accompanying Prospectus and the documents incorporated by reference into the accompanying Prospectus. The accompanying Prospectus gives more general information, some of which may not apply to this offering. If the description of this offering varies between this Prospectus Supplement and the accompanying Prospectus, you should rely on the information contained in this Prospectus Supplement; provided that if any statement in one of these documents is inconsistent with a statement in another document having a later date and incorporated by reference into the accompanying Prospectus or Prospectus Supplement, the statement in the incorporated document having a later date modifies or supersedes the earlier statement. Neither the Fund nor the underwriters have authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in or incorporated by reference into this Prospectus Supplement and the accompanying Prospectus is accurate only as of the respective dates on their front covers, regardless of the time of delivery of this Prospectus Supplement, the accompanying Prospectus, or the sale of the Common Shares. The Fund's business, financial condition, results of operations and prospects may have changed since those dates.

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You should read this Prospectus Supplement and the accompanying Prospectus before deciding whether to invest and retain them for future reference. A Statement of Additional Information, dated December 8, 2010 ("SAI"), as supplemented from time to time, containing additional information about the Fund, has been filed with the Securities and Exchange Commission ("SEC") and is incorporated by reference in its entirety into this Prospectus Supplement. You may request a free copy of the SAI or request other information about the Fund (including the Fund's annual and semi-annual reports to shareholders) or make shareholder inquiries by calling 1-866-839-5205, emailing InvestorRelations@aberdeen-asset.com or by writing to the Fund at 1735 Market Street, 32nd Floor, Philadelphia, Pennsylvania 19103. The Fund's SAI, as well as the annual and semi-annual reports to shareholders, are also available at the Fund's website at www.aberdeeniaf.com. You may also obtain copies of these documents (and other information regarding the Fund) from the SEC's website (<http://www.sec.gov>).

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus Supplement, the accompanying Prospectus and the SAI contain "forward-looking statements." Forward-looking statements can be identified by the words "may," "will," "intend," "expect," "estimate," "continue," "plan," "anticipate," and similar terms and the negative of such terms. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Fund's actual results are the performance of the portfolio of securities the Fund holds, the price at which the Fund's shares will trade in the public markets and other factors discussed in the Fund's periodic filings with the SEC.

Although the Fund believes that the expectations expressed in the forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in such forward-looking statements. The Fund's future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the "Risks and Special Considerations" section of the accompanying Prospectus. All forward-looking statements contained in or incorporated by reference into this Prospectus Supplement or the accompanying Prospectus are made as of the date of this Prospectus Supplement or the accompanying Prospectus, as the case may be. Except for the Fund's ongoing obligations under the federal securities laws, it does not intend, and it undertakes no obligation, to update any forward-looking statements. The forward-looking statements contained in this Prospectus Supplement, the accompanying Prospectus and the SAI are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended.

PROSPECTUS SUPPLEMENT SUMMARY

The following information is only a summary. You should consider the more detailed information contained in this Prospectus Supplement, the accompanying Prospectus, dated December 8, 2010, and the SAI, dated December 8, 2010, especially the information under "Risks and Special Considerations" on page 17 of the accompanying Prospectus.

The Fund

The Fund is a non-diversified, closed-end management investment company organized as a Maryland corporation.

The Fund's principal investment objective is long-term capital appreciation. 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 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 Australian Stock Exchange Limited. 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. Such debt securities will be rated in one of the four highest rating categories by a nationally recognized statistical rating organization or, if unrated, determined to be of comparable quality by the Investment Manager (as defined), and will typically have a maturity of 10 years or less. 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" in the accompanying Prospectus.

The Fund's Common Shares are listed for trading on the Amex under the symbol "IAF." As of December 7, 2010, the net assets of the Fund were \$225,667,602 and the Fund had outstanding 19,277,602 Common Shares. The last reported sale price of the Fund's Common Shares, as reported on the Amex on December 7, 2010 was \$12.95 per share. The net asset value of the Fund's Common Shares at the close of business on December 7, 2010 was \$11.71 per share.

Investment Manager and Investment Adviser

The Fund's investment manager is Aberdeen Asset Management Asia Limited ("Investment Manager"), 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 ("Investment Adviser"), 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, a Scots company, that is the parent company of an asset management group managing approximately \$261.18 billion of assets as of August 31, 2010 for both institutions and private individuals from offices around the world. See "Management of the Fund The Investment Manager and the Investment Adviser" in the accompanying Prospectus.

The Offering

Common Shares Being Offered: 2,000,000 shares

Common Shares To Be Outstanding

After Offering: 21,277,602 shares

The number of Common Shares offered and outstanding after the offering assumes the underwriters' over-allotment option is not exercised. If the over-allotment option is exercised in full, the Fund will issue an additional _____ Common Shares and will have _____ Common Shares outstanding after the offering.

The Fund's Common Shares have recently traded at a premium to net asset value ("NAV") per share and the price of the Common Shares being offered is expected to be above net asset value per share. Shares of closed-end investment companies, such as the Fund, frequently trade at a price below their NAV. The Fund cannot predict whether its Common Shares will trade at a premium or a discount to NAV.

Use of Proceeds

The Fund intends to invest the net proceeds of the offering in accordance with its investment objectives and policies as stated in the accompanying Prospectus. It is currently anticipated that the Fund will be able to invest substantially all of the net proceeds of the offering in accordance with its investment objectives and policies within approximately 60 days after completion of the 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.

Risks and Special Considerations

See "Risks and Special Considerations" beginning on page 17 of the accompanying Prospectus for a discussion of factors you should consider carefully before deciding to invest in the Fund's Common Shares.

DISTRIBUTIONS

The Board of Directors of the Fund 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 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 Common Shares in this offering will be entitled to any regular quarterly distributions the record date for which occurs after the Common Shares are purchased. On December 8, 2010, the Board of Directors of the Fund declared a quarterly distribution of 28 cents per Common Share, payable on January 14, 2011 to all shareholders of record as of December 30, 2010.

The amounts of the last four distributions paid by the Fund are as set out below:

Payment Date	Distribution per Common Share
October 15, 2010	\$ 0.27
July 16, 2010	\$ 0.27
April 16, 2010	\$ 0.25
January 15, 2010	\$ 0.22

See "Dividends and Distributions" in the accompanying Prospectus.

PORTFOLIO INVESTMENTS

As of October 31, 2010, the Fund's top ten equity holdings (based on total assets) by issuer were:

Issuer	Percent of Total Assets
BHP Billiton limited	13.3%
QBE Insurance Group limited	7.5%
Rio Tinto Limited	7.2%
Commonwealth Bank of Australia Limited	6.5%
Woolworths Limited	5.8%
Westpac Banking Corporation Limited	5.6%
Australia & New Zealand Banking Group Limited	5.4%
Westfield Group	4.6%
AGL Energy Limited	4.5%
Woodside Petroleum Limited	4.2%
Total	64.6%

Holdings are subject to change and are provided for informational purposes only and should not be deemed a recommendation to buy or sell the securities shown.

As of October 31, 2010, the Fund held 96.3% of its net assets in equities, 0.4% in a short-term investment and 3.3% in other types of assets.

SUMMARY OF FUND EXPENSES

The following table and example are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in Common Shares of the Fund. Some of the percentages indicated in the table below are estimates and may vary.

Shareholder Transaction Expenses	
Sales Load (underwriting discounts and commissions) (as a percentage of offering price)	4.0%
Offering Expenses Borne by the Fund (as a percentage of offering price)	%
Dividend Reinvestment and Cash Purchase Plan Fees(1)	
Annual Operating Expenses (as a percentage of average net assets attributable to the Fund's Common Shares)	
Management Fee	0.84%
Other Expenses(2)(3)	0.55%
Total Annual Operating Expenses	1.39%

(1) If you participate in the Dividend Reinvestment and Direct Stock Purchase Plan sponsored and administered by Computershare Trust Company, N.A., you will be subject to any fees imposed by Computershare Trust Company, N.A.

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

(3) Includes an administration fee of 0.08% of average net assets attributable to the Fund's Common Shares.

Example

An investor would pay the following expenses on a \$1,000 investment in the Fund, assuming (1) Total Annual Operating Expenses of 1.39%, (2) a Sales Load of and estimated offering expenses of and (3) a 5% annual return:

One Year	Three Years	Five Years	Ten Years
\$	\$	\$	\$

The "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 table and example 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 Shares.

The 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. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

USE OF PROCEEDS

The Fund estimates the net proceeds from this offering will be approximately \$ (or \$ if the underwriters exercise their over-allotment option to purchase additional Common Shares in full), after deducting the sales load and estimated offering expenses payable by the Fund.

The Fund intends to invest the net proceeds of the offering in accordance with its investment objectives and policies as stated in the accompanying Prospectus. It is currently anticipated that the Fund will be able to invest

substantially all of the net proceeds of the offering in accordance with its investment objectives and policies within approximately 60 days after completion of the 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.

CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund as of October 31, 2010 (i) on an actual basis and (ii) and as adjusted to reflect the effects of the sale of 2,000,000 Common Shares in this offering at an estimated offering price of \$12.95 per share. The adjusted information is illustrative only; the Fund's capitalization following the completion of this offering is subject to adjustment based on the actual public offering price of the Common Shares and the actual number of Common Shares to be sold in this offering, both of which will be determined at pricing.

	As of October 31, 2010 (unaudited)	
	Actual	As Adjusted
Composition of Net Assets:		
Common stock, par value \$.01 per share, 30,000,000 shares authorized (19,277,602 shares issued and outstanding as of October 31, 2010, 2,000,000 shares issued and outstanding as adjusted)(1)(2)	\$ 192,776	\$ 451,776
Paid-in capital in excess of par(2)	139,094,206	163,435,906
Distributions in excess of net investment income	(13,517,041)	(13,517,041)
Accumulated net realized gain on investment transactions	6,079,827	6,079,827
Accumulated net realized foreign exchange gains	14,672,714	14,672,714
Net unrealized appreciation on investments	76,658,595	76,658,595
Net unrealized foreign exchange loss	(8,280)	(8,280)
Net Assets	\$ 223,172,797	\$ 247,773,497

(1) The Fund does not hold any of these outstanding shares for its account.

(2) As adjusted, additional paid-in capital reflects the issuance of Common Shares offered hereby (\$25,900,000), less \$0.01 par value per Common Share (\$259,000), less the estimated offering expenses borne by the Fund (\$1,299,300) related to the issuance of shares.

UNDERWRITING

Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated are acting as representatives of the underwriters (the "Underwriters") named below. Subject to the terms and conditions stated in the underwriting agreement, dated the date of this Prospectus Supplement, each Underwriter named below has agreed to purchase, and the Fund has agreed to sell to that Underwriter, the number of Common Shares set forth opposite the Underwriter's name.

Name of Underwriter	Number of Common Shares
Citigroup Global Markets Inc.	
Morgan Stanley & Co. Incorporated	
Total	

The underwriting agreement provides that the obligations of the Underwriters to purchase the Common 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 Common Shares (other than those covered by the over-allotment option described below) if they purchase any of the Common Shares. The Underwriters propose to offer some of

the Common Shares directly to the public at the public offering price set forth on the cover page of this Prospectus Supplement and some of the Common Shares to dealers at the public offering price less a concession not to exceed \$ _____ per Common Share. The sales load the Fund will pay of \$ _____ per Common Share is equal to 4.0% of the public offering price. The Underwriters may allow, and the dealers may reallow, a concession not to exceed \$ _____ per Common Share on sales to other dealers. If all of the Common Shares are not sold at the public offering price, the representatives may change the public offering price and other selling terms. Investors must pay for any Common Shares purchased on or before _____, 2010. The representatives have 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 45 days from the date of this Prospectus Supplement, to purchase up to an additional _____ Common Shares at the public offering price per Common Share, less the sales load. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each Underwriter will be obligated, subject to certain conditions, to purchase a number of additional Common Shares approximately proportionate to such Underwriter's initial purchase commitment.

The Fund's currently outstanding Common Shares are, and the Common Shares offered by this Prospectus Supplement and the accompanying Prospectus will be, subject to notice of issuance, listed on the Amex under the trading or "ticker" symbol "IAF."

The Fund, the Investment Manager and the Investment Adviser have agreed that the Fund will not, without the prior written consent of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, offer, sell, contract to sell, pledge, or otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Fund or any affiliate of the Fund or any person in privity with the Fund, directly or indirectly, including the filing (or participation in the filing) of a registration statement with the SEC in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, any other Common Shares or any securities convertible into, or exercisable, or exchangeable for, Common Shares; or publicly announce an intention to effect any such transaction for a period of 150 days after the date of the underwriting agreement. In the event that either: (a) during the last 17 days of the 150-day period referred to above, the Fund issues an earnings release or material news or material event relating to the Fund; or (b) prior to the expiration of such 150-day period, the Fund announces that it will release earning results during the 16-day period beginning on the last day of such 150-day period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the date of the earnings release or the occurrence of the material news or material event, as applicable.

The following table shows the sales load that the Fund will pay 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 Common Shares.

	Paid by the Fund	
	No Exercise	Full Exercise
Per Share	\$ _____	\$ _____
Total	\$ _____	\$ _____

In connection with the offering, one or more of the Underwriters may purchase and sell Common Shares in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of Common Shares in excess of the number of Common Shares to be purchased by the Underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of shares made in an amount up to the number of Common Shares represented by the underwriters' over-allotment option. In determining the source of Common Shares to close out the covered syndicate short

position, the Underwriters will consider, among other things, the price of Common Shares available for purchase in the open market as compared to the price at which they may purchase Common Shares through the over-allotment option. Transactions to close out the covered syndicate short involve either purchases of Common Shares 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 Common Shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing Common Shares 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 the Common Shares 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 Common Shares in the open market while the offering is in progress.

The Underwriters may also impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the representatives repurchase Common 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 the Common Shares. They may also cause the price of the Common Shares 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.

A Prospectus Supplement and accompanying Prospectus in electronic format may be made available on the websites maintained by one or more of the Underwriters. Other than this Prospectus Supplement and the accompanying Prospectus in electronic format, the information on any such Underwriter's website is not part of this Prospectus Supplement or the accompanying Prospectus. The representatives may agree to allocate a number of Common Shares to the Underwriters for sale to their online brokerage account holders. The representatives will allocate Common Shares to Underwriters that may make Internet distributions on the same basis as other allocations. In addition, Common 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 of the 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 the Investment Adviser and their 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 the Investment Adviser and their affiliates in the ordinary course of business.

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

Total underwriting compensation determined in accordance with Financial Industry Regulatory Authority ("FINRA") rules is summarized as follows. The sales load the Fund will pay of \$ per share is equal to 4.0% of gross proceeds.

The principal business address of Citigroup Global Markets Inc. is 388 Greenwich Street, New York, NY 10013. The principal business address of Morgan Stanley & Co. Incorporated is 1585 Broadway, New York, New York 10036.

No action has been taken in any jurisdiction (except in the United States) that would permit a public offering of Common Shares, or the possession, circulation or distribution of this Prospectus Supplement and the accompanying Prospectus or any other material relating to the Fund or the Common Shares in any jurisdiction

where action for that purpose is required. Accordingly, Common Shares may not be offered or sold, directly or indirectly, and neither this Prospectus Supplement and the accompanying Prospectus nor any other offering material or advertisements in connection with the Common Shares may be distributed or published, in or from any country or jurisdiction except in compliance with the applicable rules and regulations of any such country or jurisdiction.

Director Ownership of Underwriter Securities

As of the date of this Prospectus Supplement, Brian Sherman, a director of the Fund, beneficially owns approximately \$7 million of debt securities issued by Citigroup Global Markets Inc. or an entity directly or indirectly controlling, controlled by, or under common control with, Citigroup Global Markets Inc. and approximately \$7 million of debt securities issued by Morgan Stanley & Co. Incorporated or an entity directly or indirectly controlling, controlled by, or under common control with, Morgan Stanley & Co. Incorporated. These holdings represent a de minimis amount of the total outstanding debt of the respective parent companies of such Underwriters. As a result of such beneficial ownership, Mr. Sherman will be treated as an "interested person" (as that term is defined in Section 2(a)(19) of the 1940 Act) of the Fund, during and until the completion of this offering.

LEGAL MATTERS

Certain legal matters will be passed on by Willkie Farr & Gallagher LLP, 787 Seventh Avenue, New York, New York 10019, counsel to the Fund, in connection with the offering of the Common Shares. Certain legal matters in connection with this offering will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017. Willkie Farr & Gallagher LLP and Simpson Thacher & Bartlett LLP will rely as to matters of Maryland law on the opinion of Venable LLP, Two Hopkins Plaza, Suite 1800, Baltimore, Maryland 21201-2978.

ADDITIONAL INFORMATION

This Prospectus Supplement and the accompanying Prospectus constitute part of a Registration Statement filed by the Fund with the SEC under the Securities Act and the Investment Company Act of 1940, as amended. This Prospectus Supplement and the accompanying Prospectus omit certain of the information contained in the Registration Statement, and reference is hereby made to the Registration Statement and related exhibits for further information with respect to the Fund and the Common Shares offered hereby. Any statements contained herein concerning the provisions of any document are not necessarily complete, and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the SEC. Each such statement is qualified in its entirety by such reference. The complete Registration Statement may be obtained from the SEC upon payment of the fee prescribed by its rules and regulations or free of charge through the SEC's web site (<http://www.sec.gov>).

BASE PROSPECTUS

\$130,000,000

ABERDEEN AUSTRALIA EQUITY FUND, INC.

Shares of Common Stock

Aberdeen Australia Equity Fund, Inc. ("Fund," "we," "us" or "our") 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.

We may offer, from time to time, in one or more offerings, including through rights offerings, our shares of common stock, par value \$.01 per share ("Shares"). Shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each, a "Prospectus Supplement"). You should read this Prospectus and the applicable Prospectus Supplement carefully before your invest in our Shares.

Our Shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. We may not sell any of our Shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Shares.

Our Shares are listed on the NYSE Amex ("Amex") under the symbol "IAF." The last reported sale price of our Shares, as reported by the Amex on November 10, 2010, was \$13.20 per Share. The net asset value of our Shares at the close of business on November 10, 2010, was \$11.93 per Share.

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."

Shares of closed-end investment companies frequently trade at a discount to their net asset value. If the Fund's Shares trade at a discount to its net asset value, the risk of loss may increase for purchasers in a 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.

This Prospectus, together with any Prospectus Supplement, sets forth concisely the information about the Fund that a prospective investor should know before investing. You should read this Prospectus and applicable Prospectus Supplement, which contain important information, before deciding whether to invest in the Shares. You should retain the Prospectus and Prospectus Supplement for future reference. A Statement of Additional Information ("SAI"), dated December 8, 2010, containing additional information about the Fund, has been filed with the Securities and Exchange Commission ("SEC") and is incorporated by reference in its entirety into this Prospectus. The Table of Contents for the SAI is on page 35 of the Prospectus. You may call 1-866-839-5205, email InvestorRelations@aberdeen-asset.com or write to the Fund at 1735 Market Street, 32nd Floor, Philadelphia, Pennsylvania 19103 to obtain, free of charge, copies of the SAI and the Fund's annual and semi-annual reports to shareholders, as well as to obtain other information about the Fund and to make shareholder inquiries. The Fund's SAI, as well as the annual and semi-annual reports to shareholders, are also available on the Fund's website at www.aberdeeniaf.com. The 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.

Our Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

Prospectus dated December 8, 2010

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You should rely only on the information contained in, or incorporated by reference into, this Prospectus and any related Prospectus Supplement in making your investment decisions. The Fund has not authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not making an offer to sell the Shares in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this Prospectus and any Prospectus Supplement is accurate only as of the dates on their covers. The Fund's business, financial condition and prospects may have changed since the date of its description in this Prospectus or the date of its description in any Prospectus Supplement.

PROSPECTUS SUMMARY

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

The Fund The Fund is a non-diversified, closed-end management investment company organized as a Maryland corporation. See "The Fund."

The Fund's Shares are listed for trading on the Amex under the symbol "IAF." As of November 10, 2010, the net assets of the Fund were \$229,919,324 and the Fund had outstanding 19,277,602 Shares. The last reported sale price of the Fund's Shares, as reported by the Amex on November 10, 2010 was \$13.20 per Share. The net asset value of the Fund's Shares at the close of business on November 10, 2010 was \$11.93 per Share. See "Description of Shares."

The Offering We may offer, from time to time, in one or more offerings, including through rights offerings, up to \$130,000,000 of our Shares on terms to be determined at the time of the offering. The Shares may be offered at prices and on terms to be set forth in one or more Prospectus Supplements. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our Shares. Our Shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Shares.

Use of Proceeds We intend to use the net proceeds from the sale of our Shares primarily to invest in accordance with our investment objectives and policies. Proceeds will be invested within approximately 60 days of receipt by the Fund. See "Use of Proceeds."

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. Such debt securities will be rated in one of the four highest rating categories by a nationally recognized statistical rating organization or, if unrated, determined to be of comparable quality by the Investment Manager, and will typically have a maturity of 10 years or less. 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:

- *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.

- *Australian Securities Risk.* Because the Fund's investments are primarily in Australian securities, the Fund is 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. Also, Australia is located in a part of the world that has historically been prone to natural disasters such as drought and is economically sensitive to environmental events. Any such event could result in a significant adverse impact on the Australian economy.
- *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