

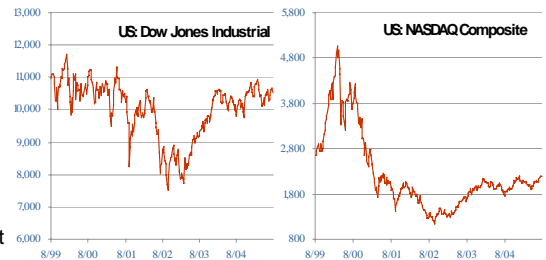
PRU MONTHLY INVESTMENT BRIEFING

Global equities initially rallied into August on a high octane mixture of global growth, positive corporate news and modest share valuations. Confidence smashed through the obstacles of terrorist attacks and surging oil prices. By mid-August, investors began reassessing as oil hit US\$64pb; upbeat Fed expectations trumped these concerns. The equity story remains good. They look inexpensive, especially relative to bonds, which seem up with events (though yields could fall again if pension funds add to holdings). Liquidity is abundant. Prudential's overriding concern is that growth is highly dependent on the US consumer and China's capital investment. June's low US savings show the extent to which the US recovery is built on sand. Should either falter, sentiment could reverse.

August 2005

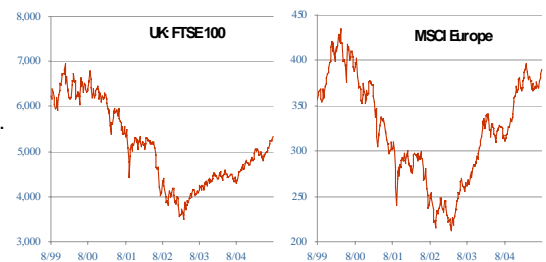
United States

- A solid run of favourable data has removed most lingering concerns over the sustainability of US economic growth in the face of soaring oil prices and higher rates.
- Housing and consumer demand remain in the driver's seat, a combination that could prove to be the recovery's Achilles' Heel given recent poor savings figures.
- US personal savings fell to zero in June. The US average household has made a fine art of borrowing against rising housing prices to fund spending. June's figures show they have pushed this policy to the limit. Unless wages rise, watch out!
- On the plus side, investors were reassured by June quarter profit reports that mostly exceeded expectations. Rather surprisingly, these showed only limited adverse impact from the powerful dollar rally on profits from extensive non-US operations.
- Valuations are an issue, but good profits surprises generally led to outperformance.



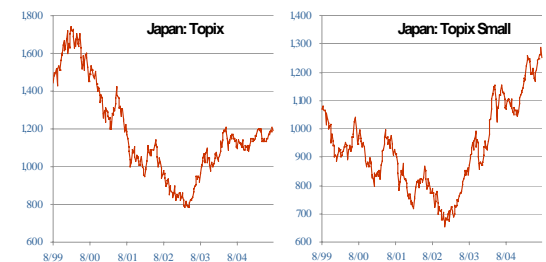
Europe

- UK and European equities are attracting buyers owing to positive corporate news, rising investor confidence and good value still; buyers are looking over the valley.
- Investor concern that the UK economy is slowing, quickly reversed after the Bank of England cut rates ¼% to 4½%. The Bank said that it will not repeat the cut; but that it has already cut when faced with reality of slower growth suggests it could do so again.
- Eurozone's economic outlook turned down a notch after the March quarter's more encouraging GDP data. Order books slid during the June quarter, but seem to be recovering into the September quarter. Finished goods stocks nudged higher.
- Possibly reflecting rising concern, European Central Bank lending to Eurozone residents is accelerating rising by 7.2% year on year in June c.f. 5.7% last December.
- Strong, stock specific stories abound despite the sluggish macro picture.



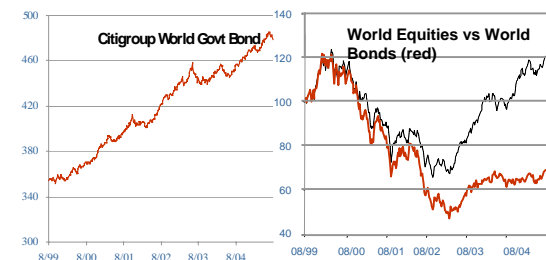
Japan

- Equities rallied into August as confidence grew that Japan's recovery is a reality. Oil prices at US\$64pb temporarily dampened enthusiasm; positive 2Q earnings reports overcame this. The recovery seems sufficiently embedded to overcome any political fallout from Mr. Koizumi's dissolving parliament.
- Japan's smaller stocks' rally seems to be running out of steam. While still strong, the valuation gap has closed; better relative value is appearing in the larger stocks.
- The June Tankan survey reported greater optimism among large corporations, but forecasts of profits growth vary widely. It is still a stock specific market.
- Investors shrugged off fears of any adverse fallout from China's revaluation – though share prices of some companies with large scale China based operations were hit.
- Profits forecasts again nudged higher, but not at the pace of the past three months.



Bonds

- Following a powerful rally that saw yields touch multi-year lows at June-end, bonds have settled into a consolidation phase as investors await further economic data.
- While selling off through July and into August, the extent of the selling does not suggest that oil-induced inflation fears have affected bonds (yet). Bonds still seem to be discounting a low growth, low inflation environment
- Corporate bond prices have followed government bonds, although they also benefited from closing yield spreads. This has been most notable for sub-investment grade and emerging market bonds, where confidence is returning following the Spring setbacks.
- The environment remains generally bond-friendly, although Prudential feels that bonds are expensive and is only a buyer on stock specific grounds. The bond jury is still out on the extent to which higher oil prices will boost inflation and slow growth.



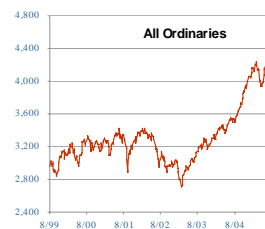
Currency

- The US dollar's strong March to July rally abruptly reversed in August reflecting concerns that US growth might falter as oil prices surged. This occurred even though the US Federal Reserve Board will likely push rates higher.
- Euphoria that China's July revaluation heralded the start of an on-going renminbi appreciation was dampened as Chinese officials confirmed Prudential's view that the significance of July's move lay in adopting the basket of currencies over the US\$ peg.
- Until the US budget and trade deficits fall, any rising interest rate induced dollar rally will likely be temporary. Recent US dollar strength reflected sluggish (and zero) base money growth. This growth surged in late July (increasing dollar supply) laying the grounds for some dollar weakness.



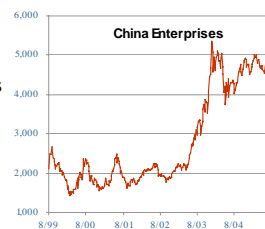
Australia

- The All Ordinaries Index was up 3%, lagging the region. Cash rates remained unchanged at 5.5%. Australian 10-year bonds were relatively flat selling off 5bp to 5.13%. Retail sales which had been declining recently rose 1%.
- The trade deficit was flat after contracting sharply last month. The terms of trade continued to improve with export prices rising 9.3% and import prices increasing 1.7% in 2Q. Recent increases in contract prices for coal and iron ore *inter alia* have sharply reduced Australia's current account deficit.
- Very few companies reported June 30 year end results in July. Most will report over August, however. Company news was minimal over the month in the black out period up to results announcement. A few value opportunities are starting to appear with the continued rise of growth stocks.



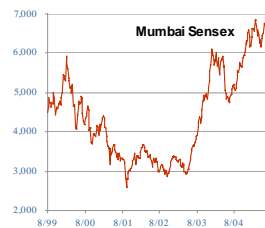
China / Hong Kong

- The Hang Seng index gained 5%, the highest monthly return since Nov 2004. Trading volume was strong as investors bought into HK domestic asset plays. Property stocks and property-related conglomerates outperformed.
- The Hang Seng China Enterprise Index also rallied, up 8%. Property and petrochemical stocks gained as investors reacted positively to the renminbi re-peg and higher oil prices, respectively. The re-peg from the US dollar to a basket of currencies resulted in a 2.1% appreciation for the renminbi.
- After the rally, valuation of most sectors in Hong Kong is less attractive. We remain positive on property landlords however as occupancy and rents are better than expected. We are also less negative on banks as they have underperformed year-to-date and fundamentals as well as valuation are looking more favourable.



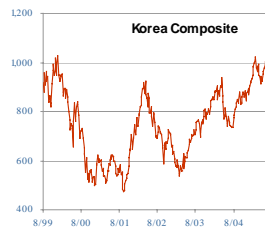
India

- The BSE Sensex closed up 6% due to continued foreign inflows and domestic liquidity. The Reserve Bank of India's macro-economic review was positive, guiding for about 7% GDP growth in FY06, while sounding some caution on inflation. It left the overnight borrowing rate unchanged at 5%.
- Electrical equipment major, BHEL had a robust five-fold profit growth on strong orders, cost savings. Textile major Arvind Mills reported a 150% rise due to cost savings and improved volumes. The software industry surprised negatively due to company-specific reasons, and the rupee appreciation vs. European currencies, however.
- The market has run up sharply due to improving fundamentals and growing interest, and is trading at 15.5x 2005 earnings. India can provide decent upside for a patient investor with a medium-term investment horizon.



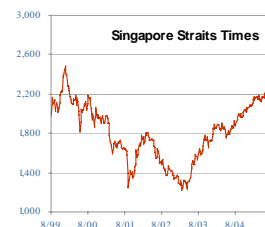
Korea

- Korea rallied strongly with the KOSPI up 9%. Foreign interest returned while domestic institutions continued buying the market. The monthly inflow into equity funds was strong at US\$650m, one of the major market drivers. Best performing stocks included selected IT names like Hynix and Samsung Electronics, and banking stocks.
- Domestic economic indicators improved slightly. 2Q GDP growth was +3.3%, private consumption was up 2.7% yoy while the contribution of exports continued to decline. Consumer sentiment dipped below 100 due to high oil prices but retail sales remained resilient, with positive year-on-year growth for five consecutive months.
- Company results so far have been broadly positive. For large-cap names, results were generally either in-line with or better-than-expected except. By sector, banking, insurance and telecoms reported strong results.



South East Asia

- Singapore (Straits Times Index) appreciated for the third consecutive month, gaining 6%. Property stocks and banks outperformed on the back of expectations they will benefit from recent policy changes to property financing. The market is trading at 15.4x prospective earnings. Valuation is not compelling, but the average dividend yield of 3.4% remains attractive relative to domestic interest rates and is should lend support to equities.
- Malaysia (Kuala Lumpur Composite Index) rose 5%, partly fueled by Bank Negara's decision to scrap the ringgit peg and switch to a managed float. The peg removal should result in a stronger ringgit, which will improve the country's debt ratio, curb inflation and offer greater monetary flexibility. Banks were among the best performers.
- Indonesia (Jakarta Composite Index) was up 4% on soaring foreign investment and continuous funds inflow. We expect steady improvement in macro fundamentals. Absolute and relative valuation remain relatively cheap.



Taiwan

- The market underperformed the region, with the Taiwan Weighted Index up only 1% after June's strong rise. The renminbi revaluation triggered cost pressure concerns for Taiwanese companies with a manufacturing base in China. Domestic consumption-related sectors were up; banking and financial stocks also performed well.
- Headline inflation came in higher at 2.3% yoy in May largely due to food prices. Core CPI was steady at 0.6% yoy suggesting the central bank has room to continue its stimulatory stance. Exports slowed down to 4% yoy growth in May. Industrial production was negative signaling the continued shift to China. June's leading indicators were positive, but the longer-term (2006) outlook still depends on global demand.
- Valuation is low compared to history, regional peers. Add to the structural improvements, we are positive Taiwan.



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