

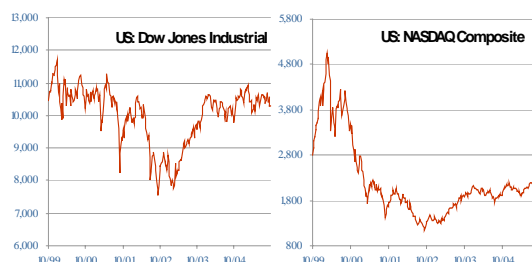
# PRU MONTHLY INVESTMENT BRIEFING

Major gains characterized most equity markets for the September quarter. Once again, variations in returns from different markets and sectors were significant. The main prizes went to Japan and emerging markets. The US again lagged. Commodities and resource-related sectors were outstanding. Bonds were steady. The final quarter will likely trigger intense discussions about the outlook for economies and financial markets in 2006. Prospects for the US, where high oil prices and rising interest rates may lead to an economic slowdown, will be keenly debated. Investor confidence is robust, liquidity is plentiful. Stock market valuations, though not as cheap as they were, are comparatively undemanding, which should support further upside.

October 2005

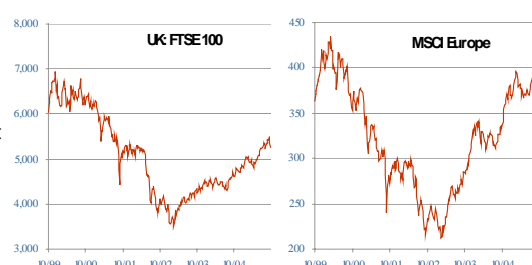
## United States

- US equity markets seesawed between major hurricanes in September, climbing briefly after Hurricane Katrina petered out, then falling sharply ahead of Hurricane Rita.
- Prior to the storms, the US was forecast to outperform other G7 economies in the second half. Second quarter annualized growth, at 3.4%, was expected to pick up.
- There is concern that Katrina's devastation, supply disruption could trim growth. We are confident that things will not be as bad as feared. Rita did not deliver the expected knockout blow. Oil prices were already rising prior to both storms; this did not prevent strong economic growth and healthy corporate profits from emerging.
- Our main concern is that US growth depends heavily on consumer spending, given the low savings rate and the recent fall in consumer confidence. With the relatively demanding level of stock market valuation, we retain our generally cautious view.



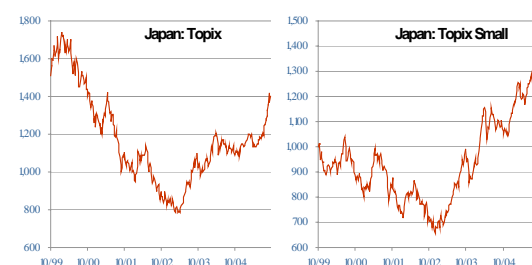
## Europe

- UK and mainland Europe equities extended their year-old rally into September, driven by rising corporate profits and dividends, ongoing restructuring and an apparent pickup of mergers and acquisitions.
- We believe the political stalemate created by Germany's recent national elections will not likely slow the pace of corporate restructuring, especially given the dramatic recent shift in ownership of listed companies in favour of US and UK shareholders.
- Economic growth prospects vary considerably: growth in the UK is slowing, a mild recovery is underway in Eurozone, whilst emerging Europe is expanding by 4% p.a.
- Throughout the region, valuation is undemanding and liquidity plentiful. Restructuring plays, western European companies with high emerging European exposure and eastern European markets themselves, will likely generate the best returns.



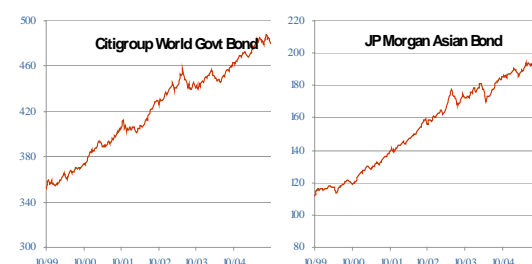
## Japan

- Japan's Nikkei 225 Index reached a four-year high after shrugging off August's oil price spike. It also broke out of the range in which it had been locked since April 2004.
- Confidence in the economy has grown and investors took heart in the September 11 election called by Prime Minister Koizumi, who won handily. The election fanned optimism about prospects for continued reform and restructuring.
- The outlook for Japan is probably the best it has been in many years. Emerging data indicates increasingly that the country is moving toward a sustained economic recovery despite 2005's soft patch.
- The economy looks well set, company profits are increasing, restructuring and change have further to run. The market might prove vulnerable to profit-taking in the short term, however; this provides new buyers an opportunity to build holdings.



## Bonds

- Conditions in bond markets remain stable, with investors appearing relaxed about the impact of higher oil prices despite high valuations. So far, core inflation is subdued, although central banks are watchful for signs of more persistent inflationary pressures.
- Corporate bond prices have similarly benefited, gaining from renewed confidence in the corporate sector, as shown by maintained credit quality and low default level. A steady appetite for risk sees selective buying interest in sub-investment grade bonds.
- We continue to favour government bonds in the UK and in Europe, especially 10-15 year maturities. We maintain our enthusiasm for top quality corporate issues (A-AAA credits) but now believe that some high yield issues also offer good value.
- Selectivity in buying corporate bonds remains crucial, focusing on both undervalued securities and avoiding issues by companies likely to encounter difficulties.



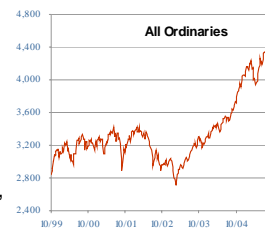
## Currency

- The US dollar was bolstered by the US Fed's September 20 decision to raise the federal funds rate a quarter point; the Fed said Hurricane Katrina did not pose "a more persistent threat" to the US economy.
- The yen rose sharply against the US dollar through September and seems poised to reverse an eight-month decline against the greenback. The rise occurred against a backdrop of what appears to be a sustainable economic recovery in Japan
- The yen had weakened against the dollar for most of this year as the US's own economic recovery gained traction. Prudential believes the inflation-adjusted trade-weighted yen index is a more valuable tool for gauging the yen's impact on the economy, which shows the yen remains competitive overall.



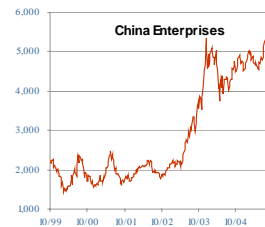
## Australia

- The All Ordinaries Index gained 4% in September. The best performing sectors were healthcare and materials while telecoms and IT lagged the market. The unemployment rate held steady at 5% in August, but many industries are encountering labour shortages. The economy grew 2.6% yoy in 2Q05 compared to 1.9% in 1Q05.
- Australia and Japan are negotiating a free trade pact; Australia stands to gain USD 38.7bn through this deal. The sale of the government's stake in telecom giant Telstra will likely go ahead in October or November 2006.
- The rising valuation of growth stocks has resulted in an opportunity to find value in the market. Banks, general insurance and gaming offers strong relative value, whilst the majority of health care and gold stocks are expensive, in our view.



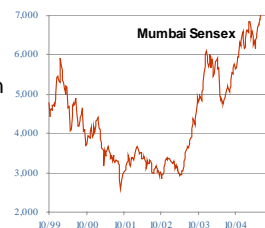
## China / Hong Kong

- The Hang Seng Index gained 3%. China Mobile, property giant Cheung Kong and industrial Hutchison Whampoa were among the top performers. Banks lagged as investors turned cautious about growing industry competition.
- The China Enterprises H-share Index gained 1%. Basic materials outperformed the broader market as prices for copper, aluminium and coal increased on the back of strong demand.
- Prudential views Hong Kong's valuation as unattractive relative to the market's own history and compared with regional markets. We favour domestic-focused companies given the positive economic outlook, i.e., retail property and banks with strong consumer banking franchises. In China, like infrastructure themes such as ports and electric power companies, which play a pivotal role in China's dominance as a key manufacturing centre.



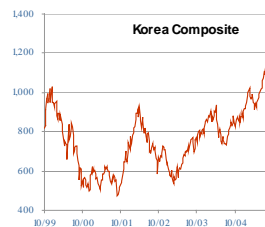
## India

- The Mumbai Sensex Index gained a robust 12% in September, the largest monthly gain since December 2003. The performance was underpinned by strong liquidity and improving fundamentals.
- Economic growth for the June quarter was 8.1% against consensus expectations of 7%. Manufacturing grew at an all-time high of 11.3%, while services rose 8.9%. Total non-farm sector growth was 9.8%, also an all-time high. The trade deficit widened to US\$15.8bn, however, despite the healthy 20% growth in exports.
- Prudential believes India can continue to provide upside for patient investors with a medium-term investment horizon. We expect the ride to be volatile, however. Earnings expectations are moderating for full year FY06 compared to 35% growth in FY05, although forecasts are for a still-robust 20% increase.



## Korea

- Korea Composite Index was up a robust 12% driven by a strong flow of money into local equity funds. Financials such as brokerage, banking and insurance were the best performers. Conversely, information technology, telecom and consumer stocks were the big laggards.
- August industrial production increased 5.5% yoy. Though the result was weaker than market expectations of 7-8% growth, it showed a healthy trend in domestic consumption and construction investments.
- From a longer term perspective, Prudential remains positive on Korea because valuation remains attractive both against other Asian markets and Korea's history. We are cautious about the market's strong year-to-date rise and what appears to be too much investor optimism toward 2006 earnings, however.



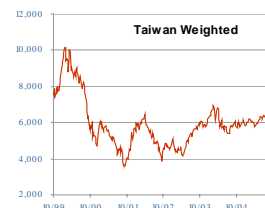
## South East Asia

- The Straits Times Index rose just 1%. Property stocks led given to the pick-up in interest and transactions in the physical market. Oil-related stocks also gained, while tech and REITS generally lagged. Valuation is not compelling, but dividend yield is attractive relative to domestic interest rates and should lend support to equities.
- The Kuala Lumpur Composite Index was also largely flat, up 1%. The government has narrowed its 2005 economic growth forecast to 5% from an earlier range of 5-6% due to higher oil prices and interest rates. Valuation is not compelling but an average dividend yield of 4% should provide downside support.
- Thailand's SET Index gained 4%. We still see the Thai market as cheap, with the hard decisions on fuel subsidies already made. The recent market rise has closed some of the valuation gap with the region, though.
- In Indonesia, the Jakarta Composite Index was up 3%. The rupiah stabilised after its sharp depreciation in August.



## Taiwan

- The Taiwan Weighted Index was flat. High oil prices led to concerns about the US economy and demand for tech exports. Deteriorating credit quality of cash card and credit card portfolios of leading banks also hurt sentiment.
- Headline inflation climbed to 3.6% year-on-year in August from 2.4% in July, driven largely by higher food prices. Underlying inflation remained modest though, with the core CPI rising 0.7% year-on-year. The central bank raised its policy rediscount rate 12.5bps to 2.125%, in line with market expectations.
- The market is going through structural changes, namely improvements in cross-strait relationships, a recovery in domestic consumption and also the property cycle, increased dividend payouts, and better corporate governance that we view as positive in the longer run. Valuation is attractively compared to both its history and regional peers.



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