

A person holding a dark umbrella stands in the foreground, silhouetted against a hazy, foggy city skyline. The background features several tall buildings, including a prominent tower with a spherical top. The overall atmosphere is misty and urban.

POLY GROWTH FUND I

Opportunity in China's New Cities

Who We Are

Poly Growth Fund I is a private equity fund investing in the next phase of development for Shanghai Pudong and structured to offer unparalleled deal creation, access, and implementation.

We are partnered with the Poly Group, who is the strategic partner to the municipal government for the development of Shanghai Pudong's next phase.

Our fund is RMB-denominated, with a target raise of \$300M plus a subsequent USD offshore parallel fund.

Unprecedented Opportunities for Investment

- China's dramatic and rapid economic growth has resulted in a highly developed industrial base and a burgeoning market
- This massive growth has led to an economic climate and sprawling infrastructure Premier Wen Jiabao has characterized as “Unbalanced, Uncoordinated, and Unsustainable”
- While Environmental degradation is the biggest long-term risk to China's economic future, energy infrastructure represents the biggest short-term challenge
- The end of the “industrial city” will combine with rapid urbanization to create a wide array of new opportunities
- As fast as it grew, China will now condense and intensify

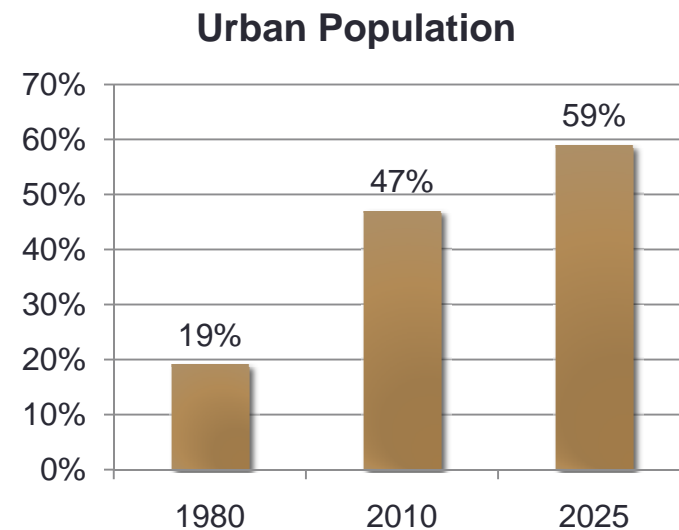
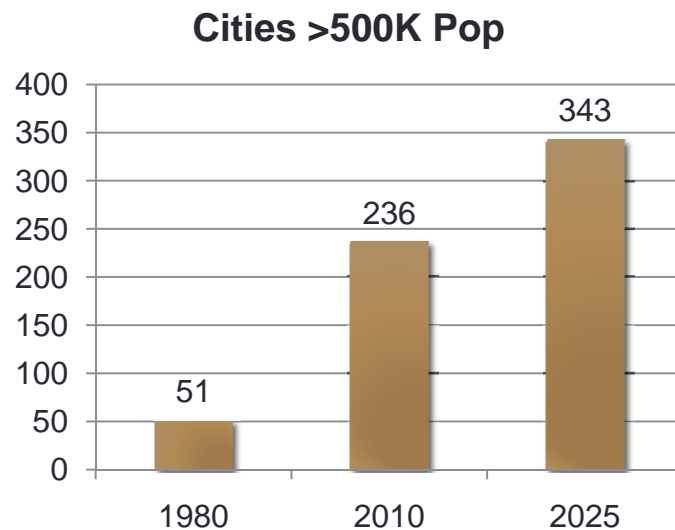
The 12th 5-Year Plan: “Don’t Panic!”

China becoming a “Red Giant”?

1. Resource constraints on energy and raw materials
2. Imbalance of investment and consumption
3. Income disparity
4. Weakness of domestic innovation
5. Too much heavy industry, not enough service industry
6. Weak agricultural foundation
7. Uncoordinated urban/rural development
8. Imbalanced employment system
9. Social contradictions are progressively more apparent
10. Obstacles to scientific development continue to exist

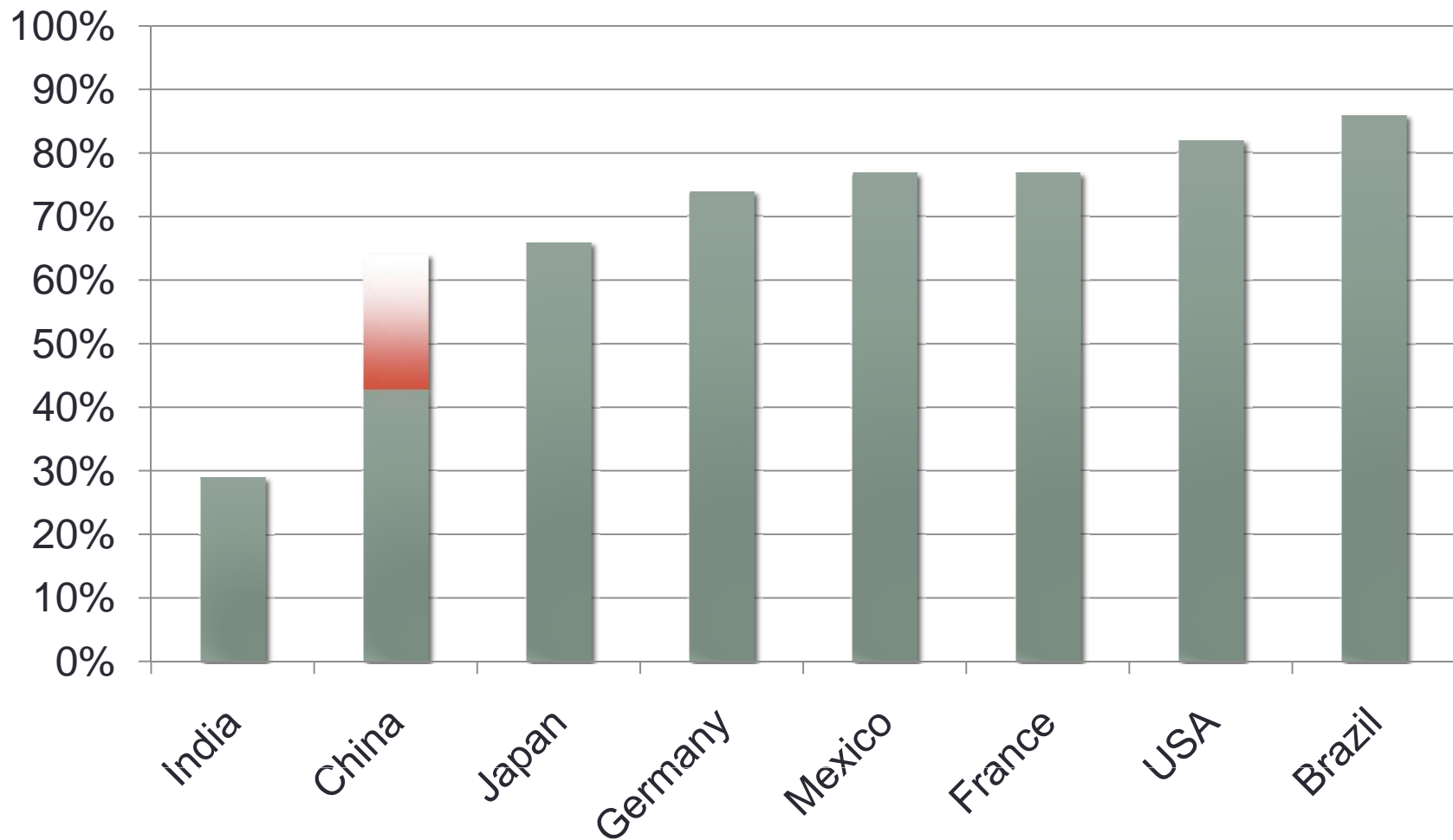
How many San Franciscos?

- Urban population will go from 642M today to 1B in 2020
- >45 million jobs to be created in urban areas
- Unemployment to be kept under 5%
- China's city-generated GDP will rise from 75% to 95%



Source Chart 1 McKinsey & Co., China's Urban Billion

Relative Urbanization Today and 2025



The 12th 5-Year Plan: Solutions

- Develop new SEI (“Strategic Emerging Industries”)
 - Health Care
 - Energy and the Environment
 - Technology
- Reduce China's energy consumption
 - The 200B RMB allocated during the 11th 5-Year stimulus plan purportedly created 2T in economic activity
 - Investment 2010-2015 may reach 3T RMB.
- Build the “China market”
 - “Inclusive growth” (包容性增长 or *baorongxing zengzhang*)
 - “Strong State, Wealthy People” (国强民富 or *guoqiang minfu*) becomes “Wealthy People, Strong State” (民富国强 or *minfu guoqiang*)
 - Narrow income gap by increasing universal health care and minimum wage (>40%)

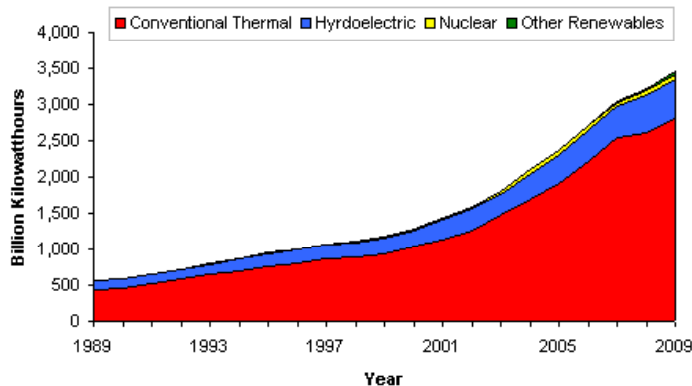
SEI in the 12th 5-Year Plan

- Health Care
 - Reform health care system with overhaul of pharmaceutical industry and promotion of biotechnology with R&D of 12B RMB for new drugs 2011-15
- Energy and the Environment
 - Consolidate coal sector from 11,000 entities to 4000, with 10 occupying >66%
 - Nuclear reactors from 11 to 25 in 2015, hydro increase by 50%
 - Power grid investment to exceed US\$2.5 billion to install smart grid tech
 - Alternative energy
 - Energy efficient cars with electric vehicles reaching 1m/year by 2015
 - China needs an additional investment of \$64 billion annually over the next two decades to implement an "energy-smart" growth strategy (World Bank)
- Technology
 - Next-Generation IT: From "Made in China" to "Designed in China"
 - "Assimilate and Reinvent"
 - China will

Energy Consumption

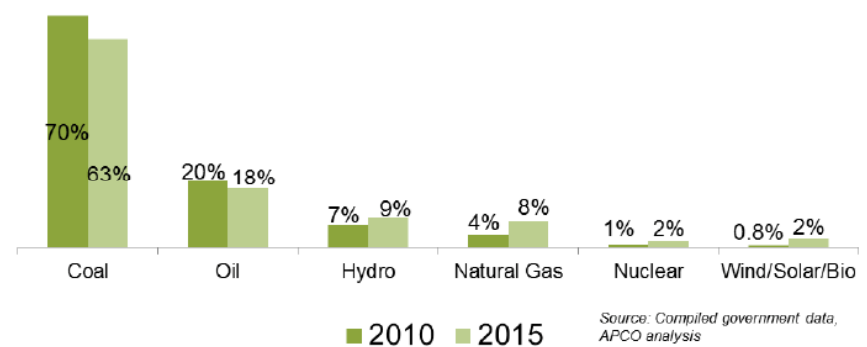
- Every 1% increase in GDP equals, at current rates, 1% increase in energy consumption. At this rate, China needs 2.5x by 2020
- Renewable energy (non-fossil) will increase from 8.3% in 2009 to 15% in 2020.
- Energy consumption per unit of GDP (energy intensity) to be cut by 16 percent
- Carbon dioxide emission per unit of GDP to be cut by 17%

China's Electricity Generation by Type, 1989-2009



Source: EIA International Energy Statistics

China's Estimated Energy Consumption



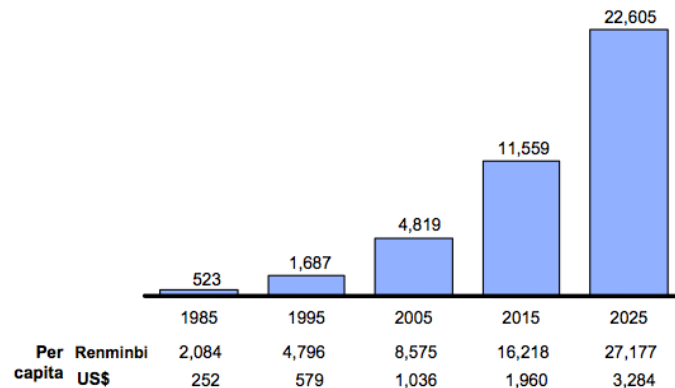
Source: Compiled government data, APCO analysis

The Market: From Factory to Market

- Household spending accounts for 55% in 2005, est. 74% in 2025 (China's average is 35%, compared with 71% in the United States and 57% in India)
- Shanghai's per-capita GDP will rise from \$10,000 in 2009 to \$23,000 in 2025, as part of Beijing's extraordinary long-term vision to raise China's from \$7500 today to \$10,000 by 2020.
- Minimum wage will increase 13-15% year-on-year

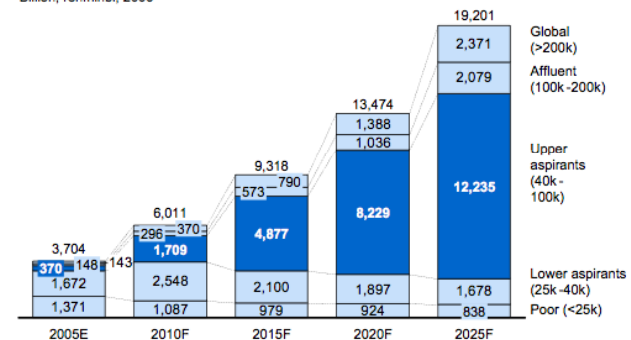
URBAN INCOMES WILL CONTINUE TO RISE DRAMATICALLY

Total urban household income billion, renminbi, 2000



URBAN CONSUMPTION WILL INCREASE SHARPLY, MAINLY DRIVEN BY UPPER ASPIRANTS

Urban consumption expenditure by income class
Billion, renminbi, 2000



Source: MGI China Consumer Demand Model, v2.0

Source: Both charts from McKinsey's "China Consumer Demand" 2006

Shanghai

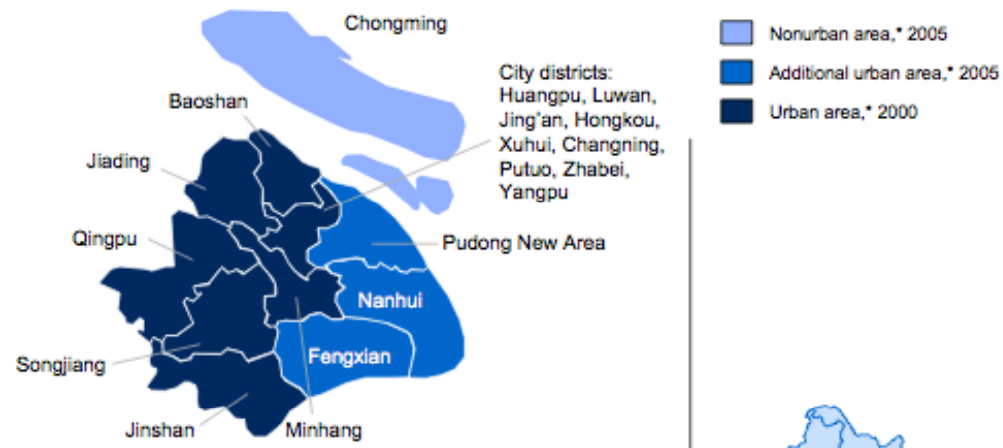
- Shanghai will be China's (and the world's) first "mega-city", 25 million by 2025
- Shanghai's GDP exceeded Hong Kong's in 2009
- Shanghai: New York or Detroit?
- Shanghai is slowing: 3 years of slower growth than China
- Urbanization necessitates sustainability and economic transformation

"The city's land resources and environment can't afford the extensive growth model that it used over the past 20 years [...] Let the service sector drive the city's growth in a more sustainable way" *Lu Zheng Wei, Industrial Bank Economist, January 23*

Shanghai, The First Supercity

Shanghai's vital urban statistics

MAP NOT DRAWN TO SCALE



Vital statistics	1990	1995	2000	2005	2025
Urban area* km ²	750	2,057	3,924	5,299	5,299
Urban population Thousand	8,206	11,103	14,349	17,130	25,075
Real GDP/capita Renminbi thousand	12.30	19.15	28.56	45.19	157.72



* Urban area is defined using the census total concept as of the most recent full census conducted in 2000; in the case of Shanghai, its urban area was updated by the National Bureau of Statistics in 2001.

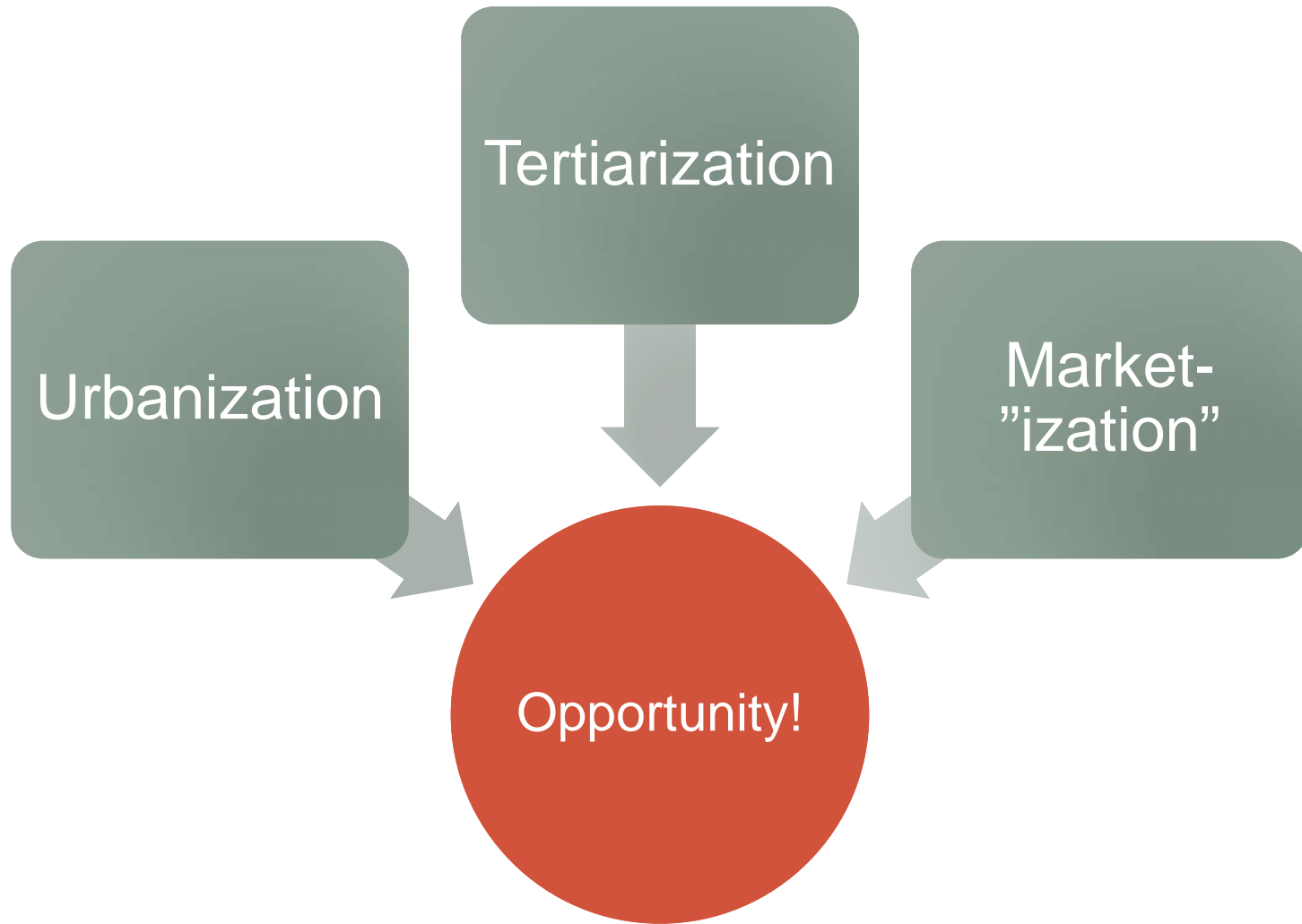
Source: National Bureau of Statistics; McKinsey Global Institute analysis

5-Year Reform of Shanghai

- SEIs:
 - Pudong will become China's high tech R&D and new tech manufacturing center
 - Peking University, Tsinghua University and Fudan University merge R&D into Shanghai's "National Microelectronics Center"
- Great market for cleantech development and implementation
 - 15M population offers both density and economies of scale in public transportation, smart grids, and other environmentally-friendly infrastructure
- Tertiarization:
 - Shanghai's service sector accounted for only 59.4% of its GDP in 2009, compared to Tokyo (83%) and New York (92%)
 - The rising cost of manufacturing has moved all but the highest-end manufacturing out of the city

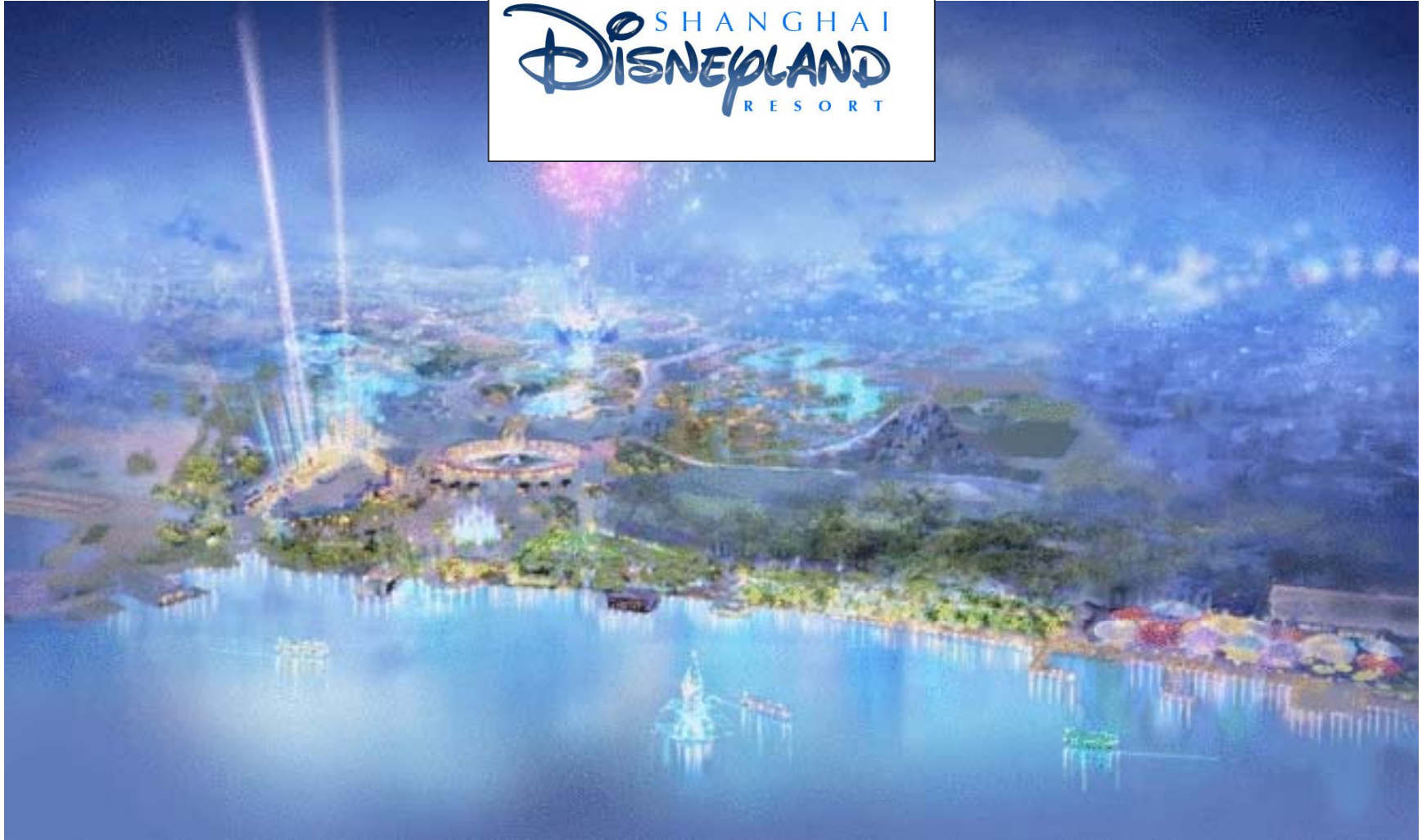
"Shanghai will deepen its growth model, restructure in the coming years and maintain the growth momentum, the city has to make breakthroughs in the development of the financial service sector and high-tech industries over the next five years,"

Shanghai Mayor Han Zheng, January 21, 2011



GET READY FOR SOME MAGIC...

SHANGHAI
DisneyLAND
RESORT



Why is Disney important?

- Urbanization
 - Forced optimization of existing infrastructure
 - Greenfield for cutting-edge cleantech
 - Provide local entertainment and other diversified lifestyle resources
- Tertiarization
 - The Disney project will bring a wide assortment of service-related entities and talent on a large scale
- “Market-ization”
 - Promote domestic self-sustaining economics
 - Increase domestic consumption by localizing a major tourist destination

Shanghai Disneyland

Park area and supporting area 7km², and the total area to be redeveloped for this new destination is 82km². New York is 127km², Disney World with its four resorts is on 109km² of land.



Disneyland and the New China Economy

- Shanghai has allocated an area the size of Disney World
 - Pudong Government (proxy) has 57%, Disney 43%
 - Tourism area's forecasted budget is US\$38B
 - Park is US\$4B investment
- The Disney Park and the area around it will be a focal point and catalyst of China's new economy
 - Pilot for sustainable urbanization initiatives
 - Necessitates the convergence of cutting-edge cleantech
 - Launchpad for China's transition from industrial-based to service-based economy

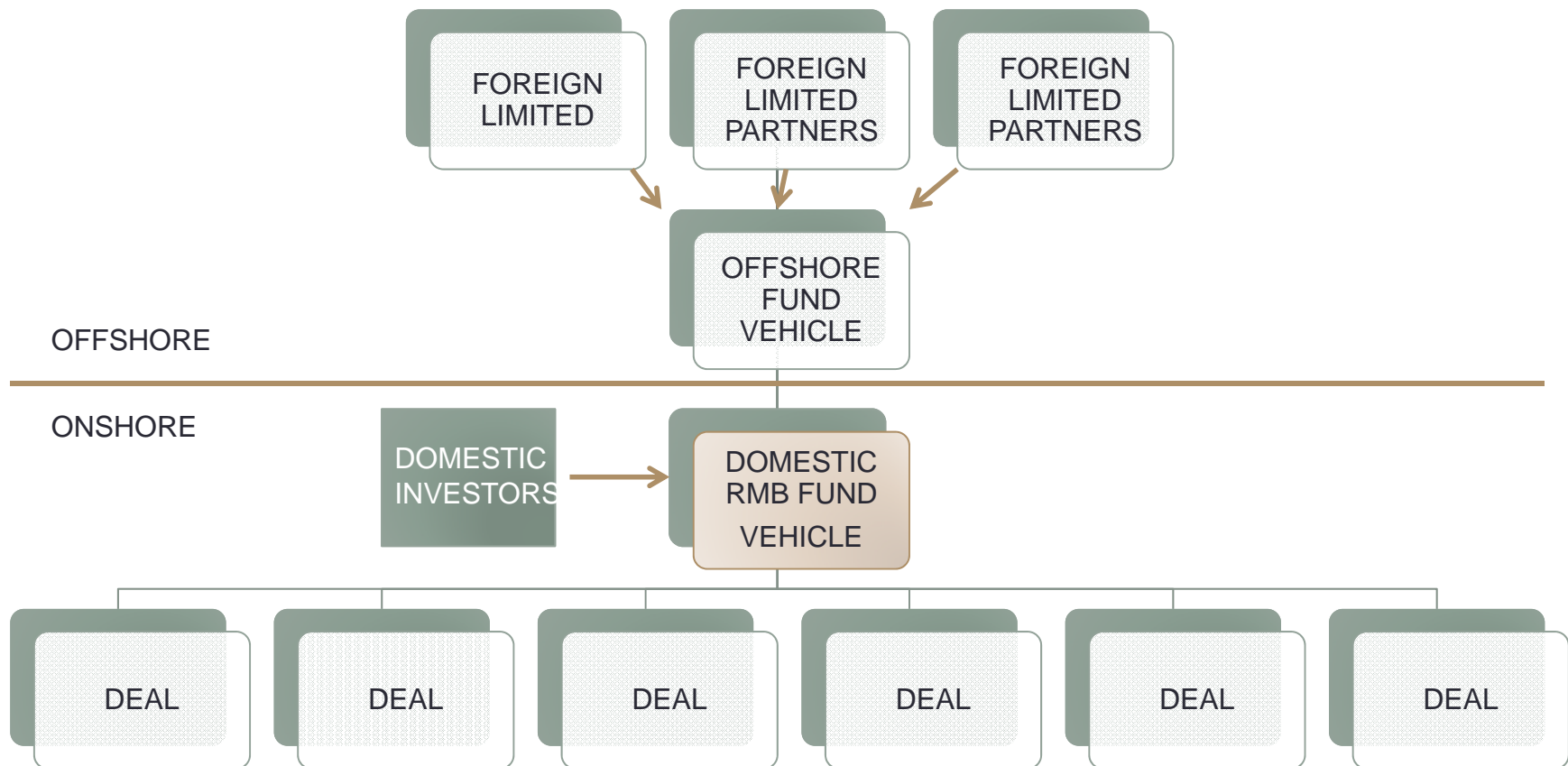
Why Private Equity?

- The central government believes in the power of private equity investing and has made a massive push to develop domestic PE industry, thus;
- PE Funds will be used as one of the core financing sources to fund China's next phase of development
- The ability to access choice deals and preferential policies that will facilitate success will be available to PE funds partnered with government entities
- PE investing enables greater and more efficient diversity than could be achieved through direct investment
- In addition to generating superior diversity, PE investing marshals management expertise and creates superior interest alignment

Fund Structure: Why RMB?

- Domestic RMB-denominated funds will quickly dominate China's PE market
- Government prioritizes domestic funds due to secure taxation
- Lack of foreign exchange controls or foreign investment approval requirements
- Key to China's development of its financial services industry and the establishment of RMB as a global currency
- Strong policy push to encourage foreign investment in PE funds brings incentives and subsidies
- Accessible exits through sales to domestic entities or listings on Chinese or foreign exchanges

Fund Structure: Looking in Poly GFI



What we will do

- Work closely with Pudong and central governments to identify existing requirements and create new solutions
- Invest in these opportunities supporting Pudong's next phase of development, with the tourism area around Disney as the initial focal point
- Bring best-of-class energy projects and resources to Shanghai to both retrofit existing and develop new infrastructure



谢谢!

For more information on the Poly Growth Fund, please contact

alex@polypartners.net