



S.F. firm gets China investor

DCM PARTNER SEES 'NEW TREND'

By Scott Duke Harris
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Venture capital flowing from Silicon Valley to China is old news. What's new are the investment dollars trickling back from China's fast-growing economy.

In a deal announced today, Tencent Holdings, the operator of one of China's top Internet portal and instant messaging services, led an \$11 million investment for San Francisco-based Outspark, a company that operates a "virtual playground" for online gamers.

"It's the start of a new trend, and we're glad to be ahead of the curve," said David Chao, managing partner of DCM, a valley venture firm with several investments in China. DCM and Altos Ventures, Outspark's seed investors, joined Tencent in the investment round.

Chinese companies, Chao noted, are increasingly investing in U.S. companies, including such major deals as Lenovo's acquisition of IBM's personal computer business. In 2005, a Chinese petroleum giant dropped its bid to buy Unocal amid intense scrutiny by federal authorities.

More recently, billions have flowed from the state-controlled Chinese Investment Corp. to American financial giants, including \$5 billion for a nearly 10 percent stake in Morgan Stanley. Earlier, Chinese Investment Corp. bought a stake in the private equity firm Blackstone for \$3 billion, and state-controlled Citic Securities Co. and Bear Stearns collaborated in a \$1 billion deal.

"Now I think (Chinese companies) are coming into Silicon Valley," Chao said. "We're starting to see it."

Serendipity led to the investment, according to Susan Choe, Outspark's founder and chief executive: "We were not looking for a Series B" - a second round of venture financing. "We just happened to cross paths with management at Tencent and realized we had similar visions about how online games roll up into a social community. . . . And the management of Tencent is very international."

"Online gaming has become one of the most important new cultural phenomena in Asia, and we believe that PC-based online games will find a huge market here in North America as well. Outspark is off to a great start," David Wallerstein, a Tencent senior executive vice president, said in a press release.

Outspark says that in five months it has attracted more than 1 million registered users who play games and socialize on their site. The social aspects of the site have even led to virtual "weddings" of players' avatars, Choe said. Online gaming, she said, is quickly becoming "mainstream entertainment."

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