

## **VCs see need to boost China presence**

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**Dow Jones Newswires**

**11 April 2007**

NEW YORK (AP) - With business in China booming, most venture capitalists are coming around to the view that the only way to invest in China is to have a presence there.

Many of China 's 20 most active investors -- such as Walden International, Sequoia Capital and Granite Global Ventures -- now have branches there, according to research conducted both by VentureOne, a research company that tracks venture capital investments and The Private Equity Analyst, a newsletter, which are both owned by Dow Jones & Co.

The pace has picked up over the last year or so as venture investments in China have taken off. VCs, drawn to China 's population and stock of well-trained engineers and technologists, pumped \$1.8 billion into Chinese deals last year, 55 percent more than in 2005, according to Ernst & Young and VentureOne.

In lieu of opening their own offices in China , other investors have opted to go through a local partner to establish a presence in the country. For instance, Mayfield Fund, a limited partner in the \$75 million debut fund raised by Chinese venture firm GSR Ventures, became a general partner in the \$200 million partnership the firm closed recently.

Meantime, Accel Partners teamed up with longtime China investor International Data Group in 2005 to launch a \$250 million China fund. Accel tapped into IDG's Chinese network -- 50 investment professionals operating from multiple offices -- through the IDG-Accel China Growth Fund, a pool managed by IDG. Other firms have approached IDG about forming similar relationships, according to IDG Ventures Boston General Partner Michael Greeley.

That's a change from a few years ago when many thought they could get by with occasionally jetting into the country, said Greeley . IDG has been investing in China since 1992.

"I worry at the model of sending someone over a couple days a month," Greeley said. "It's a difficult proposition."

Experience has taught firms that it's much more difficult to vet opportunities or help companies recruit without a local presence. VCs also recognize that China presents

challenges that can be tough to manage from afar. A central one: guarding trade secrets in a country without a long-standing tradition of intellectual property law. It's vital to have a local presence or a partner who understands the system and the recourses available to settle intellectual property disputes, said Carmen I. Chang, head of the China practice for law firm Wilson Sonsini Goodrich & Rosati.

Some still believe that it's possible to surmount these challenges without opening a China office or entering a formal alliance.

Waltham, Mass.-based Kodiak Venture Partners, for example, co-invested last year with Shanghai 's Dragonvest Partners in a first round of financing for Wireless China, a Beijing provider of text-messaging infrastructure services. That allowed Kodiak to tap Dragonvest's local networks and market intelligence informally, a spokeswoman said.

Woodside Fund, a Redwood Shores, Calif.-based firm that doesn't have a Chinese office, teamed up with IDG and another well-known China investor, DCM, to fund Analogix Semiconductor Inc., a chip design company with design centers in Beijing and headquarters in Santa Clara, Calif. The arrangement keeps development costs low and enables Woodside to work closely with management, said Managing Director Robert E. Larson.

"We tend to be a hands-on fund. We assign two partners to work with each company," Larson said. Through this setup, "we've been able to provide that help at the top level."

David Chao, co-founder and general partner of Menlo Park, Calif.-based DCM, has invested in China since the late 1990s and said the Beijing office the firm opened two years ago has raised its profile there. Still, the benefits of an office are often overstated, he said. A U.S. investor who's willing to fly over a dozen or so times a year -- as he did when he started -- and has good local connections will do just fine, said Chao.

"It depends on your level of commitment."