China's top 2 video websites to merge

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(AP) -- China's top two video websites announced plans Monday to merge in hopes of creating the dominant competitor in a fast-growing industry that is drawing viewers from bland state television.

Youku Inc. and Tudou Holdings Ltd. said the new company, Youku Tudou Inc., will be created in a stock-for-stock transaction. They said it requires shareholder approval but is expected to be completed by the third quarter of this year.

China's dozens of privately owned video websites have nearly 400 million viewers and industry analysts say the field might represent the future of Chinese video watching and advertising.

Chinese video websites initially imitated Western video-sharing sites that rely on user-supplied content. But they have evolved to act like TV stations, showing imported programs or their own productions to appeal to affluent urban viewers coveted by advertisers.

Youku and Tudou are former rivals and were involved in a legal battle earlier this year over accusations they were misusing each other's content. Both have reported losses recently due to high costs for Internet bandwidth and programming.

Youku had 21.8 percent of China's online video market in the final quarter of 2011, with Tudou in second place at 13.7 percent, according to Analysys International, a research firm in Beijing. Sohu TV, a service of Chinese portal Sohu.com Inc., was in third place with 13.3 percent.

Other competitors had single-digit market shares.

In a statement, Youku founder and CEO Victor Koo said the merged entity should have the market's biggest user base and content library.

"Youku Tudou Inc. would establish a clear and dominant leadership position in China's online video sector," Koo said.

Total revenue for Chinese video websites rose 135 percent over a year earlier in the final quarter of 2011 to 1.7 billion yuan ($275 million), according to Analysys International.

Video websites show popular Western series and allow users to download movies and other programming to watch on smart phones or tablet computers.

Beijing has allowed such private companies to flourish with less of the censorship imposed on China's entirely state-owned newspapers, TV and radio, possibly to avoid stifling what is seen as a promising high-tech industry.

Regulators might be driving still more viewers online and away from state TV with rules imposed this year to limit the number of reality, talent and dating shows local broadcasters can show on satellite channels.

The number of Chinese who watch online video jumped from 284 million in 2010 to 394 million in 2011, according to CMM Intelligence, a media consulting firm in Beijing. It said the total might pass 445 million by the end of 2012.

The surging popularity of online video threatens to erode viewership for state TV, which Beijing sees as a tool to mold public opinion. That raises the threat communist leaders might tighten controls to protect their media presence.

Youku reported a 49.6 million yuan ($8 million) loss for the three months ending Dec. 31 but said full-year profit was 200.3 million yuan ($32.3 million), up 450 percent from 2010.

Tudou reported a quarterly loss of 148.9 million yuan ($24 million) and a full-year loss of 511.2 million ($82.4 million).

More information: Youku Inc.: http://www.youku.com
Tudou Holdings Ltd.: http://www.tudou.com