



16 Wall Street, 2nd Floor
Madison, Connecticut 06443
203.482.5805 direct
info@accretivecapital.com
www.accretivecapital.com

An Open Letter to the Board of Directors of Actions Semiconductor Co., Ltd.

October 17, 2014

Mr. Hsiang-Wei Lee
Chairman of the Board
Actions Semiconductor Co., Ltd.
No. 1 Ke Ji Si Road
Technology Innovation Coast of Hi-Tech Zone
Zhuhai, Guangdong, 519085
People's Republic of China

Dear Mr. Lee:

I am writing firstly to commend you and the Board of Directors for initiating a Dutch Auction tender offer last month to accelerate stock repurchases and, secondly, to encourage you to continue with value-creating initiatives on behalf of shareholders at Actions Semiconductor. As you know from the past *six years* of communication between Accretive Capital Partners and the Actions Semiconductor Board of Directors and management, we have steadfastly urged you to undertake this initiative. Dutch Auction tender offers at prices substantially below tangible book value are extraordinary investments on behalf of long term shareholders and, at the same time, provide liquidity for those shareholders seeking a market for their stock. The Board of Directors did the right thing in finally executing this transaction and retiring the repurchased shares.

Accretive Capital Partners and its affiliates now own more than 5.3 million shares of Actions Semiconductor stock, representing approximately 9.0% of the company. We believe that we are the company's largest shareholders, while management and the Board of Directors combined own less than 1%. We want only what is best for shareholders of the company, its rightful owners, and we continue to urge that you and the Board of Directors immediately initiate the following actions:

- **Authorize another Dutch Auction tender offer for no less than \$75 million at prices up to the company's tangible book value of approximately \$3.40/share;**
- **Retire all repurchased shares so that shareholders realize the value of the tender offer, as done in the September 26, 2014 self tender;**
- **Correct the blatant misuse of company assets resulting from direct conflicts of interest among certain Board members;**

- ***Reduce the disproportionate research and development expenditure; and***
- ***Sell the company immediately thereafter.***

While the recently completed self tender contributed to shareholder value, we find the Board of Directors' failure to authorize an increase in the shares repurchased extremely disturbing and, frankly, utterly confounding.

For years, Actions has claimed that the company would be unable to repurchase a sufficient number of shares to justify the cost of a Dutch Auction tender offer. In response, Accretive Capital Partners identified a team of experts capable of executing a cross-border tender offer, made introductions to management, and even went so far as to help negotiate and secure an affordable price for this transaction on behalf of Actions.

The company chose to set a tender offer range of \$2.50-\$2.80/share, or a 16%-25% discount to the tangible book value of the stock. Amazingly, shareholder interest in the tender offer was *oversubscribed by an astounding 84%*. Roughly 30% of shareholders were willing to sell shares at a full 25% discount to the tangible book value of their stock, indicative of shareholder distrust in the company's prospects as guided by the Board of Directors.

When presented with the terrific opportunity to increase this investment by another \$21 million and repurchase 84% more stock on behalf of shareholders—resulting in an *immediate 33% gain in tangible book value* for every share repurchased, you and the Board opted not to act. By allowing this valuable opportunity to slip away unrealized, you have demonstrated once again why shareholders have no faith in the Board. The fact that almost one out of every three shareholders jumped at the opportunity to sell their shares—at the lowest end of an already significantly discounted range—speaks volumes about shareholder distrust.

The extraordinary opportunity to repurchase additional shares at this attractive discount to tangible book value is still available, however, and Accretive Capital Partners reiterates its demand that the Board of Directors authorize another Dutch Auction tender offer for no less than *\$75 million* to repurchase shares at a price up to the company's tangible book value of approximately \$3.40/share.

CORRECT THE MISUSE OF COMPANY ASSETS

We continue to be dismayed by the blatant misuse of company assets and were shocked to learn, on the August 15, 2014 earnings conference call, that the Board had authorized a \$10 million investment to purchase a 40% stake in a Shanghai office property. When asked on the conference call why a minority investment was made in real estate that would not even be fully occupied by the company, Zhenyu Zhou explained that a minority stake was purchased because “real estate is not the core business of Actions Semiconductor”. We could not agree more with Zhenyu's response. And we ask you why are company assets being invested in unrelated and inferior opportunities that are not the core business of Actions Semiconductor, particularly when

additional stock repurchases are available? We do not consider this an appropriate allocation of shareholder assets, and we demand to know who the other 60% investor is. Does that investor have any affiliation with other Board members?

Disclosing investment conflicts among Board members does not absolve those Directors of the conflicts, nor does it signify that the Directors are acting in the best interests of shareholders. We continue to question who owns Nann Capital, the private investment holding company to which Actions Semiconductor transferred, for \$1, all of Actions Enterprises (HK) and Actions Technology (Shanghai), which owned the new office building in the Shanghai Zhangjiang High-Tech Park. And we are perplexed, once again, as to why a semiconductor company, where "real estate is not the core business", is making opaque minority equity investments in office space utilized by other parties. We implore the Board to consider the effects investments like these have on shareholder trust, and we advocate their immediate correction.

Moreover, while the company claims it is making efforts to "streamline" the business, we are disturbed to receive news that Actions has authorized stock options for employees representing 15% of the equity in Actions Technology Co., Ltd., the operating subsidiary of our company, in advance of a possible dual-listing of Actions Technology on an Asian stock exchange. This kind of incentive plan and a possible dual listing of a subsidiary create new complexities in ownership of assets, incentives unaligned with U.S. shareholders, conflicts in performing and fulfilling fiduciary duties, and challenges in managing employees. While the incentive plan and dual-listing may provide attractive upside to employees and to new shareholders on an Asian exchange, these are likely at the expense of U.S. shareholders.

REDUCE THE DISPROPORTIONATE R&D EXPENDITURE

The disproportionate level of research and development expense at Actions needs to be reigned in immediately. We are outraged to see Actions continue to spend 45% of annual revenue on R&D, more than twice the average of 20% spent by peers. While we acknowledge that semiconductor companies must invest in R&D to remain competitive, we reiterate that quality and focus of R&D, not the number of engineers or dollars spent, are paramount to success. During the past six years as shareholders of Actions, we have patiently awaited positive results from R&D expenditures exceeding \$95 million. In the past six years, however, annual revenue at Actions has increased by only \$13 million. At its peak in 2006, revenue was \$170 million and R&D expense was less than \$10 million. Today, revenue is less than \$60 million and R&D expense exceeds \$26 million. As stewards of our capital, it is your duty to responsibly manage these costs, and we demand that the Board reigns in R&D spending to be in-line with industry norms.

SELL THE COMPANY

As we have advocated on multiple occasions, we believe Actions should be sold to an industry participant capable of optimizing the company's value, and we encourage a sale of Actions as soon as the company's cash has been utilized to repurchase as many shares as possible at any

price below tangible book value. M&A activity in the semiconductor space remains strong and valuations on recent transactions average 2.7 times sales, which is more than five times the market valuation of Actions. The Chinese government's ongoing investment in the semiconductor industry and the fact that more than \$11 billion was spent on acquisitions in the first half of 2014 have fueled demand for Chinese semiconductor businesses. We are surprised that the Board has not acted to capitalize on this ephemeral trend, and we were disappointed to learn on the last conference call that no substantial progress had been made in efforts to sell the company. In light of the extraordinarily high but fleeting valuations ascribed to Chinese semiconductor businesses, Accretive reiterates its position that Actions should be sold as soon as the stock repurchase program has been maximized.

In closing, we are pleased that the Board of Directors finally initiated a Dutch Auction tender offer last month, as we consider it a substantial first step in creating and unlocking shareholder value. At the same time, we urge you to take additional and meaningful action on behalf of shareholders. The investment opportunities available to the company to repurchase stock at discounts to tangible book value are extraordinary, and Accretive plans to continue providing aid and support to management with these initiatives. During the past six years, we have developed strong relationships with various members of management, and we believe Zhenyu and his team strive to act in the best interest of shareholders. We wish we had the same confidence, however, in the Board of Directors at Actions Semiconductor. We remind you and the Board that you have a fiduciary duty to place shareholder interests above any personal gain or conflicting interests, and we urge you to make the right and honorable decisions on behalf shareholders at Actions Semiconductor.

Sincerely,

Richard E. Fearon, Jr.
Managing Partner

cc: Mr. Zhenyu Zhou, Actions Semiconductor Co., Ltd.
Mr. Nigel Liu, Actions Semiconductor Co., Ltd.
Mr. Krishna Kolluri, New Enterprise Associates, Inc.
Mr. Scott Sandell, New Enterprise Associates, Inc.
David E. Rosewater, Esquire, Schulte Roth & Zabel LLP