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

July 29, 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:

We have read your June 11, 2014 6-K filling in response to our May 27th letter to you. While we appreciate your comments, we find it necessary to respond and reiterate our position, given the remarkable opportunities available to Actions Semiconductor—were the company prudently directed—and in light of the company's recent announcement lowering revenue guidance substantially.

The Board of Directors of Actions Semiconductor should, without further delay:

- **Authorize a Dutch auction tender offer for no less than *$100 million* to repurchase shares at a price up to the company's tangible book value of *$3.57/share*;**

- ***Retire all repurchased shares* so that shareholders may realize the value of the tender offer;**

- **Correct the blatant *misuse of company assets* resulting from direct conflicts of interest among certain Board members; and**

- ***Sell the company* immediately thereafter.**

DISPROPORTIONATE INVESTMENT IN R&D

We wholeheartedly disagree with your defense of the outrageous and disproportionate level of R&D expense at Actions Semiconductor. You refer to the large investment in R&D that occurs "across the board" in the semiconductor industry and you attempt to justify your expenses given the natural characteristics of the sector. Your comments, however, are simply not accurate: Of the publicly-traded comparable companies cited on your latest 20-F filing, the average R&D

expenditure as a percentage of sales is 20.4%. Compare that figure to the R&D expenditure at Actions: It is an astounding 41.6% of sales and well in excess of the industry standard "across the board".

Furthermore, while we generally agree with your statement that "as a leading IC design house in China, we must invest in research and development to remain competitive", we would emphasize that the *quality and focus* of the R&D, *not the number of engineers or dollars spent*, are paramount to success. A recent McKinsey report states that, "for fabless players, R&D excellence is the key differentiating factor"; but R&D excellence is measured by the efficiency and effectiveness of the R&D program as a whole and the return on investment of the research. Higher-than-average investment in R&D does not translate into a better-than-average business.

Consider Montage Technology Group, a fabless analog and mixed-signal semiconductor designer focused on set-top boxes and cloud computing: Montage has 44% fewer R&D engineers than Actions, yet Montage sales are 60% greater than those of Actions. Moreover, the leaner R&D team at Montage has produced a three-year compound annual growth rate in sales 250% greater than that of Actions. And while the engineer count has declined somewhat at Actions, R&D expense somehow continues to balloon:

Montage Technology ($ in millions)	2011	2012	2013*
Sales	$ 50.3	$ 78.2	$ 110.9
R&D Engineers	*unavailable*	*unavailable*	300
R&D Expense	$ 13.7	$ 17.6	$ 24.4
R&D as Percent of Sales	27.2%	22.5%	22.0%

* *R&D engineers and expenses relate to trailing 12 months thru September 30, 2013.*

Actions Semiconductor ($ in millions)	2011	2012	2013
Sales	$ 47.5	$ 54.3	$ 69.4
R&D Engineers	540	473	455
R&D Expense	$ 22.1	$ 23.7	$ 26.0
R&D as Percent of Sales	46.5%	43.6%	37.5%

Squandering shareholders' capital through excessive R&D is not the key to excellence at Actions. In your statement, "Our industry is characterized by long R&D cycles with delayed returns and expensive IP/mask expenses", you suggest that long R&D cycles are to blame for the lack of returns. Although long-term R&D investment can produce value, the misdirected investment at Actions has significantly surpassed this mark. During the six years Accretive Capital Partners has been a shareholder, Actions has spent over $82 million dollars on R&D. Meanwhile, annual revenue has increased by only $18 million. At its peak in 2006, revenue was $170 million and R&D expense was less than $10 million. Today, revenue is less than $70 million and R&D expense exceeds $26 million. While Actions states in its 20-F filing that the company's "lengthy" product development process may take up to 24 months, surely *72 months* *(or six years)* of excessive R&D is ample time to measure the return on long-term R&D investment.

The returns available through stock repurchases are far superior to those achieved through Actions' unsuccessful R&D regime and poorly-conceived Chinese trust and private equity investments. Even at $3.50/share, stock repurchases would result in an immediate 30% gain for shareholders, since company assets would be purchased for less than tangible book value and the operations are worth at least another $1/share. As such, we strongly urge the company to launch a Dutch auction tender offer immediately and to repurchase as many shares as possible below tangible book value in preparation for an eventual sale.

UNNECESSARY CASH BALANCES

We are encouraged that you have "actively engaged an investment banker and lawyers to assist in evaluating a tender offer program" and that the company "will launch it at an appropriate time". We believe this to be the most efficient use of capital and support an immediate Dutch auction tender offer of at least $100 million, for as many shares as possible below tangible book value. We do not believe the company's cash should be used for acquisitions, IP purchases, or continuing excessive R&D expenditures, as Actions has proved itself incapable of capitalizing on these investments. Measured as a percentage of revenue, the company's cash balance is currently six times greater than the industry average of 59%, as reported by Bloomberg. With a $100 million share repurchase, we are proposing that Actions spend less than half its current cash, resulting in a remaining balance that would be four times the industry average.

Unfortunately, the current stock buyback program at Actions, which repurchases but does not retire the stock, is nothing more than a charade: The company purports to be shareholder-friendly while, in reality, not a single repurchased share has been retired and a large portion has been redistributed to employees. Stock buybacks without retirement are no more effective than R&D investments without benefit to sales or profit margins.

CONFLICTED AND RISKY INVESTMENTS

As explained in our previous letter, optimal capital allocation is not simply measured by profitable investments but should be measured against risk adjusted returns on alternative investments available to the company. Investments held at "leading Chinese financial institutions" or in "financially rewarding" private equity funds pale in comparison to the return available to the company via immediate share repurchases. Moreover, disclosing the investment conflicts among board members does not absolve those directors of these conflicts, nor does it signify that directors are acting in the best interests of shareholders. Given the Board's refusal to pursue optimal investment opportunities on behalf of shareholders, we are left to conclude that the interests of the Actions Semiconductor Board of Directors are not aligned with those of the shareholders. And 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.

EMPLOYEES AS STAKEHOLDERS

We agree with you that stock grants can be an incentive to employees; this typically works best, however, when the efforts of the recipient actually have a direct impact on the price of the stock. This is generally not the case for engineers. Furthermore, stock grants are by far the most expensive form of compensation available to the company, given the stock trades for less than its net cash value. Cash bonuses would be twice as efficient and would result in more compensation for those engineers who simply sell their stock grants into the open market. And, if an employee has made a measurably significant contribution, a larger bonus can be paid.

NEAR-TERM PROFITABILITY AND LONG-TERM VALUE CREATION

We are perplexed by the company's extraordinary inability to predict near-term revenue, given Actions' recent revision to revenue guidance—just two months following and 25% lower than earlier guidance. We are also disappointed by the inability to capitalize on the significant R&D investment and disproportionate cash balances to create a growing and profitable business. We believe Actions should be sold to an industry participant capable of optimizing the company's value, and we are pleased to hear there are parties interested in an acquisition of the company for a "substantial price". We fully support a sale of Actions at intrinsic value as soon as the company's cash has been utilized to repurchase as many shares as possible at any price below tangible book value.

PUT THE COMPANY UP FOR SALE

M&A in the semiconductor industry has been reported by Bloomberg to be the most active since 2011, with more than $11 billion in transactions during the first half of this year in North America alone. The semiconductor industry in China is valued at an unprecedentedly high level, bolstered by the Chinese governments' commitment of over $16 billion to the industry. The average P/E multiple of public semiconductor companies exceeds 80x and the average price paid for acquisitions of comparable companies is 2.7 times sales. It is hard to imagine a better time for Actions to be acquired.

Shareholders have waited far too long for a return to growth and profitably at Actions; and we are now faced with the reality that our extraordinary investment in R&D over the last six years may only be realized through a sale of the company, provided the currently high valuations prevail. Given that a strategic acquirer might value Actions at almost three times sales plus tangible value, or $7.50/share (before the benefit of a Dutch auction tender offer), it is difficult to fathom why the Board has not initiated a Dutch auction tender offer in preparation for such an event. The timing of a tender offer and ultimate company sale is no less critical to building shareholder value than that of new product introductions.

In closing, we remind you that Accretive Capital Partners has been a patient and supportive shareholder for more than six years. We have offered years of advice and guidance to help the company create shareholder value; yet our primary proposal—to initiate a Dutch auction tender offer and to retire repurchased shares—has been ignored or postponed for the past six years. We encourage you to pursue our recommendations immediately, and we remind you of your responsibilities to shareholders: As fiduciaries of our investment in Actions Semiconductor Co., Ltd., it is your duty to place shareholder interests above your personal gain or conflicting interests. We demand only that you act honorably by doing the right thing for shareholders. And we are no longer willing to stand by passively while our assets are misappropriated.

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.
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