

▶ Untapped Wealth

July 2009 Edition

China Part II

Last month, we covered Chinese based, China Greentech (GRRF) for good reason. The Chinese economy is and will continue to breathe fire. The Chinese economy, unlike our own has kept its growth throughout this recession and now, as we seem to exit it, the Chinese economy should start to explode.

I don't want to seem like we're treating the US economy as "lousy" or "good for nothing", that's not my intent. I will return to our economy when the time is right, after all if you're reading this, you're not looking for fabrication and propaganda, you're looking for nothing but profit.

So I am going to cut to the chase and get right into this month's recommendation, which is Actions Semiconductor Ltd (ACTS: \$2.13*)

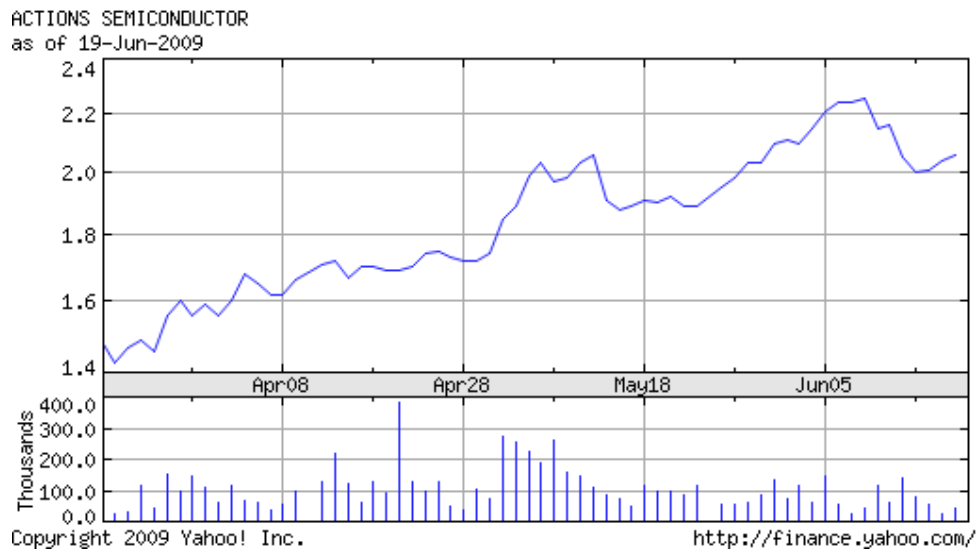
Have a great July.

-Tim Fields

Actions Semiconductor Ltd

Company Overview

Actions Semiconductor Co., Ltd., an Integrated Circuit Design company was founded in 2001 and is headquartered in Zhuhai in mainland China with offices in Beijing, Shanghai, and Shenzhen. The company was co-founded by a strong design team with experienced staffs from China, Hong Kong, Taiwan, and Silicon Valley



Actions Semiconductor provides system-on-a-chip (SoC), products and total solutions for the development and manufacture for portable consumer electronics like the personal media players. Their technology allows MP3 players to store a large number of songs in a relatively small device that provides mixed-signal and multimedia SoC solutions.

Actions Semiconductor products include SoCs, firmware, software, solution development kits, as well as detailed specifications of other required components and the providers of those components. Actions Semiconductor also provides total product and technology solutions that allow customers to quickly introduce new portable consumer electronics to the mass market in a cost effective way.

Currently Actions semiconductors have developed two product lines - the multimedia products and industrial metering products. Each product line has a series of successful products which stand out in the market, and they are all with its intellectual property rights.

Industry background

Portable media players have in recent years emerged as one of the most popular consumer electronics products, with dedicated audio MP3 players and integrated digital audio/video players currently being the two most popular products in this category. We believe that several factors will continue to drive the growth in demand for portable media players:

- Transition from traditional consumer electronic devices to digital;
- Proliferation of digital media content;
- Demand growth in emerging markets;
- Advancing functionality;
- Embedding of portable media player functions in new products; and
- Decline in cost of key components.

Competitive Strengths

1. Ability to provide integrated platform solutions.

The integrated platform solutions facilitate their customers' incorporation of the company's our SoC products and accelerate the time-to-market of their products. The customizable firmware and software development tools from the company enable their customers to rapidly add differentiating features such as graphic interfaces and video playback to their products.

The customers do not need to invest in costly and time-consuming internal firmware and software development for their products, or to source them from multiple suppliers.

2. Mixed-signal integration expertise.

The mixed-signal integration expertise enables the company to reduce the size, cost and power consumption of SoC products. This allows the customers to produce even smaller and more power efficient portable media players. The company's unique ability to integrate several analog and digital components

on the same integrated circuit, the customers are able to introduce innovative features and at the same time avoid significant design challenges when they use SoC technology offered by Actions semiconductor. This mixed-signal design capability is a reflection of the company's strong engineering team of dedicated R&D engineers.

3. Excellent functionality-to-price

The company offers products with high functionality-to-price ratio. This is one of the key reasons for the success of their integrated platform solutions. Using their integrated platform solutions, the portable media player manufacturers can offer fully-featured portable media players at competitive prices.

Intellectual Property

The company has 15 patents granted and 52 patents applications and 15 trademarks granted with 70 trademark applications. The company has entered into world-wide, non-exclusive, non-transferable, licensing agreements with respect to certain key technologies, including MP3 digital compression technology from Thomson Multimedia and WMA compression technology and CPU core from MIPS Technologies based on a fee schedule for the life of the relevant technologies.

Financial Results for Q1 2009

- Revenue during Q1-2009 stood at USD 12.2 Mn as compared USD 16.1 Mn QIV 2008 and USD 25.2 Mn in Q1 2008.
- On the margin front, company managed gross margins of 33.6% for Q1 2009.
- Net loss attributable to Actions Semiconductor shareholders for the first quarter of 2009 was \$1.5 million, or \$0.02 per ADS, compared to net income attributable to Actions Semiconductor shareholders of \$0.5 million, or \$0.01 per ADS, for the fourth quarter of 2008, and net income attributable to Actions Semiconductor shareholders of \$10.7 million, or \$0.13 per ADS, for the first quarter of 2008.
- Company's cash position looks healthy at USD 43.8 Mn as of March 31, 2009. Trading securities and marketable securities, current and non-current, at the end of the quarter were USD 218.0 Mn.

- The company initiated a share repurchase programs started in year 2007 and the Company has invested approximately \$21.6 million in repurchasing its shares. As of March 31, 2009, over 8.9 million American Depository Shares (ADSs) were repurchased

Guidance for Second Quarter 2009

The company is expected to report Q2 2009 earnings on August 3, 2009. The management had given a guidance of revenue in the range of \$9 to \$12 million, gross margin of 30%-35%, and operating expenses slightly higher on a sequential basis. The second quarter 2009 estimates also include a share-based compensation expense in the range of \$1.0 to \$1.2 million.

In the end

The company has been able to successfully to build their business into a leading supplier of SoCs for MP3 players due to our excellent functionality-to-price ratios, customer driven engineering, proximity and close working relationships with China-based manufacturers of MP3 players. Coupled with this they are extremely quick to anticipate customer preference and react immediately to market trends.

Working in mainland China allows them access to a highly skilled and educated engineering workforce with a competitive cost structure that has allowed the company to achieve high levels of profitability.

The technologies and products of the Actions team are very matured and stable. They company has accumulated 10 years of SOC design experience, as well as more than 9 years of SOC mass production experience.

Actions has successfully put into market some products, such as digital audio/video SOC chip and its total solution, a series of IC for digital potential meter, SOC chip for TV entertainment products and its total solution since the first day it was found.

All Actions' products are under the protection of intellectual property law, and have been gradually showing their competitive power after directly joining the international market. With management and techniques accumulated, high-tech and product positioning, precise market position, strong innovative power, Actions sustains fast improvement and development.

I believe that China has emerged as the global center for portable media player manufacturing and the company's close proximity to China-based portable media player manufacturers and brand owners gives them advantages over competitors in the Americas and Europe.

Business prospects are looking good for both the product lines of Actions semiconductor. The business case looks attractive and robust resulting in a healthy order book position. The company is likely to sustain growth in revenues and profitability and consolidate its market share. According to Gartner Research, the worldwide market for portable media players is expected to show growth rates of app. 20%.

Furthermore, we expect the growth in emerging markets, including China, India, Brazil and Russia, will outpace the growth of the overall market for portable media players.

Have a fantastic month.

* Initial Recommended Price

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