

**UNITED STATES DISTRICT COURT  
DISTRICT OF ARIZONA, PHOENIX**

PLAINTIFF, Individually and on Behalf  
of All Others Similarly Situated,

Plaintiff,

v.

SEA LIMITED, FORREST XIAODONG  
LI, and TONY TIANYU HOU,

Defendants.

Case No.

CLASS ACTION

COMPLAINT FOR VIOLATIONS OF  
THE FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

Plaintiff, individually and on behalf of all others similarly situated, by Plaintiff's undersigned attorneys, for Plaintiff's complaint against Defendants, alleges the following based upon personal knowledge as to Plaintiff and Plaintiff's own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through Plaintiff's attorneys, which included, among other things, a review of the Defendants' public documents, conference calls and announcements made by Defendants, United States ("U.S.") Securities and

Exchange Commission (“SEC”) filings, wire and press releases published by and regarding Sea Limited (“Sea” or the “Company”), analysts’ reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial, additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

### **NATURE OF THE ACTION**

1. This is a federal securities class action on behalf of a class consisting of all persons and entities other than Defendants that purchased or otherwise acquired Sea securities between April 19, 2021 and May 15, 2023, both dates inclusive (the “Class Period”), seeking to recover damages caused by Defendants’ violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder, against the Company and certain of its top officials.

2. Sea, together with its subsidiaries, provides digital entertainment, e-commerce, and digital financial services in Asia, Latin America, and internationally. The Company’s digital financial services platform provides, *inter alia*, payment processing services, credit offerings, and digital bank services under various brands, which purportedly work in tandem with Sea’s digital entertainment and e-commerce platforms to drive synergies among all three business segments. Defendants have consistently asserted that these purported synergies allow the Company to grow its user base and loan book in an efficient, cost-effective manner, while managing risks impacting the Company’s profitability.

3. Throughout the Class Period, Defendants made materially false and misleading statements regarding the Company's business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) Sea overstated its ability to manage the growth of its user base and loan book while enhancing its profitability; (ii) Sea's expansion to a broader user base and growing loan book rendered the Company significantly more vulnerable to higher credit losses; (iii) as a result, the Company was likely to book a significant increase in loan loss reserves; (iv) the foregoing was likely to have a significant negative impact on Sea's earnings; and (v) as a result, the Company's public statements were materially false and misleading at all relevant times.

4. On November 17, 2021, investor news website *Seeking Alpha* reported that Bank of America had downgraded Sea's stock from a "Buy" rating to a "Neutral" rating because, *inter alia*, "[c]onsensus[ha]s yet to factor in rising losses in the medium term based on expansion into new markets in Europe/India."

5. On this news, Sea's American Depositary Share ("ADS") price fell \$15.50 per ADS, or 4.7%, to close at \$314.41 per ADS on November 17, 2021.

6. Then, on May 16, 2023, Sea issued a press release announcing its financial results for the first quarter of 2023. Among other items, Sea reported first-quarter earnings that fell significantly short of expectations due to a sharp increase in loan loss reserves. The Company advised that "[o]ur provision for credit losses increased by **120.5%** to US\$177.4 million in the first quarter of 2023 from US\$80.5 million in the first quarter of 2022, primarily driven by expansion to a broader user base and the growth of

our loan book” (emphasis added). Sea also disclosed that the Company’s previous Chief Investment Officer, David Ma, had left that role and joined the Company’s Board of Directors.

7. On this news, Sea’s ADS price fell \$15.62 per ADS, or 17.74%, to close at \$72.45 per ADS on May 16, 2023.

8. As a result of Defendants’ wrongful acts and omissions, and the precipitous decline in the market value of the Company’s securities, Plaintiff and other Class members have suffered significant losses and damages.

### **JURISDICTION AND VENUE**

9. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

10. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act.

11. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1391(b). Pursuant to Sea’s most recent annual report on Form 20-F, as of December 31, 2022, there were 519,231,049 of the Company’s Class A ordinary shares outstanding. Sea’s ADSs, each representing one of the Company’s Class A ordinary shares, trade in the U.S. on the New York Stock Exchange (“NYSE”). Accordingly, there are presumably hundreds, if not thousands, of investors in Sea’s ADSs located in the U.S., some of whom undoubtedly reside in this Judicial District.

12. In connection with the acts alleged in this complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

### **PARTIES**

13. Plaintiff, as set forth in the attached Certification, acquired Sea securities at artificially inflated prices during the Class Period and was damaged upon the revelation of the alleged corrective disclosures.

14. Defendant Sea is organized under the laws of the Cayman Islands with principal executive offices located at 1 Fusionopolis Place, #17-10, Galaxis, Singapore 138522. Sea's ADSs trade in an efficient market on the NYSE under the ticker symbol "SE".

15. Defendant Forrest Xiaodong Li ("Li") has served as Sea's Group Chief Executive Officer at all relevant times.

16. Defendant Tony Tianyu Hou ("Hou") has served as Sea's Group Chief Financial Officer at all relevant times.

17. Defendants Li and Hou are sometimes referred to herein collectively as the "Individual Defendants."

18. The Individual Defendants possessed the power and authority to control the contents of Sea's SEC filings, press releases, and other market communications. The Individual Defendants were provided with copies of Sea's SEC filings and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability

and opportunity to prevent their issuance or to cause them to be corrected. Because of their positions with Sea, and their access to material information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public, and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements and omissions pleaded herein.

## **SUBSTANTIVE ALLEGATIONS**

### **Background**

19. Sea, together with its subsidiaries, provides digital entertainment, e-commerce, and digital financial services in Asia, Latin America, and internationally. The Company operates Garena, a digital entertainment platform for users to access mobile and computer online games, as well as eSports operations; Shopee, an e-commerce platform and mobile-centric marketplace that provides integrated payment and logistics infrastructure and seller services; and SeaMoney, a digital financial services platform that serves individuals and businesses, providing, *inter alia*, payment processing services, credit offerings, and digital bank services under various brands.

20. Defendants have consistently touted purported synergies among Sea's three core businesses as enabling the Company to grow its user base and loan book in an efficient, cost-effective manner, while managing risks impacting the Company's profitability.

## **Materially False and Misleading Statements Issued During the Class Period**

21. The Class Period begins on April 19, 2021, the first trading day after Sea filed an annual report on Form 20-F with the SEC during post-market hours, reporting the Company's financial and operational results for the quarter and year ended December 31, 2020 (the "2020 20-F"). The 2020 20-F represented that a large and growing user base benefitted Sea's monetization efforts and that synergies among the Company's three businesses allowed the Company to increase its user base, and monetization of that user base, in a cost-effective manner, stating, in relevant part:

Our revenue is largely driven by the number of users and the level of user engagement across our three businesses. In our digital entertainment business, due to our freemium business model, the higher the number of active users in our games, the larger the number of users likely to make in-game purchases. Likewise, in our e-commerce business, the larger the number of sellers and buyers on the platform, the larger the number and value of transactions which over time will drive advertising and transaction-based fee revenue for us. Finally, in our mobile wallet business, the larger the number of paying users and the larger the number of merchants accepting SeaMoney's payment options, the greater the potential transaction volumes that drive our commission revenue.

\* \* \*

[S]ynergies among our digital financial services business and each of our digital entertainment and e-commerce businesses allow us to increase our user base and monetization quickly and cost-effectively. For example, as our Garena game players and Shopee buyers increasingly complete transactions using our mobile wallet services, our mobile wallet user base grows, which in turn attracts more merchants to join the mobile wallet network. As more third-party merchants join SeaMoney's network, our users become increasingly engaged with our platforms. At the same time, these users may also increasingly explore other services and product offerings available on our digital financial services platform.

\* \* \*

We have made a strategic decision to invest in the growth of our Shopee marketplace by incurring sales and marketing expenses in advance of our monetization efforts. In addition, we are also investing in user acquisition of our SeaMoney business. We believe that taking a thoughtful approach to monetization by building our user base and increasing engagement first will allow us to maximize our monetization in the future.

22. The 2020 20-F also contained generic, boilerplate representations purporting to describe risks related to Sea's growing loan and credit practices, while simultaneously downplaying those risks and touting the Company's credit risk management process, stating, in relevant part:

As the amount of our loans increase and we further diversify our credit product offerings, we *may* require additional funds, explore alternative funding methods such as partnering with external funding providers, or explore other credit or lending businesses. *If* our capital is insufficient to meet the demand or, in the case of our lending business, any applicable regulatory requirements, due to lack of internal resources or alternative funding options, it *may* affect our credit product or loan offering capabilities, lead to loss of users, borrowers or slower growth, and constrain our working capital.

These services will also expose us to risks and liabilities, including credit risks relating to the borrowers who may be individuals or commercial customers, and counterparty risks in dealing with potential business partners. *We rely on, among other things, the information and knowledge we gain from our existing businesses to build the strategy of our credit and loan products and assess the creditworthiness of potential borrowers.* Our ability to assess creditworthiness *may* be impaired if the strategies or policies we use to manage our credit risks do not achieve their desired effect, which *could* lead to, for instance, loans being issued to users who *may* have higher default or delinquency risks. Even if our information collection, strategy and policy are all appropriate, other factors such as macro-economic or unexpected incidents *may* still affect our borrowers' ability to repay. *We aim to maintain low delinquency and default rates through an effective credit risk management process.* However, high rates of delinquency or default *may* occur, which *could* negatively affect our business, financial condition and results of operations. Interest rates we charge *may* not be sufficient to cover our costs and expenses in providing the loans, including the costs associated with borrower defaults.

(Emphases added.) The foregoing risk warnings were generic “catch-all” provisions that were not tailored to Sea’s actual known risks regarding the need to drastically increase the Company’s loan loss reserves as it expanded to a broader user base and grew its loan book, much less the negative impact that such a significant increase in loan loss reserves would have on the Company’s profitability.

23. Appended as exhibits to the 2020 20-F were signed certifications pursuant to the Sarbanes-Oxley Act of 2002 (“SOX”), wherein the Individual Defendants certified that “[t]he [2020 20-F] fully complies with the requirements of Section 13(a) or 15(d) of the [Exchange Act]” and that “[t]he information contained in the [2020 20-F] fairly presents, in all material respects, the financial condition and results of operations of the Company.”

24. On May 18, 2021, Sea issued a press release announcing the Company’s first quarter 2021 results. The press release touted the purported benefits of Sea’s growing, *inter alia*, financial services offerings, user base, and addressable market, while simultaneously downplaying the negative impacts of such growth on the Company’s profitability, stating, in relevant part:

**Digital Financial Services Update**

We continued to see strong growth in the adoption of SeaMoney’s offerings. Our mobile wallet total payment volume exceeded US\$3.4 billion for the first quarter of 2021, more than tripled that of the first quarter of 2020. Moreover, quarterly paying users for our mobile wallet services surpassed 26.1 million in the first quarter.

\* \* \*

**Revenue**

Our total GAAP revenue increased by 146.7% to US\$1.8 billion in the first quarter of 2021 from US\$714.9 million in the first quarter of 2020. The increase was mainly driven by the growth in each of the segments detailed as follows:

- *Digital Entertainment*: GAAP revenue increased by 111.4% to US\$781.3 million in the first quarter of 2021 from US\$369.7 million in the first quarter of 2020. ***This increase was primarily due to the increase in our active user base*** as well as the deepened paying user penetration, and in particular, the continued success of our self-developed game Free Fire.
- *E-commerce and other services*: GAAP revenue increased by 189.8% to US\$772.4 million in the first quarter of 2021 from US\$266.5 million in the first quarter of 2020. ***This increase was primarily driven by the growth in the scale of our e-commerce marketplace***, and increase in each of its revenue streams, including transaction-based fees, value-added services, and advertising. It benefited from our commitment to continuously enhance our service offerings as we strive to create greater value for our platform users.
- *Sales of goods*: GAAP revenue increased by 166.8% to US\$209.9 million in the first quarter of 2021 from US\$78.7 million in the first quarter of 2020, ***primarily due to the increase in our product offerings***.

### ***Cost of Revenue***

Our total cost of revenue increased by 120.1% to US\$1.1 billion in the first quarter of 2021 from US\$508.1 million in the first quarter of 2020.

- *Digital Entertainment*: Cost of revenue increased by 74.0% to US\$248.2 million in the first quarter of 2021 from US\$142.7 million in the first quarter of 2020. ***The increase was largely in line with the increase in our digital entertainment revenue. Improvement in gross profit margins was largely due to higher revenue contribution from our self-developed game.***
- *E-commerce and other services*: Cost of revenue for our e-commerce and other services segment combined increased by 136.2% to US\$674.5 million in the first quarter of 2021 from US\$285.5 million in the first quarter of 2020. ***The increase was primarily due to higher costs of the logistics and other value-added services that we provide to our users, and other costs incurred in line with the growth of our e-commerce marketplace. Improvement in gross profit margins was mainly due to***

***improvement in our marketplace take-rate as we continue to enhance our service offerings.***

- *Cost of goods sold:* Cost of goods sold increased by 144.6% to US\$195.5 million in the first quarter of 2021 from US\$79.9 million in the first quarter of 2020. ***The increase was largely in line with the increase in our revenue from sales of goods.***

(First and fifth emphases in bold and italics in original.)

25. On August 17, 2021, Sea issued a press release announcing the Company's second quarter 2021 results. The press release continued touting the purported benefits of Sea's growing, *inter alia*, financial services offerings, user base, and addressable market, while simultaneously downplaying the negative impacts of such growth on the Company's profitability, stating, in relevant part:

#### **Digital Financial Services Update**

We continued to see strong growth in the adoption of SeaMoney's offerings. Our mobile wallet total payment volume exceeded US\$4.1 billion for the second quarter of 2021, an increase of close to 150% year-on-year. Moreover, quarterly paying users for our mobile wallet services increased to 32.7 million in the second quarter.

\* \* \*

#### **Revenue**

Our total GAAP revenue increased by 158.6% to US\$2.3 billion in the second quarter of 2021 from US\$882.0 million in the second quarter of 2020. The increase was mainly driven by the growth in each of the segments detailed as follows:

- *Digital Entertainment:* GAAP revenue increased by 166.8% to US\$1.0 billion in the second quarter of 2021 from US\$383.9 million in the second quarter of 2020. ***This increase was primarily due to the increase in our active user base*** as well as the deepened paying user penetration, and in particular, the continued success of our self-developed game Free Fire.

- *E-commerce and other services*: GAAP revenue increased by 174.1% to US\$999.7 million in the second quarter of 2021 from US\$364.7 million in the second quarter of 2020. ***This increase was primarily driven by the growth in the scale of our e-commerce marketplace***, and increase in each of its revenue streams, including transaction-based fees, value-added services, and advertising, as we continue to better support our users' needs with new features and programs.
- *Sales of goods*: GAAP revenue increased by 92.4% to US\$256.6 million in the second quarter of 2021 from US\$133.4 million in the second quarter of 2020, ***primarily due to the increase in our product offerings***.

### ***Cost of Revenue***

Our total cost of revenue increased by 98.1% to US\$1.3 billion in the second quarter of 2021 from US\$681.2 million in the second quarter of 2020.

- *Digital Entertainment*: Cost of revenue increased by 87.0% to US\$292.7 million in the second quarter of 2021 from US\$156.5 million in the second quarter of 2020. ***The increase was largely in line with the increase in our digital entertainment revenue. Improvement in gross profit margins was largely due to higher revenue contribution from our self-developed game.***
- *E-commerce and other services*: Cost of revenue for our e-commerce and other services segment combined increased by 110.3% to US\$816.7 million in the second quarter of 2021 from US\$388.3 million in the second quarter of 2020. ***The increase was primarily due to higher costs of the logistics and other value-added services that we provide to our users, and other costs incurred, in each case driven by the growth of our e-commerce marketplace. Improvement in gross profit margins was mainly due to improvement in our marketplace take-rate and our cost efficiency as we continue to enhance our service offerings.***
- *Cost of goods sold*: Cost of goods sold increased by 76.1% to US\$240.2 million in the second quarter of 2021 from US\$136.4 million in the second quarter of 2020. ***The increase was largely in line with the increase in our revenue from sales of goods.***

(First and fifth emphases in bold and italics in original.)

26. On November 16, 2021, Sea issued a press release announcing the Company's thirdquarter 2021 results. This press release, too, touted the purported benefits of Sea's growing, *inter alia*, financial services offerings, user base, and addressable market, while simultaneously downplaying the negative impacts of such growth on the Company's profitability, stating, in relevant part:

### **Digital Financial Services Update**

We continued to see strong growth in the adoption of SeaMoney's offerings. The total payment volume for our mobile wallet was US\$4.6 billion for the third quarter of 2021, an increase of 111% year-on-year. Moreover, quarterly paying users for our mobile wallet services increased to 39.3 million in the third quarter.

\* \* \*

### **Revenue**

Our total GAAP revenue increased by 121.8% to US\$2.7 billion in the third quarter of 2021 from US\$1.2 billion in the third quarter of 2020. The increase was mainly driven by the growth in each of the segments detailed as follows:

- *Digital Entertainment*: GAAP revenue increased by 93.2% to US\$1.1 billion in the third quarter of 2021 from US\$569.0 million in the third quarter of 2020. ***This increase was primarily due to the increase in our active user base*** as well as the deepened paying user penetration.
- *E-commerce and other services*: GAAP revenue increased by 167.6% to US\$1.3 billion in the third quarter of 2021 from US\$489.5 million in the third quarter of 2020. ***This increase was primarily driven by the growth in the scale of our e-commerce marketplace*** and the increase in value-added services revenue. Transaction-based fees and advertising income also contributed to the growth. The result reflects our efforts to continuously enhance our service offerings as we strive to create greater value for our platform users.
- *Sales of goods*: GAAP revenue increased by 81.9% to US\$279.6 million in the third quarter of 2021 from US\$153.7 million in the third quarter of 2020, ***primarily due to the increase in our product offerings***.

## *Cost of Revenue*

Our total cost of revenue increased by 108.8% to US\$1.7 billion in the third quarter of 2021 from US\$804.6 million in the third quarter of 2020.

- *Digital Entertainment*: Cost of revenue increased by 61.4% to US\$314.4 million in the third quarter of 2021 from US\$194.7 million in the third quarter of 2020. ***The increase was largely in line with the increase in our digital entertainment revenue. Improvement in gross profit margins was largely due to higher revenue contribution from our self-developed game.***
- *E-commerce and other services*: Cost of revenue for our e-commerce and other services segment combined increased by 139.8% to US\$1.1 billion in the third quarter of 2021 from US\$458.3 million in the third quarter of 2020. ***The increase was primarily due to higher total costs of the logistics with order growth, costs of other value-added services that we provide to our users, and other costs incurred, in each case driven by the growth of our ecommerce marketplace. Improvement in gross profit margins was mainly due to improvement in our marketplace take-rate and our cost efficiency as we continue to enhance our service offerings.***
- *Cost of goods sold*: Cost of goods sold increased by 76.0% to US\$266.6 million in the third quarter of 2021 from US\$151.5 million in the third quarter of 2020. ***The increase was largely in line with the increase in our revenue from sales of goods.***

(First and fifth emphases in bold and italics in original.)

27. The statements referenced in ¶¶ 21-26 were materially false and misleading because Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) Sea overstated its ability to manage the growth of its user base and loan book while enhancing its profitability; (ii) Sea's expansion to a broader user base and growing loan book rendered the Company significantly more vulnerable to higher credit losses; (iii) as a result, the Company was likely to book a significant increase in loan loss reserves;

(iv) the foregoing was likely to have a significant negative impact on Sea's earnings; and  
(v) as a result, the Company's public statements were materially false and misleading at all relevant times.

### **The Truth Begins to Emerge**

28. On November 17, 2021, during pre-market hours, investor news website *Seeking Alpha* reported that Bank of America had downgraded Sea's stock from a "Buy" rating to a "Neutral" rating because, *inter alia*, "[c]onsensus[ha]s yet to factor in rising losses in the medium term based on expansion into new markets in Europe/India."

29. On this news, Sea's ADS price fell \$15.50 per ADS, or 4.7%, to close at \$314.41 per ADS on November 17, 2021. Despite this decline in Sea's ADS price, the Company's securities continued trading at artificially inflated prices throughout the remainder of the Class Period because of Defendants' continued misstatements and omissions regarding, *inter alia*, Sea's ability to manage the growth of its user base and loan book while enhancing its profitability.

30. For example, on March 1, 2022, Sea issued a press release announcing the Company's fourth quarter and full year 2021 results. The press release quoted Defendant Li, who represented that Sea was sustainably growing and scaling its, *inter alia*, user base and financial services offerings in a cost-effective and efficient manner that would drive profitability, stating, in relevant part:

"In 2021, we continued to focus on sustainable growth and serving the fast growing and evolving demands and needs of our communities. With our growing scale, market leadership and strong cash balance, we believe we are well placed to increasingly leverage efficiencies across our ecosystem for growth and manage the levers of our business to reach profitability across

more markets and segments in 2022 and beyond,” said Forrest Li, Sea’s Chairman and Group Chief Executive Officer.

“We currently expect Shopee to achieve positive adjusted EBITDA before HQ costs allocation in Southeast Asia and Taiwan by this year and SeaMoney to achieve positive cashflow by next year. As a result, we believe that by 2025, cash generated by Shopee and SeaMoney collectively will enable these two businesses to substantially self-fund their long-term growth.”

“In addition to Shopee’s strong and growing market leadership in Southeast Asia and Taiwan, we are very excited to see Shopee fast gaining traction in Brazil, the sixth largest country by population in the world and our new growth market. Just two years after entering the market, Shopee Brazil recorded more than 140 million gross orders in the fourth quarter, growing at close to 400% year-on-year. At the same time, unit economics for Brazil substantially improved with adjusted EBITDA loss per order before HQ costs allocation lowered by more than 40% year-on-year.”

“We are also very pleased to see SeaMoney continuing to scale rapidly with fast growing user base, expanding product offerings, and further enhanced commercialization. It has truly become another strong growth engine for us. We are excited to provide guidance on its full year GAAP revenue for the first time.”

31. On April 23, 2022, Sea filed an annual report on Form 20-F with the SEC, reporting the Company’s financial and operational results for the quarter and year ended December 31, 2021 (the “2021 20-F”). The 2021 20-F contained substantively the same statements as referenced in ¶ 21, *supra*, representing that a large and growing user base benefitted Sea’s monetization efforts and that synergies among the Company’s three businesses allowed the Company to increase its user base, and monetization of that user base, in a cost-effective manner.

32. In addition, the 2021 20-F contained substantively the same generic, boilerplate representations as referenced in ¶ 22, *supra*, purporting to describe risks related

to Sea's growing loan and credit practices, while simultaneously downplaying those risks.

In a similar vein, the 2021 20-F also purported to warn, *inter alia*:

[A]s we expand various product offerings including credit services to consumers and merchants across more markets and roll out more digital financial products and services on our SeaMoney platform, including digital banking and insurtech, our limited operating history in these markets or with these products and service hinders our ability to forecast and maintain appropriate capital reserves for any losses that may arise.

These risk warnings were generic "catch-all" provisions that were not tailored to Sea's actual known risks regarding the need to drastically increase the Company's loan loss reserves as it expanded to a broader user base and grew its loan book, much less the negative impact that such a significant increase in loan loss reserves would have on the Company's profitability.

33. Appended as exhibits to the 2021 20-F were substantively the same SOX certifications as referenced in ¶ 23, *supra*, signed by the Individual Defendants.

34. On May 17, 2022, Sea issued a press release announcing the Company's first quarter 2022 results. The press release quoted Defendant Li, who stated, in relevant part, that "we are well on track to achieve our previously shared projections of profitability in our Asia markets, while continuing to scale our businesses and capture market share globally"; that "Shopee and SeaMoney continued to enjoy operating leverage and efficiency gain as they scale and strengthen their market leadership positions"; and that "[w]ith the significant scale, strong leadership and clear synergies achieved by both businesses in Southeast Asia and Taiwan, our consumer internet ecosystem in the region is naturally approaching a stage of long-term profitable growth"; all of which indicated to

investors that Defendants were scaling Sea’s business and user base in an efficient, cost-effective manner that would ultimately enhance the Company’s profitability.

35. On August 16, 2022, Sea issued a press release announcing the Company’s second quarter 2022 results. The press release quoted Defendant Li, who stated, in relevant part:

“Our solid results for the quarter reflect our continued progress in enhancing efficiency and strengthening our ecosystem . . . . Shopee’s unit economics improved significantly driven by gains in both monetization and efficiency across our markets, even as we sustained a healthy growth rate against tough comparisons . . . . We also benefited from expanding synergies between Shopee and SeaMoney as our underserved user base adopted more of our financial products and services, resulting in strong growth and narrowing losses at SeaMoney.”

“Our success has always been defined by our ability to focus on the right thing at the right time, quickly make the right strategic decisions, and remain agile and adaptable in our execution. During the pandemic lockdowns, we rapidly scaled our businesses to answer to the fast-rising market demand for online consumption and services. That allowed us to significantly expand our businesses and total addressable markets, strengthen our market leadership, and scale up more efficiently.”

“As we navigate the current environment of increased macro uncertainty with that same nimble and decisive approach, we believe it is vital to be thoughtful, prudent, and disciplined. While we have strong resources and are well on-track to achieve our self-sufficiency targets, we are nevertheless rapidly prioritizing profitability and cash flow management. We are confident that this focus, combined with our demonstrated ability to execute, our scale and leadership, and our proven business models, will position us for long-term sustained success.”

These statements, too, indicated to investors that Defendants were scaling Sea’s business and user base in an efficient, cost-effective manner that would ultimately enhance the Company’s profitability.

36. On November 15, 2022, Sea issued a press release announcing the Company's third quarter 2022 results. The press release quoted Defendant Li, who represented that the Company had successfully shifted away from focusing on growth in favor of achieving profitability given changes in the macro environment:

“Given the significant uncertainties in the macro environment, we have entirely shifted our mindset and focus from growth to achieving self-sufficiency and profitability as soon as possible, without relying on any external funding . . . .

“We are adapting quickly to the changing climate. All our efforts are directed to ensure that Sea not only survives the macro storms but emerges stronger, more efficient, and more resilient – and as a long-term winner in our markets. This positions us to continue capturing the long-term potential of our businesses and markets, and to deliver strong and sustained shareholder returns over time. Over the last quarter, we took decisive actions to improve margins, and set clear goals and priorities for the quarters to come. We remain highly confident about the compelling long-term growth prospects of our businesses and markets.”

37. The same press release also downplayed the negative impact that Sea's growing loan book was having on the Company's profitability, stating, in relevant part:

As of the end of the third quarter 2022, total loans receivable was US\$2.2 billion, net of allowance for credit losses of US\$253.4 million. Non-performing loans past due by more than 90 days represented less than 4% of our total gross loans receivable. The weighted average tenure of loans outstanding as of the end of the quarter was approximately 4 months.

\* \* \*

Our general and administrative expenses increased by 87.1% to US\$551.7 million in the third quarter of 2022 from US\$294.8 million in the third quarter of 2021. This increase was primarily due to the increase in credit loss expense related to loans receivable, in addition to higher staff cost, including share-based compensation, and higher office facilities and related expenses to support our business growth. Credit loss expenses on loans receivable increased to US\$136.4 million in the third quarter of 2022 from US\$33.2 million in the third quarter of 2021, primarily driven by the growth in our loan book.

38. On March 7, 2023, Sea issued a press release announcing the Company's fourth quarter and full year 2022 results. The press release quoted Defendant Li, who continued to assure investors that the Company had successfully shifted away from focusing on growth in favor of achieving profitability:

“We are starting 2023 on a much stronger footing . . . . Our decisive pivot to focus on efficiency and profitability since late last year is already driving meaningful bottom line improvements. We delivered positive total net income in the fourth quarter, demonstrating the strength and resilience of our underlying business model and the execution capabilities of our teams. As we continue this transition and maintain our focus on sustainable growth, our approach is to do less but do it better as we serve our users across our digital ecosystem.”

“Given the macro uncertainty and our recent strong pivot, we are closely monitoring the market environment and we will continue to adjust our pace and fine-tune our operations accordingly. While there may be near-term fluctuations in our performance, we remain highly confident in the long-term growth potential of our markets and fully focused on capturing this opportunity.”

39. The same press release also downplayed the negative impact that Sea's growing loan book was having on the Company's profitability, stating, in relevant part:

As of the end of the fourth quarter of 2022, total loans receivable was US\$2.1 billion, net of allowance for credit losses of US\$238.8 million. Non-performing loans past due by more than 90 days as a percentage of our total gross loans receivable declined from less than 4% in the third quarter of 2022 to less than 2%. This was mainly due to the shortening of loan write-off period in a certain market from 180 days to 120 days in the fourth quarter based on our assessment of historical credit losses. Without this change in write-off period, the ratio would be about 5%.

40. On April 6, 2023, Sea filed an annual report on Form 20-F with the SEC, reporting the Company's financial and operational results for the quarter and year ended December 31, 2022 (the “2022 20-F”). The 2022 20-F represented that a large and

growing user base benefitted Sea’s monetization efforts and that synergies among the Company’s businesses allowed the Company to increase its user base, and monetization of that user base, in a cost-effective manner, stating, in relevant part:

Our revenue is largely driven by the number of users and the level of user engagement across our three businesses, subject to other factors such as macro-economics, geopolitics and consumer spending power. In our e-commerce business, the larger the number of sellers and buyers on the platform, the larger the number and value of transactions which over time will drive advertising and transaction-based fee revenue for us. In our digital entertainment business, due to our freemium business model, the higher the number of active users in our games, the larger the number of users likely to make in-game purchases. In our digital financial services business, the larger the number of users, the greater the potential to generate revenue from service fees, underwriting premiums, and net interest margin.

\* \* \*

[S]ynergies among our digital financial services business and each of our e-commerce and digital entertainment businesses allow us to increase our user base and monetization quickly and cost-effectively. For example, as our Shopee buyers and Garena game players increasingly complete transactions using our mobile wallet services, our mobile wallet user base grows, which in turn may attract more merchants to join the mobile wallet network. At the same time, the large user base on Shopee may also increasingly explore other services and product offerings available on our digital financial services platform, such as our credit, insurtech and digital bank services.

41. In addition, the 2022 20-F contained substantively the same generic, boilerplate representations as referenced in ¶¶ 22 and 32, *supra*, purporting to describe risks related to Sea’s growing loan and credit practices, while simultaneously downplaying those risks. These risk warnings were generic “catch-all” provisions that were not tailored to Sea’s actual known risks regarding the need to drastically increase the Company’s loan loss reserves as it expanded to a broader user base and grew its loan book,

much less the negative impact that such a significant increase in loan loss reserves would have on the Company's profitability.

42. Appended as exhibits to the 2022 20-F were substantively the same SOX certifications as referenced in ¶ 23, *supra*, signed by the Individual Defendants.

43. The statements referenced in ¶¶ 30-42 were materially false and misleading because Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) Sea overstated its ability to manage the growth of its user base and loan book while enhancing its profitability; (ii) Sea's expansion to a broader user base and growing loan book rendered the Company significantly more vulnerable to higher credit losses; (iii) as a result, the Company was likely to book a significant increase in loan loss reserves; (iv) the foregoing was likely to have a significant negative impact on Sea's earnings; and (v) as a result, the Company's public statements were materially false and misleading at all relevant times.

### **The Truth Fully Emerges**

44. On May 16, 2023, during pre-market hours, Sea issued a press release announcing its financial results for the first quarter of 2023. Among other items, Sea reported that “[o]ur provision for credit losses increased by **120.5%** to US\$177.4 million in the first quarter of 2023 from US\$80.5 million in the first quarter of 2022, primarily driven by expansion to a broader user base and the growth of our loan book” (emphasis

added). Sea also disclosed that the Company's previous Chief Investment Officer, David Ma, had left that role and joined the Company's Board of Directors.

45. As explained in an article published the same day by investor news website *Seeking Alpha*, titled "Sea Ltd plunges 17% as Q1 earnings miss estimates despite e-commerce strength", the Company's sharp increase in loan loss reserves caused Sea to drastically miss expected earnings for the quarter:

Sea Ltd. (NYSE:SE) shares fell more than 17% on Tuesday after the Singapore tech giant reported first-quarter earnings that widely missed expectations due to a sharp increase in loan loss reserves.

For the period ending March 31, Sea (SE) earned 15 cents per share as revenue rose 4.8% year-over-year to \$3.04B. Analysts were expecting a gain of 73 cents per share on \$3.04B in revenue.

Sea Ltd. (SE) said it had \$2B in total loans receivable as of March 31, though it had \$281.1M in net allowance for credit losses and \$177.4M in provision for credit losses, up 120.5% year-over-year.

46. On this news, Sea's ADS price fell \$15.62 per ADS, or 17.74%, to close at \$72.45 per ADS on May 16, 2023.

47. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

### **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

48. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired Sea securities during the Class Period (the "Class"); and were damaged upon the revelation of the alleged corrective disclosures. Excluded from the Class are

Defendants herein, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

49. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Sea securities were actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Sea or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

50. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

51. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

52. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- whether the federal securities laws were violated by Defendants' acts as alleged herein;

- whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Sea;
- whether the Individual Defendants caused Sea to issue false and misleading financial statements during the Class Period;
- whether Defendants acted knowingly or recklessly in issuing false and misleading financial statements;
- whether the prices of Sea securities during the Class Period were artificially inflated because of the Defendants' conduct complained of herein; and
- whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

53. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

54. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

- Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- the omissions and misrepresentations were material;
- Sea securities are traded in an efficient market;
- the Company's shares were liquid and traded with moderate to heavy volume during the Class Period;
- the Company traded on the NYSE and was covered by multiple analysts;

- the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and
- Plaintiff and members of the Class purchased, acquired and/or sold Sea securities between the time the Defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

55. Based upon the foregoing, Plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

56. Alternatively, Plaintiff and the members of the Class are entitled to the presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

### **COUNT I**

#### **(Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants)**

57. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

58. This Count is asserted against Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

59. During the Class Period, Defendants engaged in a plan, scheme, conspiracy and course of conduct, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices and courses of business which operated as a fraud and deceit upon

Plaintiff and the other members of the Class; made various untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and employed devices, schemes and artifices to defraud in connection with the purchase and sale of securities. Such scheme was intended to, and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of Sea securities; and (iii) cause Plaintiff and other members of the Class to purchase or otherwise acquire Sea securities and options at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

60. Pursuant to the above plan, scheme, conspiracy and course of conduct, each of the Defendants participated directly or indirectly in the preparation and/or issuance of the quarterly and annual reports, SEC filings, press releases and other statements and documents described above, including statements made to securities analysts and the media that were designed to influence the market for Sea securities. Such reports, filings, releases and statements were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about Sea's finances and business prospects.

61. By virtue of their positions at Sea, Defendants had actual knowledge of the materially false and misleading statements and material omissions alleged herein and intended thereby to deceive Plaintiff and the other members of the Class, or, in the alternative, Defendants acted with reckless disregard for the truth in that they failed or

refused to ascertain and disclose such facts as would reveal the materially false and misleading nature of the statements made, although such facts were readily available to Defendants. Said acts and omissions of Defendants were committed willfully or with reckless disregard for the truth. In addition, each Defendant knew or recklessly disregarded that material facts were being misrepresented or omitted as described above.

62. Information showing that Defendants acted knowingly or with reckless disregard for the truth is peculiarly within Defendants' knowledge and control. As the senior managers and/or directors of Sea, the Individual Defendants had knowledge of the details of Sea's internal affairs.

63. The Individual Defendants are liable both directly and indirectly for the wrongs complained of herein. Because of their positions of control and authority, the Individual Defendants were able to and did, directly or indirectly, control the content of the statements of Sea. As officers and/or directors of a publicly-held company, the Individual Defendants had a duty to disseminate timely, accurate, and truthful information with respect to Sea's businesses, operations, future financial condition and future prospects. As a result of the dissemination of the aforementioned false and misleading reports, releases and public statements, the market price of Sea securities was artificially inflated throughout the Class Period. In ignorance of the adverse facts concerning Sea's business and financial condition which were concealed by Defendants, Plaintiff and the other members of the Class purchased or otherwise acquired Sea securities at artificially inflated prices and relied upon the price of the securities, the integrity of the market for

the securities and/or upon statements disseminated by Defendants, and were damaged thereby.

64. During the Class Period, Sea securities were traded on an active and efficient market. Plaintiff and the other members of the Class, relying on the materially false and misleading statements described herein, which the Defendants made, issued or caused to be disseminated, or relying upon the integrity of the market, purchased or otherwise acquired shares of Sea securities at prices artificially inflated by Defendants' wrongful conduct. Had Plaintiff and the other members of the Class known the truth, they would not have purchased or otherwise acquired said securities, or would not have purchased or otherwise acquired them at the inflated prices that were paid. At the time of the purchases and/or acquisitions by Plaintiff and the Class, the true value of Sea securities was substantially lower than the prices paid by Plaintiff and the other members of the Class. The market price of Sea securities declined sharply upon public disclosure of the facts alleged herein to the injury of Plaintiff and Class members.

65. By reason of the conduct alleged herein, Defendants knowingly or recklessly, directly or indirectly, have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

66. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases, acquisitions and sales of the Company's securities during the Class Period, upon the disclosure that the Company had been disseminating misrepresented financial statements to the investing public.

## COUNT II

### **(Violations of Section 20(a) of the Exchange Act Against the Individual Defendants)**

67. Plaintiff repeats and re-alleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

68. During the Class Period, the Individual Defendants participated in the operation and management of Sea, and conducted and participated, directly and indirectly, in the conduct of Sea's business affairs. Because of their senior positions, they knew the adverse non-public information about Sea's misstatement of income and expenses and false financial statements.

69. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to Sea's financial condition and results of operations, and to correct promptly any public statements issued by Sea which had become materially false or misleading.

70. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings which Sea disseminated in the marketplace during the Class Period concerning Sea's results of operations. Throughout the Class Period, the Individual Defendants exercised their power and authority to cause Sea to engage in the wrongful acts complained of herein. The Individual Defendants, therefore, were "controlling persons" of Sea within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of Sea securities.

71. Each of the Individual Defendants, therefore, acted as a controlling person of Sea. By reason of their senior management positions and/or being directors of Sea, each of the Individual Defendants had the power to direct the actions of, and exercised the same to cause, Sea to engage in the unlawful acts and conduct complained of herein. Each of the Individual Defendants exercised control over the general operations of Sea and possessed the power to control the specific activities which comprise the primary violations about which Plaintiff and the other members of the Class complain.

72. By reason of the above conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act for the violations committed by Sea.

**PRAYER FOR RELIEF**

**WHEREFORE**, Plaintiff demands judgment against Defendants as follows:

A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the Class representative;

B. Requiring Defendants to pay damages sustained by Plaintiff and the Class by reason of the acts and transactions alleged herein;

C. Awarding Plaintiff and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and

D. Awarding such other and further relief as this Court may deem just and proper.

**DEMAND FOR TRIAL BY JURY**

Plaintiff hereby demands a trial by jury.