

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-38180

HF Foods Group Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
6325 South Rainbow Boulevard, Suite 420
Las Vegas, NV
(Address of principal executive offices)

81-2717873
(I.R.S. Employer
Identification No.)

89118
(Zip Code)

(888) 905-0988
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	HFFG	Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2022, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$266.9 million.

As of March 27, 2023, the registrant had 53,827,531 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Proxy Statement for the 2023 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. The registrant's Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2022.

HF FOODS GROUP INC.

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2022

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTOR SUMMARY

This Annual Report on Form 10-K for HF Foods Group Inc. ("HF Group," "HF Foods", the "Company," "we," "us," or "our") contains forward-looking statements. Forward-looking statements include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. Words or phrases such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "ongoing," "plan," "potential," "predict," "project," "will" or similar words or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based on many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, include without limitation:

- The effects of the COVID-19 pandemic or other pandemics;
- Low margins in the foodservice distribution industry and periods of significant or prolonged inflation or deflation;
- Qualified labor shortages;
- Unfavorable macroeconomic conditions in the United States;
- Competition in the foodservice distribution industry particularly the entry of new competitors into the Chinese/Asian restaurant supply market niche;
- Increases in fuel costs;
- Disruption of relationships with vendors and increases in product prices;
- Dependency on the timely delivery of products from vendors, particularly the prolonged diminution of global supply chains;
- The steps taken by the governments where our suppliers are located, including the People's Republic of China, to address the COVID-19 pandemic;
- Disruption of relationships with or loss of customers;
- Changes in consumer eating and dining out habits;
- Related party transactions and possible conflicts of interests;
- Related parties and variable interest entities consolidation;
- Failure to protect our intellectual property rights;
- Our ability to renew or replace our current warehouse leases on favorable terms, or terminations prior to expiration of stated terms;
- Failure to retain our senior management and other key personnel, particularly our CEO, COO, CFO and CCO/General Counsel;
- Our ability to attract, train and retain employees;
- Changes in and enforcement of immigration laws;
- Failure to comply with various federal, state and local rules and regulations regarding food safety, sanitation, transportation, minimum wage, overtime and other health and safety laws;
- Product recalls, voluntary recalls or withdrawals if any of the products we distribute are alleged to have caused illness, been mislabeled, misbranded or adulterated or to otherwise have violated applicable government regulations;
- Costs to comply with environmental laws and regulations;
- Litigation;
- Increases in commodity prices;
- U.S. government tariffs on products imported into the United States, particularly from China;
- Severe weather, natural disasters and adverse climate change;
- Unfavorable geopolitical conditions;
- Any cyber security incident, other technology disruption or delay in implementing our information technology systems;
- Current indebtedness affecting our liquidity and ability of future financing;
- Failure to acquire other distributors or wholesalers and enlarge our customer base could negatively impact our results of operations and financial condition;
- Scarcity of and competition for acquisition opportunities;
- Our ability to obtain acquisition financing;
- The impact of non-cash charges relating to the amortization of intangible assets related to material acquisitions;
- Our ability to identify acquisition candidates;
- Increases in debt in order to successfully implement our acquisition strategy;
- Difficulties in integrating operations, personnel, and assets of acquired businesses that may disrupt our business, dilute stockholder value, and adversely affect our operating results;

- Our ability to regain compliance with Nasdaq listing requirements;
- The impact on the price and demand for our common stock resulting from the relative illiquidity of the market for our common stock and the as yet resolved Nasdaq delisting determination;
- Significant stockholders' ability to significantly influence the Company; and
- Other factors discussed in Item 1A. Risk Factors in this Annual Report on Form 10-K.

All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that are made from time to time in our other filings with the Securities and Exchange Commission (the "SEC") and public communications. We caution you that the important factors referenced above may not contain all of the risks, uncertainties (some of which are beyond our control) or other assumptions that are important to you. These risks and uncertainties include, but are not limited to, those factors described under the heading "Risk Factors" beginning on page 11.

In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date hereof. Except as otherwise required by law, we undertake no obligation to update or revise any forward-looking statement as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS.

Overview

HF Foods Group Inc., operating through our subsidiaries ("HF Group," the "Company," "we," "us," or "our"), is a leading foodservice distributor to Asian restaurants, primarily Chinese restaurants located throughout the United States. HF Group was formed through a merger between two complementary market leaders, HF Group and B&R Global Holdings, Inc. ("B&R Global"), on November 4, 2019.

With 18 distribution centers and a fleet of over 400 refrigerated vehicles, our distribution network now spans 46 states covering approximately 95% of the contiguous United States. Capitalizing on our deep understanding of the Chinese culture, with over 1,000 employees and subcontractors, and supported by two outsourced call centers in China, we have become a trusted partner serving over 15,000 Asian restaurants providing sales and service support to customers who mainly converse in Mandarin or Chinese dialects.

We are committed to providing excellent customer service by delivering a distinctive product portfolio built from an indelible partnership with both foreign and domestic suppliers. These relationships ensure that we deliver an outstanding array of products at competitive prices. Our relationships with suppliers and knowledge of the market are the cornerstones of our negotiating power with suppliers and enable us to better manage potential supply chain disruptions and stockouts, gain price concessions and increase delivery schedules.

Corporate History

HF Group was originally incorporated in the State of Delaware on May 19, 2016 as a special purpose acquisition company under the name Atlantic Acquisition Corp. ("Atlantic"), in order to acquire, through a merger, share exchange, asset acquisition, share purchase, recapitalization, reorganization or similar business combination with, one or more businesses or entities.

On August 22, 2018, Atlantic consummated a reverse acquisition transaction resulting in the shareholders of HF Group Holding Corporation ("HF Holding") becoming the majority shareholders of Atlantic, and changed its name to HF Foods Group Inc. On November 4, 2019, we consummated a merger transaction, resulting in B&R Global becoming a wholly-owned subsidiary of HF Group.

On January 17, 2020, we acquired 100% equity membership interest in nine subsidiaries under B&R Group Realty Holding, LLC ("BRGR"), which owned warehouse facilities that were being leased to B&R Global for its operations in California, Arizona, Utah, Colorado, Washington, and Montana.

On December 30, 2021, HF Group acquired substantially all of the assets of leading seafood suppliers Great Wall Seafood Supply, Inc., a Texas corporation, Great Wall Restaurant Supplier, Inc., an Ohio corporation, and First Mart Inc., an Illinois corporation (collectively the "Great Wall Group").

On April 29, 2022, HF Group acquired substantially all of the assets of Sealand Food, Inc., one of the largest frozen seafood suppliers servicing the Asian/Chinese restaurant market along the eastern seaboard, from Massachusetts to Florida, as well as Pennsylvania, West Virginia, Ohio, Kentucky, and Tennessee.

Our Business and Products

Our business features 18 strategically positioned distribution centers with over one million square feet of warehouse space and a fleet of over 400 vehicles to provide a wide variety of products with a strong focus on Asian specialty food ingredients essential for Asian cooking. Supported by an extensive supplier network, we aim to provide a one-stop service with on-time delivery and high fulfillment rates, at competitive pricing.

We offer over 2,000 different products to our clients, which include virtually all items needed to operate their restaurant business. Product offerings range from meat and poultry, perishable fresh produce, frozen seafood, general commodities and takeout food packaging materials to meet our customers' demands. The majority of our procurement currently consists of goods purchased domestically and imported goods purchased through domestic brokers, such as frozen meat, seafood and fresh vegetables, which are procured through large suppliers or directly from producers.

The following table sets forth our broad range of products and sales percentage by category for the year ended December 31, 2022:

Category	Description	Percentage
Seafood	Lobster, shrimp, crab, scallops and fish, such as tuna and Alaskan salmon	30%
Asian Specialty	Products with an Asian flair or flavor, including specialty noodles, rice, dry goods, such as dried mushrooms or dried beans, specialty sauces/seasonings, spring rolls, and canned products, such as preserved vegetables, bamboo shoots and water chestnuts	26%
Meat and Poultry	Beef, pork, chicken and duck	20%
Fresh Produce	Fresh, seasonal fruits and vegetables, such as celery, Chinese cabbage and winter melon which are widely used in Chinese cuisines	11%
Packaging and Other	Take-out accessories for customers, from bamboo chopsticks to takeout containers, plastic cups and sushi combo boxes	7%
Commodity	General commodities including oil, flour, salt and sugar	6%

We have an extensive supplier network and established long-term relationships with our major suppliers. Our long-term relationships and vast distribution network enable our increased negotiating power given the large quantities, thereby improving our inventory turnover and accounts payable, and reducing our operating costs. Instead of going to fragmented direct store distributors to source their products, customers are consolidating their vendors into our full service, one-stop-shop for most of their purchasing needs.

This initiative is made possible from order placement to delivery due to our warehouse operations, optimized fleet management, material handling equipment and techniques, and efficient administrative and operating staffs. This is further complemented by our two outsourced sales call centers located in China which take customers' inbound calls during non-office hours in the U.S. (inbound calls in the U.S. are redirected to China) for order taking, customer relationship management and after-sales service, offering customers a warm and friendly human interaction channel who speaks and understands their language and needs.

We have an extensive reach to our customers through localized, high frequency deliveries which allows them to reduce their inventory through higher inventory turnover and just-in-time inventory, and to reduce waste, especially in fresh products. Our temperature-controlled trucks deliver both short and medium distance routes daily to ensure on-time delivery and to achieve high fill rates to our customers.

Our Strategy

We are differentiated from mainstream food distribution companies, such as Sysco Corporation ("Sysco"), US Foods Holding Corp. ("US Foods") and Performance Food Group Company ("PFGC"), through our strong understanding of Asian culture and cooking essentials, distinctive product portfolio and resourceful supply chains. We believe our wide range of Asian-centric product offerings is unmatched, as many of the items we offer are unique and specific to the Chinese restaurant industry.

We believe that our scale and deep knowledge of our customers' needs provide a competitive advantage over our direct competitors and have contributed greatly to our success, including the following:

- Wide array of Asian specialty products: These are not commonly provided by large distributors serving the mainstream market.
- Deep understanding of Chinese culture: As our customers are primarily Chinese and Asian restaurants, most of our employees can speak Mandarin as well as the native dialects of our customers. We believe this is a key business strength and competitive advantage, as many of the restaurants' owners/chefs are migrants who feel less comfortable conversing in English.
- Lower sales and administrative expenses: We outsource our telephone-based sales and customer service to two call centers located in China with Mandarin and Chinese dialect (Fuzhounese) speaking agents to better serve our customers.
- Purchasing power: We capitalize on economies of scale and have strong relationships with both our domestic and foreign suppliers.
- Warehouse location: We have strategically located distribution centers and cross-docks, supported by our fleet of delivery vehicles with most routes limited to 3 to 5 hours driving time, ensuring on-time delivery and order fill-rate.

- **Technology:** With our customized inventory management system, we are able to manage our customer relationships and inventory efficiently and reduce operating expenses.
- **Customer-specific marketing:** Our employees' bilingual capabilities provide a competitive advantage against other major providers in the industry.

We aim to further expand into new key markets, as well as to strategically consolidate our market leadership position in existing markets, primarily through acquisitions. We will also explore potential vertical expansion in our acquisition strategy, both upstream and downstream of the foodservice value chain, including providing value-added items such as semi-prepared food products to help our customers upgrade their service, as well as exploring adjacent markets. We continue to invest in technological advancements to develop state-of-the-art management information and operating systems, to further improve our operational efficiency, accuracy and customer satisfaction, and to cement our foothold as a leading foodservice distributor to Asian restaurants in the U.S.

Features of Chinese Restaurants

Set forth below are the principal characteristics of the Asian/Chinese restaurants we serve.

Primarily Serving Non-Chinese Americans. There are tens of thousands of Chinese restaurants spread throughout the U.S., primarily serving non-Chinese American customers. Although the dishes they serve cater to the preferences of American mainstream customers and are more simply and quickly prepared as compared to traditional full-service Chinese restaurant cuisine, they still require specialized and distinctive Chinese ingredients used in traditional Chinese cooking styles.

Operated by Chinese Individual Families. Most Chinese restaurants serviced by HF Group are generally family-owned with very few workers, who are usually immigrants from China or second generation Chinese Americans. These restaurant owners, especially the founders, are generally less sophisticated, with limited education and resources and appreciate value-added services from suppliers to help them improve their operational efficiency. The owners and workers in these Chinese restaurants usually speak Mandarin or other regional dialects of the Chinese language. We believe that understanding their culture and language is paramount to facilitating efficient communications and building trust with customers.

Close-Knit Chinese American Community. Second or third generation Chinese Americans living in the U.S. inherit their traditional cultural values, and ethnic languages, and our experience has been that people in these communities prefer to do business with Chinese Americans that speak their language and share their values.

Unique Cooking Style and Ingredients for Chinese Cuisines. Chinese cuisine requires unique cooking techniques such as steaming and stir-frying in a Chinese wok, and requires specialty ingredients and vegetables such as bitter melons, Chinese yams, vine spinach, Chinese cabbage and winter melon. It also requires Chinese and Asian seasonings and spices, including peanut oil, Chinese cooking wine, vinegar, dark soy source, black bean sauce, pepper oil and chili oil. Most of the unique ingredients for Chinese cuisine are staple supplies of HF Group that are not widely available from mainstream U.S. suppliers.

Current Industry Landscape and Opportunities

Growing Demand in Asian Cuisines. The demand for Chinese and Asian cuisines continues to grow in the U.S. In addition, according to the Pew Research Center, the Asian population in the U.S. is the fastest growing population group in the country. We believe that these powerful trends will continue and result in expanded opportunities for Asian/Chinese restaurants. As a leading foodservice distributor to Asian/Chinese restaurants in the U.S., these trends represent a significant growth opportunity for HF Group.

Cultural Barriers to Entry. Understanding Chinese cooking culture is important to running a Chinese restaurant, and, therefore, most Chinese restaurants are operated by Chinese Americans. We believe that it is very difficult for mainstream food distributors to serve these restaurants due to various cultural and language barriers.

Highly Fragmented Market. The Asian foodservice market is currently highly fragmented with many small and unsophisticated direct store distributors, such as small-scale wholesaler redistributors, specialty import brokers, farmers markets, and local produce retailers, operating without significant financial support or a sophisticated logistics infrastructure. We believe we are the leading Chinese food distributor in the U.S. with a well-developed logistics infrastructure, strong financial means, and experienced management team that provides the marketplace with an avenue for consolidated purchasing, high fill rate, and efficient delivery frequency at a competitive price. The fragmented nature of the Asian foodservice market creates acquisition opportunities for our company to continue to expand its geographic footprint and customer base.

Competitive Advantages over New Entrants. Each distribution center requires a large amount of invested capital to support the full temperature-controlled logistics and warehouse operations to help customers grow their sales and profit. Consolidated purchasing allows us to pass on cost savings to our customers and provide competitive pricing. We believe our continued investment in technology will lead to long-term expense reduction and further administrative efficiency. These competitive advantages result in economies of scale which smaller and fragmented suppliers cannot match.

Demand for Value-Added Services. Our customers are Asian/Chinese restaurants, primarily takeout restaurants. These customers are price and quality sensitive with a high demand for great service and mutual trust. Our employees speak their language, understand their culture and build a bond with our customers. Our 24-hour after sale service call domestically and in China allows us to serve as a supportive and dependable business partner. Through vendor partnerships, we help our large customers source distinct products from their choice of vendors, either domestically or internationally. These are the value added services that we are able to provide to our customers in our one-stop shopping offering.

Continued Consumer Spending on Food Away From Home. Prior to the onset of the COVID-19 pandemic, according to the U.S. Department of Agriculture ("USDA"), the food away from home market grew to surpass spending on the food at home market. The foodservice industry declined sharply when COVID-19 restrictions adversely impacted restaurants' operations and foot traffic. As COVID-19 restrictions eased in 2021 and into 2022, both full service and fast food/take out restaurants have rebounded. We believe the long-term trend of increasing food away from home market consumption will resume and continue to be a key driver of demand for Asian/Chinese restaurants.

Customer Service

We employ a two-pronged approach for a complete and cohesive support to both existing and prospective customers; namely, the two outsourced call centers located in Fuzhou, China, and the domestic sales team in the U.S. Utilizing these outsourced call centers in China, customers embrace and appreciate our personal customer service conducted in their native Mandarin and other regional dialects such as Fuzhounese and Cantonese.

Full sales support from the beginning of a sales order to post-sales service is offered through these call centers. These services are complemented by our domestic sales teams who make regular on-site visits to customers' restaurants. With cultural understanding coupled with a distinct and diverse cultural bonding, the entire sales team has been successful in forging better customer rapport and retention and is better able to understand customers' needs and operations as compared to the mainstream foodservice distributors attempting to serve this channel. Utilizing our customized information system to share valuable and pertinent information with our customers is important to help them grow their business. This information includes, but is not limited to, purchasing history, order tracking, item availability, items on promotion, and best-selling or trending items.

We formulate strategies and implement action plans to ensure cohesive sales and marketing efforts to our existing and prospective customers. The domestic sales team works closely with the sales staff in China to ensure our strategies are implemented effectively and our action plans are carried out swiftly. Distribution centers are decentralized and empowered to cater to local and regional customers' needs by customizing their specific product portfolio. With respect to customer care and satisfaction, we offer a refund policy without penalty, which many of our small competitors in the market segment and the direct store distributors are unable to provide. Our 100% satisfaction guarantee permits our customers to reject part of the order or the entire order within 24 hours of receipt without any penalty. We believe that this refund policy further cements the trust and loyalty of our customers toward our brand and company.

Suppliers

We consolidate procurement on bulk and frequently sold items. Our distribution centers send their inventory procurement requests to regional buyers who are responsible for consolidation and fulfillment in the most cost-effective way. The consolidated procurement process allows HF Group to establish a meaningful vendor relationship under one brand.

We maintain a large supplier network through a vendor pool with a carefully selected group of suppliers to ensure product quality, availability and competitive pricing. To minimize costs, the procurement team directly manages our major vendors for large and frequent purchases and engages brokers for our smaller suppliers of specialty goods. Utilizing brokers allows us to maintain lower costs due to the brokers' volume.

The key procurement team members closely monitor the supply market for seasonal products, such as vegetables, and makes procurement adjustments according to market conditions. In addition, they use a dual-sourcing method for their suppliers and can negotiate lower prices for comparable products.

Each distribution center reviews the inventory level in the information system daily and submits purchase requests as needed to the procurement team at headquarters and regional offices. The procurement teams at headquarters and our regional offices can alter or adjust purchasing decisions based on an analysis of the inventory data in the system. Upon receipt of ordered products, the delivery schedule is determined based on the needs of each location. The lead-time for products is dependent on the product category and need. For perishable goods, products are usually delivered by suppliers within 72 hours of placing the order. Products that are ordered through import brokers have lead times of up to seven days.

None of our suppliers accounted for more than 10% of our aggregate purchases during the years ended December 31, 2022 and 2021.

Trademarks

Except for the trademarks for HF black and white/color logos, Rong, Rong GREEN LEAF, Great Wall logos, <333>, SEA333, and SEA888, we do not own or have the right to use any patent, trademark, trade name, license, franchise or concession, the loss of which would have a material adverse effect on our business, financial condition or results of operations.

Human Capital

One of our primary areas of focus is to continue to strengthen our team by retaining, attracting, and hiring qualified top talent. This includes implementing the right organizational structure with a focus on growing capabilities through training and development of our talent.

We believe one of the key factors of our success is the commitment and loyalty of our workforce. All of our general managers and distribution level management team have been with the business since our inception. Their deep understanding of the business and the strong relationships they maintain with front line employees enable us to be a union free workforce.

As of December 31, 2022, we have 1,070 total employees, which includes 890 permanent employees and 180 temporary employees through agencies.

Compensation and Benefits

We are committed to positively impacting the lives of our employees by offering competitive pay and affordable benefits. In 2022, we made the decision to completely revamp our compensation and benefits programs. We rolled out a comprehensive management incentive bonus and long-term incentive equity plan to include a broader group of non-executive employees. We also adopted plans to enhance our benefit plan designs with lower employee premiums and offer more free benefits to our employees with an effective date in 2023.

Recruiting, Training, and Development

Our ability to continue to retain, attract, and recruit top talent at all levels is key to our future success. In 2022, we launched an Operations Leadership Development Program aimed to develop the next generation of general manager leaders. As we continue to transform our operations through new system and process improvements, training and development of our existing employees is vital.

Diversity and Inclusion

HF Foods was founded by Asian Americans. Building a successful business based on diversity and inclusion has been part of our DNA since our inception. Throughout our history, we have continued to maintain diversity and inclusion as one of our top priorities. 99% of our total workforce is made up of Hispanic, Black or African American, and Asian employees.

In recent years, we have strengthened our commitment to diversity and inclusion. Three out of five members of our Board of Directors are Asian and two out of five are women. At the corporate level, nearly 47% of our director and above positions are held by women.

Government Regulation

Legal compliance is important to our operations. We are required to comply, and it is our policy to comply, with all applicable laws in the numerous jurisdictions in which we do business.

As a marketer and distributor of food products in the U.S., we are subject to the Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food and Drug Administration (the "FDA"). The FDA regulates food safety and quality through various statutory and regulatory mandates, including manufacturing and holding requirements for foods through good manufacturing practice regulations, hazard analysis and critical control point requirements for certain foods, and the food and color additive approval process. The agency also specifies the standards of identity for certain foods, prescribes the format and content of information required to appear on food product labels, regulates food contact packaging and materials, and maintains a Reportable Food Registry for the industry to report when there is a reasonable probability that an article of food will cause serious adverse health consequences. For certain product lines, we are also subject to the Federal Meat Inspection Act, the Poultry Products Inspection Act, the Perishable Agricultural Commodities Act, the Packers and Stockyard Act and regulations promulgated by the USDA to interpret and implement these statutory provisions. The USDA imposes standards for product safety, quality and sanitation through the federal meat and poultry inspection program. The USDA reviews and approves the labeling of these products and also establishes standards for the grading and commercial acceptance of produce shipments from our suppliers. We are also subject to the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, which imposes certain registration and record keeping requirements on facilities that manufacture, process, pack or hold food for human or animal consumption.

The recently published and pending rules under the Food Safety Modernization Act ("FSMA") will significantly expand food safety requirements, including those of HF Group. Among other things, FDA regulations implementing the FSMA require us to establish and maintain comprehensive, prevention-based controls across the food supply chain that are both verified and validated. The FSMA also imposes new requirements for food products imported into the U.S. and provides the FDA with mandatory recall authority.

HF Group and our products are also subject to state and local regulation through such measures as the licensing of our facilities; enforcement by state and local health agencies of state and local standards for our products; and regulation of our trade practices in connection with the sale of our products. Our facilities are subject to regulations issued pursuant to the U.S. Occupational Safety and Health Act by the U.S. Department of Labor. These regulations require us to comply with certain manufacturing, health and safety standards to protect employees from accidents and to establish hazard communication programs to transmit information on the hazards of certain chemicals which may be present in products that we distribute.

Our distribution facilities must be registered with the FDA biennially and are subject to periodic government agency inspections by the FDA and USDA. Our facilities are generally inspected at least annually by federal and/or state authorities. Further, we are required to establish communication programs to transmit information about the hazards of certain chemicals present in some of the products we distribute.

Our business and employment practices are also subject to regulation by numerous federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Labor, which sets employment practice standards for workers, and the U.S. Department of Transportation, as well as its agencies, the Surface Transportation Board, the Federal Highway Administration, the Federal Motor Carrier Safety Administration, and the National Highway Traffic Safety Administration, which collectively regulate our trucking business through the regulation of operations, safety, insurance and hazardous materials. We must comply with the safety and fitness regulations promulgated by the Federal Motor Carrier Safety Administration, including those relating to drug and alcohol testing and hours-of-service. Such matters as weight and dimension of equipment also fall under federal and state regulations. We also are subject to federal and state immigration laws, regulations and programs that regulate our ability to hire or retain foreign employees. In addition, we are subject to the U.S. False Claims Act, and similar state statutes, which prohibit the submission of claims for payment to the government that are false and the knowing retention of overpayments.

Our operations are also subject to a broad range of U.S. federal, state, and local environmental laws and regulations, as well as zoning and building regulations. Environmental laws and regulations cover a variety of procedures, including appropriately managing wastewater and stormwater; complying with clean air laws, including those governing vehicle emissions; proper handling and disposal of solid and hazardous wastes; protecting against and appropriately investigating and remediating spills and releases; and monitoring and maintaining underground and above ground storage tanks for diesel fuel and other petroleum products. For the year ended December 31, 2022, the costs of managing our compliance with environmental laws and regulations was nominal.

The U.S. Foreign Corrupt Practices Act ("FCPA") prohibits bribery of public officials to obtain or retain business in foreign jurisdictions. The FCPA also requires us to keep accurate books and records and to maintain internal accounting controls to detect and prevent bribery and to ensure that transactions are properly authorized. We have implemented appropriate policy and will continue to maintain a robust anti-corruption compliance program applicable to our operations.

For the purchase of items produced, harvested or manufactured outside of the U.S., we are subject to applicable customs laws regarding the import and export of various products. Certain activities, including working with customs brokers and freight forwarders, are subject to applicable regulation by U.S. Customs and Border Protection, which is a part of the Department of Homeland Security.

Information about our Executive Officers

Name	Age	Position
Xiao Mou Zhang	50	Chief Executive Officer
Xi Lin	34	Chief Operating Officer
Carlos Rodriguez	49	Chief Financial Officer
Christine Chang	40	General Counsel and Chief Compliance Officer

Xiao Mou Zhang (aka Peter Zhang) has served as Co-Chief Executive Officer and director since November 4, 2019 following the merger between HF Group and B&R Global Holdings Inc. ("B&R Global"), and was promoted to sole Chief Executive Officer on February 23, 2021. From 2014 until the merger, he served as Chairman of the Board and a Director of B&R Global that was co-founded by Mr. Zhang and his partners, to consolidate the shareholdings of various operating entities across the Pacific and Mountain States regions. Mr. Zhang has well over 20 years of experience in the food distribution industry with extensive experience in sales, marketing, financing, acquisitions, inventory, logistics and distribution. Under Mr. Zhang's leadership, B&R Global established a large supplier network and maintained long-term relationships with many major suppliers stemming from business relationships that were built up over the years. A large purchase volume and a centralized procurement process also allowed B&R Global favorable negotiating power with vendors that source high quality products at lower prices than many competitors.

Xi Lin (aka Felix Lin) has served as Chief Operating Officer since May 1, 2022. Mr. Lin also previously served as an independent director of HF Group from November 2019 to April 2022. Mr. Lin has worked in a number of positions at Blue Bird Corporation since 2011 until his resignation on April 1, 2022. Prior to his resignation, he was Vice President of Human Resource and External Affairs, with responsibility for human resources, government relations, training and strategic relationships. He also held various other positions within Blue Bird Corporation in the Operations Management Department from 2015 to 2016, the Finance and Accounting Department in 2011 and from 2013 to 2015, and the Business Development Department in 2012. Mr. Lin received his B.A. in Accounting and Finance from the Eugene Stetson School of Business and Economics in Georgia, a Master's degree in Accountancy from the J. Whitney Bunting College of Business in Georgia, and a Master's degree in Business Administration from the University of North Carolina at Chapel Hill.

Carlos Rodriguez has served as Chief Financial Officer since August 1, 2022. Mr. Rodriguez brings more than 25 years of finance and accounting experience across various industries, including technology, entertainment, restaurants, and life science. Most recently, Mr. Rodriguez served as Chief Accounting Officer and Vice President Corporate Finance for Generate Life Sciences, Inc., a \$300 million high growth company. In that role, he led the Accounting, Finance, Financial Reporting, Treasury/Cash Management, Strategic and Financial Planning, M&A Due Diligence, and other financial responsibilities. Prior to Generate Life Sciences, Mr. Rodriguez served as Vice President of Accounting and Corporate Finance for California Pizza Kitchen, Inc. Mr. Rodriguez holds a Bachelor's degree in Accounting and a Master's of Business Administration degree from the University of Southern California and is also a Certified Public Accountant in the State of California.

Christine Chang has served as General Counsel and Chief Compliance Officer since September 8, 2021. Ms. Chang previously served as Vice President - Legal Affairs, Labor Relations and Litigation for Boyd Gaming Corp. From 2014 through August, 2020, she served in various capacities as Corporate Counsel, Litigation, Senior Corporate Counsel, Litigation, and Vice President and Chief Counsel, Litigation, for Caesars Entertainment, Inc. Ms. Chang also served as an associate at the law firm of Dentons LLP, from 2008 to 2013. Ms. Chang holds a Bachelor of Arts in Rhetoric from the University of California and a Juris Doctorate from Columbia University.

Website and Availability of Information

Our corporate website is located at hffoodsgroup.com. We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our filings with the SEC are available to the public on the SEC's website at www.sec.gov. Those filings are also available to the public on, or accessible through, our corporate website for free via the "Investor Relations" section at hffoodsgroup.com/investor-relations/. The information contained on or accessible through our corporate website or any other website that we may maintain is not incorporated by reference into and is not part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS.

The following are significant factors known to us that could materially adversely affect our business, reputation, operating results, industry, financial position and/or future financial performance. The risks set forth in this Section 1A are presented as of December 31, 2022 and the periods then ended.

Risk Factors Relating to Our Business and Industry

Global health developments and economic uncertainty resulting from pandemics such as the COVID-19 pandemic, and governmental action related thereto, have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations.

In 2020 and through early 2021, we saw the impact of COVID-19 in our operations, including significant decreases in sales. While COVID-19 did not significantly impact our operations in 2022, the impact of pandemics may have an adverse impact on numerous aspects of our business, financial condition and results of operations including, our growth, product costs, supply chain disruptions, labor shortages, logistics constraints, customer demand for our products and industry demand generally, consumer spending, our liquidity, the price of our securities and trading markets with respect thereto, and the global economy and financial markets generally. We cannot predict the duration of future pandemics or future governmental regulations or legislation that may be passed as a result of ongoing or future outbreaks. The impact of pandemics and the enactment of additional governmental regulations and restrictions may further adversely impact the global economy, the restaurant industry, and our business specifically, despite prior or future actions taken by us.

Our industry is characterized by low margins, and periods of significant or prolonged inflation or deflation affect our product and operational costs, which may negatively impact our profitability.

The foodservice distribution industry is characterized by relatively high inventory turnover with relatively low profit margins. Volatile food costs have a direct impact on our industry. During 2022, we experienced significantly elevated commodity and supply chain costs including the cost of labor, sourced goods, energy, fuel, packaging materials and other inputs necessary for the distribution and production of our products, and elevated levels of inflation may continue or worsen in 2023.

Periods of significant product cost inflation or deflation may adversely affect our results of operations if we are unable to pass on all or a portion of such product cost increases to our customers in a timely manner. In addition, periods of rapidly increasing inflation may adversely affect our business due to the impact of such inflation on discretionary spending by consumers and our limited ability to increase prices in the current, highly competitive environment.

A shortage of qualified labor could negatively affect our business and materially reduce earnings.

The future success of our operations, including the achievement of our strategic objectives, depends on our ability, and the ability of third parties on which we rely to supply and to deliver our products, to identify, recruit, develop and retain qualified and talented individuals. As a result, any shortage of qualified labor could significantly and adversely affect our business. Employee recruitment, development and retention efforts that we or such third parties undertake may not be successful, which could result in a shortage of qualified individuals in future periods. Any such shortage could decrease our ability to effectively serve our customers and achieve our strategic objectives. Such a shortage would also likely lead to higher wages for employees (or higher costs to purchase the services of such third parties) and a corresponding reduction in our results of operations.

Unfavorable macroeconomic conditions in the U.S. may adversely affect our business, financial condition and results of operations.

Our operating results are substantially affected by the operating and economic conditions in the regions in which we operate. Economic conditions can affect us in the following ways:

- A reduction in discretionary spending by consumers could adversely impact sales of Chinese/Asian restaurants, and their purchases from us. Future economic conditions affecting disposable consumer income, such as employment levels, business conditions, changes in housing market conditions, the availability of consumer credit, inflation, interest rates, tax rates and fuel and energy costs, could reduce overall consumer spending.
- Food cost and fuel cost inflation experienced by consumers can lead to reductions in the frequency of and the amount spent by consumers for food away from home purchases, which could negatively impact our business by reducing demand for our products.

- Heightened uncertainty in the financial markets negatively affects consumer confidence and discretionary spending, which can cause disruptions with our customers and suppliers.
- Liquidity issues and the inability of our customers to consistently access credit markets to obtain cash to support their operations can cause temporary interruptions in our ability to conduct day-to-day transactions involving the collection of funds from such customers.
- Liquidity issues and the inability of suppliers to consistently access credit markets to obtain cash to support their operations can cause temporary interruptions in our ability to obtain the foodservice products and supplies needed by us in the quantities and at the prices requested.

In addition, our existing operations are solely in the United States. The geographic concentration of our operations creates an exposure to economic conditions in the United States and any financial downturn in the United States could materially adversely affect our financial condition and results of operations.

Competition may increase intensively in the future, which may adversely impact our margins and ability to retain customers, and make it difficult to maintain our market share, growth rate and profitability.

The foodservice distribution industry in the United States is fragmented and highly competitive, with local, regional, multi-regional distributors, and specialty competitors. However, we believe that the market participants serving Chinese restaurants are highly fragmented. Currently, we face competition from smaller and/or dispersed competitors focusing on the niche market serving Chinese/Asian restaurants, especially Chinese takeout restaurants. However, with the growing demand for Chinese cuisines, others are operating, or may begin operating in this niche market in the future. Those potential competitors include: (i) national and regional foodservice distributors, (ii) local wholesalers and brokers, (iii) food retailers, and (iv) farmers' markets. The national and regional distributors are experienced in operating multiple distribution locations and expanding management, and they have greater marketing and financial resources than we do. Even though they currently offer only a limited selection of Chinese and Asian specialty foods, they may be able to devote greater resources to sourcing, promoting and selling their products if they choose to do so. Conversely, the local wholesalers and brokers are small in size with a deep understanding of local preferences, but their lack of scale results in high risk and limited growth potential.

If more competitors enter this market segment aiming to serve Chinese/Asian restaurants in the future, our operating results may be negatively impacted through a loss of sales, reduction in margins from competitive price changes, and/or greater operating costs, such as marketing costs, due to the increase of competition.

We may not be able to fully compensate for increases in fuel costs when fuel prices experience high volatility, and our operating results would be adversely affected.

Volatile fuel prices have a direct impact on the industry served by us. We require significant quantities of fuel for delivery vehicles and are exposed to the risk associated with fluctuations in the market price for fuel. The price and supply of fuel can fluctuate significantly based on international, political and economic circumstances, as well as other factors outside our control, such as actions by the Organization of the Petroleum Exporting Countries, or OPEC, and other oil and gas producers, regional production patterns, weather conditions and environmental concerns. The cost of fuel affects the price paid by us for products, as well as the costs we incur to deliver products to the customers. There is no guarantee that we will be able to pass along a portion of increased fuel costs to our customers in the future. The conflict in Ukraine led to a significant increase in fuel prices. If fuel costs remain elevated or increase further in the future, we may experience difficulties in passing all or a portion of these costs along to our customers, which may have a negative impact on our results of operations.

Disruption of relationships with vendors could negatively affect our business. Suppliers may increase product prices, which could increase our product costs.

We purchase our food items and related products primarily from third-party suppliers. Although our purchasing volume can provide benefits when dealing with suppliers, suppliers may not provide the products and supplies needed by us in the quantities and at the prices requested. The cancellation of our supply arrangement with any of our suppliers or the disruption, delay and/or inability to supply the requested products by our suppliers could adversely affect our sales. If our suppliers fail to comply with food safety or other laws and regulations, or face allegations of non-compliance, their operations may be disrupted. We cannot assure you that we would be able to find replacement suppliers on commercially reasonable terms.

In addition, we purchase seasonal Chinese vegetables and fruits from farms and other vendors. Increased frequency or duration of extreme weather conditions could impair production capabilities, disrupt our supply chain or impact demand for our products. Input costs could increase at any point in time for a large portion of the products that we sell for a prolonged period.

Our inability to obtain adequate supplies of food items and related products as a result of any of the foregoing factors or otherwise could mean that we are unable to fulfill our obligations to customers, and customers may turn to other distributors.

The purchase prices of our products vary from time to time, which is subject to market conditions and negotiation with our suppliers. The prices of some of our products, especially seasonal products, such as vegetables and fruits, have significant fluctuation. We may not always be able to mitigate the impact of these price fluctuations, and our performance results could be adversely affected by such fluctuations.

As a foodservice distributor, it is necessary for us to maintain an inventory of products that may have declines in product pricing levels between the time we purchase the product from suppliers and the time we sell the product to customers, which could reduce the margin on that inventory, adversely affecting our results of operations.

We are dependent upon the timely delivery of products from our vendors. Prolonged diminution of global supply chains may impact the availability and price stability of future food supplies, which may in turn adversely impact our business.

The global supply chain, ranging from consumer goods, electronics, and industrial raw materials to food supplies, was negatively impacted by the COVID-19 pandemic, shipping bottlenecks, and rapidly rising freight costs. We procure the majority of our food supply domestically, which includes certain imported products we purchase from domestic brokers. Food production is widely dispersed throughout the U.S. and we depend on producers of food and restaurant supply products to timely deliver these components of our inventory in quantities sufficient to meet customer demand. Any disruptions or delays in our supply chains as a result of labor shortages, commodity shortages, or inefficiencies in distribution or logistical services could cause delays in the shipment or delivery of our products to our customers. Any prolonged diminution of global supply chains may impact the availability and price stability of future food supplies, which may in turn adversely impact our business.

Our business has been affected and may in the future be affected by steps taken by the Chinese government to address the COVID-19 pandemic.

We purchase a portion of our inventory directly or indirectly from Chinese suppliers. In addition, our two outsourced call centers are located in China. Beginning with the outbreak of the COVID-19 pandemic in 2020, quarantines, travel restrictions, and the closure of stores and business facilities have been imposed in China as part of the government's "zero-COVID" policy to limit the impact of the pandemic, and these measures were not relaxed until the beginning of 2023.

As a result of the COVID-19 pandemic and the Chinese government's responses to the pandemic, certain of our suppliers' and service providers' operations in China were temporarily disrupted. If the government in China reinstates policies that have been relaxed, or institutes new restrictive policies, we may not be able to procure certain inventory items from our suppliers, we may experience further supply chain bottlenecks and price increases, or we could have temporary disruptions in the function of our call centers, any of which could adversely impact our business.

Our relationships with customers may be materially diminished or terminated. The loss of customers could adversely affect our business, financial condition, and results of operations.

We have maintained long-standing relationships with a number of our customers. However, those customers could unilaterally terminate their relationship with us or materially reduce the amount of business they conduct with us at any time. Our customers may shift their purchase orders from us to other competitors due to market competition, change of customer requirements and preferences, or because of the customer's financial condition. There is no guarantee that we will be able to maintain relationships with any of our customers on acceptable terms, or at all. The loss of a number of customers could adversely affect our business, financial condition, and results of operations.

We may fail to increase or maintain the highest margin portions of our business, including sales to restaurant customers.

Our most profitable customers are independent restaurants. Our ability to continue to gain market share of independent restaurant customers is critical to achieving increased operating profits. Changes in the buying practices of independent restaurant customers, including their ability to require us to sell to them at discounted rates, or decreases in our sales to this type of customer could have a material negative impact on our profitability.

Changes in consumer eating habits could materially and adversely affect our business, financial condition, and results of operations.

We provide foodservice distribution to Chinese/Asian restaurants, primarily Chinese takeout restaurants, which focus on serving Chinese food to non-Chinese Americans. Changes in consumer eating habits (such as a decline in consuming food away from home, a decline in portion sizes, or a shift in preferences toward western foods) could reduce demand for our products. Consumer eating habits could be affected by a number of factors, including attitudes regarding diet and health or new information regarding the health effects of consuming certain foods. If consumer eating habits change significantly, we may be required to modify or discontinue sales of certain items in our product portfolio, and we may experience higher costs and/or supply shortages associated with our efforts to accommodate those changes as our suppliers adapt to new eating preferences. Additionally, changes in consumer eating habits may result in the enactment or amendment of laws and regulations that impact the ingredients and nutritional content of our food products, or laws and regulations requiring us to disclose the nutritional content of our food products. Compliance with these laws and regulations, as well as others regarding the ingredients and nutritional content of food products, may be costly and time-consuming. We cannot make any assurances regarding our ability to effectively respond to changes in consumer culture preference, health perceptions or resulting new laws or regulations or to adapt our product offerings to trends in eating habits.

We engage in transactions with related parties and such transactions present possible conflicts of interest that could have an adverse effect on us.

We purchase goods and services from related parties of our current and former management team, as well as our largest shareholder, and sell products to related parties of our current and former management team, as well as our largest shareholder. These related-party transactions create the possibility of conflicts of interest with regard to our management, including that:

- we may enter into contracts between us, on the one hand, and related parties, on the other, that are not as a result of arm's-length transactions;
- our executive officers and directors that hold positions of responsibility with related parties may be aware of certain business opportunities that are appropriate for presentation to us as well as to such other related parties and may present such business opportunities to such other parties;
- our executive officers and directors that hold positions of responsibility with related parties may have significant duties with, and spend significant time serving, other entities and may have conflicts of interest in allocating time; and
- such conflicts could cause an individual in our management to seek to advance his or her economic interests or the economic interests of certain related parties above ours. Further, the appearance of conflicts of interest created by related-party transactions could impair the confidence of our investors. Our Special Transactions Review Committee regularly reviews these transactions. Notwithstanding this, it is possible that a conflict of interest could have an adverse effect on our business, financial condition and results of operations.

For more information on our related party transactions, see *Note 14 - Related Party Transactions* in our consolidated financial statements in this Annual Report on Form 10-K.

We may in the future be required to consolidate the assets, liabilities, and results of operations of certain existing and future related party entities, which could have an adverse impact on our results of operations, financial position, and gross margin.

The Financial Accounting Standards Board has issued accounting guidance regarding variable interest entities ("VIEs") that affects our accounting treatment of our existing and future related party entities. To ascertain whether we are required to consolidate an entity, we are required to determine whether it is a VIE and if we are the primary beneficiary in accordance with the accounting guidance. Factors we consider in determining whether we are the VIE's primary beneficiary include evaluating the decision-making authority and management of the day-to-day operations of the related party entity and the obligation to absorb losses or right to receive benefits from the related party in relation to others. Changes in the financial accounting guidance, or changes in circumstances at each of these related party entities, could lead us to determine that we have to consolidate the assets, liabilities, and results of operations of such related party entities. We have determined to consolidate certain related parties as VIEs, see *Note 3 - Variable Interest Entities* in our consolidated financial statements in this Annual Report on Form 10-K for additional information. The consolidation of other related parties as VIEs could significantly increase our indebtedness and may have a material adverse impact on our results of operations, financial position, and gross margin. In addition, we may enter into future affiliations with related parties or make other equity investments, which could have an adverse impact on us because of the financial accounting guidance regarding VIEs.

We may be unable to protect or maintain our intellectual property, which could result in customer confusion, a negative perception of our brand and adversely affect our business.

We believe that our intellectual property has substantial value and has contributed significantly to the success of our business. In particular, our "HF" logo trademarks and our trade names including "Han Feng," "Rong Cheng" and "Great Wall," are valuable assets that reinforce our customers' favorable perception of our products. Our trademark rights and related registrations may be challenged in the future and could be canceled or narrowed. Failure to protect our trademark rights could cause customer confusion or negatively affect customers' perception of our brand and products, and eventually adversely affect our sales and profitability. Moreover, intellectual property disputes and proceedings and infringement claims may result in a significant distraction for management and significant expense, which may not be recoverable regardless of whether we are successful. Such proceedings may be protracted with no certainty of success, and an adverse outcome could subject us to liability, force us to cease use of certain trademarks or other intellectual property or force us to enter into licenses with others. Any one of these occurrences may have a material adverse effect on our business, results of operations and financial condition.

If we are unable to renew or replace our current leases on favorable terms, or any of our current leases are terminated prior to expiration of their stated terms, and we cannot find suitable alternate locations, our operations and profitability could be negatively impacted.

We currently have leases for some of our warehouses. Our ability to re-negotiate favorable terms on an expiring lease or to negotiate favorable terms for a suitable alternate location, and our ability to negotiate favorable lease terms for additional locations, could depend on conditions in the real estate market, competition for desirable properties, our relationships with current and prospective landlords, and/or other factors that are not within our control. Any or all of these factors and conditions could negatively impact our growth and profitability.

Failure to retain our senior management and other key personnel may adversely affect our operations.

Our success is substantially dependent on the continued service of our senior management and other key personnel. These executives have been primarily responsible for determining the strategic direction of our business and for executing our growth strategy and are integral to our brand and culture, and our reputation with suppliers and consumers. The loss of the services of any of these executives and other key personnel could have a material adverse effect on our business and prospects, as we may not be able to find suitable individuals to replace them on a timely basis, if at all. In addition, any such departure could be viewed in a negative light by investors and analysts, which may cause our stock price to decline. The loss of key employees could negatively affect our business.

If we are unable to attract, train and retain employees, we may not be able to grow or successfully operate our business.

The foodservice distribution industry is labor intensive. Our success depends in part upon our ability to attract, train and retain a sufficient number of employees who understand and appreciate our culture and are able to represent our brand effectively and establish credibility with our business partners and customers. Our ability to meet our labor needs, while controlling wage and labor-related costs, is subject to numerous external factors, including the availability of a sufficient number of qualified persons in the work force of the regions in which we are located, unemployment levels within those regions, prevailing wage rates, changing demographics, health and other insurance costs and changes in employment legislation.

In the event of increasing wage rates, if we fail to increase our wages competitively, the quality of our workforce could decline, causing our customer service to suffer, while increasing our wages could cause our profits to decrease. If we are unable to hire and retain employees capable of meeting our business needs and expectations, our business and brand image may be impaired. Any failure to meet our staffing needs or any material increase in turnover rates of our employees may adversely affect our business, results of operations and financial condition.

Changes in and enforcement of immigration laws could increase our costs and adversely affect our ability to attract and retain qualified employees.

Federal and state governments from time to time implement immigration laws, regulations or programs that regulate our ability to attract or retain qualified foreign employees. Some of these changes may increase our obligations for compliance and oversight, which could subject us to additional costs and make our hiring process more cumbersome or reduce the availability of potential employees. Although we have implemented, and are in the process of enhancing, procedures to ensure our compliance with the employment eligibility verification requirements, there can be no assurance that these procedures are adequate and some of our employees may, without our knowledge, be unauthorized workers. The employment of unauthorized workers may subject us to fines or civil or criminal penalties, and if any of our workers are found to be unauthorized, we could experience adverse publicity that negatively impacts our brand and makes it more difficult to hire and keep qualified employees. We may be required to terminate the employment of certain of our employees who are determined to be unauthorized workers. The termination of a significant number of employees may disrupt our operations, cause temporary increases in our labor costs as we train new employees and result in adverse publicity. Our financial performance could be materially harmed as a result of any of these factors.

Potential labor disputes with employees and increases in labor costs could adversely affect our business.

A considerable amount of our operating costs are attributable to labor costs and, therefore, our financial performance is greatly influenced by increases in wage and benefit costs. As a result, we are exposed to risks associated with a competitive labor market. Rising health care costs and the nature and structure of work rules will always be important issues. Any work stoppages or labor disturbances as a result of employee dissatisfaction with their current employment terms could have a material adverse effect on our financial condition, results of operations and cash flows. We also expect that in the event of a work stoppage or labor disturbance, we could incur additional costs and face increased competition.

If we fail to comply with requirements imposed by applicable law and other governmental regulations, we could become subject to lawsuits, investigations and other liabilities and restrictions on our operations that could significantly and adversely affect our business.

We are subject to regulation by various federal, state, and local governments, applicable to food safety and sanitation, ethical business practices, securities, transportation, minimum wage, overtime, other wage payment requirements, employment discrimination, immigration, and human health and safety. While we attempt to comply with all applicable laws and regulations, we cannot represent that we are in full compliance with all applicable laws and regulations or interpretations of these laws and regulations at all times or that we will be able to comply with any future laws, regulations or interpretations of these laws and regulations. If we fail to comply with applicable laws and regulations, we may be subject to investigations, criminal sanctions or civil remedies, including fines, injunctions, and prohibitions on exporting. The cost of compliance or the consequences of non-compliance, including debarments, could have an adverse effect on our results of operations. In addition, governmental units may make changes in the regulatory frameworks within which we operate that may require us to incur substantial increases in costs in order to comply with such laws and regulations.

If the products distributed by us are alleged to have caused injury or illness, or to have failed to comply with governmental regulations, we may need to recall our products and may experience product liability claims.

We, like any other foodservice distributor, may be subject to product recalls, including voluntary recalls or withdrawals, if the products we distribute are alleged to have caused injury or illness, to have been mislabeled, misbranded, or adulterated or to otherwise have violated applicable governmental regulations. We may also choose to voluntarily recall or withdraw products that we determine do not satisfy our quality standards, whether for taste, appearance, or otherwise, in order to protect our brand and reputation. Any future product recall or withdrawal that results in substantial and unexpected expenditures, destruction of product inventory, damage to our reputation, and/or lost sales due to the unavailability of the product for a period of time, could materially adversely affect our results of operations and financial condition.

We also face the risk of exposure to product liability claims in the event that the use of products sold by us are alleged to have caused injury or illness. We cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims or lawsuits relating to such matters. Further, even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image.

Our product liability insurance plans may not continue to be available at a reasonable cost or, if available, may not be adequate to cover all of our liabilities. We generally seek contractual indemnification and insurance coverage from parties supplying products to us, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insured limits of any insurance provided by such suppliers. If we do not have adequate insurance or contractual indemnification available, product liability relating to defective products could materially adversely affect our results of operations and financial condition.

We may incur significant costs to comply with environmental laws and regulations, and we may be subject to substantial fines, penalties and/or third-party claims for non-compliance.

Our operations are subject to various federal, state, and local laws, rules and regulations relating to the protection of the environment, including those governing:

- the discharge of pollutants into the air, soil, and water;
- the management and disposal of solid and hazardous materials and wastes;
- employee exposure to hazards in the workplace; and
- the investigation and remediation of contamination resulting from releases of petroleum products and other regulated materials.

In the course of business, we operate, maintain, and fuel vehicles; store fuel in on-site above ground containers; operate refrigeration systems; and use and dispose of hazardous substances and food waste. We could incur substantial costs, including fines or penalties and third-party claims for property damage or personal injury, as a result of any violations of environmental or workplace safety laws and regulations or releases of regulated materials into the environment. In addition, we could incur investigation, remediation and/or other costs related to environmental conditions at our currently or formerly owned or operated properties.

Litigation may materially adversely affect our business, financial condition and results of operations.

From time to time, we may be party to various claims and legal proceedings. For example, as reported previously, the Company is subject to a non-public investigation by the SEC and has responded to various information requests from the SEC in connection with that investigation. The Company is fully cooperating with the SEC's requests and cannot predict the outcome of this investigation. See *Part I, Item 3. Legal Proceedings* to this Form 10-K for more information. We evaluate these claims and proceedings to assess the likelihood of unfavorable outcomes and to estimate, if probable and estimable, the amount of potential losses. Based on these assessments and estimates, we may establish reserves, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from our assessments and estimates.

Even when not merited, the defense of these lawsuits or legal proceedings, including potential securities litigation and/or other legal actions, is expensive and may divert management's attention, and we may incur significant expenses in defending these lawsuits or legal proceedings. The results of litigation and other legal proceedings are inherently uncertain, and adverse judgments or settlements in some of these legal disputes may result in adverse monetary damages, penalties or injunctive relief against us, which could negatively impact our financial position, cash flows or results of operations.

Increased commodity prices and availability may impact profitability.

Many of our products include ingredients such as wheat, corn, oils, sugar, and other commodities. Commodity prices worldwide have been increasing. While commodity price inputs do not typically represent the substantial majority of our product costs, any increase in commodity prices may cause our vendors to seek price increases from us. We may not be able to mitigate vendor efforts to increase our costs, either in whole or in part. In the event we are unable to mitigate potential vendor price increases, we may in turn consider raising our prices, and our customers may be deterred by any such price increases. Our profitability may be impacted through increased costs to us which may affect our gross margins, or through reduced revenue as a result of a decline in the number and average size of customer transactions.

The U.S. government is currently imposing increased tariffs on certain products imported into the U.S., including products imported from China, which may have an adverse impact on our future operating results.

We sell our products based on the cost of such products plus a percent markup. The U.S. government is currently imposing and proposing increased tariffs on certain products imported into the U.S., including products imported from China. Some of our imported products and imported products purchased from domestic brokers may be subject to these increased tariffs and accordingly, our purchase costs will be increased. We may determine to increase our sales prices in order to pass these increased costs to our customers. In the event we determine to take such action, our customers may reduce their orders from us, which could negatively affect our profitability and operating results.

Severe weather, natural disasters and adverse climate changes, as well as the legal, regulatory or market measures being implemented to address climate change, may materially adversely affect our financial condition and results of operations.

Severe weather conditions and other natural disasters in areas where our distribution network covers or from which we obtain the products we sell may materially adversely affect our operations and our product offerings and, therefore, our results of operations. Such conditions may result in physical damage to, or temporary or permanent closure of, one or more of our distribution centers, an insufficient work force in our market regions and/or temporary disruption in the supply of products, including delays in the delivery of goods to our warehouses and/or a reduction in the availability of products in our offerings. In addition, adverse climate conditions and adverse weather patterns, such as drought or flood, that impact growing conditions and the quantity and quality of crops may materially adversely affect the availability or cost of certain products within our supply chain. Any of these factors may disrupt our businesses and materially adversely affect our financial condition, results of operations and cash flows.

There is an increased focus around the world by regulatory and legislative bodies at all levels towards policies relating to climate change and the impact of global warming, including the regulation of greenhouse gas (GHG) emissions, energy usage and sustainability efforts. Increased compliance costs and expenses due to the impacts of climate change on our business, as well as additional legal or regulatory requirements regarding climate change or designed to reduce or mitigate the effects of carbon dioxide and other GHG emissions on the environment, may cause disruptions in, or an increase in the costs associated with, the running of our business, particularly with regard to our distribution and supply chain operations. Moreover, compliance with any such legal or regulatory requirements may require that we implement changes to our business operations and strategy, which would require us to devote substantial time and attention to these matters and cause us to incur additional costs. The effects of climate change, and legal or regulatory initiatives to address climate change, could have a long-term adverse impact on our business and results of operations.

Our business may be affected by the impacts of unfavorable geopolitical events or other market disruptions on consumer confidence and spending patterns.

Our net sales, profit, cash flows and future growth may be affected by negative local, regional, national or international political or economic trends or developments that reduce consumers' ability or willingness to spend, including the effects of national and international security concerns such as war, terrorism or the threat thereof. The Russian invasion of Ukraine in February 2022 and the financial and economic sanctions and other measures imposed by the European Union, the United States, and other countries and organizations in response thereto is creating, and may continue to create, market disruption and volatility and instability in the geopolitical environment. The extent to which this conflict escalates to other countries and the resulting impact on the global market remains uncertain. We are monitoring the conflict, but do not, and cannot, know if this situation will result in broader economic and security concerns or in material implications for our business. These events could have a material adverse effect on our customers, our business partners and our third-party suppliers.

We rely on technology in our business and any cybersecurity incident, other technology disruption or delay in implementing new technology could negatively affect our business and our relationships with customers.

We use technology in our business operations, and our ability to serve customers most effectively depends on the reliability of our technology systems. We use software and other technology systems, among other things, to generate and select orders, to make purchases, to manage warehouses and to monitor and manage our business on a day-to-day basis. Further, our business involves the storage and transmission of numerous classes of sensitive and/or confidential information and intellectual property, including customers' and suppliers' personal information, private information about employees, and financial and strategic information about us and our business partners.

These technology systems are vulnerable to disruption from circumstances beyond our control, including fire, natural disasters, power outages, systems failures, security breaches, espionage, cyber-attacks, viruses, theft and inadvertent releases of information. Any such disruption to these software and other technology systems, or the technology systems of third parties on which we rely, the failure of these systems to otherwise perform as anticipated, or the theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of customers, potential liability and competitive disadvantage, any or all of which could potentially adversely affect our customer service, decrease the volume of our business and/or result in increased costs and lower profits.

A significant breach of our cybersecurity infrastructure may result from actions by our employees, suppliers, third-party administrators, or unknown third parties or through cyber-attacks. The risk of a breach can exist whether software services are in our technology systems or are in cloud-based software services. Breaches have occurred, and may occur again, in our systems and in the systems of our suppliers and third-party administrators. Any such breach could result in operational impairments, significant harm to our reputation and financial losses.

A significant breach could affect our data framework or cause a failure to protect the personal information of our customers, suppliers or employees, or sensitive and confidential information regarding our business and could give rise to legal liability and regulatory action under data protection and privacy laws. Any such breach of our or our suppliers' cybersecurity infrastructure could have a material adverse effect on our business, results of operations and financial condition.

Further, as we pursue our strategy to grow through acquisitions and to pursue new initiatives that improve our operations and cost structure, we are also expanding and improving our information technology, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. If we fail to assess and identify cybersecurity risks associated with acquisitions and new initiatives, we may become increasingly vulnerable to such risks. Information technology systems continue to evolve and, in order to remain competitive, we need to implement new technologies in a timely and efficient manner. Investments will continue to be made in attracting, retaining, and training our human capital to remain current on the ever-changing industry best practices related to information security. If our competitors implement new technologies more quickly or successfully than we do, such competitors may be able to provide lower cost or enhanced services of superior quality compared to those we provide, which could have an adverse effect on our results of operations.

Our current indebtedness may adversely affect our liquidity position and ability of future financing.

As of December 31, 2022, we utilized \$53.1 million of the \$100 million asset-secured revolving credit facility and \$122.0 million of long-term mortgage and equipment loans, which could adversely affect our cash flow, our ability to raise additional capital or obtain financing in the future, or react to changes in business and repay other debts. These bank loans contain covenants that restrict our ability to incur additional debt and operate our business. We may not be able to generate a sufficient amount of cash needed to pay interest and principal on our debt facilities or refinance all or a portion of our indebtedness, due to a number of factors, including significant change of economic conditions, market competition, weather conditions, natural disaster, and failure to execute our business plan.

An increase in interest rates could adversely affect our cash flow and financial condition.

We are subject to market risks relating to changes in the London Interbank Offered Rate ("LIBOR"). On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out the use of LIBOR by the end of 2021. In the U.S., the Alternative Reference Rates Committee, a committee convened by the Federal Reserve Board and the Federal Reserve Bank of New York, recommended the Secured Overnight Financing Rate ("SOFR") plus a recommended spread adjustment as LIBOR's replacement. LIBOR and SOFR have significant differences, such as LIBOR being an unsecured lending rate while SOFR is a secured lending rate, and SOFR is an overnight rate while LIBOR reflects term rates at different maturities. Our LIBOR-based borrowings were converted to SOFR. The differences between LIBOR and SOFR, plus the recommended spread adjustment, could result in higher interest costs than if LIBOR remained available, which may have an adverse effect on our business, financial condition and results of operations. Furthermore, at this time, it is not possible to predict whether SOFR will attain market traction as a LIBOR replacement. Additionally, it is uncertain if LIBOR will cease to exist in the future, or whether additional reforms to LIBOR may be enacted, or whether alternative reference rates will gain market acceptance as a replacement for LIBOR. Alternative benchmark rates may replace LIBOR and could affect our debt securities, debt payments, and receipts. At this time, it is not possible to predict the effect of any changes to LIBOR, any phase out of LIBOR, or any establishment of alternative benchmark rates. Any other new benchmark rate will likely not replicate LIBOR exactly, which could impact our contracts that terminate after 2023.

There is uncertainty about how applicable law and the courts will address the replacement of LIBOR with alternative rates on variable rate retail loan contracts and other contracts that do not include alternative rate fallback provisions. If LIBOR ceases to exist, the interest rates on our variable-rate debts will be based on base rates or an alternative benchmark rate, which may result in higher interest rates. In addition, any changes to benchmark rates may have an uncertain impact on our cost of funds and our access to the capital markets, which could impact our results of operations and cash flows.

Impairment charges for goodwill, indefinite-lived intangible assets or other long-lived assets could adversely affect our financial condition and results of operation.

We review our amortizable intangible assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. We test goodwill and other indefinite-lived intangible assets for impairment at least annually, or more frequently if events or changes in circumstances indicate an asset may be impaired. Relevant factors, events and circumstances that affect the fair value of goodwill and indefinite-lived intangible assets may include external factors such as macroeconomic, industry, and market conditions, as well as cost factors, overall financial performance, other relevant entity-specific events, specific events affecting the reporting unit, or sustained decrease in share price. We may be required to record a significant charge in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined, which would negatively affect our results of operations.

Impairment analysis requires significant judgment by management and the fair value of goodwill, indefinite-lived intangible assets or other long-lived assets are sensitive to changes in key assumptions used in the projected cash flows, which include forecasted revenues and perpetual growth rates, among others, as well as current market conditions in both the United States and globally, all of which were unfavorably impacted by the COVID-19 pandemic. To the extent that business conditions deteriorate further, or if changes in key assumptions and estimates differ significantly from management's expectations, it may be necessary to record additional future impairment charges, which could be material. For more information on our goodwill impairment assessment and related impairment charge, see *Note 9 - Goodwill and Acquired Intangible Assets* in our consolidated financial statements of this Annual Report on Form 10-K.

Risk Factors Relating to our Acquisition Strategy

Our continued growth depends on future acquisitions of other distributors or wholesalers and enlarging our customer base. The failure to achieve these goals could negatively impact our results of operations and financial condition.

Historically, a portion of our growth has come through acquisitions, and our growth strategy depends, in large part, on acquiring other distributors or wholesalers to access untapped market regions and enlarge our customer base. Successful implementation of this strategy is dependent on sufficient capital support from financing, finding suitable targets to acquire, identifying suitable locations and negotiating acceptable acquisition prices and terms. There can be no assurance that we will continue to grow through acquisitions. We may not be able to obtain sufficient capital support for our expansion plan, or successfully implement the plan to acquire other competitors timely or within budget or operate those businesses successfully.

If we are unable to integrate acquired businesses successfully or realize anticipated economic, operational and other benefits and synergies in a timely manner, our earnings may be materially adversely affected. A significant expansion of our business and operations, in terms of geography or magnitude (such as with the Business Combination), could strain our administrative and operational resources. Significant acquisitions may also require the issuance of material additional amounts of debt or equity, which could materially alter our debt-to-equity ratio, increase our interest expense and decrease net income, and make it difficult for us to obtain favorable financing for other acquisitions or capital investments.

Our operating results will be adversely affected if we fail to implement our growth strategy or if we invest resources in a growth strategy that ultimately proves unsuccessful.

There is a scarcity of and competition for acquisition opportunities.

There are a limited number of operating companies available for acquisition that we deem to be desirable targets. In addition, there is a very high level of competition among companies seeking to acquire these operating companies. Many established and well-financed entities are active in acquiring interests in companies that we may find to be desirable acquisition candidates. Many of these entities have significantly greater financial resources, technical expertise and managerial capabilities than we do. Consequently, we will be at a competitive disadvantage in negotiating and executing possible acquisitions of such businesses. Even if we are able to successfully compete with these larger entities, this competition may affect the terms of the transactions we are able to negotiate and, as a result, we may pay more or receive less favorable terms than we expected for potential acquisitions. We may not be able to identify operating companies that complement our strategy, and even if we identify a company that does so, we may be unable to complete an acquisition of such a company for many reasons, including:

- failure to agree on necessary terms, such as the purchase price;
- incompatibility between our operational strategies and management philosophies with those of the potential acquiree;
- competition from other acquirers of operating companies;
- lack of sufficient capital to acquire a profitable company; and
- unwillingness of a potential acquiree to work with our management.

Risks related to acquisition financing.

We have a limited amount of financial resources and our ability to make additional acquisitions without securing additional financing from outside sources is limited. In order to continue to pursue our acquisition strategy, we may be required to obtain additional financing. We may obtain such financing through a combination of traditional debt financing and/or the placement of debt and equity securities. We may finance some portion of our future acquisitions by either issuing equity or by using shares of our common stock for all or a portion of the purchase price for such businesses. In the event that our common stock does not attain or maintain a sufficient market value, or potential acquisition candidates are otherwise unwilling to accept our common stock as part of the purchase price for the sale of their businesses, we may be required to use more of our cash resources, if available, in order to maintain our acquisition program. If we do not have sufficient cash resources, we will not be able to complete acquisitions and our growth could be limited unless we are able to obtain additional capital through debt or equity financings. The terms of our credit facility require that we obtain the consent of our lenders prior to securing additional debt financing. There could be circumstances in which our ability to obtain additional debt financing could be constrained if we are unable to secure such consent.

To the extent we make any material acquisitions, our earnings may be adversely affected by non-cash charges relating to the amortization of intangible assets.

Under applicable accounting standards, purchasers are required to allocate the total consideration paid in a business combination to the identified acquired assets and liabilities based on their fair values at the time of acquisition. The excess of the consideration paid to acquire a business over the fair value of the identifiable tangible assets acquired must be allocated among identifiable intangible assets including goodwill. The amount allocated to goodwill is not subject to amortization. However, it is tested at least annually for impairment. The amount allocated to identifiable intangible assets, such as customer relationships and the like, is amortized over the life of these intangible assets. We expect that this will subject us to periodic charges against our earnings to the extent of the amortization incurred for that period. Because our business strategy focuses, in part, on growth through acquisitions, our future earnings may be subject to greater non-cash amortization charges than a company whose earnings are derived solely from organic growth. As a result, we may experience an increase in non-cash charges related to the amortization of intangible assets acquired in our acquisitions. Our financial statements will show that our intangible assets are diminishing in value, even if the acquired businesses are increasing (or not diminishing) in value.

We are not obligated to follow any particular criteria or standards for identifying acquisition candidates.

We are not obligated to follow any particular operating, financial, geographic or other criteria in evaluating candidates for potential acquisitions or business combinations. We will determine the purchase price and other terms and conditions of acquisitions. Our shareholders will not have the opportunity to evaluate the relevant economic, financial and other information that our management team will use and consider in deciding whether or not to enter into a particular transaction.

We may be required to incur a significant amount of indebtedness in order to successfully implement our acquisition strategy.

Subject to the restrictions contained under our current credit facilities, we may be required to incur a significant amount of indebtedness in order to complete future acquisitions. If we are not able to generate sufficient cash flow from the operations of acquired businesses to make scheduled payments of principal and interest on the indebtedness, then we will be required to use our capital for such payments. This will restrict our ability to make additional acquisitions. We may also be forced to sell an acquired business in order to satisfy indebtedness. We cannot be certain that we will be able to operate profitably once we incur this indebtedness or that we will be able to generate a sufficient amount of proceeds from the ultimate disposition of such acquired businesses to repay the indebtedness incurred to make these acquisitions.

We may experience difficulties in integrating the operations, personnel and assets of acquired businesses that may disrupt our business, dilute stockholder value and adversely affect our operating results.

A core component of our business plan is to acquire businesses and assets in the food distribution industry. There can be no assurance that we will be able to identify, acquire or profitably manage businesses or successfully integrate our acquired businesses without substantial costs, delays or other operational or financial problems. Such acquisitions also involve numerous operational risks, including:

- difficulties in integrating operations, technologies, services and personnel;
- the diversion of financial and management resources from existing operations;
- the risk of entering new markets;
- the potential loss of existing or acquired strategic operating partners following an acquisition;
- the potential loss of key employees following an acquisition and the associated risk of competitive efforts from such departed personnel;
- possible legal disputes with the acquired company following an acquisition; and
- the inability to generate sufficient revenue to offset acquisition or investment costs.

As a result, if we fail to properly evaluate and execute any acquisitions or investments, our business and prospects may be seriously harmed.

Risk Factors Relating to our Common Stock

A trading market for our common stock may not be sustained and our common stock prices could decline.

Although our common stock is listed on the Nasdaq Capital Market ("NASDAQ") under the symbol "HFFG", an active trading market for the shares of our common stock may not be sustained. Accordingly, no assurance can be given as to the following:

- the likelihood that an active trading market for shares of our common stock will be sustained;
- the liquidity of any such market;
- the ability of our shareholders to sell their shares of common stock; or
- the price that our shareholders may obtain for their common stock.

In addition, our common stock has historically experienced price and volume volatility. The market price and volume of our common stock may continue to experience fluctuations not only due to volatile stock market conditions but also due to government regulatory action, tax laws update, interest rates, the condition of the U.S. economy and a change in sentiment in the market regarding our industry, operations or business prospects. In addition to other factors, the price and volume volatility of our common stock may be affected by:

- factors influencing consumer food choices;
- the operating and securities price performance of companies that investors consider comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors;
- changes in global financial markets and global economies and general market conditions, such as tariffs, interest rates, commodity and equity prices and the value of financial assets;
- additions or departures of key personnel;
- operating results that vary from the expectations of securities analysts and investors;
- sales of our equity securities common stock by shareholders, including the owners of businesses we have acquired, management, or our founder and his affiliated trusts and family members;
- actions by shareholders;
- actions by the SEC or NASDAQ relating to investigations; and

- passage of legislation or other regulatory developments that adversely affect us or our industry.

If an active market is not maintained, or if our common stock continues to experience price and volume volatility, the market price of our common stock may decline.

Furthermore, our ability to raise funds through the issuance of equity securities or otherwise by using our common stock as consideration is impacted by the price of our common stock. A low stock price may adversely impact our ability to reduce our financial leverage, as measured by the ratio of total debt to total capital. Continued high levels of leverage or significant increases may adversely affect our credit ratings and make it more difficult for us to access additional capital. These factors may limit our ability to implement our operating and growth plans.

Our current management does not have extensive corporate governance experience, and we may need to recruit expertise on corporate governance to comply with the regulations and effectively communicate with the capital markets, which may increase our operating expenses.

We have built up and will continue to expand our corporate management team from all areas of expertise. Lack of in-house talent could also have an adverse impact on both the effectiveness of our operations and the full compliance with all applicable laws and regulations. In addition, recruiting talent for our management team may increase operational costs substantially and may require longer hiring periods than ordinary employees.

We have identified material weaknesses in our internal control over financial reporting, which could affect our ability to ensure timely and reliable financial reports, affect the ability of our auditors to attest to the effectiveness of our internal controls, and weaken investor confidence in our financial reporting.

The Sarbanes-Oxley Act of 2002 requires, among other things, that we design, implement and maintain adequate internal controls and procedures over financial reporting. Our management has concluded that (1) our internal controls over financial reporting were not effective as of December 31, 2022, (2) there existed material weaknesses in our internal control over financial reporting as of December 31, 2022, and (3) our disclosure controls and procedures were not effective as of December 31, 2022. Please see the discussion of these conclusions below under Item 9A. "Controls and Procedures" of this Annual Report on Form 10-K.

We have taken and will continue to take appropriate actions to remediate such material weakness and inadequate disclosure controls and procedures; however, such continuous measures are still work-in-progress and may not be sufficient to address the material weaknesses identified or ensure that our disclosure controls and procedures are effective. We may also discover other material weaknesses in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in the implementation of such controls, could cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements and affect the ability of our auditors to attest to the effectiveness of our internal controls over financing reporting. In addition, substantial costs and resources may be required to rectify any internal control deficiencies. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our common stock could decline significantly, and our business and financial condition could be adversely affected.

We have not been in compliance with NASDAQ's requirements for continued listing. As a result, our common stock may be delisted from trading on NASDAQ, which would have a material effect on us and our shareholders.

We were delinquent in the filing of our periodic reports with the SEC initially as a result of additional review and procedures relating to our merger with B&R Global. After the resolution of certain merger-related issues in September 2022, our ability to timely file periodic reports was delayed due to additional review and procedures of complex technical and accounting issues relating to the previously disclosed independent investigation by the Special Investigation Committee of the Company's Board of Directors and the previously disclosed concurrent, non-public SEC investigation. We filed our delinquent periodic reports on January 31, 2023. As a result of this delay, we have delayed convening our annual meeting of stockholders for 2022.

As a result of our delay in holding our annual meeting of stockholders, we are not in compliance with the listing requirements of NASDAQ Listing Rule 5260(a), which requires NASDAQ-listed companies to hold their annual meeting of stockholders within the twelve months following the end of such company's fiscal year. Under NASDAQ's listing rules, we were permitted to submit to NASDAQ a plan to regain compliance, after which we were granted a stay of delisting procedures subject to our meeting certain conditions, including holding our annual meeting of stockholders no later than June 30, 2023. We intend to hold our annual shareholder meeting no later than June 2023 in order to establish compliance with NASDAQ listing standards. If we are unable to re-establish compliance with these standards, our common stock would be subject to delisting by NASDAQ. If our common stock is delisted, there can be no assurance whether or when it would again be listed for trading on NASDAQ or on any other exchange. Furthermore, if we were subjected to the delisting of our common stock from trading on NASDAQ, this could adversely affect the market price of and hinder our shareholders' ability to trade in our common stock, and could also affect our ability to access the capital markets or complete acquisitions.

Due to the delayed filing with the Commission of our Form 10-K for the year ended December 31, 2021, and Form 10-Q for the quarters ended March 31, 2022, June 30, 2022 and September 30, 2022, we are not currently eligible to use a registration statement on Form S-3 to register the offer and sale of securities, which may adversely affect our ability to raise future capital or complete acquisitions.

As a result of the delayed filing with the Commission of this Form 10-K for the year ended December 31, 2021 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2022, June 30, 2022 and September 30, 2022, each filed on January 31, 2023, we will not be eligible to register the offer and sale of our securities using a registration statement on Form S-3 until we have timely filed all periodic reports required under the Securities Exchange Act of 1934 for one year, and there can be no assurance that we will be able to file all such reports in a timely manner in the future. Should we wish to register the offer and sale of additional securities to the public, our transaction costs and the amount of time required to complete the transaction could increase, making it more difficult to execute any such transaction successfully and potentially harming our business, strategic plan and financial condition.

Future sales of our common stock may cause our stock price to decline.

As of March 27, 2023, there were 53,827,531 shares of our common stock outstanding. Of this number, approximately 53.8 million shares of common stock were freely tradable without restriction, unless the shares were held by our affiliates. The remaining shares of common stock were "restricted securities" as that term is defined under Rule 144 of the Securities Act. None of our directors, executive officers or employees are subject to lock-up agreements or market stand-off provisions that limit their ability to sell shares of our common stock. The sale of a large number of shares of our common stock, or the belief that such sales may occur, could cause a drop in the market price of our common stock.

Zhou Min Ni has significant influence over the Company and may have interests that conflict with those of our other shareholders.

The Company's former Chairman and Co-CEO Zhou Min Ni, directly and indirectly through the trustee of the trusts established for the benefit of his family, beneficially owns approximately 25% of our common stock. As a result, Mr. Ni has sufficient voting power to significantly influence matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Further, the possibility that Mr. Ni may sell all or a large portion of his common stock in a short period of time could adversely affect the trading price of our common stock. The interests of Mr. Ni may not align with the interests of other holders of our common stock. Mr. Ni's significant beneficial ownership may also adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

We do not currently intend to pay dividends on our common stock and, consequently, investors' ability to achieve a return on investment will depend on appreciation in the price of our common stock.

We have not declared nor paid dividends on our common stock and we do not intend to do so in the near term. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, investors are not likely to receive any dividends on common stock in the near term, and capital appreciation, if any, of our common stock will be an investor's sole source of gain for the foreseeable future.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of the date of this report, we operated 18 distribution centers with a total of approximately 1.3 million square feet of warehouse space including approximately 400 thousand square feet of refrigerated storage utilizing a mix of leased (31%) and owned (69%) facilities for distribution, warehousing inventory, service and administrative functions. The table below lists the aggregate square footage, by state for these operating facilities as of December 31, 2022.

Location	Number of Facilities	Total Square Feet
Arizona	1	51,000
California	5	301,000
Colorado	1	53,000
Florida	1	136,200
Georgia	1	123,000
Illinois	1	135,000
North Carolina	2	236,000
Texas	2	65,000
Utah	2	81,000
Washington	1	65,000
Virginia	1	43,000
Totals	18	1,289,200

In addition, we lease our corporate headquarters, in Las Vegas, Nevada, consisting of approximately 5,000 square feet with a term of 6.5 years beginning March 17, 2021. We believe that, in the aggregate, our real estate is suitable and adequate to serve the needs of our business.

ITEM 3. LEGAL PROCEEDINGS.

From time to time, we are a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. When we become aware of a claim or potential claim, we assess the likelihood of any loss or exposure. In accordance with authoritative guidance, we record loss contingencies in our financial statements only for matters in which losses are probable and can be reasonably estimated. Where a range of loss can be reasonably estimated with no best estimate in the range, we record the minimum estimated liability. If the loss is not probable or the amount of the loss cannot be reasonably estimated, we disclose the nature of the specific claim if the likelihood of a potential loss is reasonably possible and the amount involved is material. We continuously assess the potential liability related to our pending litigation and revise its estimates when additional information becomes available. Adverse outcomes in some or all of these matters may result in significant monetary damages or injunctive relief against us that could adversely affect our ability to conduct our business. There also exists the possibility of a material adverse effect on our financial statements for the period in which the effect of an unfavorable outcome becomes probable and reasonably estimable.

As previously disclosed, in March 2020, an analyst report suggested certain improprieties in the Company's operations, and in response to those allegations, the Company's Board of Directors appointed a Special Committee of Independent Directors (the "Special Investigation Committee") to conduct an internal independent investigation with the assistance of counsel. These allegations became the subject of two putative stockholder class actions filed on or after March 29, 2020 in the United States District Court for the Central District of California generally alleging the Company and certain of its current and former directors and officers violated the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making allegedly false and misleading statements (the "Class Actions"). These Class Actions have since been dismissed and are now closed.

In addition, the SEC initiated a formal, non-public investigation of the Company, and the SEC informally requested, and later issued a subpoena for, documents and other information. The subpoena relates to but is not necessarily limited to the matters identified in the Class Actions. The Special Investigation Committee and the Company are cooperating with the SEC.

On May 20, 2022, the Board of Directors of HF Group received a letter from a stockholder, James Bishop (the "Bishop Demand"). The Bishop Demand alleges that certain current and former officers and directors of HF Group engaged in misconduct and breached their fiduciary duties, and demands that HF Group investigate the allegations and, if warranted, assert claims against those current or former officers and directors. Many of the allegations contained in the Bishop Demand were the subject of the Class Actions.

On June 30, 2022, the Board of Directors of HF Group resolved to form a special committee (the "Special Litigation Committee") comprised of independent directors and advised by counsel to analyze and evaluate the allegations in the Bishop Demand in order to determine whether the Company should assert any claims against the current or former officers and directors.

On August 19, 2022, James Bishop filed a verified stockholder derivative complaint in the Court of Chancery of the State of Delaware (the "Delaware Action"), which asserts similar allegations to those set forth in the Bishop Demand. On September 21, 2022, Bishop and the Company filed a stipulation to stay the Delaware Action for 90 days, which the court granted on September 22, 2022. On December 20, 2022, Bishop and the Company filed a stipulation to extend the stay of the Delaware Action for an additional 60 days, which the court granted on December 21, 2022. On March 15, 2023, the Court of Chancery entered an order approving a joint stipulation submitted by Bishop and HF Foods to stay the case for an additional 60 days.

The Special Litigation Committee is in the process of analyzing and evaluating the claims alleged in the Bishop Demand and Delaware Action, and has not determined whether any claims should be asserted or the probability of recovery for such claims.

While the SEC investigation is ongoing, the Special Investigation Committee has made certain factual findings based on evidence adduced during its investigation, and made recommendations to management regarding improvements to Company operations and structure, including but not limited to its dealings with related parties. The Company is working to implement those improvements.

We have also instituted structural changes including the retirement of the former Co-Chief Executive Officer and Chairman of the Board. We now have an independent Chairman of the Board and, as of January 31, 2023, three other independent directors on the Board. Our senior executive team now includes a General Counsel and Chief Compliance Officer, a Chief Operations Officer who was hired in May 2022, and a new Chief Financial Officer who joined the Company in August 2022. We also hired a Vice President and Head of Internal Audit in April 2022 who reports directly to the Chief Financial Officer and to the Audit Committee Chair, and in November 2022, we hired a Vice President of Compliance and Associate General Counsel, who reports directly to the General Counsel and Chief Compliance Officer.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Shares of our common stock are listed for trading on NASDAQ under the symbol "HFFG," and have been publicly traded since September 7, 2017. Prior to that date, there was no public market for our stock.

Holders of Record

As of March 27, 2023, there were 53,827,531 shares of our common stock outstanding held by 41 shareholders of record. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

Dividends

We have not paid any cash dividends on our common stock to date. The payment of cash dividends in the future will be dependent upon our revenues and earnings, if any, capital requirements and our general financial condition. The payment of any dividends will be within the discretion of our Board of Directors at such time. It is the present intention of our Board of Directors to retain all earnings, if any, for use in our business operations and, accordingly, our Board of Directors does not anticipate declaring any dividends in the foreseeable future. In addition, our Board of Directors is not currently contemplating and does not anticipate declaring any stock dividends in the foreseeable future. Further, if we incur any indebtedness, our ability to declare dividends may be limited by restrictive covenants we may agree to in connection therewith.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis provides information about our business, the results of operations, financial condition, liquidity and capital resources of HF Foods Group Inc. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our results of operations and financial condition. This discussion and analysis should be read in conjunction with the consolidated financial statements and the accompanying notes presented elsewhere in this Annual Report on Form 10-K. Discussions of 2020 items and year-to-year comparisons between 2021 and 2020 that are not included in this Annual Report on Form 10-K can be found in "Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on January 31, 2023.

Overview

We market and distribute Asian specialty food products, seafood, fresh produce, frozen and dry food, and non-food products primarily to Asian restaurants and other foodservice customers throughout the United States. HF Group was formed through a merger between two complementary market leaders, HF Foods Group Inc. and B&R Global.

On December 30, 2021, HF Group acquired a leading seafood supplier, the Great Wall Group, resulting in the addition of 3 distribution centers, located in Illinois and Texas (the "Great Wall Acquisition").

On April 29, 2022, HF Group acquired substantially all of the assets of Sealand Food, Inc. (the "Sealand Acquisition"), one of the largest frozen seafood suppliers servicing the Asian/Chinese restaurant market along the eastern seaboard, from Massachusetts to Florida, as well as Pennsylvania, West Virginia, Ohio, Kentucky, and Tennessee. See *Note 8 - Acquisitions* to the consolidated financial statements in this Annual Report on Form 10-K for additional information regarding recent acquisitions.

We have grown our distribution network to 18 distribution centers servicing 46 states and covering approximately 95% of the contiguous United States with a fleet of over 400 refrigerated vehicles. Capitalizing on our deep understanding of the Chinese culture, with over 1,000 employees and subcontractors and supported by two call centers in China, we have become a trusted partner serving over 15,000 Asian restaurants, providing sales and service support to customers who mainly converse in Mandarin or other Chinese dialects. We are dedicated to serving the vast array of Asian and Chinese restaurants in need of high-quality and specialized food ingredients at competitive prices.

COVID-19 Impact

The impact of the COVID-19 pandemic had an adverse effect on our business, financial condition and operational results in 2020. All states across the country issued some form of stay-at-home orders, shutdowns, voluntary containment measures, and social distancing. The operations of our restaurant customers were also severely disrupted due to the significant decline in consumer demand for food away from home. The government mandates forced many of our restaurant customers to temporarily close or convert to take-out or delivery-only operations. As a result, there was a significant decline in net revenue beginning from the last two weeks of March 2020 through September 2020, negatively impacting our overall financial results in 2020. Since the third quarter of 2020, we've experienced a quarter-on-quarter recovery in net revenue.

The impact of COVID-19 seen in 2020 has generally subsided. Our net revenue for 2021 strongly recovered to 96% of pre-COVID-19 pandemic levels and net revenue for 2022 increased 47% as compared to 2021. Based on current sales volumes and adjusted cost structures, we continue to generate positive operating cash flow on a weekly basis and do not have immediate liquidity concerns. We remain optimistic on the long-term prospects for our business although we may continue to face intermittent government restrictions on our restaurant customers' business operations.

As a market leader in servicing the Asian/Chinese restaurant sector, we believe that we are well-positioned for long-term success. The fragmented nature of the Asian/Chinese foodservice industry and the environment during COVID-19 created opportunities for a company with the necessary expertise and a comprehensive cultural understanding of this unique customer base. We believe we are differentiated from our competitors given our extensive footprint, strong vendor and customer relationships, and value-added service offerings, all of which have allowed and will continue to allow us to better serve our customers.

How to Assess HF Group's Performance

In assessing our performance, we consider a variety of performance and financial measures, including principal growth in net revenue, gross profit, distribution, selling and administrative expenses, as well as certain non-GAAP financial measures, including EBITDA and Adjusted EBITDA. The key measures that we use to evaluate the performance of our business are set forth below:

Net Revenue

Net revenue is equal to gross sales minus sales returns, sales incentives that we offer to our customers, such as rebates and discounts that are offsets to gross sales; and certain other adjustments. Our net revenue is driven by changes in number of customers and average customer order amount, product inflation that is reflected in the pricing of our products and mix of products sold.

Gross Profit

Gross profit is equal to net revenue minus cost of revenue. Cost of revenue primarily includes inventory costs (net of supplier consideration), inbound freight, customs clearance fees and other miscellaneous expenses. Cost of revenue generally changes as we incur higher or lower costs from suppliers and as the customer and product mix changes.

Distribution, Selling and Administrative Expenses

Distribution, selling and administrative expenses consist primarily of salaries, stock-based compensation and benefits for employees and contract laborers, trucking and fuel expenses, utilities, maintenance and repair expenses, insurance expenses, depreciation and amortization expenses, selling and marketing expenses, professional fees and other operating expenses.

EBITDA and Adjusted EBITDA

Discussion of our results includes certain non-GAAP financial measures, including EBITDA and Adjusted EBITDA, that we believe provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial performance with other companies in the same industry, many of which present similar non-GAAP financial measures to investors. We present EBITDA and Adjusted EBITDA in order to provide supplemental information that we consider relevant for the readers of our consolidated financial statements included elsewhere in this report, and such information is not meant to replace or supersede GAAP measures.

Management uses EBITDA to measure operating performance, defined as net income before interest expense, interest income, income taxes, and depreciation and amortization. In addition, management uses Adjusted EBITDA, defined as net income before interest expense, interest income, income taxes, and depreciation and amortization, further adjusted to exclude certain unusual, non-cash, or non-recurring expenses. Management believes that Adjusted EBITDA is less susceptible to variances in actual performance resulting from non-recurring expenses, and other non-cash charges and is more reflective of other factors that affect our operating performance.

The definition of EBITDA and Adjusted EBITDA may not be the same as similarly titled measures used by other companies in the industry. EBITDA and Adjusted EBITDA are not defined under GAAP and are subject to important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of HF Group's results as reported under GAAP. For example, Adjusted EBITDA:

- excludes certain tax payments that may represent a reduction in cash available;
- does not reflect any cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future;
- does not reflect changes in, or cash requirements for, our working capital needs; and
- does not reflect the significant interest expense, or the cash requirements, necessary to service our debt.

For additional information on EBITDA and Adjusted EBITDA, see the section entitled "EBITDA and Adjusted EBITDA" below.

Financial Review

Highlights for 2022 included:

- **Net revenue:** Net revenue was \$1,170.5 million in 2022, compared to \$796.9 million in 2021, an increase of \$373.6 million, or 46.9%. This increase was primarily attributable to recent acquisitions, product cost inflation, and, to a lesser extent, the strong recovery of restaurant demand from the COVID-19 pandemic.
- **Gross profit:** Gross profit was \$205.5 million in 2022 compared to \$151.5 million in 2021, an increase of \$54.0 million, or 35.6%. The increase was primarily attributable to the additional revenue generated due to recent acquisitions. Gross profit margin for 2022 decreased from 19.0% in 2021 to 17.6% in 2022.
- **Distribution, selling and administrative expenses:** Distribution, selling and administrative expenses increased by \$72.9 million, or 59.8%, mainly due to an increase in payroll and related labor costs and sales related cost, driven by net revenue growth and recent acquisitions, along with increased professional fees and delivery costs. Distribution, selling and administrative expenses as a percentage of net revenue increased from 15.3% in 2021 to 16.7% in 2022, primarily due to the costs disclosed above partially offset by strong revenue growth.
- **Net income attributable to HF Foods Group Inc.:** Net income was \$0.5 million in 2022 compared to net income of \$22.1 million in 2021. The decrease of \$21.6 million was driven by the decrease in gross profit margin and the increase in distribution, selling and administrative expenses as a percentage of net revenue.
- **Sealand Acquisition:** On April 29, 2022, we acquired substantially all of the operating assets of Sealand Food, Inc. ("Sealand") including equipment, machinery and vehicles for an aggregate purchase price of \$20.0 million in cash, as well as \$14.4 million of acquired saleable inventory and additional fixed assets for approximately \$0.5 million. The acquisition was completed to expand our territory along the East Coast, from Massachusetts to Florida, as well as Pennsylvania, West Virginia, Ohio, Kentucky, and Tennessee.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the years ended December 31, 2022 and 2021. The historical results presented below are not necessarily indicative of the results that may be expected for any future period.

(In thousands)	Year Ended December 31,		Change	
	2022	2021	Amount	%
Net revenue	\$ 1,170,467	\$ 796,884	\$ 373,583	46.9%
Cost of revenue	964,955	645,372	319,583	49.5%
Gross profit	205,512	151,512	54,000	35.6%
Distribution, selling and administrative expenses	194,953	122,030	72,923	59.8%
Income from operations	10,559	29,482	(18,923)	(64.2)%
Interest expense	7,457	4,091	3,366	82.3%
Other income	(1,829)	(508)	(1,321)	260.0%
Change in fair value of interest rate swap contracts	(817)	(1,425)	608	(42.7)%
Lease guarantee expense	5,744	—	5,744	100.0%
Income before income tax provision	4	27,324	(27,320)	(100.0)%
Income tax (benefit) provision	(231)	4,503	(4,734)	(105.1)%
Net income and comprehensive income	235	22,821	(22,586)	(99.0)%
Less: net (loss) income attributable to noncontrolling interests	(225)	676	(901)	(133.3)%
Net income and comprehensive income attributable to HF Foods Group Inc.	\$ 460	\$ 22,145	\$ (21,685)	(97.9)%

The following table sets forth the components of our consolidated results of operations expressed as a percentage of net revenue for the periods indicated:

	Year Ended December 31,	
	2022	2021
Net revenue	100.0 %	100.0 %
Cost of revenue	82.4 %	81.0 %
Gross profit	17.6 %	19.0 %
Distribution, selling and administrative expenses	16.7 %	15.3 %
Income (loss) from operations	0.9 %	3.7 %
Interest expense	(0.6)%	(0.5)%
Other income, net	0.2 %	— %
Change in fair value of interest rate swap contracts	0.1 %	0.2 %
Lease guarantee expense	(0.5)%	— %
Income before income tax provision	— %	3.4 %
Income tax (benefit) provision	— %	0.5 %
Net income	— %	2.9 %
Less: net income attributable to noncontrolling interests	— %	0.1 %
Net income and comprehensive income attributable to HF Foods Group Inc.	— %	2.8 %

Net Revenue

Net revenue for the year ended December 31, 2022 increased by \$373.6 million or 46.9% compared to the same period in 2021. The increase was primarily due to the additional revenue generated by recent acquisitions and overall product cost inflation. Organic growth contributed \$121.1 million and recent acquisitions, which shifted our product mix to higher Seafood sales compared to the same period in 2021, contributed the remaining \$252.5 million.

Gross Profit

Gross profit was \$205.5 million for 2022 compared to \$151.5 million in the prior year, an increase of \$54.0 million, or 35.6%. The increase was primarily attributable to the additional revenue generated due to recent acquisitions. Gross profit margin for 2022 decreased from 19.0% in 2021 to 17.6% in 2022. The decrease was primarily attributable to the shift in product mix to higher Seafood sales, increases in fuel costs, incremental lower margin sales from newly acquired customers, timing of inventory purchases, higher than expected fluctuations in key commodity pricing and a higher-than-normal gross profit margin in the prior year due to our strong sales recovery to above pre-COVID-19 pandemic levels in 2021.

Distribution, Selling and Administrative Expenses

Distribution, selling and administrative expenses increased by \$72.9 million, or 60%, primarily due to an increase of \$28.8 million in payroll and related labor costs, inclusive of the additional costs due to recent acquisitions, increased professional fees of \$14.1 million, from \$12.7 million in 2021 to \$26.8 million in 2022, primarily driven by legal costs and increased compliance costs as a result of (a) the SEC and SIC investigations and (b) responding to an SEC comment letter and the filing of our delinquent reports, as well as an \$8.4 million increase in sales-related costs driven by revenue growth and recent acquisitions. Distribution, selling and administrative expenses as a percentage of net revenue increased to 16.7% in 2022 from 15.3% in 2021 primarily due to higher professional fees and increased headcount.

Interest Expense and Bank Charges

Interest expense for the year ended December 31, 2022 increased by \$3.4 million or 82.3%, compared to the year ended December 31, 2021, primarily due to higher utilization of our line of credit coupled with the higher interest-rate environment, and, to a lesser extent, the increase of \$46.0 million to our mortgage-secured term loan. Our average daily line of credit balance increased by \$38.5 million, or 233.1%, to \$55.0 million in 2022 from \$16.5 million in 2021, and our average daily real estate term loan balance increased by \$42.2 million, or 59.3%, to \$113.4 million in 2022 from \$71.2 million in 2021. Additionally, average floating interest rates for the year ended December 31, 2022 increased by approximately 1.64% on the line of credit and 2.26% on the mortgage-secured term loan, compared to the same period in 2021, which further contributed to higher interest expense.

Income Tax (Benefit) Provision

Income tax (benefit) provision was an income tax benefit of \$0.2 million for the year ended December 31, 2022, compared to income tax provision of \$4.5 million for the year ended December 31, 2021, primarily due to decreased income before taxes.

Net Income Attributable to Our Shareholders

Net income attributable to our shareholders was \$0.5 million for the year ended December 31, 2022, compared to \$22.1 million for the year ended December 31, 2021. The decrease of \$21.7 million, or 97.9%, is primarily due to the distribution, selling, and administrative costs and interest expense described above, partially offset by our strong business recovery to above pre-COVID-19 pandemic levels. In addition, we recorded a non-recurring charge of \$5.7 million related to a guarantee of a lease obligation.

EBITDA and Adjusted EBITDA

The following table reconciles EBITDA and Adjusted EBITDA to the most directly comparable GAAP measure:

(In thousands)	Year Ended December 31,		Change	
	2022	2021	Amount	%
Net income (loss)	\$ 235	\$ 22,821	\$ (22,586)	(99.0)%
Interest expense	7,457	4,091	3,366	82.3%
Income tax provision (benefit)	(231)	4,503	(4,734)	(105.1)%
Depreciation and amortization	24,936	19,126	5,810	30.4%
EBITDA	32,397	50,541	(18,144)	(35.9)%
Lease guarantee expense	5,744	—	5,744	100.0%
Change in fair value of interest rate swap contracts	(817)	(1,425)	608	(42.7)%
Stock-based compensation expense	1,257	635	622	98.0%
Acquisition and integration costs	1,130	1,090	40	3.7%
Impairment	422	—	422	100.0%
Adjusted EBITDA	\$ 40,133	\$ 50,841	\$ (10,708)	(21.1)%
Adjusted EBITDA margin	3.4 %	6.4 %		

Adjusted EBITDA was \$40.1 million for the year ended December 31, 2022, a decrease of \$10.7 million or 21.1%, compared to \$50.8 million for the year ended December 31, 2021. Adjusted EBITDA margin decreased to 3.4% for the year ended December 31, 2022 from 6.4% in the prior year. The decrease in Adjusted EBITDA margin was primarily attributable to a 150 basis point decrease in gross profit and a 130 bps increase in distribution, selling and administrative expenses.

Liquidity and Capital Resources

As of December 31, 2022, we had cash of approximately \$24.3 million, checks issued not presented for payment of \$21.9 million and access to approximately \$46.9 million in additional funds through our \$100.0 million line of credit, subject to a borrowing base calculation. We have funded working capital and other capital requirements primarily by cash flow from operations and bank loans. Cash is required to pay purchase costs for inventory, salaries, fuel and trucking expenses, selling expenses, rental expenses, income taxes, other operating expenses and to service debts.

Based on current sales volume, which has been increasing steadily quarter-on-quarter since the outbreak of COVID-19 in the first half of 2020, we believe that our cash flow generated from operations is sufficient to meet our normal working capital needs for at least the next twelve months. However, our ability to repay our current obligations will depend on the future realization of our current assets. Management has considered the historical experience, the economy, the trends in the foodservice distribution industry to determine the expected collectability of accounts receivable and the realization of inventories as of December 31, 2022.

On March 31, 2022, we amended the Credit Agreement with J.P. Morgan extending our line of credit for five years. The amendment provided for a \$100.0 million asset-secured revolving credit facility with a 1-month SOFR plus a credit adjustment of 0.1% plus 1.375% per annum, as well as an increase to our mortgage-secured term loan from \$69.0 million to \$115.0 million. In April of 2022, the \$46.0 million increase to the mortgage-secured term loan was used to pay down our \$100.0 million line of credit. We also received a waiver through January 31, 2023 associated with the timing of our filing of our 2021 audited financial statements. See *Note 11 - Debt* to the consolidated financial statements in this Annual Report on Form 10-K.

On April 29, 2022, we completed the Sealand Acquisition for cash consideration of \$20.0 million plus approximately \$14.4 million of inventory. We financed the Sealand Acquisition through our \$100.0 million line of credit.

During the three months ended June 30, 2022, we sold a warehouse to a related party for approximately \$7.2 million and used a portion of the proceeds to pay the outstanding balance of our \$4.5 million loan with First Horizon Bank. We also paid the remaining \$4.5 million of our related party promissory note payable.

Based on the above considerations, management believes we have sufficient funds to meet our working capital requirements and debt obligations in the next twelve months. However, there are a number of factors that could potentially arise which might result in shortfalls in anticipated cash flow, such as the demand for our products, economic conditions, government intervention in response to a potential resurgence of COVID-19, competitive pricing in the foodservice distribution industry, and our bank and suppliers being able to provide continued support. If the future cash flow from operations and other capital resources is insufficient to fund our liquidity needs, we may have to resort to reducing or delaying our expected acquisition plans, liquidating assets, obtaining additional debt or equity capital, or refinancing all or a portion of our debt.

As of December 31, 2022, we have no off balance sheet arrangements that currently have or are reasonably likely to have a material effect on our consolidated financial position, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources.

The following table summarizes cash flow data for the years ended December 31, 2022 and 2021:

(In thousands)	Years Ended December 31,		Change	
	2022	2021	Amount	%
Net cash provided by operating activities	\$ 31,284	\$ 17,509	\$ 13,775	78.7%
Net cash used in investing activities	(50,786)	(41,082)	(9,704)	23.6%
Net cash provided by financing activities	28,999	28,784	215	0.7%
Net increase in cash and cash equivalents	\$ 9,497	\$ 5,211	\$ 4,286	NM

NM - Not meaningful

Operating Activities

Net cash provided by operating activities consists primarily of net income adjusted for non-cash items, including depreciation and amortization, changes in deferred income taxes and others, and includes the effect of working capital changes. Net cash provided by operating activities increased by \$13.8 million, or 78.7%, primarily due to lower working capital requirements in 2022 compared to increased working capital investment as a direct result of higher sales volume and the need for normal inventory level build up post-COVID-19 in 2021.

Investing Activities

Net cash used in investing activities increased by \$9.7 million, or 23.6%, primarily due to the Sealand Acquisition of \$34.9 million and \$17.4 million paid for the inventory acquired related to the Great Wall Acquisition in 2022 compared to the Great Wall Acquisition of \$37.8 million and \$5.0 million paid related to the acquisition of noncontrolling interests in 2021.

Financing Activities

Net cash provided by financing activities increased by \$0.2 million, or 0.7%, primarily due to the \$46.0 million increase of our mortgage-secured term loan partially offset by the \$4.5 million payoff of our related party promissory note payable, the \$4.5 million repayment of long-term debt related to a warehouse sale compared to the net impact of \$39.0 million on our line of credit from net proceeds of \$36.9 million in 2021 to a net repayment of \$2.1 million.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. These principles require management to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, cash flow and related disclosure of contingent assets and liabilities. The estimates include, but are not limited to, accounts receivable, impairment of long-lived assets and income taxes. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and the actual results, future financial statements will be affected.

We believe that among our significant accounting policies, which are described in *Note 2 - Summary of Significant Accounting Policies* to the consolidated financial statements in this Annual Report on Form 10-K, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, we believe these are the most critical to fully understand and evaluate our financial condition and results of operations.

Business Combinations

We account for our business combinations using the purchase method of accounting in accordance with ASC Topic 805 ("ASC 805"), *Business Combinations*. The purchase method of accounting requires that the consideration transferred be allocated to the assets, including separately identifiable assets and liabilities we acquired, based on their estimated fair values. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over, (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

We estimate the fair value of assets acquired and liabilities assumed in a business combination. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. Significant estimates in valuing certain intangible assets include, but are not limited to future expected revenues and cash flows, useful lives, discount rates, and selection of comparable companies. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired companies and are inherently uncertain. During the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. On the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations and comprehensive income (loss).

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. We test goodwill for impairment at least annually, as of December 31, or whenever events or changes in circumstances indicate that goodwill might be impaired. We have concluded we are one aggregated reporting unit for purposes of testing goodwill for impairment due to similar economic characteristics of our businesses reviewed by our segment manager.

We review the carrying value of goodwill whenever events or changes in circumstances indicate that such carrying values may not be recoverable and annually for goodwill and indefinite lived intangible assets as required by ASC Topic 350, *Intangibles — Goodwill and Other*. Factors that may be considered a change in circumstances, indicating that the carrying value of our goodwill or indefinite-lived intangible assets may not be recoverable, include a decline in stock price and market capitalization, reduced future cash flow estimates and slower growth rates in our industry. This guidance provides the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, based on a review of qualitative factors, it is more likely than not that the fair value of a reporting unit is less than its carrying value, we perform a quantitative analysis. If the quantitative analysis indicates the carrying value of a reporting unit exceeds its fair value, we measure any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

A quantitative goodwill impairment analysis requires valuation of the respective reporting unit, which requires complex analysis and judgment. We use a combination of discounted cash flow ("DCF") models and market data, such as earnings-based multiples for comparable companies. DCF models require detailed forecasts of cash flows, including assumptions such as revenue growth rates, margin rates and capital investments, and estimates of weighted-average cost of capital which we believe approximates the rate from a market participant's perspective. These estimates incorporate many uncertain factors which could be impacted by changes in market conditions, interest rates, growth rate, tax rates, costs, customer behavior, regulatory environment and other macroeconomic changes. We categorize the fair value determination as Level 3 in the fair value hierarchy due to its use of internal projections and unobservable measurement inputs.

For the year ended December 31, 2022, we considered the decline of the trading price of our common stock to be a triggering event, performed a quantitative impairment assessment considering expected future cash flows, including consideration of market conditions and expectations of increases in interest rates. We also prepared a comparable company analysis and comparable acquisition analysis and weighted the income approach and market approaches equally to determine fair value. The results of testing as of December 31, 2022, concluded that the estimated fair value exceeded carrying value, and no impairment existed as of that date. In addition, we corroborated the reasonableness of the total fair value of the reporting unit by assessing the implied control premium based on our market capitalization. Our market capitalization is calculated using the number of common shares outstanding and common stock publicly traded price. We also consider the amount of headroom for the reporting unit when determining whether an impairment existed. Headroom is the difference between the fair value of a reporting unit and its carrying value. No goodwill impairment was recorded for the year ended December 31, 2021. See *Note 9 - Goodwill and Acquired Intangible Assets* to the consolidated financial statements in this Annual Report on Form 10-K for additional information.

If, in future periods, the financial performance of the reporting unit does not meet forecasted expectations, or a decline occurs in the market price of our common stock, it may cause a change in the results of the impairment assessment and, as such, could result in an impairment of goodwill.

Impairment of Long-lived Assets

We assess our long-lived assets such as property and equipment and intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Factors which may indicate potential impairment include a significant underperformance related to the historical or projected future operating results or a significant negative industry or economic trend. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows which the assets are expected to generate. If property and equipment and intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their fair value.

We impaired our acquired developed technology and recognized impairment expense of \$0.4 million in distribution, selling and administrative expenses in the consolidated statements of operations during the year ended December 31, 2022. We did not record any impairment loss on our long-lived assets during the year ended December 31, 2021.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see *Note 2 - Summary of Significant Accounting Policies* to the consolidated financial statements in this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

Our debt exposes us to risk of fluctuations in interest rates. Floating rate debt, where the interest rate fluctuates periodically, exposes us to short-term changes in market interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument, exposes us to changes in market interest rates reflected in the fair value of the debt and to the risk that we may need to refinance maturing debt with new debt at higher rates. We manage our debt portfolio to achieve an overall desired proportion of fixed and floating rate debts and may employ interest rate swaps as a tool from time to time to achieve that position. To manage our interest rate risk exposure, we entered into three interest rate swap contracts to hedge the floating rate term loans. See *Note 10 - Derivative Financial Instruments* to the consolidated financial statements in this Annual Report on Form 10-K for additional information.

As of December 31, 2022, our aggregate floating rate debt's outstanding principal balance without hedging was \$164.8 million, or 94.1% of total debt, consisting of long-term debt and revolving line of credit (see *Note 11 - Debt* to the consolidated financial statements in this Annual Report on Form 10-K). Our floating rate debt interest is based on the floating 1-month SOFR plus a predetermined credit adjustment rate plus the bank spread. The remaining 5.9% of our debt are on a fixed rate or a floating rate with hedging. In a hypothetical scenario, a 1% change in the applicable rate would cause the interest expense on our floating rate debt to change by approximately \$1.6 million per year.

Fuel Price Risk

We are also exposed to fluctuations risk in the price and availability of diesel fuel. We require significant quantities of diesel fuel for our vehicle fleet, and the inbound delivery of the products we sell is also dependent upon shipment by diesel-fueled vehicles. We currently are able to obtain adequate supplies of diesel fuel, and average prices in 2022 increased 52.1%, compared to average prices in 2021. However, it is impossible to predict the future availability or price of diesel fuel. The price and supply of diesel fuel fluctuates based on external factors not within our control, including geopolitical developments, supply and demand for oil and gas, regional production patterns, weather conditions and environmental concerns. Increases in the cost of diesel fuel could increase our cost of goods sold and operating costs to deliver products to our customers.

We do not actively hedge the price fluctuation of diesel fuel in general. Instead, we seek to minimize fuel cost risk through delivery route optimization and fleet utilization improvement.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
HF Foods Group Inc.
Las Vegas, Nevada

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of HF Foods Group Inc. (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 31, 2023 expressed an adverse opinion thereon.

Restatement

As discussed in Note 1 to the consolidated financial statements, the 2020 financial statements have been restated to correct errors.

We have also audited the adjustments described in Note 1 that were applied to restate the 2020 consolidated financial statements to correct errors. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2020 consolidated financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express any opinion or any other form of assurance on the 2020 consolidated financial statements taken as a whole.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Consolidated Financial Statements - Impact of Control Environment and Information Technology General Controls

The completeness and accuracy of the consolidated financial statements, including the financial condition, results of operations and cash flows, is dependent on, in part, the Company's ability to (i) design and maintain an effective control environment, including maintaining a sufficient complement of resources with an appropriate level of controls knowledge and expertise

commensurate with financial reporting requirements, (ii) design and maintain effective information technology general controls for certain information systems relevant to the preparation of the financial statements, including user access controls, program change management controls and computer operations controls, and (iii) journal entries being completely and accurately recorded to the appropriate accounts.

We identified a critical audit matter over the completeness and accuracy of the consolidated financial statements. The ineffective control environment and the ineffective information technology general controls resulted in several material weaknesses. Designing the appropriate procedures and evaluating audit evidence to ensure the completeness and accuracy of the consolidated financial statements, including higher risk areas, with an ineffective control environment and with ineffective information technology general controls, required especially challenging and subjective auditor judgment due to the increased extent of audit effort.

The primary procedures we performed to address this critical audit matter included:

- We applied significant auditor judgment to determine the nature and extent of procedures to be performed over material accounts and or disclosures, including higher risk areas such as revenue, receivables, inventory, and journal entries.
- We increased the number of selections to perform certain audit procedures and lowered the testing thresholds for investigating differences,
- We utilized source documents, including third party support for audit evidence rather than relying on system reports, and

- We evaluated the overall sufficiency of audit evidence obtained based on the procedures performed.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2021.

Troy, Michigan

March 31, 2023

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
HF Foods Group Inc.

Opinion on the Financial Statements

We have audited, before the effects of the adjustments the Company identified during 2022 to restate the financial statements as described in Note 1, the accompanying consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows of HF Foods Group Inc. and its subsidiaries (collectively, the "Company") for the year ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements") (the 2020 financial statements before the effects of the adjustments the Company identified during 2022 to restate the financial statements as described in Note 1 are not presented herein). In our opinion, except for the effects of the adjustments the Company identified during 2022 to restate the financial statements as described in Note 1, the consolidated financial statements present fairly, in all material respects, the results of its operations and its cash flows for the year ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review or apply any procedures to the adjustments the Company identified during 2022 to restate the financial statements as described in Note 1, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Friedman LLP

We have served as the Company's auditor from 2017 through 2021.

New York, New York

March 16, 2021

HF FOODS GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash	\$ 24,289	\$ 14,792
Accounts receivable, net	44,186	36,281
Accounts receivable - related parties	213	249
Inventories	120,291	102,690
Prepaid expenses and other current assets	8,937	5,559
TOTAL CURRENT ASSETS	197,916	159,571
Property and equipment, net	140,330	145,908
Operating lease right-of-use assets	14,164	11,664
Long-term investments	2,679	2,462
Customer relationships, net	157,748	159,161
Trademarks and other intangibles, net	36,343	35,891
Goodwill	85,118	80,257
Other long-term assets	3,231	2,032
TOTAL ASSETS	\$ 637,529	\$ 596,946
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Checks issued not presented for payment	\$ 21,946	\$ 17,834
Line of credit	53,056	55,293
Accounts payable	55,515	57,745
Accounts payable - related parties	1,529	1,941
Current portion of long-term debt, net	6,266	5,557
Current portion of obligations under finance leases	2,254	2,274
Current portion of obligations under operating leases	3,676	2,482
Accrued expenses and other liabilities	19,648	12,138
TOTAL CURRENT LIABILITIES	163,890	155,264
Long-term debt, net of current portion	115,443	81,811
Promissory note payable - related party	—	4,500
Obligations under finance leases, non-current	11,441	11,676
Obligations under operating leases, non-current	10,591	9,251
Deferred tax liabilities	34,443	39,455
Lease guarantee liability, net of current portion	5,472	—
TOTAL LIABILITIES	341,280	301,957
COMMITMENTS AND CONTINGENCIES (NOTE 17)		
SHAREHOLDERS' EQUITY:		
Preferred Stock, \$0.0001 par value, 1,000,000 shares authorized, no shares issued and outstanding as of December 31, 2022 and 2021	—	—
Common Stock, \$0.0001 par value, 100,000,000 shares authorized, 53,813,777 shares issued and outstanding as of December 31, 2022 and 53,706,392 shares issued and outstanding as of December 31, 2021	5	5
Additional paid-in capital	598,322	597,227
Accumulated deficit	(306,514)	(306,284)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO HF FOODS GROUP INC.	291,813	290,948
Noncontrolling interests	4,436	4,041
TOTAL SHAREHOLDERS' EQUITY	296,249	294,989
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 637,529	\$ 596,946

The accompanying notes are an integral part of these consolidated financial statements.

HF FOODS GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share and per share data)

	Year Ended December 31,		
	2022	2021	2020
Net revenue - third parties	\$ 1,163,525	\$ 787,829	\$ 553,524
Net revenue - related parties	6,942	9,055	13,308
TOTAL NET REVENUE	1,170,467	796,884	566,832
Cost of revenue - third parties	958,775	636,253	453,346
Cost of revenue - related parties	6,180	9,119	12,739
TOTAL COST OF REVENUE	964,955	645,372	466,085
GROSS PROFIT	205,512	151,512	100,747
Distribution, selling and administrative expenses	194,953	122,030	106,355
Goodwill impairment loss	—	—	338,191
INCOME (LOSS) FROM OPERATIONS	10,559	29,482	(343,799)
Other expenses (income):			
Interest expense	7,457	4,091	4,321
Other income	(1,829)	(508)	(1,096)
Change in fair value of interest rate swap contracts	(817)	(1,425)	920
Lease guarantee expense	5,744	—	—
Total Other expenses, net	10,555	2,158	4,145
INCOME (LOSS) BEFORE INCOME TAX PROVISION	4	27,324	(347,944)
Income tax (benefit) provision	(231)	4,503	(4,725)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	235	22,821	(343,219)
Less: net (loss) income attributable to noncontrolling interests	(225)	676	293
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO HF FOODS GROUP INC.	\$ 460	\$ 22,145	\$ (343,512)
EARNINGS (LOSS) PER COMMON SHARE - BASIC	\$ 0.01	\$ 0.43	\$ (6.59)
EARNINGS (LOSS) PER COMMON SHARE - DILUTED	\$ 0.01	\$ 0.43	\$ (6.59)
WEIGHTED AVERAGE SHARES - BASIC	53,757,162	51,918,323	52,095,585
WEIGHTED AVERAGE SHARES - DILUTED	53,863,448	52,091,822	52,095,585

The accompanying notes are an integral part of these consolidated financial statements.

HF FOODS GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income (loss)	\$ 235	\$ 22,821	\$ (343,219)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	24,936	19,126	18,923
Goodwill impairment loss	—	—	338,191
Gain from disposal of property and equipment	(1,327)	(1,636)	(140)
Provision for credit losses	82	(433)	1,564
Deferred tax benefit	(5,012)	(6,870)	(5,916)
Change in fair value of interest rate swap contracts	817	(1,425)	920
Stock-based compensation	1,257	635	—
Non-cash lease expense	4,442	861	533
Lease guarantee expense	5,744	—	—
Other non-cash expense (income)	156	(85)	(81)
Changes in operating assets and liabilities (excluding effects of acquisitions):			
Accounts receivable	(8,577)	(10,999)	23,517
Accounts receivable - related parties	36	1,020	2,964
Inventories	(3,755)	(19,426)	18,997
Advances to suppliers - related parties	—	197	548
Prepaid expenses and other current assets	(4,008)	(944)	(204)
Other long-term assets	(1,199)	(1,337)	(298)
Accounts payable	15,207	12,978	(11,882)
Accounts payable - related parties	(412)	(365)	(2,215)
Operating lease liabilities	(4,408)	(724)	(503)
Accrued expenses and other liabilities	7,070	4,115	3,994
Net cash provided by operating activities	31,284	17,509	45,693
Cash flows from investing activities:			
Purchase of property and equipment	(6,287)	(2,205)	(664)
Proceeds from sale of property and equipment	7,794	3,246	257
Payment made for acquisition of B&R Realty	—	—	(94,004)
Payment made for acquisition of Sealand	(34,848)	—	—
Payment made for acquisition of Great Wall Group	(17,445)	(37,841)	—
Payment made for acquisition of noncontrolling interests	—	(5,000)	—
Settlement of interest rate swap contracts	—	718	—
Net cash used in investing activities	(50,786)	(41,082)	(94,411)

The accompanying notes are an integral part of these consolidated financial statements.

HF FOODS GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2022	2021	2020
Cash flows from financing activities:			
Checks issued not presented for payment	4,112	2,994	(113)
Proceeds from line of credit	1,200,996	857,304	553,192
Repayment of line of credit	(1,203,112)	(820,422)	(576,313)
Proceeds from long-term debt	45,956	—	75,600
Repayment of long-term debt	(11,336)	(6,599)	(6,590)
Payment of debt financing costs	(544)	—	—
Repayment of obligations under finance leases	(2,626)	(2,135)	(1,840)
Repayment of promissory note payable - related party	(4,500)	(2,500)	—
Proceeds from noncontrolling interests shareholders	240	480	—
Cash distribution to shareholders	(187)	(338)	(175)
Net cash provided by financing activities	28,999	28,784	43,761
Net increase (decrease) in cash	9,497	5,211	(4,957)
Cash at beginning of the year	14,792	9,581	14,538
Cash at end of the year	\$ 24,289	\$ 14,792	\$ 9,581
Supplemental disclosure of cash flow data:			
Cash paid for interest	\$ 6,230	\$ 3,177	\$ 4,123
Cash paid for income taxes	8,655	9,527	804
Supplemental disclosure of non-cash investing and financing activities:			
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 6,815	\$ 10,983	\$ 339
Property acquired via a finance lease	1,272	8,947	1,375
Notes payable related to property and equipment purchases	—	257	2,528
Intangible asset acquired in exchange for noncontrolling interests	566	—	—
Common stock issued for consideration of acquisition of Great Wall Group	—	14,541	—
Deferred consideration from Great Wall Acquisition	—	17,330	—
Issuance of promissory note for the acquisition of B&R Realty Subsidiaries	—	—	7,000

The accompanying notes are an integral part of these consolidated financial statements.

HF FOODS GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity Attributable to HF Foods Group Inc.	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2019	53,050,211	\$ 5	(905,115)	\$ (12,038)	\$ 599,617	\$ 15,083	\$ 602,667	\$ 4,249	\$ 606,916
Net (loss) income	—	—	—	—	—	(343,512)	(343,512)	293	(343,219)
Escrow shares transferred to and recorded as treasury stock	—	—	(231,685)	—	—	—	—	—	—
Retirement of treasury stock	(1,136,800)	—	1,136,800	12,038	(12,038)	—	—	—	—
Distribution to shareholders	—	—	—	—	—	—	—	(175)	(175)
Balance at December 31, 2020	51,913,411	5	—	—	587,579	(328,429)	259,155	4,367	263,522
Net income	—	—	—	—	—	22,145	22,145	676	22,821
Acquisition of noncontrolling interest	—	—	—	—	(3,856)	—	(3,856)	(1,144)	(5,000)
Acquisition of Great Wall Group by issuance of common stock	1,792,981	—	—	—	12,869	—	12,869	—	12,869
Capital contribution by shareholders	—	—	—	—	—	—	—	480	480
Distribution to shareholders	—	—	—	—	—	—	—	(338)	(338)
Stock-based compensation	—	—	—	—	635	—	635	—	635
Balance at December 31, 2021	53,706,392	5	—	—	597,227	(306,284)	290,948	4,041	294,989
Cumulative effect of adoption of CECL (ASU 2016-13)	—	—	—	—	—	(690)	(690)	—	(690)
Balance at January 1, 2022	53,706,392	5	—	—	597,227	(306,974)	290,258	4,041	294,299
Net income (loss)	—	—	—	—	—	460	460	(225)	235
Capital contribution by shareholders	—	—	—	—	—	—	—	806	806
Issuance of common stock pursuant to equity compensation plan	139,239	—	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vested awards	(31,854)	—	—	—	(162)	—	(162)	—	(162)
Distribution to shareholders	—	—	—	—	—	—	—	(186)	(186)
Stock-based compensation	—	—	—	—	1,257	—	1,257	—	1,257
Balance at December 31, 2022	53,813,777	\$ 5	—	\$ —	\$ 598,322	\$ (306,514)	\$ 291,813	\$ 4,436	\$ 296,249

The accompanying notes are an integral part of these consolidated financial statements.

HF FOODS GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Description of Business

Organization and General

HF Foods Group Inc. and subsidiaries (collectively "HF Group", or the "Company") is an Asian foodservice distributor that markets and distributes fresh produce, seafood, frozen and dry food, and non-food products to primarily Asian restaurants and other foodservice customers throughout the United States. The Company's business consists of one operating segment, which is also its one reportable segment: HF Group, which operates solely in the United States. The Company's customer base consists primarily of Chinese and Asian restaurants, and it provides sales and service support to customers who mainly converse in Mandarin or Chinese dialects.

Corporate History

HF Group Holding Corporation ("HF Holding") was incorporated as a holding company to acquire and consolidate the various pre-merger operating entities. On January 1, 2018, HF Holding entered into a Share Exchange Agreement with the controlling shareholders in exchange for all of HF Holding's outstanding shares.

On August 22, 2018, Atlantic Acquisition Corp. ("Atlantic") consummated a reverse acquisition transaction resulting in HF Holding becoming the surviving entity and a wholly owned subsidiary of Atlantic (the "Atlantic Acquisition"). The shareholders of HF Holding became the majority shareholders of Atlantic, and the Company changed its name to HF Foods Group Inc. (collectively, these transactions are referred to as the "Atlantic Transactions").

The Atlantic Acquisition was treated as a reverse acquisition under the acquisition method of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). For accounting purposes, HF Holding was considered to be acquiring Atlantic in this transaction, as such, the aggregate consideration paid in connection with the business combination was allocated to Atlantic's tangible and intangible assets and liabilities based on their fair market values. The assets and liabilities and results of operations of Atlantic were consolidated into the balance sheet and results of operations of HF Holding as of the completion of the Atlantic Transactions.

On November 4, 2019, HF Group consummated a merger transaction resulting in B&R Global Holdings, Inc. ("B&R Global") becoming a wholly-owned subsidiary of the Company (the "Business Combination"). At closing, the Company issued 30,700,000 shares of Common Stock of the Company to the shareholders of B&R Global in exchange for the 100% equity interest of B&R Global.

On January 17, 2020, the Company acquired 100% equity membership interest in nine subsidiaries under B&R Group Realty Holding, LLC ("BRGR"), which owned ten warehouses that were being leased by the Company for its operations in California, Arizona, Utah, Colorado, Washington, and Montana for purchase consideration of \$101.3 million.

On December 30, 2021, the Company completed the acquisition of Great Wall Seafood Supply, Inc., Great Wall Restaurant Supplier, Inc., and First Mart Inc. (collectively the "Great Wall Group"), and substantially all of the operating assets of the Great Wall Group's seafood and restaurant products sales, marketing, and distribution businesses (the "Great Wall Acquisition"). The acquisition was completed as part of the Company's strategy to develop a national footprint through expansion into the Midwest, Southwest and Southern regions of the United States.

On April 29, 2022, the Company completed the acquisition of substantially all of the operating assets of Sealand Food, Inc. ("Sealand") including equipment, machinery and vehicles. The acquisition was completed to expand the Company's territory along the East Coast, from Massachusetts to Florida, as well as Pennsylvania, West Virginia, Ohio, Kentucky, and Tennessee.

See *Note 8 - Acquisitions* for additional information on recent acquisitions.

Restatement of Previously Issued Consolidated Financial Statements

As previously disclosed in Note 1 of the Company's financial statements for the year ended December 31, 2021, the Company identified certain errors impacting the financial statements, including disclosures, which the company analyzed using Staff

Accounting Bulletin ("SAB") No. 99, "Materiality" and SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," and determined the errors were material. Accordingly, the Company restated the consolidated financial statements as of December 31, 2020 and for the years ended December 31, 2020 and 2019, and the related interim financial statements periods within the years ended December 31, 2021, 2020, and 2019 in accordance with Accounting Standards Codification ("ASC") Topic 250, *Accounting Changes and Error Corrections*. For the year ended December 31, 2020 the errors related to the identification of and accounting for operating and finance leases, the incorrect identification and disclosure of certain related party relationships including the identification of VIEs, the timing of revenue recognition for rental income received from a related party, the accounting for the self-insurance liability for automobile insurance, classification errors in the financial statements, and an error in the calculation of earnings per share. In addition, certain errors were identified during an independent investigation by a Special Investigation Committee commissioned by the Company's Board of Directors (see Note 17) such as unrecorded executive compensation to a certain executive and immediate family members, and related party disclosures. For the year ended December 31, 2020 the nature of these error corrections is as follows:

- a. Certain operating and finance leases were not properly identified and accounted for upon the adoption of ASC Topic 842 ("ASC 842"), *Leases* and adjustments have been made to correct these errors.
- b. Four entities previously disclosed as related parties were determined not to be related parties. The four related party entities that were reclassified in the financial statements from related party to third party for were EMC Rowland, LLC; The Big Catch Alhambra, LLC; Winfar Foods, Inc; and Wokcano Carlsbad Partner LLP.
- c. The Company identified an error related to the timing of revenue recognition for rental income received from UGO (a related party). Rental income received from UGO, which was previously recognized in error, was recognized in the appropriate accounting period as part of the error corrections. Please refer to *Note 14 - Related Party Transactions* for additional information on the lease arrangement with UGO.
- d. The Company determined that certain payments made by the Company in prior years to related parties should have been accounted for in the Company's consolidated financial statements as executive compensation. The Company made payments for inventory to Revolution Industry, which were diverted to Revolution Automotive to make car lease payments for the benefit of Mr. Ni and his family. The Company also made payments to UGO for marketing services, which services were determined as part of the independent investigation to have not been received commensurate to the amounts paid. Please refer to *Note 14 - Related Party Transactions* for further details on Revolution Automotive, Revolution Industry and UGO. The Company has recorded an uncertain tax position liability associated with the reclassification of certain amounts as executive compensation as discussed further in j. below.
- e. The Company had not previously recorded a liability (including incurred but not reported "IBNR") related to the self-insured portion of its automobile insurance policy.
- f. The 2020 goodwill impairment loss, which was previously misclassified as other income (expense) in the consolidated statements of operations and comprehensive income (loss), was revised to be included in income (loss) from operations.
- g. The gain/loss on sale of fixed assets, which was previously misclassified in other income (expense), net was revised to be included in distribution, selling and administrative expenses.
- h. As part of the error corrections being made, the resultant earnings per share was corrected.
- i. As a result of the executive compensation described in d. above, the Company recorded an uncertain tax position liability to account for potential implications to previously filed tax returns.
- j. In the Company's December 31, 2020 financial statements, the Company did not disclose NC Good Taste Noodle, Inc. as a related party since Mr. Zhou Min Ni reported that he sold his ownership effective January 1, 2020. However, the Company's former Chief Financial Officer, Mr. Jian Ming Ni, continues to own a portion of NC Good Taste Noodle, Inc. and as a result, the Company has concluded that NC Good Taste Noodle, Inc. still meets the definition of a related party. See *Note 14 - Related Party Transactions* for additional information

The corresponding footnotes have been restated for the adjustments noted above.

The following table summarizes the effect of the restatements on each affected financial statement line item for the year ended December 31, 2020, impacting the consolidated statements of operations and comprehensive income (loss). The footnotes correspond to the error descriptions above:

(In thousands, except per share data)	Consolidated Statement of Operations and Comprehensive Income (Loss)		
	As Previously Reported	Adjustments	As Restated
Year Ended December 31, 2020			
Net revenue - third parties	\$ 553,409	\$ 115 (b)	\$ 553,524
Net revenue - related parties	13,423	(115) (b)	13,308
Cost of revenue - third parties	453,706	94 (b)	
		(454) (d)	453,346
Cost of revenue - related parties	12,833	(94) (b)	12,739
TOTAL COST OF REVENUE	466,539	(454)	466,085
GROSS PROFIT	100,293	454	100,747
Distribution, selling and administrative expenses	106,126	(476) (a)	
		454 (d)	
		391 (e)	
		(140) (g)	106,355
Goodwill impairment loss	—	338,191 (f)	338,191
INCOME (LOSS) FROM OPERATIONS	(5,833)	(337,966)	(343,799)
Interest expense	(3,922)	(399) (a)	(4,321)
Goodwill impairment loss	(338,191)	338,191 (f)	—
Other income	1,355	(119) (c)	
		(140) (g)	1,096
Total other income (expense), net	(341,678)	337,533	(4,145)
INCOME (LOSS) BEFORE INCOME TAX	(347,512)	(432)	(347,944)
Income tax provision (benefit)	(4,831)	106 (i)	(4,725)
NET INCOME (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)	(342,681)	(538)	(343,219)
NET INCOME (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO HF FOODS GROUP INC.	(342,974)	(538)	(343,512)
EARNINGS (LOSS) PER COMMON SHARE - BASIC	(6.58)	(0.01) (h)	(6.59)
EARNINGS (LOSS) PER COMMON SHARE - DILUTED	(6.58)	(0.01) (h)	(6.59)

The following table summarizes the effect of the restatements on each category of cash flow for the year ended December 31, 2020, impacting the consolidated statements of cash flows:

(In thousands)	Consolidated Statement of Cash Flows		
	As Previously Reported	Adjustment	As Restated
Year Ended December 31, 2020			
Net cash provided by operating activities	\$ 44,131	\$ 1,562 (a)	\$ 45,693
Net cash used in investing activities	(94,411)	—	(94,411)
Net cash provided by financing activities	45,323	(1,562) (a)	43,761

The effect of the restatements on the consolidated statements of changes in shareholders' equity for the year ended December 31, 2020 is as follows:

(In thousands, except share data)	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity Attributable to HF Foods Group Inc.	Non-controlling Interests	Total Shareholders' Equity
	Shares	Amount	Shares	Amount					
<i>As Previously Reported</i>									
Balance at 12/31/2019	53,050,211	\$ 5	(905,115)	\$ (12,038)	\$ 599,617	\$ 15,824	\$ 603,408	\$ 4,249	\$ 607,657
Net (loss) income	—	—	—	—	—	(342,974)	(342,974)	293	(342,681)
Escrow shares transferred to and recorded as treasury stock	—	—	(231,685)	—	—	—	—	—	—
Retirement of treasury stock	(1,136,800)	—	1,136,800	12,038	(12,038)	—	—	—	—
Distribution to shareholders	—	—	—	—	—	—	—	(175)	(175)
Balance at 12/31/2020	51,913,411	\$ 5	—	\$ —	\$ 587,579	\$ (327,150)	\$ 260,434	\$ 4,367	\$ 264,801
<i>Restatement Impacts</i>									
Balance at 12/31/2019	—	—	—	—	—	(741)	(741)	—	(741)
Net (loss) income	—	—	—	—	—	(538)	(538)	—	(538)
Escrow shares transferred to and recorded as treasury stock	—	—	—	—	—	—	—	—	—
Retirement of treasury stock	—	—	—	—	—	—	—	—	—
Distribution to shareholders	—	—	—	—	—	—	—	—	—
Balance at 12/31/2020	—	\$ —	—	\$ —	\$ —	\$ (1,279)	\$ (1,279)	\$ —	\$ (1,279)
<i>As Restated</i>									
Balance at 12/31/2019 (As Restated)	53,050,211	\$ 5	(905,115)	\$ (12,038)	\$ 599,617	15,083	602,667	\$ 4,249	606,916
Net (loss) income (as restated)	—	—	—	—	—	(343,512)	(343,512)	293	(343,219)
Escrow shares transferred to and recorded as treasury stock	—	—	(231,685)	—	—	—	—	—	—
Retirement of treasury stock	(1,136,800)	—	1,136,800	12,038	(12,038)	—	—	—	—
Distribution to shareholders	—	—	—	—	—	—	—	(175)	(175)
Balance at 12/31/2020 (As Restated)	51,913,411	\$ 5	—	\$ —	\$ 587,579	\$ (328,429)	\$ 259,155	\$ 4,367	\$ 263,522

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with GAAP. The consolidated financial statements include the financial statements of HF Group, its subsidiaries and FUSO Trucking LLC ("FUSO") and the Staffing Agencies (through December 31, 2021), which the Company has determined to be VIEs that requires consolidation. All inter-company balances and transactions have been eliminated upon consolidation.

Variable Interest Entities

GAAP provides guidance on the identification of VIEs and financial reporting for entities over which control is achieved through means other than voting interests. The Company evaluates each of its interests in an entity to determine whether or not the investee is a VIE and, if so, whether the Company is the primary beneficiary of such VIE. In determining whether the Company is the primary beneficiary, the Company considers if the Company (1) has power to direct the activities that most significantly affect the economic performance of the VIE, and (2) has the obligation to absorb losses or the right to receive the economic benefits of the VIE that could be potentially significant to the VIE. If deemed the primary beneficiary, the Company consolidates the VIE. See *Note 3 - Variable Interest Entities* for additional information.

Noncontrolling Interests

GAAP requires that noncontrolling interests in subsidiaries and affiliates be reported in the equity section of the Company's consolidated balance sheets. In addition, the amounts attributable to the net income (loss) of those noncontrolling interests are reported separately in the consolidated statements of operations and comprehensive income (loss).

On May 28, 2021, the Company purchased the remaining 33.33% noncontrolling equity interests in Kirmland Food Distribution, Inc. ("Kirmland") for \$5.0 million, making Kirmland a wholly-owned subsidiary. In accordance with ASC 810, changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions. No gain or loss was recognized. As a result of this transaction, noncontrolling interests and additional paid-in capital were reduced by \$1.1 million and \$3.9 million, respectively.

As of December 31, 2022 and 2021, noncontrolling interest equity consisted of the following:

(\$ in thousands)	Ownership of noncontrolling interests at December 31,		December 31, 2022	December 31, 2021
	2022			
HF Foods Industrial, LLC ("HFFI")	45.00	%	\$ 204	\$ 462
Min Food, Inc.	39.75	%	1,704	1,363
Monterey Food Service, LLC	35.00	%	452	453
Ocean West Food Services, LLC	32.50	%	1,986	1,763
Syncglobal Inc.	43.00	%	90	—
Total			\$ 4,436	\$ 4,041

Uses of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during each reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements include, but are not limited to, allowance for expected credit losses, inventory reserves, useful lives of property and equipment, lease assumptions, impairment of long-lived assets, impairment of long-term investments, impairment of goodwill, the purchase price allocation and fair value of assets and liabilities acquired with respect to business combinations, realization of deferred tax assets, uncertain income tax positions, the liability for self-insurance and stock-based compensation.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or shorter as cash equivalents. As of December 31, 2022 and 2021, the Company had no cash equivalents. Accounts at banks with an aggregate excess of the amount of outstanding checks over the cash balances are included in checks issued not presented for payment in current liabilities in the consolidated balance sheets.

Accounts Receivable, net

Accounts receivable represent amounts due from customers in the ordinary course of business and are recorded at the invoiced amount and do not bear interest. Receivables are presented net of the allowance for expected credit losses in the accompanying consolidated balance sheets. The Company evaluates the collectability of its accounts receivable and determines the appropriate allowance for expected credit losses based on a combination of factors. The Company maintains an allowance for expected credit losses based on historic collection trends, write-offs and the aging of receivables. The Company uses specific criteria to determine uncollectible receivables to be written off, including, bankruptcy filings, the referral of customer accounts to outside parties for collection, and the length that accounts remain past due. As of December 31, 2022 and 2021, allowances for expected credit losses were \$1.4 million and \$0.8 million, respectively.

Inventories

The Company's inventories, consisting mainly of food and other foodservice-related products, are considered finished goods. Inventory costs, including the purchase price of the product and freight charges to deliver it to the Company's warehouses, are net of certain cash consideration received from vendors, primarily in the form of rebates. The Company adjusted its inventory balance for slow-moving, excess and obsolete inventories to the net recoverable value of such goods based upon inventory category, inventory age, specifically identified items, and overall economic conditions. Inventories are stated at the lower of cost or net realizable value using the first-in, first-out (FIFO) method.

Property and Equipment, net

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Following are the estimated useful lives of the Company's property and equipment:

	Estimated Useful Lives
Automobiles	3 to 7 years
Buildings and improvements	7 to 39 years
Furniture and fixtures	4 to 10 years
Machinery and equipment	3 to 10 years

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterment that extends the useful lives of property and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statements of operations and comprehensive income (loss) in distribution, selling and administrative expenses.

Business Combinations

The Company accounts for its business combinations using the purchase method of accounting in accordance with ASC Topic 805 ("ASC 805"), *Business Combinations*. The purchase method of accounting requires that the consideration transferred be allocated to the assets, including separately identifiable assets and liabilities the Company acquired, based on their estimated fair values. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over, (ii) the fair value of the identifiable net assets of the acquiree, is recorded as

goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

The Company estimates the fair value of assets acquired and liabilities assumed in a business combination. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. Significant estimates in valuing certain intangible assets include, but are not limited to future expected revenues and cash flows, useful lives, discount rates, and selection of comparable companies. Although the Company believes the assumptions and estimates it has made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired companies and are inherently uncertain. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. On the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations and comprehensive income (loss).

Transaction costs associated with business combinations are expensed as incurred, and are included in distribution, selling and administrative expenses in the Company's consolidated statements of operations and comprehensive income (loss). The results of operations of the businesses that the Company acquired are included in the Company's consolidated financial statements from the date of acquisition.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. The Company tests goodwill for impairment at least annually, as of December 31, or whenever events or changes in circumstances indicate that goodwill might be impaired.

The Company's policy is to test goodwill for impairment annually in the fourth quarter, or more frequently if certain triggering events or circumstances indicate it could be impaired. Potential impairment indicators include (but are not limited to) macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant entity-specific events, specific events affecting the reporting unit, or sustained decrease in share price. This guidance provides the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, based on a review of qualitative factors, it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company performs a quantitative analysis. If the quantitative analysis indicates the carrying value of a reporting unit exceeds its fair value, the Company measures any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit. As of December 31, 2022 and 2021, the Company has one reporting unit. See *Note 9 - Goodwill and Acquired Intangible Assets* for additional information.

Determining the fair value of a reporting unit requires the application of judgment and involves the use of significant estimates and assumptions including, projections of future cash flows, which include forecasted revenue, discount rate, and other factors which can be affected by changes in business climate, economic conditions, the competitive environment and other factors. The Company also considers the use of market approaches, such as the comparable public company analysis and comparable acquisitions analysis, to estimate the fair value of the reporting unit. The Company bases these fair value estimates on assumptions management believes to be reasonable but which are unpredictable and inherently uncertain. A change in underlying assumptions would cause a change in the results of the tests and, as such, could cause fair value to be less than the carrying amounts and result in an impairment of goodwill in the future. Additionally, if actual results are not consistent with the estimates and assumptions or if there are significant changes to the Company's planned strategy, it may cause the fair value of the reporting unit to be less than its carrying amount and result in additional impairments of goodwill in the future. The Company corroborates the reasonableness of the total fair value of the reporting unit by assessing the implied control premium based on the Company's market capitalization. The Company's market capitalization is calculated using the relevant shares outstanding and stock price of the Company's publicly traded shares. In the event of a goodwill impairment, the Company would be required to record an impairment, which would impact earnings and reduce the carrying amounts of goodwill on the consolidated balance sheet.

Intangible Assets, net

Intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company determines the appropriate useful life of its intangible assets by measuring the expected cash flows of acquired assets. The estimated useful lives of intangible assets are as follows:

	Estimated Useful Lives
Non-competition agreement	3 years
Tradenames	10 years
Customer relationships	10 to 20 years

Long-term Investments

The Company's investments in unconsolidated entities consist of an equity investment and an investment without readily determinable fair value.

The Company follows ASC Topic 321 ("ASC 321"), *Investments – Equity Securities*, using the measurement alternative to measure investments in investees that do not have readily determinable fair value and over which the Company does not have significant influence at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. The Company makes a qualitative assessment of whether the investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the Company has to estimate the investment's fair value in accordance with the principles of ASC Topic 820 ("ASC 820"), *Fair Value Measurements and Disclosures*. If the fair value is less than the investment's carrying value, the entity has to recognize an impairment loss in earnings equal to the difference between the carrying value and fair value.

Investments in entities in which the Company can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC Topic 323 ("ASC 323"), *Investments-Equity Method and Joint Ventures*. Under the equity method, the Company initially records its investment at cost, which is included in the equity method investment on the consolidated balance sheets. The Company subsequently adjusts the carrying amount of the investment to recognize the Company's proportionate share of each equity investee's net income or loss into earnings after the date of investment. The Company evaluates the equity method investments for impairment under ASC 323. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary.

The Company did not record any impairment loss on its long-term investments during the years ended December 31, 2022, 2021 and 2020.

Impairment of Long-lived Assets

The Company assesses its long-lived assets such as property and equipment and intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Factors which may indicate potential impairment include a significant underperformance related to the historical or projected future operating results or a significant negative industry or economic trend. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment, and intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets or asset group exceeds their fair value.

The Company impaired its acquired developed technology and recognized impairment expense of \$0.4 million in distribution, selling and administrative expenses in the consolidated statements of operations during the year ended December 31, 2022. The Company did not record any impairment loss on its long-lived assets during the years ended December 31, 2021 and 2020.

Insurance and Claim Costs

The Company maintains workers compensation and general liability insurance with licensed insurance carriers. Beginning in April 2020, the Company is self-insured for auto claims less than \$100,000 per claim. Insurance and claims expense represent premiums the Company paid and the accruals made for claims within the Company's self-insured retention amounts. A liability is recognized for the estimated cost of all self-insured claims including an estimate of incurred but not reported claims based on historical experience and for claims expected to exceed the Company's policy limits.

The Company establishes reserves for anticipated losses and expenses related to auto liability claims. The reserves consist of specific reserves for all known claims and an estimate for claims incurred but not reported, and losses arising from known claims ultimately settling in excess of insurance coverage using loss development factors based upon industry data and past experience. In determining the liability, the Company specifically reviews all known claims and records a liability based upon

the Company's best estimate of the amount to be paid. In making the estimate, the Company considers the amount and validity of the claim, as well as the Company's past experience with similar claims. In establishing the reserve for claims incurred but not reported, the Company considers its past claims history, including the length of time it takes for claims to be reported to the Company. These reserves are periodically reviewed and adjusted to reflect the Company's experience and updated information relating to specific claims. As of December 31, 2022 and 2021, the Company has recorded a self-insurance liability of \$1.3 million and \$1.0 million, respectively, which is included in accrued expenses and other liabilities on the consolidated balance sheets.

Revenue Recognition

The Company recognizes revenue from the sale of products when control of each product passes to the customer and the customer accepts the goods, which occurs at delivery. Sales taxes invoiced to customers and remitted to government authorities are excluded from net sales.

The Company follows ASC Topic 606 ("ASC 606"), *Revenue from Contracts with Customers*. The Company recognizes revenue that represents the transfer of goods and services to customers in an amount that reflects the consideration to which the Company expects to be entitled in such exchange. This requires the Company to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfer to a customer. The Company's contracts contain performance obligations which are satisfied when customers have physical possession of each product. The Company's revenue streams are recognized at a specific point in time.

Cost of Revenue

Cost of revenue primarily includes inventory costs (net of vendor consideration, primarily in the form of rebates), inbound freight, customs clearance fees and other miscellaneous expenses.

Distribution, Selling and Administrative Expenses

Distribution, selling and administrative expenses consist primarily of salaries and benefits for employees and contract laborers, trucking and fuel expenses for deliveries, utilities, maintenance and repair expenses, insurance expenses, depreciation and amortization expenses, selling and marketing expenses, professional fees and other operating expenses.

Shipping and Handling Costs

Shipping and handling costs, which include costs related to the selection of products and their delivery to customers, are included in distribution, selling and administrative expenses. Shipping and handling costs were \$83.7 million, \$58.3 million and \$37.8 million for the years ended December 31, 2022, 2021 and 2020, respectively, and includes estimates for labor associated with shipping and handling activities.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. As of December 31, 2022, the Company does not have a deferred tax asset valuation allowance.

The Company records uncertain tax positions in accordance with ASC Topic 740 ("ASC 740"), *Income Taxes*, on the basis of a two-step process in which (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. See *Note 13 - Income Taxes* for additional information.

The Company adopted ASU 2019-12 ("ASU 2019-12"), *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, on January 1, 2021. ASU 2019-12 is intended to simplify various aspects related to managerial accounting for income taxes. The adoption had no material impact on the Company's consolidated financial statements.

Leases

The Company accounts for leases following ASC 842, *Leases* ("ASC 842"). The Company determines if an arrangement is a lease at inception and also considers classification of leases as operating or finance. Operating leases are included in operating lease ROU assets, current portion of obligations under operating leases, and obligations under operating leases, non-current on the Company's consolidated balance sheets. Finance leases are included in property and equipment, net, current portion of obligations under finance leases, and obligations under finance leases, non-current on the consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease payments made and initial direct costs incurred and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Variable rent payments related to both operating and finance leases are expensed as incurred. The Company's variable lease payments primarily consist of real estate, maintenance and usage charges.

The Company has elected to exclude short-term leases from the recognition requirements of ASC 842. A lease is short-term if, at the commencement date, it has a term of less than or equal to one year. Lease expense related to short-term leases is recognized on a straight-line basis over the lease term. The Company has also elected to combine lease and non-lease components when measuring lease liabilities for vehicle and equipment leases.

Derivative Financial Instruments

In accordance with the guidance in ASC Topic 815 ("ASC 815"), *Derivatives and Hedging*, derivative financial instruments are recognized as assets or liabilities on the consolidated balance sheets at fair value. The Company has not designated its interest rate swap ("IRS") contracts as hedges for accounting treatment. Pursuant to GAAP, income or loss from fair value changes for derivatives that are not designated as hedges by management are reflected as income or loss on the consolidated statements of operations and comprehensive income (loss). Net amounts received or paid under the interest rate swap contracts are recognized as an increase or decrease to interest expense when such amounts are incurred. The Company is exposed to credit loss in the event of nonperformance by the counterparty.

Concentrations and Credit Risk

Credit risk

Accounts receivable are typically unsecured and derived from revenue earned from customers, and thereby exposed to credit risk. The risk is mitigated by the Company's assessment of its customers' creditworthiness and its ongoing monitoring of outstanding balances.

The Company maintains cash balances with banks which at times exceed federally insured limits. The Company has not experienced any losses in such accounts

Segment Reporting

ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for details on the Company's business segments. The Company uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's operating decision makers for making operational decisions and assessing performance as the source for determining the Company's reportable segments. In 2021, former co-CEO Zhou Min Ni resigned, and Xiao Mou Zhang assumed the role of sole CEO and sole Chief Operating Decision Maker ("CODM"). The CODM, reviews operating

results and makes resource allocations on a consolidated basis and thus the Company has concluded it has one operating and reportable segment.

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13 ("ASU 2016-13"), Measurement of Credit Losses on Financial Instruments (Topic 326): *Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 was further amended in November 2019 in "Codification Improvements to Topic 326, Financial Instruments-Credit losses". This guidance is effective for fiscal years beginning after December 15, 2019, including those interim periods within those fiscal years. For emerging growth companies, the effective date has been extended to fiscal years beginning after December 15, 2022. The Company adopted this ASU within the annual reporting period ending as of December 31, 2022. The adoption of this guidance resulted in an adjustment to retained earnings of \$0.7 million as of January 1, 2022 as evidenced in the Company's consolidated statements of changes in shareholders' equity.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. In December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848): *Deferral of the Sunset Date of Topic 848*, deferring the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The Company adopted ASU 2020-04 during 2021. The ASU has not had a material impact on the Company's consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The guidance requires an acquirer to, at the date of acquisition, recognize and measure the acquired contract assets and contract liabilities acquired in the same manner that they were recognized and measured in the acquiree's financial statements before the acquisition. This guidance is effective for interim and annual periods beginning after December 15, 2022, with early adoption permitted. The amendments in this update should be applied prospectively to business combinations occurring on or after the effective date. The Company is in the process of assessing the impact of this ASU on its future consolidated financial statements, but does not expect it to have a material impact.

Note 3 - Variable Interest Entities

The Company has VIEs for which the Company is not the primary beneficiary and therefore does not consolidate, and VIEs for which the Company is the primary beneficiary and consolidates. The VIEs are summarized as follows:

- Consolidated VIEs (collectively "Consolidated VIEs"):
 - FUSO Trucking LLC ("FUSO")
 - 13 staffing agencies (collectively, the "Staffing Agencies") – Suppliers of staffing services through 2021:
 - Anfu, Inc.
 - Anshun, Inc.
 - Chen Enterprises (until December 2020)
 - Georgia Kam (until December 2020)
 - Inchoi, Inc.
 - Malways, Inc.
 - Rousafe
 - S&P
 - SNP
 - Suntone
 - THLI, Inc. (until December 2020)
 - THLR, Inc. (until December 2020)
 - TWRR, Inc. (until December 2020)
- Unconsolidated VIEs (collectively "Unconsolidated VIEs"):
 - Revolution Industry, LLC ("Revolution Industry") – Supplier of goods (until March 2021)
 - UGO USA, Inc. ("UGO") – Supplier of online goods, customer, and lessee (until April 2021)
 - BRGR (until January 2020)
 - AnHeart, Inc. ("AnHeart")

Consolidated VIEs

FUSO

FUSO was established solely to provide exclusive trucking services to the Company. The entity lacks sufficient equity to finance its activities without additional subordinated financial support from the Company, and the Company has the power to direct the VIEs' activities. In addition, the Company receives economic benefits from the entity and has concluded that the Company is the primary beneficiary. The carrying amounts of the assets, liabilities, the results of operations and cash flows of the VIE included in the Company's consolidated balance sheets, statements of operations and comprehensive income (loss) and statements of cash flows are immaterial.

Staffing Agencies

The Staffing Agencies were set up by an employee of the Company, or their relatives, and provided temporary labor services exclusively to the Company at the direction of the Company. There were no other substantive business activities of the Staffing Agencies. There were immaterial assets held, or liabilities owed by the Staffing Agencies and immaterial equity. The Company determined it was the primary beneficiary for the Staffing Agencies through 2021 as it controlled how and when the labor force would be utilized. The Company consolidated the Staffing Agencies, recognizing compensation expense within distribution, selling, and administrative expenses in the consolidated statements of operations and comprehensive income (loss), and the related accrued expenses in the consolidated balance sheets. The Company did not have any guarantees, commitments or other forms of financing to the Staffing Agencies. As of December 31, 2021, the Company no longer had involvement with any of the Staffing Agencies and therefore was no longer considered a VIE and was no longer consolidated.

Unconsolidated VIEs

Revolution Industry and UGO

Revolution Industry was established to produce egg roll mix for the Company. UGO was originally designed to be an online marketplace for various Asian goods. Revolution Industry and UGO were thinly capitalized and were not able to finance their activities without additional subordinated support. The former Co-CEO's (Mr. Ni) son, as sole equity holder of Revolution Industry, had unilateral control over the ongoing activities of Revolution Industry and significantly benefited from their operations. Therefore, the Company was not the primary beneficiary for Revolution Industry. The former Co-CEO (Mr. Ni) and his niece, as equity holders, had unilateral control over the ongoing activities of UGO and significantly benefited from its operations. Therefore, the Company was not the primary beneficiary for UGO.

Revolution Industry and UGO are also related parties and were generally the Company's suppliers or customers and the Company did not have other involvement with these entities. Therefore, the Company's exposure to loss due to its involvement with these entities was limited to amounts due from these entities, which is included in Accounts receivable – related parties. The Company did not have any guarantees, commitments, or other forms of financing with these entities. All transactions with Revolution Industry and UGO ceased in 2021. Related party transactions with Revolution Industry and UGO are disclosed in *Note 14 - Related Party Transactions*.

BRGR

BRGR was established to hold real estate for rent primarily for the Company and BRGR was financed primarily through this rental income and proceeds from the real estate loan for which the Company was guarantor. The Company was not the primary beneficiary of BRGR as the Company did not have the power to direct or control the activities which most significantly influenced the performance of BRGR. On January 17, 2020, the Company acquired 100% equity membership interests of certain real estate subsidiaries of BRGR, as discussed in *Note 8 - Acquisitions*. The Company also entered into the Second Amended Credit Agreement, as discussed in *Note 11 - Debt*, which removed BRGR as a guarantor of its revolving credit facility and as a borrower under its real estate term loans. Related party transactions with BRGR are disclosed in *Note 14 - Related Party Transactions*.

For the period from January 1, 2020 through January 17, 2020, the Company recorded rent expense of \$0.2 million related to its lease agreements with the realty subsidiaries of BRGR, which is included in distribution, selling, and administrative expenses in the consolidated statements of operations and comprehensive income (loss). As of December 31, 2019, the Company was a guarantor of BRGR and its subsidiaries' mortgage-secured real estate term loan, which had an unpaid principal balance of \$53.3 million. As of January 17, 2020, the Company had no remaining involvement with BRGR and therefore is no longer considered a VIE.

AnHeart

AnHeart was previously a subsidiary of the Company designed to sell traditional Chinese medicine, sold to a third-party in February 2019. As discussed in *Note 7 - Leases*, after the sale, the Company continued to provide a guarantee for all rent and related costs associated with two leases of AnHeart in Manhattan, New York. The Company has determined that AnHeart is a VIE as a result of the guarantee. However, the Company concluded it is not the primary beneficiary of AnHeart because it does not have the power to direct the activities of AnHeart that most significantly impact AnHeart's economic performance. Please refer to *Note 7 - Leases* for additional information regarding the Company's maximum exposure to loss to AnHeart.

The Company did not have any sales to or rental income from any of the other VIEs during the three years ended December 31, 2022.

Note 4 - Revenue

For the years ended December 31, 2022, 2021 and 2020, revenue recognized from performance obligations related to prior periods was immaterial. Revenue expected to be recognized in any future periods related to remaining performance obligations is immaterial.

The following table presents the Company's net revenue disaggregated by principal product categories:

(\$ in thousands)	Year Ended December 31,					
	2022		2021			
Seafood	\$	354,220	30 %	\$	123,808	16 %
Asian Specialty		299,215	26 %		236,489	29 %
Meat and Poultry		238,276	20 %		214,504	27 %
Fresh Produce		126,560	11 %		103,168	13 %
Packaging and Other		84,489	7 %		69,187	9 %
Commodity		67,707	6 %		49,728	6 %
Total	\$	1,170,467	100 %	\$	796,884	100 %

Due to system constraints prior to the year ended December 31, 2021, the Company did not present net revenue by principal product categories.

Note 5 - Balance Sheet Components

Accounts receivable, net consisted of the following:

(In thousands)	December 31, 2022		December 31, 2021	
Accounts receivable	\$	45,628	\$	37,121
Less: allowance for expected credit losses		(1,442)		(840)
Accounts receivable, net	\$	44,186	\$	36,281

Movement of allowance for expected credit losses was as follows:

(In thousands)	Year Ended December 31,		
	2022	2021	2020
Beginning balance	\$ 840	\$ 909	\$ 624
Adjustment for adoption of the new CECL standard (Note 2)	690	—	—
Increase (decrease) in provision for expected credit losses	82	(433)	1,338
Bad debt recovery (write-offs)	(170)	364	(1,053)
Ending balance	\$ 1,442	\$ 840	\$ 909

Property and equipment, net consisted of the following:

(In thousands)	December 31, 2022	December 31, 2021
Automobiles	\$ 34,891	\$ 31,577
Buildings	63,045	68,998
Building improvements	20,637	19,004
Furniture and fixtures	444	211
Land	49,929	51,412
Machinery and equipment	17,210	14,114
Subtotal	186,156	185,316
Less: accumulated depreciation	(45,826)	(39,408)
Property and equipment, net	\$ 140,330	\$ 145,908

Depreciation expense was \$9.2 million, \$8.1 million and \$8.0 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Long-term investments consisted of the following:

(\$ in thousands)	Ownership as of December 31,	December 31, 2022	December 31, 2021
	2022		
Asahi Food, Inc. ("Asahi")	49%	\$ 879	\$ 662
Pt. Tamron Akuatik Produk Industri ("Tamron")	12%	1,800	1,800
Total long-term investments		\$ 2,679	\$ 2,462

The investment in Tamron is accounted for using the measurement alternative under ASC 321, which is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments, if any. The investment in Asahi is accounted for under the equity method due to the fact that the Company has significant influence but does not exercise control over this investee. There was no impairment during the years ended December 31, 2022, 2021 and 2020 for these investments.

Accrued expenses and other liabilities consisted of the following:

(In thousands)	December 31, 2022	December 31, 2021
Accrued compensation	\$ 6,798	\$ 5,038
Accrued professional fees	3,866	349
Accrued income taxes	—	1,908
Accrued interest and fees	1,082	205
Self-insurance liability	1,286	1,008
Accrued other	6,616	3,630
Total accrued expenses and other liabilities	\$ 19,648	\$ 12,138

Note 6 - Fair Value Measurements

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of the dates indicated:

	December 31, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	(In thousands)							
<i>Assets:</i>								
Derivative instruments	\$ —	\$ 530	\$ —	\$ 530	\$ —	\$ —	\$ —	\$ —
<i>Liabilities:</i>								
Derivative instruments	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 287	\$ —	\$ 287

The Company follows the provisions of ASC Topic 820 ("ASC 820"), *Fair Value Measurements and Disclosures*. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

- Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.
- Level 2 - Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.
- Level 3 - Inputs are unobservable inputs which reflect the reporting entity's own assumptions about what assumptions market participants would use in pricing the asset or liability based on the best available information.

Any transfers of assets or liabilities between Level 1, Level 2, and Level 3 of the fair value hierarchy will be recognized at the end of the reporting period in which the transfer occurs. There were no transfers between fair value levels in any of the periods presented herein.

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, advances to suppliers, other current assets, accounts payable, checks issued not presented for payment and accrued expenses and other liabilities approximate their fair value based on the short-term maturity of these instruments.

Carrying Value and Estimated Fair Value of Outstanding Debt - The following table presents the carrying value and estimated fair value of the Company's outstanding debt as described in *Note 11 - Debt* of the Notes to the Consolidated Financial Statements, including the current portion, as of the dates indicated:

	December 31, 2022			December 31, 2021		
	Carrying Value	Fair Value	Level	Carrying Value	Fair Value	Level
(\$ in millions)						
<i>Fixed rate debt:</i>						
Promissory note payable to related party	\$ —	\$ —		\$ 4.5	\$ 3.4	Level 3
Bank of America	1.9	1.6	Level 3	2.7	2.4	Level 3
East West Bank	2.4	1.8	Level 3	2.5	2.0	Level 3
First Horizon Bank	—	—		4.5	3.6	Level 3
Other finance institutions	0.2	0.2	Level 3	0.8	0.8	Level 3
<i>Variable rate debt:</i>						
JPMorgan	111.4	111.4	Level 2	70.8	70.8	Level 2
Bank of America	2.3	2.3	Level 2	2.5	2.5	Level 2
East West Bank	3.5	3.5	Level 2	3.5	3.5	Level 2

The carrying value of the variable rate debt approximates its fair value because of the variability of interest rates associated with these instruments and the consistency in market conditions since the loans were entered into. For the Company's fixed rate debt, the fair values were estimated using discounted cash flow analyses, based on the current incremental borrowing rates for similar types of borrowing arrangements.

Please refer to *Note 11 - Debt* and *Note 14 - Related Party Transactions* for additional information regarding the Company's debt.

Note 7 - Leases

The Company leases office space, warehouses and vacant land under non-cancelable operating leases, with terms typically ranging from one to thirty years, as well as operating and finance leases for vehicles and delivery trucks, forklifts and computer equipment with various expiration dates through 2051. The Company determines whether an arrangement is or includes an embedded lease at contract inception.

Operating and finance lease assets and lease liabilities are recognized at commencement date and initially measured based on the present value of lease payments over the defined lease term. As of December 31, 2022, the balances for operating lease right-of-use ("ROU") assets and liabilities were \$14.2 million and \$14.3 million, respectively. As of December 31, 2021, the balances for operating lease ROU assets and liabilities were \$11.7 million and \$11.7 million, respectively.

Operating lease expense is recognized on a straight-line basis over the lease term. For finance leases, the Company also recognizes finance lease assets and finance lease liabilities at inception, with lease expense recognized as interest expense and amortization of the lease payment. Variable lease costs were insignificant in the years ended December 31, 2022, 2021 and 2020.

Operating Leases

The components of operating lease expense were as follows:

(\$ in thousands)	Year Ended December 31,		
	2022	2021	2020
Operating lease cost	\$ 4,045	\$ 967	\$ 785
Short-term lease cost	\$ 1,037	\$ 1,699	\$ 1,424
Weighted average remaining lease term (months)	47	56	40
Weighted average discount rate	3.8%	3.9%	5.6%

(In thousands)	Year Ended December 31,		
	2022	2021	2020
Operating cash flows from operating leases	\$ 4,005	\$ 822	\$ 799

Finance Leases

The components of lease expense were as follows:

(In thousands)	Year Ended December 31,		
	2022	2021	2020
Finance leases cost:			
Amortization of ROU assets	\$ 2,808	\$ 2,416	\$ 1,978
Interest on lease liabilities	787	820	492
Total finance leases cost	\$ 3,595	\$ 3,236	\$ 2,470

Supplemental cash flow information related to finance leases was as follows:

(In thousands)	Year Ended December 31,		
	2022	2021	2020
Operating cash flows from finance leases	\$ 670	\$ 701	\$ 492

Supplemental balance sheet information related to finance leases was as follows:

(\$ in thousands)	December 31, 2022		December 31, 2021	
Property and equipment, at cost	\$ 20,339	\$ 18,412		
Accumulated depreciation	(7,615)	(5,127)		
Property and equipment, net	\$ 12,724	\$ 13,285		
Weighted average remaining lease term (months)		215		215
Weighted average discount rate		5.7 %		5.8 %

Maturities of lease liabilities are as follows:

(In thousands)	Operating Leases			Finance Leases
	Related Party ⁽¹⁾	Third Party	Total	
Year Ended December 31,				
2023	\$ 312	\$ 3,828	\$ 4,140	\$ 2,844
2024	321	3,444	3,765	2,010
2025	331	3,343	3,674	1,399
2026	—	3,207	3,207	1,018
2027	—	545	545	752
Thereafter	—	—	—	16,839
Total lease payments	964	14,367	15,331	24,862
Less: Imputed interest	(52)	(1,012)	(1,064)	(11,167)
Total	\$ 912	\$ 13,355	\$ 14,267	\$ 13,695

(1) See Note 14 - Related Party Transactions

AnHeart

As discussed in Note 3 - Variable Interest Entities, the Company provided a guarantee for two separate leases for two properties

located in Manhattan, New York, at 273 Fifth Avenue and 275 Fifth Avenue, for 30 years and 15 years, respectively.

On February 10, 2021, the Company entered into an Assignment and Assumption of Lease Agreement ("Assignment"), dated effective as of January 21, 2021, with AnHeart and Premier 273 Fifth, LLC, pursuant to which it assumed the lease of the premises at 273 Fifth Avenue (the "273 Lease Agreement"). At the same time, the closing documents were delivered to effectuate the amendment of the 273 Lease Agreement pursuant to an Amendment to Lease (the "Lease Amendment"). The Assignment and the Lease Amendment were negotiated in light of the Company's guarantee obligations as guarantor under the Lease Agreement. The Company agreed to observe all the covenants and conditions of the Lease Agreement, as amended, including the payment of all rents due. Under the terms of the Lease Agreement and the Assignment, the Company has undertaken to construct, at its own expense, a building on the premises at a minimum cost of \$2.5 million. The Lease Amendment permits subletting of the premises, and the Company intends to sublease the newly constructed premises to defray the rental expense undertaken pursuant to its guaranty obligations.

On January 17, 2022, the Company received notice that AnHeart had defaulted on its obligations as tenant under the lease for 275 Fifth Avenue. On February 7, 2022, the Company undertook its guaranty obligations by assuming responsibility for payment of monthly rent and other tenant obligations, including past due rent as well as property tax obligations beginning with the January 2022 rent due. On February 25, 2022, the Company instituted a legal action to pursue legal remedies against AnHeart and Minsheng. In March 2022, the Company agreed to stay litigation against AnHeart in exchange for AnHeart's payment of certain back rent from January to April 2022 and its continued partial payment of monthly rent. While the case remains pending in New York, the Company is not actively litigating the claim.

In accordance with ASC 460, *Guarantees*, the Company has determined that its maximum exposure resulting from the 275 Fifth Avenue lease guarantee includes future minimum lease payments plus potential additional payments to satisfy maintenance, property tax and insurance requirements under the leases with a remaining term of approximately 11 years. The Company elected a policy to apply the discounted cash flow method to loss contingencies with more than 18 months of payments. AnHeart is obligated to pay all costs associated with the properties, including taxes, insurance, utilities, maintenance and repairs. As of December 31, 2022, the Company had a lease guarantee liability of \$5.8 million. The Company determined the discounted value of the lease guarantee liability using a discount rate of 4.55% and is classified as Level 2 in the fair value hierarchy. The current portion of the lease guarantee liability of \$0.3 million is recorded in Accrued expenses and other liabilities on the consolidated balance sheet. The Company's monthly rental payments range from approximately \$42,000 per month to \$63,000 per month, with the final payment due in 2034.

The estimated future minimum lease payments as of December 31, 2022 are presented below:

(In thousands)	Amount
Year Ended December 31,	
2023	\$ 543
2024	582
2025	604
2026	621
2027	638
Thereafter	4,478
Total	7,466
Less: Imputed interest	(1,706)
Total minimum lease payments	\$ 5,760

Note 8 - Acquisitions

Acquisition of Sealand

On April 29, 2022, the Company completed the acquisition of substantially all of the operating assets of Sealand, including equipment, machinery and vehicles. The acquisition was completed to expand the Company's territory along the East Coast, from Massachusetts to Florida, as well as Pennsylvania, West Virginia, Ohio, Kentucky, and Tennessee.

The price for the purchased assets was \$20.0 million paid in cash at closing. In addition to the closing cash payment, the Company separately acquired all of the sellers' saleable product inventory, for approximately \$14.4 million and additional fixed assets for approximately \$0.5 million. The Company finalized its purchase accounting as of December 31, 2022.

The Company accounted for this transaction under ASC 805, *Business Combinations*, by applying the acquisition method of accounting and established a new basis of accounting on the date of acquisition. The assets acquired by the Company were measured at their estimated fair values as of the date of acquisition. Goodwill is calculated as the excess of the purchase price over the net assets recognized and represent synergies and benefits expected as a result from combining operations with an emerging national presence. The transaction costs for the acquisition totaled approximately \$0.7 million and were reflected in distribution, selling and administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2022.

The information included herein has been prepared based on the allocation of the purchase price using estimates of the fair value of assets acquired and liabilities assumed which were determined using a combination of quoted market prices, discounted cash flows, and other estimates made by management. The purchase price allocation is subject to further adjustment until all pertinent information regarding the assets and liabilities acquired are fully evaluated by the Company, not to exceed one year as permitted under ASC 805.

Purchase Price Allocation

The total consideration paid to acquire the assets and liabilities of Sealand, as set forth below:

(In thousands)	Amount
Inventory	\$ 13,846
Property plant, and equipment	1,424
Right-of-use assets	127
Intangible assets	14,717
Total assets acquired	30,114
Obligations under operating leases	127
Total liabilities assumed	127
Net assets	29,987
Goodwill	4,861
Total consideration	<u>\$ 34,848</u>

The Company recorded acquired intangible assets of \$14.7 million, which were measured at fair value using Level 3 inputs. These intangible assets include tradenames and trademarks of \$4.4 million, customer relationships of \$8.9 million and non-compete agreements of \$1.4 million. The fair value of customer relationships was determined by applying the income approach utilizing the excess earnings methodology and Level 3 inputs including a discount rate. The fair value of tradenames and trademarks was determined by applying the income approach utilizing the relief from royalty methodology and Level 3 inputs including a royalty rate of 1% and a discount rate. The fair value of non-competition agreements was determined by applying the income approach and Level 3 inputs including a discount rate. Discount rates used in determining fair values for customer relationships, tradenames and trademarks, and non-competition agreements ranged from 17.5% to 18.0%. The useful lives of the tradenames and trademarks are ten years, customer relationships are ten years and non-compete agreements are three years, with a weighted average amortization period of approximately nine years. The associated goodwill is deductible for tax purposes.

Acquisition of Great Wall Group

On December 30, 2021, the Company executed an Asset Purchase Agreement with Great Wall Group to purchase substantially all of the operating assets of the Great Wall Group's seafood and restaurant products sales, marketing, and distribution businesses. The acquisition was completed as part of the Company's strategy to develop a national footprint through expansion into the Midwest, Southwest and Southern regions of the United States.

The final aggregate price for the purchased assets was \$43.7 million with \$30.8 million paid in cash at closing and the issuance of 1,792,981 shares of common stock of the Company (based on a 60-day VWAP of \$7.36), with a fair value of \$12.9 million based on the share price of \$8.11 per share at closing and an 11.5% discount due to a lock-up restriction. In addition to the closing cash payment, the Company separately acquired all of the sellers' saleable product inventory, for approximately \$24.3 million of which approximately \$6.8 million was paid during the year ended December 31, 2021 and \$17.4 million was recorded in accounts payable on the consolidated balance sheets as of December 31, 2021. The Company also acquired additional vehicles for approximately \$0.2 million. As such, the total acquisition price for all operating assets and inventory was approximately \$68.2 million.

The Company accounted for this transaction under ASC 805, *Business Combinations*, by applying the acquisition method of accounting and established a new basis of accounting on the date of acquisition. The assets acquired by the Company were measured at their estimated fair values as of the date of acquisition. Goodwill is calculated as the excess of the purchase price over the net assets recognized and represent synergies and benefits expected as a result from combining operations with an emerging national presence. For the year ended December 31, 2021, transaction costs for the acquisition totaled \$0.9 million and were reflected in distribution, selling and administrative expenses in the consolidated statement of operations and comprehensive income (loss).

The information included herein has been prepared based on the allocation of the purchase price using estimates of the fair value of assets acquired and liabilities assumed which were determined using a combination of quoted market prices, discounted cash flow, and other estimates made by management.

Purchase Price Allocation

The following table presents the allocation of the total consideration paid to acquire the assets and liabilities of the Great Wall Group:

(In thousands)	Amount
Inventory	\$ 24,728
Property plant, and equipment	1,537
Intangible assets	30,145
Total assets acquired	56,410
Goodwill	11,745
Total consideration	\$ 68,155

The Company recorded acquired intangible assets of \$30.1 million, which included tradenames and trademarks of \$10.5 million, customer relationships of \$17.2 million and non-competition agreements of \$2.4 million. The fair value of customer relationships was determined by applying the income approach utilizing the excess earnings methodology using Level 3 inputs including a discount rate. The fair value of tradenames and trademarks was determined by applying the income approach utilizing the relief from royalty methodology and Level 3 inputs including a royalty rate of 1% and a discount rate. The fair value of non-competition agreements was determined by applying the income approach using Level 3 inputs including a discount rate. Discount rates used in determining fair values for customer relationships, tradenames and trademarks, and non-competition agreements ranged from 11.5% to 14.0%. The useful lives of the tradenames and trademarks are ten years, customer relationships are ten years and non-compete agreements are three years, with a weighted average amortization period of approximately nine years. The associated goodwill is deductible for tax purposes. See *Note 9 - Goodwill and Acquired Intangible Assets* for additional information on acquired intangibles in the Great Wall Acquisition.

Since the Great Wall Acquisition occurred on December 30, 2021, the amounts of revenue and earnings of the Great Wall Group included in the Company's consolidated statement of operations and comprehensive income (loss) from the acquisition date to December 31, 2021 were immaterial.

Unaudited Supplemental Pro Forma Financial Information

The following table presents the Company's unaudited pro forma results for the years ended December 31, 2022 and 2021, respectively, as if the Great Wall Acquisition and the Sealand Acquisition had been consummated on January 1, 2021. The unaudited pro forma financial information presented includes the effects of adjustments related to the amortization of acquired

intangible assets and excludes other non-recurring transaction costs directly associated with the acquisition such as legal and other professional service fees. Statutory rates were used to calculate income taxes.

(In thousands, except share and per share data)	Year Ended December 31,	
	2022	2021
Pro forma net revenue	\$ 1,202,296	\$ 1,072,653
Pro forma net income attributable to HF Group	\$ 35	\$ 33,724
Pro forma (loss) earnings per common share - basic	\$ —	\$ 0.65
Pro forma (loss) earnings per common share - diluted	\$ —	\$ 0.65
Pro forma weighted average shares - basic	53,757,199	53,706,392
Pro forma weighted average shares - diluted	53,757,199	53,809,020

The revenue and operating income from Sealand from the date of acquisition through December 31, 2022 was \$55.6 million and \$0.7 million, respectively, and were included in the consolidated statements of operations and comprehensive income (loss).

Acquisition of Real Estate Companies

On January 17, 2020, the Company acquired 100% equity membership interest in nine subsidiaries of BRGR, which owned warehouse facilities that were being leased to B&R Global for its operations in California, Arizona, Utah, Colorado, Washington, and Montana (the "Realty Acquisition").

Then Co-CEO (and current CEO) of the Company, Xiao Mou Zhang ("Mr. Zhang"), managed and owned an 8.91% interest in BRGR. The total purchase price of the transaction was \$101.3 million for which financing was provided by JPMorgan Chase Bank, N.A. ("JPMorgan"), as Administrative Agent, and certain lender parties hereto, including Comerica Bank under an Amended and Restated Credit Agreement ("Credit Agreement"). The terms of which are set forth below, and the lender parties thereto relied upon the appraisals in determining to provide such financing. Based in part on the foregoing, the special transactions committee, composed of the Company's independent directors, reviewed and approved the transaction and the related financing on behalf of HF Group's board.

Consideration for the acquisition was funded by (1) \$75.6 million in mortgage-backed term loans financed under the Second Amended Credit Agreement (see *Note 11 - Debt* for additional information), (2) issuance by B&R Global of a \$7.0 million Unsecured Subordinated Promissory Note to BRGR maturing on January 17, 2030, and (3) payment of \$18.7 million from funds drawn from the Company's revolving credit facility. The reissuance of the mortgage-backed term loans released BRGR from its obligations to the lenders under the First Amended Credit Agreement and predecessor financing arrangements.

The majority of the assets acquired was concentrated in a group of similar assets, land and buildings, for the same purpose of warehousing and distribution. As such, the Realty Acquisition was deemed as an asset acquisition under ASC 805-10-55, and the total purchase price was allocated on a relative fair value basis to the net assets acquired.

The following table presents the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

(In thousands)	Amount
Cash	\$ 266
Automobile	34
Prepaid expenses	39
Land	48,734
Buildings	53,564
Total assets acquired	102,637
Accounts payable and accrued expenses	1,367
Total liabilities assumed	1,367
Net assets acquired	\$ 101,270

Note 9 - Goodwill and Acquired Intangible Assets

Goodwill

The changes in the carrying amount of goodwill are presented below:

(In thousands)	Amount
Balance at December 31, 2020	\$ 68,512
Acquisition of Great Wall Group	11,745
Balance at December 31, 2021	80,257
Acquisition of Sealand Food, Inc.	4,861
Balance at December 31, 2022	\$ 85,118

Accumulated impairment for goodwill is \$338.2 million as of both December 31, 2022 and 2021.

Towards the end of first quarter of fiscal year 2020, the Company experienced significant decline in business volume due to mandatory stay-at-home orders issued by governmental authorities in response to the intensification of the COVID-19 pandemic. The Company determined that the B&R Global reporting unit was very sensitive to these declines and that it was more-likely-than-not that an impairment may exist. The Company, therefore, performed an analysis of the fair value of the B&R Global reporting unit as of March 31, 2020 using a discounted cash flow method for goodwill impairment testing purposes. Based upon the analysis, the Company concluded that the carrying value of its B&R Global reporting unit exceeded its fair value by approximately \$338.2 million. As a result, the Company recorded the amount as an impairment loss during the first quarter of fiscal year 2020.

The Company estimated the fair value of the B&R Global reporting unit using the income approach, discounting projected future cash flows based upon management's expectations of the current and future operating environment. The calculation of the impairment charge included substantial fact-based determinations and estimates including weighted average cost of capital ("WACC"), future revenue, profitability, perpetual growth rates and fair values of assets and liabilities. The fair value conclusions as of March 31, 2020 for the reporting unit were highly sensitive to changes in the WACC, which considered as observable data for publicly traded companies, an estimated market participant's expectations about capital structure and risk premiums. The Company corroborated the reasonableness of the estimated reporting unit fair values by reconciling to its enterprise value and market capitalization. The Company also observed that the WACC applied on March 31, 2020 increased significantly from the original WACC value as of the acquisition date, mainly driven by the increased risk and volatility observed in the market. Volatility had primarily been due to concerns about demand for food distribution services, as restaurant activity in much of the country had been reduced to takeout and delivery offerings. Continued uncertainty about the removal or perpetuation of these restrictions and levels of consumer spending cause ongoing volatility.

Due to structural changes at the Company during 2021, there is only one aggregated reporting unit at December 31, 2022 and 2021. Due to the sustained decline in the Company's stock price during 2022, the Company performed a quantitative goodwill impairment assessment. The fair value was determined using an average of the discounted cash flow approach, comparable public company analysis, and comparable acquisitions analysis. The fair value of the reporting unit exceeded the carrying value, and therefore the Company concluded no impairment was required to be recorded during the year ended December 31, 2022. For the year ended December 31, 2021, the Company performed a qualitative goodwill impairment assessment and concluded no impairment was required to be recorded during the year ended December 31, 2021.

Acquired Intangible Assets

In connection with the Sealand acquisition, the Company acquired \$14.7 million of intangible assets, primarily representing tradenames and trademarks of \$4.4 million, customer relationships of \$8.9 million and non-compete agreements of \$1.4 million. The useful lives of the tradenames and trademarks are ten years, customer relationships are ten years and non-compete agreements are three years, with a weighted average amortization period of approximately nine years. The associated goodwill is deductible for tax purposes.

In connection with the Great Wall Group acquisition, HF Group acquired \$30.1 million of intangible assets, primarily representing a non-competition agreement, tradenames and customer relationships, which have an estimated amortization period of approximately 3 years, 10 years, and 10 years, respectively.

In connection with the acquisition of B&R Global, HF Group acquired \$188.5 million of intangible assets, primarily representing tradenames and customer relationships which have an estimated amortization period of 10 and 20 years, respectively.

The components of the intangible assets are as follows:

(In thousands)	December 31, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-competition agreement	\$ 3,892	\$ (1,132)	\$ 2,760	\$ 2,407	\$ —	\$ 2,407
Trademarks	44,256	(10,673)	33,583	39,833	(6,349)	33,484
Customer relationships	185,266	(27,518)	157,748	176,408	(17,247)	159,161
Total	\$ 233,414	\$ (39,323)	\$ 194,091	\$ 218,648	\$ (23,596)	\$ 195,052

The Company evaluated possible triggering events that would indicate long-lived asset impairment assessment. The Company impaired its acquired developed technology and recognized impairment expense of \$0.4 million in distribution, selling and administrative expenses in the consolidated statements of operations during the year ended December 31, 2022. There were no triggering events identified for the remaining intangible assets at December 31, 2022. No impairment was recorded for the years ended December 31, 2021 and 2020.

HF Group's amortization expense for acquired intangible assets was \$15.7 million in 2022, \$10.9 million in 2021 and \$10.9 million in 2020. The estimated future amortization expense for intangible assets is presented below:

(In thousands)	Amount
Year ending December 31,	
2023	\$ 16,285
2024	16,285
2025	15,152
2026	14,987
2027	14,987
Thereafter	116,395
Total	\$ 194,091

Note 10 - Derivative Financial Instruments

Derivative Instruments

The Company utilizes interest rate swaps ("IRS") for the sole purpose of mitigating interest rate fluctuation risk associated with floating rate debt instruments (as defined in *Note 11 - Debt*). The Company does not use any other derivative financial instruments for trading or speculative purposes.

On August 20, 2019, HF Group entered into two IRS contracts with East West Bank (the "EWB IRS") for initial notional amounts of \$1.1 million and \$2.6 million, respectively. The EWB IRS contracts were entered into in conjunction with two mortgage term loans of corresponding amounts that were priced at USD 1-month LIBOR plus 2.25% per annum for the entire duration of the term loans. The EWB IRS contracts fixed the two term loans at 4.23% per annum until maturity in September 2029.

On December 19, 2019, HF Group entered into an IRS contract with Bank of America (the "BOA IRS") for an initial notional amount of \$2.7 million in conjunction with a newly contracted mortgage term loan of corresponding amount. The term loan was contracted at USD 1-month LIBOR plus 2.15% per annum, but was fixed at 4.25% per annum resulting from the corresponding BOA IRS contract. On December 19, 2021, the Company entered into the Second Amendment to Loan

Agreement, which pegged the mortgage term loan to Secured Overnight Financing Rate ("SOFR") + 2.5%. The BOA IRS was modified accordingly to fix the SOFR based loan to approximately 4.50%. The term loan and corresponding BOA IRS contract mature in December 2029.

On June 24, 2020, HF Group entered into a forward starting IRS contract with JPMorgan Chase Bank (the "JPM IRS") for a fixed \$80.0 million notional amount, effective from June 30, 2021 and expiring on June 30, 2025, as a means to partially hedge its existing floating rate loans exposure. On March 3, 2021, the Company unwound the JPM IRS. The contract was unwound with a view that 1-month LIBOR will continue to remain low in the foreseeable future despite the spike at the long end of the yield curve. The Company recorded a gain of approximately \$0.7 million during the year ended December 31, 2021.

The Company evaluated the aforementioned IRS contracts currently in place and did not designate those as cash flow hedges. Hence, the fair value change on these IRS contracts are accounted for and recognized as a change in fair value of IRS contracts in the consolidated statements of operations and comprehensive income (loss).

As of December 31, 2022 and 2021, the Company determined that the fair value of the IRS contracts were \$0.5 million in an asset position and \$0.3 million in a liability position, respectively, which is included in other long-term assets and accrued expenses and other liabilities, respectively, on the consolidated balance sheets. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in its assessment of fair value. The inputs used to determine the fair value of the IRS are classified as Level 2 on the fair value hierarchy.

Note 11 - Debt

Long-term debt at December 31, 2022 and 2021 is summarized as follows:

(\$ in thousands)

Bank Name	Maturity	Interest Rate at December 31,		
		2022	December 31, 2022	December 31, 2021
Bank of America ^(a)	March 2023 - December 2029	3.73% - 5.80%	\$ 4,315	\$ 5,134
East West Bank ^(b)	August 2027 - September 2029	4.25% - 4.40%	5,822	5,994
First Horizon Bank ^(c)	Paid off in May 2022	3.85%	—	4,571
J.P. Morgan Chase ^(d)	February 2023 - January 2030	6.10% - 6.22%	111,714	70,866
Other finance institutions ^(e)	April 2023 - March 2024	5.99% - 6.14%	160	837
Total debt, principal amount			122,011	87,402
Less: Debt issuance costs			(302)	(34)
Total debt, carrying value			121,709	87,368
Less: Current portion			(6,266)	(5,557)
Long-term debt			\$ 115,443	\$ 81,811

(a) Loan balance consists of real estate term loan, equipment term loans, and vehicle term loans, collateralized by one real property and specific equipment and vehicles. The real estate term is pegged to TERM SOFR + 2.5%.

(b) Real estate term loans with East West Bank are collateralized by four real properties. Balloon payments of \$1.8 million and \$2.9 million are due at maturity in 2027 and 2029, respectively.

(c) Secured by real property. During the year ended December 31, 2022, the Company sold the real property for approximately \$7.2 million to Enson Seafood (a related party), recognized a gain of \$1.5 million, which is included in other income in the consolidated statements of operations and comprehensive income (loss), and used a portion of the proceeds to pay the \$4.5 million loan outstanding with First Horizon Bank.

(d) Real estate term loan with a principal balance of \$111.4 million as of December 31, 2022 and \$69.8 million as of December 31, 2021 is secured by assets held by the Company and has a maturity date of January 2030. Equipment term loan with a principal balance of \$0.3 million as of December 31, 2022 and \$1.0 million as of December 31, 2021 is secured by specific vehicles and equipment as defined in loan agreements. Equipment term loans mature in February 2023 and December 2023.

(e) Secured by vehicles.

The terms of the various loan agreements related to long-term bank borrowings require the Company to comply with certain financial covenants, including, but not limited to, a fixed charge coverage ratio and effective tangible net worth. As of December 31, 2022, the Company was in compliance with its covenants.

On March 31, 2022, the Company amended the JPM Credit Agreement extending the Real Estate Term Loan for five years. The amendment provides for an increase in the Real Estate Term Loan from \$69.0 million to \$115.0 million with a 1-month SOFR plus a credit adjustment of 0.1% plus 1.875% per annum.

The future maturities of long-term debt as of December 31, 2022 are as follows:

(In thousands)	Amount
Year ending December 31,	
2023	\$ 6,266
2024	5,774
2025	5,789
2026	5,810
2027	7,497
Thereafter	90,573
Total	\$ 121,709

Credit Facility

On November 4, 2019, the Company entered into a credit agreement with JPMorgan Chase Bank, NA. (the "JPM Credit Agreement"). The JPM Credit Agreement provided for a \$100.0 million asset-secured revolving credit facility maturing on November 4, 2022, with an option to renew at the bank's discretion. On January 17, 2020, the Company and certain of the wholly-owned subsidiaries and affiliates of the Company as borrowers, and certain material subsidiaries of the Company as guarantors, entered into the Second Amended Credit Agreement ("Second Amended Credit Agreement"). On December 30, 2021, the Company entered into the Consent, Waiver, Joinder and Amendment No. 3 to the Second Amended Credit Agreement with JPMorgan, as Administrative Agent, and certain lender parties thereto, including Comerica Bank. The Second Amended Credit Agreement, as amended, provided for (i) a \$100.0 million asset-secured revolving credit facility maturing on November 4, 2022 (the "Revolving Facility"), (ii) mortgage-secured term loan of \$75.6 million, (the "Term Loan"), and (iii) amendment in the referenced interest rate from 1-month LIBOR to 1-month Secured Overnight Financing Rate ("SOFR") plus a credit adjustment of 0.1% (difference between LIBOR and SOFR plus 1.375% per annum).

The existing revolving credit facility balance under the Second Amended Credit Agreement, was rolled over to the Revolving Facility on December 30, 2021. On the same day, the Company utilized an additional \$33.3 million drawdown from the Revolving Facility to fund the Great Wall Acquisition. The Second Amended Credit Agreement, as amended, contains certain financial covenants, including, but not limited to, a fixed charge coverage ratio and effective tangible net worth.

On March 31, 2022, the Company amended the JPM Credit Agreement extending the Revolver Facility for five years, with a maturity date of November 4, 2027. The amendment provides for a \$100.0 million asset-secured revolving credit facility with a one-month SOFR plus a credit adjustment of 0.1% plus 1.375% per annum. As of December 31, 2022, the Company was in compliance with its covenants. During the year ended December 31, 2022, the Company's lenders consented to the delivery of the Company's 2021 audited financial statements on or before January 31, 2023. The outstanding principal balance on the line of credit as of December 31, 2022 was \$53.1 million.

Note 12 - Earnings (Loss) Per Share

The Company computes earnings per share ("EPS") in accordance with ASC Topic 260 ("ASC 260"), *Earnings per Share*. ASC 260 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS, but presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options, warrants and restricted stock) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS. There were 44,260 and no potential common shares related to performance-based restricted stock units that were excluded from the calculation of diluted EPS for the year ended December 31, 2022 and 2021 because their effect would have been anti-dilutive. There were 62,026 and no anti-dilutive potential common shares for the year ended December 31, 2022 and 2021, respectively, related to restricted stock units. The following table sets forth the computation of basic and diluted EPS:

(\$ in thousands, except share and per share data)	Year Ended December 31,		
	2022	2021	2020
Numerator:			
Net income (loss) attributable to HF Foods Group Inc.	\$ 460	\$ 22,145	\$ (343,512)
Denominator:			
Weighted-average common shares outstanding	53,757,162	51,918,323	52,095,585
Effect of dilutive securities	106,286	173,499	—
Weighted-average dilutive shares outstanding	53,863,448	52,091,822	52,095,585
Earnings (loss) per common share:			
Basic	\$ 0.01	\$ 0.43	\$ (6.59)
Diluted	\$ 0.01	\$ 0.43	\$ (6.59)

Note 13 - Income Taxes

The provision (benefit) for income taxes of the Company for the years ended December 31, 2022, 2021 and 2020 consists of the following:

(In thousands)	Year Ended December 31,		
	2022	2021	2020
Current:			
Federal	\$ 3,620	\$ 9,044	\$ 1,245
State	1,161	2,329	(54)
Current income taxes	4,781	11,373	1,191
Deferred income benefit:			
Federal	(4,321)	(2,823)	(2,917)
State	(691)	(4,047)	(2,999)
Deferred income benefit:	(5,012)	(6,870)	(5,916)
Total (benefit) provision for income taxes	\$ (231)	\$ 4,503	\$ (4,725)

The Company's effective income tax rates for the years ended December 31, 2022, 2021 and 2020 were (5,148.7)%, 16.6% and 1.4%, respectively. The determination of the Company's overall effective income tax rate requires the use of estimates. The effective income tax rate reflects the income earned and taxed in U.S. federal and various state jurisdictions based on enacted tax law, permanent differences between book and tax items, tax credits and the Company's change in relative income in each jurisdiction. Due to the changes in the Company's business activities, the Company has updated certain state filing methodologies and related state apportionment which resulted in a change in the state tax rate used in measuring deferred income taxes as of December 31, 2022. This change had a favorable impact on the Company's effective tax rate for the year ended December 31, 2022. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and the Company's effective income tax rate in the future. The Company has no operations outside the U.S., as such, no foreign income tax was recorded.

Temporary differences and carryforwards of the Company that created significant deferred tax assets and liabilities are as follows:

(In thousands)	December 31, 2022	December 31, 2021
Deferred tax assets:		
Allowance for expected credit losses	\$ 301	\$ 202
Inventories	1,185	644
State net operating loss	38	161
Equity compensation	467	132
Compensation related accruals	1,031	638
Guarantee liability	1,528	—
Fair value change in interest rate swap contracts	—	67
Leases	6,553	6,065
Accrued expenses	304	24
Total deferred tax assets	11,407	7,933
Deferred tax liabilities:		
Property and equipment	(5,845)	(5,400)
Intangible assets	(35,740)	(38,890)
Right of use assets	(3,466)	(2,949)
Equity investments	(649)	(149)
Fair value change in interest rate swap contracts	(150)	—
Total deferred tax liabilities	(45,850)	(47,388)
Net deferred tax liabilities	\$ (34,443)	\$ (39,455)

Reconciliations of the statutory income tax rate to the effective income tax rate are as follows:

	Year Ended December 31,		
	2022	2021	2020
Federal statutory tax rate (21%)	21.0 %	21.0 %	21.0 %
State statutory tax rate	3,963.2 %	5.8 %	0.7 %
Impact of goodwill impairment loss – permanent difference	— %	— %	(20.5)%
U.S permanent differences	207.1 %	1.9 %	— %
Noncontrolling interest	3,164.6 %	— %	— %
Rate change	(2,566.3)%	(13.7)%	— %
Uncertain tax positions	(10,573.0)%	0.6 %	— %
Other	634.7 %	1.0 %	0.2 %
Income tax (benefit) provision	(5,148.7)%	16.6 %	1.4 %

The Company has no federal net operating loss ("NOL") carryovers and \$0.8 million state NOL carryovers as of December 31, 2022. State NOL carryovers can be carried forward indefinitely. Approximately \$2.0 million of total state NOL carryovers were utilized in the year ended December 31, 2022.

Unrecognized Tax Benefits

(In thousands)	Year Ended December 31,		
	2022	2021	2020
Total unrecognized tax benefits on January 1,	\$ 752	\$ 752	\$ 646
Decrease related to positions taken on items from prior years	(402)	—	—
Increase related to positions taken in the current year	—	—	106
Total unrecognized tax benefits on December 31,	<u>\$ 350</u>	<u>\$ 752</u>	<u>\$ 752</u>

It is reasonably possible that \$0.2 million of the total uncertain tax benefits will reverse within the next 12 months. The total amount of unrecognized tax benefits that would affect the effective tax rate if recognized is \$0.4 million, \$0.8 million and \$0.8 million as of December 31, 2022, 2021 and 2020, respectively. Due to the statute of limitations expiring, the unrecognized tax liability for the tax year ended December 31, 2018 was reversed, which was recorded in income tax (benefit) provision on the consolidated financial statements, in the amounts of \$0.4 million as of December 31, 2022. As of December 31, 2022 and 2021, the Company had accrued penalties of \$50,000 and \$93,000, respectively and accrued interest of \$34,000 and \$62,000, respectively. During the year ended December 31, 2022, the Company reversed accrued penalties and accrued interest of \$43,000 and \$28,000, respectively. The Company recognized the reversal of interest accrued related to unrecognized tax benefits and penalties as income tax benefit.

The Company is subject to taxation in the United States and various states. As of December 31, 2022, tax years for 2019 through 2021 are subject to examination by the tax authorities.

Note 14 - Related Party Transactions

The Company makes regular purchases from and sales to various related parties. Related party affiliations were attributed to transactions conducted between the Company and those business entities partially or wholly owned by the Company, the Company's officers and/or shareholders who owned no less than 10% shareholdings of the Company.

Mr. Zhou Min Ni ("Mr. Ni") and Mr. Zhang were the Co-Chief Executive Officers as of December 31, 2020 and 2019. Mr. Ni subsequently resigned from all of his official posts on February 23, 2021. Mr. Zhang became the sole Chief Executive. Mr. Ni and his immediate family members are treated as related parties for purposes of this report because Mr. Ni is a principal holder of the Company's securities.

North Carolina Good Taste Noodle, Inc. ("NC Noodle") is a related party due to Mr. Jian Ming Ni's, a former Chief Financial Officer of the Company, continued ownership interest in NC Noodle.

Revolution Industry, UGO and BRGR were also considered Unconsolidated VIEs as discussed further in *Note 3 - Variable Interest Entities*.

The related party transactions as of December 31, 2022 and 2021 and for the years ended December 31, 2022, 2021 and 2020 are identified as follows:

Related Party Sales, Purchases, and Lease Agreements

Purchases

Below is a summary of purchases of goods and services from related parties recorded for the years ended December 31, 2022, 2021, and 2020, respectively:

(In thousands)	Nature	Year Ended December 31,		
		2022	2021	2020
(a) Allstate Trading Company, Inc.	Trade	\$ —	\$ —	\$ 309
(b) Best Food Services, LLC	Trade	10,514	8,341	5,830
(c) Eagle Food Services, LLC	Trade	—	4	101
(a) Eastern Fresh NJ, LLC	Trade	1,093	5,509	4,509
(a) Enson Group, Inc. (formerly as Enson Group, LLC)	Trade	—	128	143
(d) First Choice Seafood, Inc.	Trade	134	322	455
(d) Fujian RongFeng Plastic Co., Ltd	Trade	372	3,108	3,617
(e) Hanfeng (Fujian) Information Technology Co., Ltd.	Service	—	—	997
(a) Hanfeng Information Technology (Jinhua), Inc.	Service	—	122	1,135
(a) N&F Logistics, Inc.	Trade	—	3	369
(f) North Carolina Good Taste Noodle, Inc.	Trade	7,227	5,520	3,986
(a) Ocean Pacific Seafood Group, Inc.	Trade	589	452	568
(g) Revolution Industry, LLC	Trade	—	190	2,362
(a) UGO USA, Inc.	Trade	—	212	644
(h) Union Foods, LLC	Trade	—	—	1,247
Other	Trade	332	133	90
Total		\$ 20,261	\$ 24,044	\$ 26,362

- (a) Mr. Ni owns an equity interest in this entity.
- (b) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to three Irrevocable Trusts for the benefit of Mr. Zhang's children effective November 1, 2020.
- (c) Tina Ni, one of Mr. Ni's family members, owns an equity interest in this entity indirectly through its parent company.
- (d) Mr. Ni owns an equity interest in this entity indirectly through its parent company.
- (e) Mr. Ni previously owned an equity interest in this entity. Mr. Ni disposed of his equity interest on September 29, 2020.
- (f) Mr. Jian Ming Ni, former Chief Financial Officer owns an equity interest in this entity. Mr. Zhou Min Ni previously owned an equity in this entity as of 12/31/2019. The Company has been informed by Mr. Zhou Min Ni that his equity interest was disposed of on 1/1/2020.
- (g) Raymond Ni, one of Mr. Ni's family members, owned an equity interest in this entity. On February 25, 2021, the Company executed an asset purchase agreement to acquire the machinery and equipment of Revolution Industry, LLC ("RIL"). The Company acquired substantially all of the operating assets used or held for use in such business operation for the amount of \$250,000 plus the original wholesale purchase value of all verified, useable cabbage and egg roll mix inventory of RIL. Advances due from RIL at the time of transaction were an offset to the purchase price paid to RIL. Going forward, the Company has taken the egg roll production business in house and ceased its vendor relationship with RIL.
- (h) Tina Ni, one of Mr. Ni's family members, owns an equity interest in this entity. Anthony Zhang, one of Mr. Zhang's family members, owns an equity interest in this entity.

Services rendered by Hanfeng (Fujian) Information Technology Co. Ltd. relate to outsourced sales call center services. Fees for services are based on a percentage of sales generated as defined in the agreement. From time to time such services are subcontracted to Hanfeng Information Technologies (Jinhua), Inc.

Sales

Below is a summary of sales to related parties recorded for the years ended December 31, 2022, 2021 and 2020, respectively:

(In thousands)	Year Ended December 31,		
	2022	2021	2020
ABC Food Trading, LLC	\$ 3,949	2,642	1,871
Asahi Food, Inc.	639	704	465
Best Food Services, LLC	1,285	792	337
Eagle Food Service, LLC	879	2,864	4,605
Eastern Fresh NJ, LLC	—	155	1,602
Enson Group, Inc. (formerly as Enson Group, LLC)	—	101	308
Enson Philadelphia, Inc.	—	—	126
Enson Seafood GA, Inc. (formerly as GA-GW Seafood, Inc.)	—	573	493
First Choice Seafood, Inc.	35	99	1,378
Fortune One Foods, Inc.	115	418	311
Heng Feng Food Services, Inc.	—	163	669
N&F Logistics, Inc.	40	531	1,027
Others	—	13	116
Total	\$ 6,942	9,055	13,308

- (a) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to three Irrevocable Trusts for the benefit of Mr. Zhang's children effective November 1, 2020.
- (b) The Company, through its subsidiary MF, owns an equity interest in this entity.
- (c) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to three Irrevocable Trusts for the benefit of Mr. Zhang's children effective November 1, 2020.
- (d) Tina Ni, one of Mr. Ni's family members, owns an equity interest in this entity indirectly through its parent company.
- (e) Mr. Ni owns an equity interest in this entity.
- (f) Mr. Ni owns an equity interest in this entity indirectly through its parent company.

Lease Agreements

The Company leases various facilities to related parties.

The Company leased a facility to NC Noodle under an operating lease agreement expiring in 2024. The lease agreement was terminated in connection with the sale of the facility on November 3, 2021. The building and related land was sold to NC Noodle for \$0.8 million and a gain of \$0.5 million. Rental income for the years ended December 31, 2021 and 2020 was \$42,000 and \$46,000, respectively, which is included in other income in the consolidated statements of operations and comprehensive income (loss).

The Company leased a facility to UGO USA Inc. under an operating lease agreement which was mutually terminated by both parties effective April 1, 2021. Rental income for the years ended December 31, 2021 and 2020 was \$7,000 and \$42,000, respectively, which is included in other income in the consolidated statements of operations and comprehensive income (loss).

The Company leased a facility to iUnited Services, LLC ("iUnited"), which has been determined to be a related party due to the equity ownership interest in iUnited of Mr. Jian Ming Ni, the Company's former Chief Financial Officer. The lease agreement was terminated in connection with the sale of the facility on November 3, 2021. The building and related land was sold to iUnited for \$1.5 million and a gain of \$0.8 million. Rental income for the years ended December 31, 2021 and 2020 was \$50,000 and \$25,000, respectively, which is included in other income in the consolidated statements of operations and comprehensive income (loss).

The Company leased a warehouse to Enson Seafood GA Inc. (formerly GA-GW Seafood, Inc.) under an operating lease agreement expiring on September 21, 2027. Rental income for the years ended December 31, 2022, 2021 and 2020 was \$0.2 million, \$0.5 million and \$0.5 million, respectively, which is included in other income in the consolidated statements of operations and comprehensive income (loss). On May 18, 2022, the Company sold the warehouse to Enson Seafood GA Inc., a

related party, for approximately \$7.2 million, recognized a gain of \$1.5 million and used a portion of the proceeds to pay the outstanding balance of the Company's \$4.5 million loan with First Horizon Bank.

The Company leased a production area to Revolution Industry, LLC under a \$3,000 month-to-month lease agreement. The lease agreement was terminated as a result of the asset purchase agreement executed on February 25, 2021. Rental income recorded for the years ended December 31, 2021 and 2020 was \$6,000 and \$39,000, which is included in other income in the consolidated statements of operations and comprehensive income (loss).

The Company leased warehouses from related parties owned by the majority shareholder of B&R Global prior to the Realty Acquisition on January 17, 2020. Before the Realty Acquisition, the CEO of the Company, Mr. Zhang, managed and owned 8.91% interest in BRGR. Rent incurred related to the BRGR related parties from January 1, 2020 to January 16, 2020 was \$188,000, which is included in other income in the consolidated statements of operations and comprehensive income (loss).

In 2020, the Company renewed a warehouse lease from Yoan Chang Trading Inc. under an operating lease agreement expired on December 31, 2020. In February 2021, the Company executed a new five-year operating lease agreement with Yoan Chang Trading Inc., effective January 1, 2021 and expiring on December 31, 2025. Rent incurred was \$0.3 million, \$0.3 million and \$0.1 million for the years ended December 31, 2022, 2021 and 2020, respectively, which is included in Distribution, selling and administrative expenses in the consolidated statements of operations and comprehensive income (loss).

Related Party Balances

Accounts Receivable - Related Parties, Net

Below is a summary of accounts receivable with related parties recorded as of December 31, 2022 and 2021, respectively:

(In thousands)	December 31, 2022	December 31, 2021
(a) ABC Food Trading, LLC	\$ —	\$ 76
(b) Asahi Food, Inc.	81	72
(c) Eagle Food Service, LLC	69	16
(d) Enson Seafood GA, Inc. (formerly as GA-GW Seafood, Inc.)	59	24
(e) Fortune One Foods, Inc.	4	24
(d) Heng Feng Food Services, Inc.	—	18
(f) North Carolina Good Taste Noodle, Inc.	—	15
Others	—	4
Total	\$ 213	\$ 249

- (a) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to three Irrevocable Trusts for the benefit of Mr. Zhang's children effective November 1, 2020.
- (b) The Company, through its subsidiary MF, owns an equity interest in this entity.
- (c) Tina Ni, one of Mr. Ni's family members, owns an equity interest in this entity indirectly through its parent company.
- (d) Mr. Ni owns an equity interest in this entity.
- (e) Mr. Ni owns an equity interest in this entity indirectly through its parent company.
- (f) Mr. Jian Ming Ni, former Chief Financial Officer owns an equity interest in this entity.

The Company has reserved for 80% of the accounts receivable for Enson Seafood GA, Inc, all other accounts receivable from these related parties are current and considered fully collectible. No other allowance is deemed necessary as of December 31, 2022 and 2021.

Accounts Payable - Related Parties

All the accounts payable to related parties are payable upon demand without interest. Below is a summary of accounts payable with related parties recorded as of December 31, 2022 and 2021, respectively:

(In thousands)		December 31, 2022	December 31, 2021
(a)	Best Food Services, LLC	\$ 729	\$ 699
(b)	Eastern Fresh NJ, LLC	—	581
(c)	Fujian RongFeng Plastic Co., Ltd	—	20
(d)	North Carolina Good Taste Noodle, Inc.	731	595
	Others	69	46
	Total	\$ 1,529	\$ 1,941

- (a) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to three Irrevocable Trusts for the benefits of Mr. Zhang's children effective November 1, 2020.
- (b) Mr. Ni owns an equity interest in this entity.
- (c) Mr. Ni owns an equity interest in this entity indirectly through its parent company.
- (d) Mr. Jian Ming Ni, former Chief Financial Officer owns an equity interest in this entity.

Promissory Note Payable - Related Party

The Company issued a \$7.0 million Unsecured Subordinated Promissory Note ("Promissory Note") to BRGR. The note bears an interest rate of 6% per annum that matures in January 2030. The Promissory Note issued to BRGR in January 2020 was part of the payment to acquire 100% equity membership interest in nine subsidiaries of BRGR (Refer to *Note 8 - Acquisitions*). The Promissory Note has no requirement to make principal repayments until maturity and there is no prepayment penalty should the Company elect to prepay the principal, in part or in full, prior to maturity, subject to meeting certain repayment provisions as defined in the JPM Credit Agreement. During the year ended December 31, 2022, the Company paid the remaining \$4.5 million principal balance of this related party promissory note payable. As of December 31, 2022 and 2021, the outstanding balance was nil and \$4.5 million, respectively, and there was no accrued interest payable. Principal and interest payments were \$4.6 million and \$2.9 million for the years ended December 31, 2022 and 2021, respectively.

Notes Receivable - Related Parties and Other

On September 30, 2019, the Company and Mr. Ni entered into a Loan Purchase and Sale Agreement (the "Loan Sale Agreement"). Pursuant to the Loan Sale Agreement, all outstanding notes receivable, having then a combined outstanding balance of \$8.4 million ("Total Notes Receivable"), were sold to Mr. Zhou Min Ni in exchange for 632,746 shares of common stock of the Company, which shares were received and recorded in treasury stock by the Company. In connection with the sale of the above notes, the Company also required 208,806 additional shares of common stock of the Company owned by Mr. Ni to be placed in an escrow account for a period of one year until September 30, 2020 (the "Escrow Period"), which would then be delivered to the Company in part or in full, if the volume weighted average price ("VWAP") of the Company's common stock for the 250-trading-day period immediately preceding the expiration of the Escrow Period is less than \$13.30.

On October 9, 2020, in accordance with the terms of the Loan Sale Agreement, the Company and Mr. Ni determined and agreed that the 250-day VWAP was \$ 10.59, and that, therefore, 161,966 of the Escrow Shares were transferred to and recorded as treasury stock by the Company and the remaining 46,840 Escrow Shares were returned to Mr. Ni. Following which, the Total Notes Receivable guaranteed by Mr. Ni was considered fully settled.

As of December 31, 2018, the Company had a promissory note agreement with Feilong Trading, Inc. ("Feilong"). Pursuant to the promissory note agreement, Feilong was permitted to borrow up to \$4.0 million. The note bore interest at the rate of 5% per annum on the unpaid balance, compounded monthly. The Company's former Chairman and Co-CEO, Zhou Min Ni agreed to personally guarantee the repayment of all outstanding balances relating to this note receivable.

On September 30, 2019, the Company and Mr. Ni entered into a Loan Purchase and Sale Agreement (the "Feilong Loan Sale Agreement"). Pursuant to the Feilong Loan Sale Agreement, the entire outstanding balance of \$3.6 million owed by Feilong to the Company was sold to Mr. Ni in exchange for 272,369 shares of common stock of the Company, which shares were received and recorded as treasury stock by the Company. In connection with the sale of this note receivable, the Company also required 89,882 additional shares of the Company's common stock owned by Mr. Ni to be placed in an escrow account for a period of one year until September 30, 2020 (the "Feilong Escrow Period"), which would then be delivered to the Company in part or in full, if the VWAP of the Company's common stock for the 250-trading-day period immediately preceding the expiration of the Feilong Escrow Period was less than \$13.30.

On October 9, 2020, in accordance with the terms of the Feilong Loan Sale Agreement, the Company and Mr. Ni determined and agreed that the 250-day VWAP immediately preceding September 30, 2020 was \$10.59, and consequently, 69,719 of the

Escrow Shares were transferred to and recorded as treasury stock by the Company, and the remaining 20,163 Escrow Shares were returned to Mr. Ni. Following this event, the balance due from Feilong to the Company was considered fully settled. The Company retired all treasury stock as of December 31, 2020.

Note 15 - Stock-Based Compensation

The Company has a stock-based employee compensation plan, known as the HF Foods Group Inc. 2018 Omnibus Equity Incentive Plan (the "2018 Incentive Plan"). The 2018 Incentive Plan allows for up to 3,000,000 shares of common stock reserved for issuance of awards to employees, non-employee directors, and consultants. The 2018 Incentive Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, other stock awards, and performance awards that may be settled in stock, or other property. The Company began issuing awards under the 2018 Incentive Plan in February 2021.

As of December 31, 2022, the Company had 598,325 time-based vesting restricted stock units ("RSUs") unvested, 382,662 performance-based restricted stock units ("PSUs") unvested, 162,510 shares of common stock vested and 1,856,503 shares remaining available for future awards under the 2018 Incentive Plan.

RSUs granted to employees vest over time based on continued service (vesting over a period between one to three years in equal installments). PSUs granted to employees vest based on (i) the attainment of certain financial metrics, as defined by the Company's compensation committee ("Financial PSUs") and (ii) for the 2021 grants, total shareholder return of the Company's common stock ("TSR PSUs"). Both types of PSUs vest over three years in equal installments based on the performance metrics established for each year and also require continued service for vesting.

A summary of RSU and PSU activity for the year ended December 31, 2022 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested RSUs at December 31, 2021	352,920	\$ 6.19
Granted	424,386	5.04
Forfeited	(36,322)	6.42
Vested	(142,659)	6.09
Unvested RSUs at December 31, 2022	<u>598,325</u>	<u>5.39</u>
	Shares	Weighted Average Grant Date Fair Value
Unvested PSUs at December 31, 2021	143,278	\$ 5.94
Granted	303,263	4.76
Forfeited	(44,028)	5.72
Vested	(19,851)	7.39
Unvested PSUs at December 31, 2022	<u>382,662</u>	<u>4.95</u>

The Company accounts for stock-based compensation in accordance with ASC 718 *Compensation - Stock Compensation* ("ASC 718"). ASC 718 addresses all forms of share-based payment awards including shares issued under employee stock purchase plans and stock incentive shares. The fair value of the RSUs and Financial PSUs are measured using the closing price of the Company's common stock on NASDAQ Global Capital Market on the date preceding grant date. The fair value of the TSR PSUs are determined using a Monte Carlo simulation model. No TSR PSUs were granted during the year ended December 31, 2022. The assumptions used to estimate the fair value of the TSR PSUs granted during the years ended December 31, 2021 and valued under the Monte Carlo simulation model were as follows:

	2021 PSU Grants
Risk-free interest rate	0.20% - 0.34%
Expected dividend yield	0.00%
Expected term (years)	2.56 - 3.15
Expected volatility ⁽¹⁾	62.08% - 65.74%

(1) Expected volatility is based on a 50/50 blending of (i) the average historical volatility of a select group of industry peers with a look-back period equal to the expected term, and (ii) the historical volatility of the Company with a look-back period of 0.75 years - 1.17 years, the time from the valuation date to the date six months after the completion of the merger with B&R Global, using daily stock prices. The expected volatility of peer companies was 54.96% - 63.45%. The expected volatility of the Company's common stock was 66.10% - 69.19%.

The fair value of RSUs are amortized on a straight-line basis over the requisite service period for each award. For the PSUs, the Company recognizes stock-based compensation expense on a straight-line basis for each vesting tranche over the longer of the derived, explicit, or implicit service period for the vesting tranche. As of interim and annual reporting periods, the Financial PSUs stock-based compensation expense is adjusted based on expected achievement of performance targets, while TSR PSUs stock-based compensation expense is not adjusted. The Company recognizes forfeitures as they occur.

Stock-based compensation expense is included in distribution, selling and administrative expenses in the Company's consolidated statements of operations and comprehensive income (loss). The components of stock-based compensation expense for the years ended December 31, 2022 and 2021 were as follows:

(In thousands)	Year Ended December 31,	
	2022	2021
Stock-based compensation (RSUs) expense	\$ 897	\$ 405
Stock-based compensation (PSUs) expense	360	230
Total stock-based compensation expense	<u>\$ 1,257</u>	<u>\$ 635</u>
Tax benefit of stock-based compensation expense	\$ 366	\$ 132

For the year ended December 31, 2020, there was no stock-based compensation expense.

As of December 31, 2022, there was \$4.2 million of total unrecognized compensation cost related to all non-vested outstanding RSUs and PSUs outstanding under 2018 Incentive Plan, with a weighted average remaining service period of 2.8 years. Of the total unrecognized compensation cost, \$2.7 million is related to RSUs with time-based vesting provisions and \$1.5 million is related to PSUs with performance and market-based vesting provisions.

Note 16 - Employee Benefit Plan

The Company sponsors a defined contribution plan, the HF Foods Group, Inc. Employees 401(k) Savings Plan (the "401(k) Plan"). Under the 401(k) Plan, after six months of service, eligible employees may elect to defer up to 92% of their compensation before taxes, up to the dollar limit imposed by the Internal Revenue Service for tax purposes. The Company matches 100% of the first 3% of the participant's deferred compensation plus 50% of the amount contributed between 3% and 5% of the participant's deferred compensation. 401(k) Plan participants vest in matching contributions received from the Company at the rate of 20% per year for each full year of service starting from their second year of service, such that the participants become 100% vested after six years of service. For the years ended December 31, 2022, 2021 and 2020, the Company expensed \$432,000, \$240,000 and \$25,000, respectively, and were recorded in distribution, selling and administrative expenses.

Note 17 - Commitments and Contingencies

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. When the Company becomes aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. In accordance with authoritative guidance, the Company records loss contingencies in its financial statements only for matters in which losses are probable and can be reasonably estimated. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum estimated liability. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the Company discloses the nature of the specific claim if the likelihood of a potential loss is reasonably possible and the amount involved is material. The Company continuously assesses the potential liability related to its pending litigation and revises its estimates when additional information becomes available. Adverse outcomes in some or all of these matters may result in significant monetary damages or injunctive relief against the Company that could adversely affect its ability to conduct its business. There also exists the possibility of a material adverse effect on the Company's financial statements for the period in which the effect of an unfavorable outcome becomes probable and reasonably estimable.

As previously disclosed, in March 2020, an analyst report suggested certain improprieties in the Company's operations, and in response to those allegations, the Company's Board of Directors appointed a Special Committee of Independent Directors (the "Special Investigation Committee") to conduct an internal independent investigation with the assistance of counsel. These allegations became the subject of two putative stockholder class actions filed on or after March 29, 2020 in the United States District Court for the Central District of California generally alleging the Company and certain of its current and former directors and officers violated the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making allegedly false and misleading statements (the "Class Actions"). These Class Actions have since been dismissed and are now closed.

In addition, the SEC initiated a formal, non-public investigation of the Company, and the SEC informally requested, and later issued a subpoena for documents and other information. The subpoena relates to but is not necessarily limited to the matters identified in the Class Actions. The Special Investigation Committee and the Company are cooperating with the SEC.

On May 20, 2022, the Board of Directors of HF Group received a letter from a stockholder, James Bishop (the "Bishop Demand"). The Bishop Demand alleges that certain current and former officers and directors of HF Group engaged in misconduct and breached their fiduciary duties, and demands that HF Group investigate the allegations and, if warranted, assert claims against those current or former officers and directors. Many of the allegations contained in the Bishop Demand were the subject of the Class Actions.

On June 30, 2022, the Board of Directors of HF Group resolved to form a special committee (the "Special Litigation Committee") comprised of independent directors and advised by counsel to analyze and evaluate the allegations in the Bishop Demand in order to determine whether the Company should assert any claims against the current or former officers and directors.

On August 19, 2022, James Bishop filed a verified stockholder derivative complaint in the Court of Chancery of the State of Delaware (the "Delaware Action"), which asserts similar allegations to those set forth in the Bishop Demand. On September 21, 2022, Bishop and the Company filed a stipulation to stay the Delaware Action for 90 days, which the court granted on September 22, 2022. On December 20, 2022, Bishop and the Company filed a stipulation to extend the stay of the Delaware Action for an additional 60 days, which the court granted on December 21, 2022. On March 15, 2023, the Court of Chancery entered an order approving a joint stipulation submitted by Bishop and HF Foods to stay the case for an additional 60 days.

The Special Litigation Committee is in the process of analyzing and evaluating the claims alleged in the Bishop Demand and Delaware Action, and has not determined whether any claims should be asserted or the probability of recovery for such claims.

While the SEC investigation is ongoing, the Special Investigation Committee has made certain factual findings based on evidence adduced during its investigation, and made recommendations to management regarding improvements to Company operations and structure, including but not limited to its dealings with related parties. The Company is working to implement those improvements.

As with any SEC investigation, there is also the possibility of potential fines and penalties. At this time, however, there has not been any demand made by the SEC nor is it possible to estimate the amount of any such fines and penalties, should they occur.

Note 18 - Subsequent Events

The Company entered into an amortizing interest rate swap agreement, with an initial notional amount of \$120.0 million, intended to hedge against future interest rate increases of certain long-term debt obligations of the Company. The interest rate swap became effective March 1, 2023 and continues through March 2028. Pursuant to the agreement, the Company will pay the swap counterparty a fixed rate of 4.11% in exchange for floating payments based on CME Term SOFR.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the fiscal year ended December 31, 2022. Based on this evaluation, our principal executive officers and principal financial and accounting officers have concluded that as a result of the material weakness in our internal control over financial reporting as described below, our disclosure controls and procedures were not effective as of December 31, 2022. Notwithstanding the material weakness, our management has concluded that the financial statements included elsewhere in this report present fairly, and in all materials respects, our financial position, results of operations and cash flow in conformity with GAAP.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal controls over financial reporting for the quarter ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not detect or prevent misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2022, management assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "*Internal Control - Integrated Framework*", issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in 2013.

In connection with the audit of our consolidated financial statements for the year ended December 31, 2020 and 2021, we identified material weaknesses that were reported previously, which continue to exist as of December 31, 2022.

We did not maintain appropriately designed entity-level controls impacting the (1) control environment, (2) risk assessment procedures, (3) control activities, (4) information and communication, and (5) monitoring activities to prevent or detect material misstatements to the financial statements and assess whether the components of internal control were present and functioning properly. These deficiencies were primarily attributed to an insufficient number of qualified resources to support and provide proper oversight and accountability over the performance of controls.

Additionally, we did not have adequate selection and development of effective control activities, resulting in the following material weaknesses:

- Information Technology (IT) General Controls – We did not design and maintain effective information technology general controls over logical access and program change management for key IT systems. Specifically, access to certain key IT systems was not restricted between business and IT administration access privileges, resulting in improper segregation of duties for certain business processes. Additionally, management did not design effective controls to protect data security and maintain business sustainability.
- As a result of the material weakness related to IT general controls, we did not properly design or maintain effective controls over the relevance and quality of internal data used in the financial reporting process and in the operation of business process control activities.
- We did not properly design or maintain effective controls over complex accounting, significant management estimates, and new accounting pronouncements, including but not limited to business combinations, impairment of long-lived assets, goodwill impairment, leases and income taxes.
- We did not properly design or maintain effective controls over the financial reporting process to enable timely reporting of complete and accurate financial information. Specifically, we did not design and implement review controls with a sufficient precision to prevent or detect a material misstatement, did not consistently perform independent reviews of journal entries or consistently retain adequate supporting documentation for financial statement balances and the related footnote disclosures.

As it relates to monitoring activities:

- We did not adequately perform timely and ongoing evaluations to ascertain whether components of internal control are present and functioning.

Due to the foregoing material weaknesses, management concluded that as of December 31, 2022, our internal control over financial reporting was ineffective.

In order to address and resolve the foregoing material weaknesses, we have begun to implement measures designed to improve our internal control over financial reporting to remediate these material weaknesses, including continuously hiring additional financial personnel with requisite training and experience in the preparation of financial statements in compliance with applicable SEC requirements, formalizing our processes to generate documentation sufficient to support customer orders and purchase orders, and implementing controls to obtain documentation evidencing customer agreements to transaction amounts and account balances. System integrations on accounting and procurement software were substantially completed in March 2021. Operating on the same system strengthened our internal control over financial reporting and IT general controls by providing a single environment to perform operational and reporting functions.

The measures we are implementing are subject to continued management review supported by confirmation and testing, as well as audit committee oversight. Management remains committed to ongoing efforts to address these material weaknesses. Although we will continue to implement measures to remedy our internal control deficiencies, there can be no assurance that our efforts will be successful or avoid potential future material weaknesses. In addition, until remediation steps have been completed and operated for a sufficient period of time, and subsequent evaluation of their effectiveness is completed, the material weaknesses identified and described above will continue to exist.

Our independent registered public accounting firm, BDO USA, LLP, has issued an audit report on our internal control over financial reporting as of December 31, 2022, which is included herein.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
HF Foods Group Inc.
Las Vegas, Nevada

Opinion on Internal Control over Financial Reporting

We have audited HF Foods Group Inc's (the "Company's") internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria") In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as "the financial statements") and our report dated March 31, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in the accompanying Management's Report on Internal Control Over Financial Reporting:

The Company did not maintain appropriately designed entity-level controls impacting the (1) control environment, (2) risk assessment procedures, (3) control activities, (4) information and communication, and (5) monitoring activities to prevent or detect material misstatements to the financial statements and assess whether the components of internal control were present and functioning properly. These deficiencies were primarily attributed to an insufficient number of qualified resources to support and provide proper oversight and accountability over the performance of controls.

Additionally, the Company did not have adequate selection and development of effective control activities, resulting in the following additional material weaknesses:

- Information Technology (IT) General Controls – The Company did not design and maintain effective information technology general controls over logical access and program change management for key IT systems. Specifically, access to certain key IT systems was not restricted between business and IT administration access privileges, resulting in improper segregation of duties for certain business processes. Additionally, management did not design effective controls to protect data security and maintain business sustainability.
- As a result of the material weakness related to IT general controls, the Company did not properly design or maintain effective controls over the relevance and quality of internal data used in the financial reporting process and in the operation of business process control activities.
- The Company did not properly design or maintain effective controls over complex accounting, significant management estimates, and new accounting pronouncements, including but not limited to business combinations, impairment of long-lived assets, goodwill impairment, leases, and income taxes.
- The Company did not properly design or maintain effective controls over the financial reporting process to enable timely reporting of complete and accurate financial information. Specifically, the Company did not design and implement review controls with a sufficient precision to prevent or detect a material misstatement, did not consistently perform independent reviews of journal entries, or consistently retain adequate supporting documentation for financial statement balances and the related footnote disclosures.

As it relates to monitoring activities:

- The Company did not adequately perform timely and ongoing evaluations to ascertain whether components of internal control are present and functioning.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2022 financial statements, and this report does not affect our report dated March 31, 2023 on those financial statements.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Troy, Michigan

March 31, 2023

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information required by this Item will be included in our Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC, within 120 days of the fiscal year ended December 31, 2022, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

Information required by this Item will be included in our Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC, within 120 days of the fiscal year ended December 31, 2022, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information required by this Item will be included in our Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC, within 120 days of the fiscal year ended December 31, 2022, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Information required by this Item will be included in our Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC, within 120 days of the fiscal year ended December 31, 2022, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Information required by this Item will be included in our Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC, within 120 days of the fiscal year ended December 31, 2022, and is incorporated herein by reference.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

We have filed the following documents as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

See Index to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and accompanying notes in this Annual Report on Form 10-K.

3. Exhibits

The following exhibits are incorporated herein by reference or are filed or furnished with this report as indicated below:

Exhibit Number	Description	Incorporated by Reference		
		Form	Exhibit/Appendix	Filing Date
2.1	Merger Agreement dated March 27, 2018, by and among Atlantic Acquisition Corp., HF Group Merger Sub Inc., HF Group Holding Corporation, the stockholders of HF Group Holding Corporation and Zhou Min Ni, as the stockholders' representative	DEF14A	A	7/18/2018
3.1	Second Amended and Restated Certificate of Incorporation	8-K	3.1.2	11/5/2019

Exhibit Number	Description	Incorporated by Reference		
		Form	Exhibit/ Appendix	Filing Date
3.2	Amended and Restated Bylaws	8-K	3.02	11/4/2022
4.1	Specimen Common Stock Certificate	S-1/A	4.2	7/28/2017
4.2	Form of Rights Agreement, dated August 8, 2017, by and between American Stock Transfer & Trust Company, LLC and the Registrant	8-K	4.1	8/11/2017
4.3	Form of Unit Purchase Option between the Registrant and Chardan Capital Markets, LLC	S-1/A	4.5	7/28/2017
4.4*	Description of Registrant's Securities			
10.1	Investment Management Trust Account Agreement, dated August 8, 2017, by and between American Stock Transfer & Trust Company, LLC and the Registrant	8-K	10.1	8/11/2017
10.2	Registration Rights Agreement, dated August 8, 2017, by and among the Registrant and the initial stockholders	8-K	10.2	8/11/2017
10.3	Stock Escrow Agreement dated August 8, 2017 among the Registrant, American Stock Transfer & Trust Company, LLC, and the initial stockholders	8-K	10.3	8/11/2017
10.4	Form of Letter Agreement by and between the Registrant, the initial stockholders and the officers and directors of the Company	S-1/A	10.2	7/28/2017
10.5†	HF Food Group Inc. 2018 Omnibus Equity Incentive Plan	DEF14A	B	7/18/2018
10.60	Form of Escrow Agreement between Atlantic Acquisition Corp., Loeb and Loeb L.P. as escrow agent and HF Group and Zhou Min Ni, as representative of the stockholders of HF Group	8-K	10.8	8/27/2018
10.70	Form of Registration Rights Agreement between the Company, HF Group Holdings Corporation and Zhou Min Ni, as representative of the stockholders of HF Group	8-K	10.9	8/27/2018
10.80	Form of Lock Up Agreement dated August 22, 2018 between Atlantic Acquisition Corp. and the stockholders of HF Group	8-K	10.10	8/27/2018
10.9†	Employment Agreement as amended dated as of August 22, 2018 between HF Foods Group Inc. and Zhou Min Ni	8-K	10.10	9/13/2018
10.10†	Employment Agreement as amended dated as of August 22, 2018 between HF Foods Group Inc. and Chan Sin Wong	8-K	10.11	9/13/2018
10.11†	Employment Agreement as amended dated as of August 22, 2018 between HF Foods Group Inc. and Jian Ming Ni	8-K	10.12	9/13/2018
10.12	Credit Agreement dated as of January 5, 2012 between Han Feng, Inc. and East West Bank	10-K	10.12	4/1/2019
10.13	Amendment to Credit Agreement dated as of May 21, 2013 by and between Han Feng, Inc. and East West Bank	10-K	10.13	4/1/2019
10.14	Second Amendment to Credit Agreement dated as of December 10, 2013 by and between Han Feng, Inc. and East West Bank	10-K	10.14	4/1/2019
10.15	Third Amendment to Credit Agreement dated as of July 1, 2016 between Han Feng, Inc. and East West Bank	10-K	10.15	4/1/2019
10.16	Fourth Amendment to Credit Agreement dated July 18, 2017 between Han Feng, Inc. and East West Bank	10-K	10.16	4/1/2019
10.17	Credit Agreement dated as of February 26, 2018 between New Southern Food Distributors, Inc. and Bank of America, N.A.	10-K	10.17	4/1/2019
10.18	Warehouse Lease Agreement dated as January 7, 2019 between Yoan Chang Trading and Kimland Food Service	10-K	10.18	4/1/2019
10.19†	Employment Agreement with Kong Hian Victor Lee dated December 6, 2019	10-Q	10.1	11/9/2020
10.20†	Amendment to Employment Agreement with Kong Hian Victor Lee dated October 1, 2020	10-Q	10.2	11/9/2020
10.21	Membership Interest Purchase Agreement among B&R Global Holdings, Inc., B&R Group Realty Holding, LLC, and subsidiaries of B&R Group Realty Holding, LLC, dated January 17, 2020	10-Q	2.1	5/18/2020

Exhibit Number	Description	Incorporated by Reference		
		Form	Exhibit/Appendix	Filing Date
10.22	Second Amended and Restated Credit Agreement among HF Foods Group Inc. B&R Global Holdings, Inc., subsidiaries of the Company, JPMorgan Chase Bank, N.A. ("JPMorgan"), as Administrative Agent, and certain lender parties thereto, dated January 17, 2020	10-Q	10.1	5/18/2020
10.23†	Letter Agreement between HF Foods Group Inc. and Russell T. Libby	10-Q	10.2	5/18/2020
10.24	Mutual Rescission Agreement between HF Group and Rescinding Shareholders dated April 1, 2020	10-Q	10.3	5/18/2020
10.25	Assignment and Assumption of Lease Agreement, dated as of January 21, 2021 between Anheart, Inc. and 273 Fifth Avenue, LLC	10-K	10.25	3/16/2021
10.26	Lease dated July 2, 2018, between Anheart Inc. and Premier 273 Fifth, LLC	10-K	10.26	3/16/2021
10.27	Amendment of Lease, dated as of January 21, 2021, between Anheart, Inc. and Premier 273 Fifth, LLC	10-K	10.27	3/16/2021
10.28†	Separation Agreement between HF Foods Group Inc. and Zhou Min Ni, dated February 23, 2021	10-K	10.28	3/16/2021
10.29	Lease Agreement between Yoan Chang Trading, Inc. and Kimland Food Distribution, Inc., dated as of January 1, 2021	10-K	10.29	3/16/2021
10.30	Stock Purchase Agreement, dated May 28, 2021, by and among Ki Tai Yeung, HF Group Holding Corp., and Kimland Food Distribution, Inc.	8-K	10.1	6/1/2021
10.31†	HF Foods Group Inc. Amended and Restated Severance Plan	8-K	10.1	1/5/2023
10.32†	Employment Agreement between Christine Chang and HF Foods Group Inc., dated as of July 29, 2021	8-K	10.2	8/4/2021
10.33	Continuing Guaranty, dated August 2, 2021, executed by HF Foods Group Inc. in favor of JPMorgan Chase Bank, N.A.	8-K	10.1	9/9/2021
10.34†	Letter Agreement by and between HF Foods Group Inc. and Valerie P. Chase, dated December 10, 2021	8-K	5.1	12/15/2021
10.35	Consent, Waiver, Joinder and Amendment No. 3 to Second Amended and Restated Credit Agreement by and among HF Foods Group Inc., B&R Global Holdings, Inc. and certain of the wholly-owned subsidiaries and affiliates of the Company, including Great Wall Seafood IL, L.L.C., and Great Wall Seafood TX, L.L.C., as borrowers, JPMorgan Chase Bank, N.A. as Administrative Agent, and certain lender parties thereto, including Comerica Bank, dated December 30, 2021	8-K	10.1	1/4/2022
10.36	Asset Purchase Agreement by and among Great Wall Seafood Supply, Inc., Great Wall Restaurant Supplier, Inc., First Mart Inc., Great Wall Seafood IL, L.L.C., Great Wall Seafood TX, L.L.C., Bo Chuan Wong and Qiu Xian Li, dated December 30, 2021	8-K	10.2	1/4/2022
10.37†	Form of Restricted Stock Agreement	S-8	4.7	6/15/2021
10.38	Third Amended and Restated Credit Agreement by and among HF Foods Group Inc., B&R Global Holdings, Inc. and certain of the wholly-owned subsidiaries and affiliates of the Company, as borrowers, JPMorgan Chase Bank, N.A. as Administrative Agent, and certain lender parties thereto, including Comerica Bank, dated March 31, 2022	8-K	10.1	4/1/2022
10.39†	Offer of Employment for Felix Lin dated April 15, 2022	8-K	10.1	4/20/2022
10.40	Asset Purchase Agreement, dated as of April 19, 2022, by and among Sealand Food, Inc., Connie Wang, Jenny Wang and Great Wall Seafood VA, L.L.C. and, solely for purposes of Section 2.1(d) thereof, HF Foods Group, Inc.	8-K	10.1	4/25/2022
10.41†	Separation and Release Agreement, dated May 18, 2022, by and among HF Foods Group Inc. and Kong Hian Lee	8-K	10.1	5/24/2022
10.42†	Letter Agreement, dated June 30, 2022, by and among HF Foods Group Inc. and Jose Maroto	8-K	10.1	7/7/2022
10.43†	Offer Letter, dated July 8, 2022, by and among HF Foods Group, Inc. and Carlos A. Rodriguez	8-K	10.1	7/14/2022
10.44†	Letter Agreement, dated January 17, 2022, by and among HF Foods Group Inc. and Prudence Kuai	8-K	10.1	1/19/2023

Exhibit Number	Description	Incorporated by Reference		
		Form	Exhibit/ Appendix	Filing Date
10.45	Consent Under Third Amended and Restated Credit Agreement, dated October 26, 2022	8-K	10.1	10/31/2022
10.46†	Separation Agreement and Release of Claims, dated March 26, 2021, by and among HF Foods Group Inc. and Caixuan Xu	10-K	10.45	1/31/2023
16.1	Letter from Friedman LLP to the Securities and Exchange Commission dated September 10, 2021	8-K	16.1	9/10/2021
21.1*	Subsidiaries of Registrant			
23.1*	Consent of BDO USA, LLP.			
23.2*	Consent of Friedman LLP			
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended			
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended			
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
101*	Inline XBRL Document Set for the consolidated financial statements and accompanying notes in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K			
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)			

* Filed herewith.

** Furnished herewith.

† Indicates a management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HF Foods Group Inc.

Date: March 31, 2023

By: /s/ Xiao Mou Zhang
Xiao Mou Zhang
Chief Executive Officer

Date: March 31, 2023

By: /s/ Carlos Rodriguez
Carlos Rodriguez
Chief Financial Officer
(Principal accounting and financial officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Xiao Mou Zhang</u> Xiao Mou Zhang	Chief Executive Officer and Director	March 31, 2023
<u>/s/ Russell Libby</u> Russell Libby	Chairman of the Board and Director	March 31, 2023
<u>/s/ Valerie Chase</u> Valerie Chase	Director	March 31, 2023
<u>/s/ Prudence Kuai</u> Prudence Kuai	Director	March 31, 2023
<u>/s/ Hong Wang</u> Hong Wang	Director	March 31, 2023

**DESCRIPTION OF THE REGISTRANT'S
SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934
DESCRIPTION OF CAPITAL STOCK**

The following description of the capital stock of HF Foods Group Inc. (the "Company," "us," "we," or "our") is a summary and does not purport to be complete. It is subject to, and qualified in its entirety by, reference to our Second Amended and Restated Certificate of Incorporation ("Certificate of Incorporation") and our Bylaws ("Bylaws"), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part.

Authorized Shares

Under our Certificate of Incorporation, our authorized capital stock consists of 101,000,000 shares of capital stock, consisting of 100,000,000 shares of common stock, par value \$0.0001 per share, and 1,000,000 shares of preferred stock, par value \$0.001 per share. The number of authorized shares of any class or classes of our capital stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of our outstanding capital stock entitled to vote thereon, without a separate vote of the holders of the Preferred Stock, or any series thereof, unless a vote of any such holders is required pursuant to any Preferred Stock Designation, and irrespective of the provisions of Section 242(b)(2) of the Delaware General Corporation Law (the "DGCL"). We may not authorize the issuance of any class, or series thereof, of nonvoting equity shares. Our common stock is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Voting Rights

Holders of our common stock are entitled to one vote per share on all matters voted on by the stockholders, including in connection with the election of directors, as provided by law. Holders of our common stock do not have cumulative voting rights. Except as otherwise required by the DGCL or our Certificate of Incorporation and Bylaws, action requiring stockholder approval may be taken by a vote of the holders of a majority of the voting power of the shares of stock of the Company present in person or by proxy and entitled to vote on the relevant matter at a meeting at which a quorum is present.

Dividend Rights

After satisfaction of any dividend rights of holders of preferred stock and subject to applicable law, if any, holders of common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors in its discretion.

Liquidation and Other Rights

Holders of our common stock have no preemptive, subscription, redemption, conversion or exchange rights and no sinking fund provisions.

All outstanding shares of our common stock are duly authorized, validly issued, fully paid and non-assessable. Additional shares of common stock may be issued, as authorized by our Board from time to time, without stockholder approval, except for any stockholder approval required by The Nasdaq Capital Market.

The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Preferred Stock

Our board of directors has been authorized to provide for the issuance of up to 1,000,000 shares of our preferred stock from time to time in one or more series without the approval of stockholders. With respect to each series of our preferred stock, our board of directors has the authority to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption, including sinking fund provisions, the redemption price or prices, and the liquidation preferences of any wholly unissued class or series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of them.

Anti-Takeover Effects of Provisions of our Certificate of Incorporation and Bylaws

Some provisions of Delaware law, our Certificate of Incorporation and our Bylaws could delay or discourage some transactions involving an actual or potential change in control of us or our management and may limit the ability of our stockholders to remove current management or approve transactions that our stockholders may deem to be in their best interests. These provisions:

- a. allow our board of directors to issue any authorized but unissued shares of common stock without approval of stockholders;
- b. authorize our board of directors to establish one or more series of preferred stock, the terms of which can be determined by our board of directors at the time of issuance;
- c. provide an advanced written notice procedure with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of our board of directors, subject to the rights of stockholders to request inclusion of proposals in our proxy statement pursuant to Rule 14a-8 under the Exchange Act (or any successor provision of law);
- d. state that special meetings of our stockholders may be called only by the Chairman of our board of directors, our President, or at the request of a majority of our board of directors;
- e. allow our directors, and not our stockholders, to fill vacancies on our board of directors, including vacancies resulting from removal or enlargement of our board of directors, unless such vacancies are created by the removal of a director by the stockholders; and
- f. grant our board of directors the authority to alter any provision of the Bylaws without a stockholder assent or vote; provided, however, that such authority of our board of directors is subject to the power of the stockholders to alter, amend, change, add to, repeal, rescind or make new Bylaws by the affirmative vote of the holders of at least a majority of the voting power of the outstanding shares entitled to vote thereon.

Delaware Anti-takeover Law

The Company is subject to Section 203 of the DGCL, which is an anti-takeover law. In general, Section 203 prevents a publicly-held Delaware corporation from engaging in a "business combination" with any "interested stockholder" for a period of three years following the date that the person became an interested stockholder unless (1) our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder, (2) at least two-thirds of the outstanding shares not owned by that interested stockholder approve the business combination, or (3) upon becoming an interested stockholder, that stockholder owned at least 85% of the outstanding shares, excluding those held by officers, directors and some employee stock plans. In general, a "business combination" includes, among other things, a merger or consolidation involving us and the "interested stockholder" and the sale of more than 10% of our assets. In general, an "interested stockholder" is any entity or person beneficially owning 15% or more of our outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person.

A Delaware corporation may "opt out" of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. We have not opted out of these provisions.

Exclusive Forum Provision

Unless the Company consents in writing to the selection of an alternative forum, the sole and exclusive forum for certain legal actions involving the Company will be the Court of Chancery of the State of Delaware. If the Court of Chancery of the State of Delaware lacks subject matter jurisdiction over such action or proceeding, the sole and exclusive forum for such action or proceeding shall be another state or federal court located within the State of Delaware or, if no court of the State of Delaware has jurisdiction, then the United States District Court for the District of Delaware. Unless the Company consents in writing to the selection of an alternative forum, the federal district courts of the United States of America will be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder.

HF FOODS GROUP INC.

Subsidiaries

Entity Name	State of Incorporation	Other Names under which Company Does Business
HF Group Holding Corp.	Delaware	
Han Feng, Inc.	North Carolina	
Morning First Delivery, Inc.	North Carolina	
R&N Holdings, LLC	North Carolina	
R&N Charlotte, LLC	North Carolina	
Chinesetg, Inc.	New York	
HGRealty, LLC	Georgia	
New Southern Food Distributors, Inc.	Florida	
B&B Trucking Services, Inc.	Florida	
Asahi Food, Inc	Colorado	
HF Foods Industrial, Inc.	North Carolina	HF Foods Industrial, L.L.C.
273 Fifth Avenue, L.L.C.	Delaware	
B&R Global Holdings, Inc.	Delaware	
B&R Group Logistics Holding LLC	Delaware	
B&R Group Realty Holding LLC	Delaware	
B & L Trading, LLC	Washington	Big Sea Trading; Long Chang International Trading; Royal Food Wholesale
Capital Trading, LLC	Utah	Great Wall Seafood Trading, LLC; Big Sea Trading, LLC
Great Wall Seafood LA, LLC	California	
Mountain Food, LLC	Colorado	
Ocean West Food Services, LLC	California	West Coast Trading
R & C Trading, L.L.C.	Arizona	Great Wall Seafood AZ
Rongcheng Trading, LLC	California	Always Best; BaoLee Trading; West Coast Food Wholesale
Win Woo Trading, LLC	California	T&G Group; Harvest Food Trading; New Berry Trading
Min Food, Inc.	California	Young's Food Wholesale; Grand Food; B&L Trading
Monterey Food Service, LLC	California	
Irwindale Poultry, LLC	California	
KYL Group, Inc.	Nevada	
American Fortune Foods, Inc.	California	
Happy FM Group, Inc.	California	
GM Food Supplies, Inc.	California	
Lin's Distribution Inc, Inc.	Utah	
Lin's Farms, LLC	Utah	
Golden Well, Inc.	California	
Kami Trading, Inc.	California	

Entity Name	State of Incorporation	Other Names under which Company Does Business
Royal Trucking Services, Inc.	Washington	
Royal Service, Inc.	Oregon	
MF Food Services, Inc.	California	
B&R Realty, LLC	California	
Lucky Realty, LLC	California	
Genstar Realty, LLC	California	
Murray Properties, LLC	Utah	
Fortune Liberty, LLC	Utah	
Lenfa Food, LLC	Colorado	
A & Kie, LLC	Arizona	
Big Sea Realty, LLC	Washington	
Great Wall Seafood IL, LLC	Illinois	
Great Wall Seafood TX, LLC	Texas	
Great Wall Seafood VA, LLC	Virginia	

Dissolved subsidiaries:

Entity Name	State of Incorporation	Other Names under which Company Does Business
Hardin St Properties, LLC	Montana	
Hayward Trucking, Inc.	California	
Kimland Food Distribution, Inc.	Georgia	
Truse Trucking, Inc.	North Carolina	
R&N Lexington, LLC	North Carolina	
Kirnsway Manufacturing, Inc.	North Carolina	
Best Choice Trucking, LLC	California	
New Berry Trading, LLC	California	
Yi Z Service, LLC	California	
Fuso Trucking Corp.*	California	
Hayward Realty, LLC	California	

* FUSO Trucking Corp. was considered a variable interest entity ("VIE") under U.S. GAAP.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

HF Foods Group Inc.
Las Vegas, Nevada

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-232080) and Form S-8 (No. 333-257100) of HF Foods Group Inc. of our reports dated March 31, 2023, relating to the consolidated financial statements, and the effectiveness of HF Food Group Inc.'s internal control over financial reporting which appears in this Form 10-K. Our report on the effectiveness of internal control over financial reporting expresses an adverse opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2022.

/s/ BDO USA, LLP

Troy, Michigan

March 31, 2023

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 and on Form S-3 (collectively, the "Registration Statements") of our report dated March 16, 2021, which contains an explanatory paragraph regarding the effects of the adjustments the Company identified during 2022 to restate the financial statements as described in Note 1, which were audited by other auditors, relating to the consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows of HF Foods Group Inc. and its subsidiaries (collectively, the "Company") for the year ended December 31, 2020, appearing in the Annual Report on Form 10-K for the year ended December 31, 2022. We also consent to the reference to our firm under the heading "Experts" in such Registration Statements.

/s/ Friedman LLP

New York, New York
March 31, 2023

Certification of Chief Executive Officer

I, Xiao Mou Zhang, certify that:

1. I have reviewed this Annual Report on Form 10-K of HF Foods Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2023

By: /s/ Xiao Mou Zhang
Xiao Mou Zhang
Chief Executive Officer

Certification of Chief Financial Officer

I, Carlos Rodriguez, certify that:

1. I have reviewed this Annual Report on Form 10-K of HF Foods Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2023

By: /s/ Carlos Rodriguez

Carlos Rodriguez
Chief Financial Officer

Section 1350 Certification of Chief Executive Officer

In connection with the Annual Report on Form 10-K of HF Foods Group Inc. (the "Company") for the annual period ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Xiao Mou Zhang, Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Xiao Mou Zhang

Xiao Mou Zhang
Chief Executive Officer
March 31, 2023

Section 1350 Certification of Chief Financial Officer

In connection with the Annual Report on Form 10-K of HF Foods Group Inc. (the "Company") for the annual period ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carlos Rodriguez, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Carlos Rodriguez

Carlos Rodriguez
Chief Financial Officer
March 31, 2023