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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2023

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

For the transition period from ______________ to ______________.

Commission File Number: 001-38180

HF FOODS GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware	**81-2717873**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6325 South Rainbow Boulevard, Suite 420, Las Vegas, NV 89118

(Address of principal executive offices) (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**	**Name of each exchange on which registered**
Common Stock, $0.0001 par value	HFFG	Nasdaq Capital Market
Preferred Share Purchase Rights	N/A	Nasdaq Capital Market

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.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 5, 2023, the registrant had 54,153,391 shares of common stock outstanding.

HF Foods Group Inc. and Subsidiaries
Form 10-Q for the Quarter Ended September 30, 2023

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

HF Foods Group Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	September 30, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS:		
Cash	$ 14,300	$ 24,289
Accounts receivable, net	43,133	44,186
Accounts receivable - related parties	328	213
Inventories	115,942	120,291
Prepaid expenses and other current assets	23,611	8,937
TOTAL CURRENT ASSETS	**197,314**	**197,916**
Property and equipment, net	135,350	140,330
Operating lease right-of-use assets	12,520	14,164
Long-term investments	2,401	2,679
Customer relationships, net	149,823	157,748
Trademarks and other intangibles, net	32,055	36,343
Goodwill	85,118	85,118
Other long-term assets	8,203	3,231
TOTAL ASSETS	**$ 622,784**	**$ 637,529**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Checks issued not presented for payment	$ 6,888	$ 21,946
Line of credit	47,648	53,056
Accounts payable	78,133	55,515
Accounts payable - related parties	490	1,529
Current portion of long-term debt, net	5,868	6,266
Current portion of obligations under finance leases	1,832	2,254
Current portion of obligations under operating leases	3,609	3,676
Accrued expenses and other liabilities	17,157	19,648
TOTAL CURRENT LIABILITIES	**161,625**	**163,890**
Long-term debt, net of current portion	111,220	115,443
Obligations under finance leases, non-current	11,174	11,441
Obligations under operating leases, non-current	9,171	10,591
Deferred tax liabilities	31,976	34,443
Other long-term liabilities	5,262	5,472
TOTAL LIABILITIES	**330,428**	**341,280**
COMMITMENTS AND CONTINGENCIES (Note 14)		
SHAREHOLDERS' EQUITY:		
Preferred Stock, $0.0001 par value, 1,000,000 shares authorized, no shares issued and outstanding as of September 30, 2023 and December 31, 2022	—	—
Common Stock, $0.0001 par value, 100,000,000 shares authorized, 54,152,903 shares issued and outstanding as of September 30, 2023 and 53,813,777 shares issued and outstanding as of December 31, 2022	5	5
Additional paid-in capital	600,696	598,322
Accumulated deficit	(311,413)	(306,514)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO HF FOODS GROUP INC.	**289,288**	**291,813**
Noncontrolling interests	3,068	4,436
TOTAL SHAREHOLDERS' EQUITY	**292,356**	**296,249**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 622,784**	**$ 637,529**

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

HF Foods Group Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net revenue - third parties	$ 280,635	$ 298,929	$ 862,561	$ 873,218
Net revenue - related parties	818	1,782	5,059	5,350
TOTAL NET REVENUE	**281,453**	**300,711**	**867,620**	**878,568**
Cost of revenue - third parties	229,772	247,703	710,953	719,052
Cost of revenue - related parties	756	1,515	4,904	4,726
TOTAL COST OF REVENUE	**230,528**	**249,218**	**715,857**	**723,778**
GROSS PROFIT	**50,925**	**51,493**	**151,763**	**154,790**
Distribution, selling and administrative expenses	48,841	54,589	154,013	140,840
INCOME (LOSS) FROM OPERATIONS	**2,084**	**(3,096)**	**(2,250)**	**13,950**
Other expenses (income):				
Interest expense	2,715	2,274	8,430	5,101
Other income	(490)	(462)	(845)	(1,401)
Change in fair value of interest rate swap contracts	(1,984)	(284)	(2,094)	(850)
Lease guarantee expense	(95)	(58)	(305)	5,831
Total other expenses (income), net	**146**	**1,470**	**5,186**	**8,681**
INCOME (LOSS) BEFORE INCOME TAXES	**1,938**	**(4,566)**	**(7,436)**	**5,269**
Income tax expense (benefit)	(36)	(672)	(2,053)	1,529
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**1,974**	**(3,894)**	**(5,383)**	**3,740**
Less: net income (loss) attributable to noncontrolling interests	90	(30)	(484)	(74)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO HF FOODS GROUP INC.	**$ 1,884**	**$ (3,864)**	**$ (4,899)**	**$ 3,814**
EARNINGS (LOSS) PER COMMON SHARE - BASIC	**$ 0.03**	**$ (0.07)**	**$ (0.09)**	**$ 0.07**
EARNINGS (LOSS) PER COMMON SHARE - DILUTED	**$ 0.03**	**$ (0.07)**	**$ (0.09)**	**$ 0.07**
WEIGHTED AVERAGE SHARES - BASIC	**54,142,396**	**53,798,131**	**54,005,010**	**53,716,464**
WEIGHTED AVERAGE SHARES - DILUTED	**54,513,314**	**53,798,131**	**54,005,010**	**53,981,687**

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

HF Foods Group Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2023	**2022**
Cash flows from operating activities:		
Net (loss) income	**$ (5,383)**	**$ 3,740**
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	19,551	18,245
Asset impairment charges	1,200	422
Gain from disposal of property and equipment	(278)	(1,327)
Provision for credit losses	56	226
Deferred tax benefit	(2,467)	(3,391)
Change in fair value of interest rate swap contracts	(2,094)	(849)
Stock-based compensation	2,605	673
Non-cash lease expense	2,668	2,562
Lease guarantee expense	(305)	5,831
Other expense	446	54
Changes in operating assets and liabilities (excluding effects of acquisitions):		
Accounts receivable	997	(8,221)
Accounts receivable - related parties	(115)	(178)
Inventories	4,349	(15,988)
Prepaid expenses and other current assets	(14,074)	(3,769)
Other long-term assets	(2,878)	(593)
Accounts payable	22,618	8,953
Accounts payable - related parties	(1,039)	(443)
Operating lease liabilities	(2,511)	(2,530)
Accrued expenses and other liabilities	(2,722)	3,515
Net cash provided by operating activities	**20,624**	**6,932**
Cash flows from investing activities:		
Purchase of property and equipment	(3,495)	(5,745)
Proceeds from sale of property and equipment	900	7,805
Payment made for acquisition of Sealand	—	(34,849)
Payment made for acquisition of Great Wall Group	—	(17,445)
Net cash used in investing activities	**(2,595)**	**(50,234)**
Cash flows from financing activities:		
Checks issued not presented for payment	(15,058)	682
Proceeds from line of credit	891,510	938,251
Repayment of line of credit	(896,959)	(922,080)
Proceeds from long-term debt	—	45,956
Repayment of long-term debt	(4,653)	(9,614)
Payment of debt financing costs	—	(556)
Repayment of obligations under finance leases	(1,974)	(1,876)
Repayment of promissory note payable - related party	—	(4,500)
Proceeds from noncontrolling interests shareholders	—	240
Cash distribution to shareholders	(884)	(187)
Net cash (used in) provided by financing activities	**(28,018)**	**46,316**
Net (decrease) increase in cash	**(9,989)**	**3,014**
Cash at beginning of the period	**24,289**	**14,792**
Cash at end of the period	**$ 14,300**	**$ 17,806**
Supplemental disclosure of non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	$ 1,024	$ 6,815
Property acquired in exchange for finance leases	1,285	1,272
Note receivable related to property and equipment sales	300	—
Intangible asset acquired in exchange for noncontrolling interests	—	566

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

HF Foods Group Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders' Equity
(In thousands, except share data)
(Unaudited)

	Common 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					
Balance at January 1, 2022	**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	—	—	—	3,114	3,114	26	3,140
Capital contribution by shareholders	—	—	—	—	—	806	806
Distribution to shareholders	—	—	—	—	—	(89)	(89)
Stock-based compensation	—	—	290	—	290	—	290
Balance at March 31, 2022	**53,706,392**	**5**	**597,517**	**(303,860)**	**293,662**	**4,784**	**298,446**
Net income (loss)	—	—	—	4,564	4,564	(70)	4,494
Distribution to shareholders	—	—	—	—	—	(97)	(97)
Stock-based compensation	—	—	221	—	221	—	221
Balance at June 30, 2022	**53,706,392**	**5**	**597,738**	**(299,296)**	**298,447**	**4,617**	**303,064**
Net loss	—	—	—	(3,864)	(3,864)	(30)	(3,894)
Issuance of common stock pursuant to equity compensation plan	138,412	—	—	—	—	—	—
Shares withheld for tax withholdings on vested awards	(31,438)	—	(162)	—	(162)	—	(162)
Stock-based compensation	—	—	162	—	162	—	162
Balance at September 30, 2022	**53,813,366**	**$ 5**	**$ 597,738**	**$ (303,160)**	**$ 294,583**	**$ 4,587**	**$ 299,170**
Balance at January 1, 2023	**53,813,777**	**$ 5**	**$ 598,322**	**$ (306,514)**	**$ 291,813**	**$ 4,436**	**$ 296,249**
Net (loss) income	—	—	—	(5,933)	(5,933)	136	(5,797)
Issuance of common stock pursuant to equity compensation plan	37,847	—	—	—	—	—	—
Shares withheld for tax withholdings on vested awards	(7,132)	—	(34)	—	(34)	—	(34)
Stock-based compensation	—	—	1,096	—	1,096	—	1,096
Balance at March 31, 2023	**53,844,492**	**5**	**599,384**	**(312,447)**	**286,942**	**4,572**	**291,514**
Net (loss) income	—	—	—	(850)	(850)	(710)	(1,560)
Issuance of common stock pursuant to equity compensation plan	269,113	—	—	—	—	—	—
Shares withheld for tax withholdings on vested awards	(27,441)	—	(106)	—	(106)	—	(106)
Stock-based compensation	—	—	752	—	752	—	752
Balance at June 30, 2023	**54,086,164**	**5**	**600,030**	**(313,297)**	**286,738**	**3,862**	**290,600**
Net income	—	—	—	1,884	1,884	90	1,974
Issuance of common stock pursuant to equity compensation plan	84,196	—	—	—	—	—	—
Shares withheld for tax withholdings on vested awards	(17,457)	—	(91)	—	(91)	—	(91)
Distribution to shareholders	—	—	—	—	—	(884)	(884)
Stock-based compensation	—	—	757	—	757	—	757
Balance at September 30, 2023	**54,152,903**	**$ 5**	**$ 600,696**	**$ (311,413)**	**$ 289,288**	**$ 3,068**	**$ 292,356**

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

HF Foods Group Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 - Organization and 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.

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 6 - Acquisitions* for additional information on the Sealand acquisition.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information pursuant to the rules and regulations of the SEC and have been consistently applied. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements are condensed and should be read in conjunction with the audited financial statements and notes thereto for the fiscal years ended December 31, 2022 and 2021. Operating results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

The accompanying condensed consolidated financial statements include the accounts of HF Group and a variable interest entity for which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. For consolidated entities where we own or are exposed to less than 100% of the economics, the Company records net income (loss) attributable to noncontrolling interest in its condensed consolidated statements of operations and comprehensive income (loss) equal to the percentage of the economic or ownership interest retained in such entity by the respective noncontrolling party.

Variable Interest Entities

GAAP provides guidance on the identification of a variable interest entity ("VIE") and financial reporting for an entity 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.

FUSO Trucking, LLC ("FUSO") is a VIE for which the Company is the primary beneficiary. Although its operations have wound down and its remaining assets and liabilities are immaterial, FUSO continues to be consolidated by the Company as a VIE. The Company also has a VIE, AnHeart, Inc. ("AnHeart"), for which the Company is not the primary beneficiary and therefore does not consolidate. The Company did not incur expenses from VIEs and did not have any sales to or income from any VIEs during the three and nine months ended September 30, 2023 and 2022. See *Note 14 - Commitments and Contingencies* for additional information on AnHeart.

Noncontrolling Interests

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

As of September 30, 2023 and December 31, 2022, noncontrolling interest equity consisted of the following:

($ in thousands)	Ownership of noncontrolling interest at September 30, 2023	September 30, 2023	December 31, 2022
HF Foods Industrial, LLC ("HFFI") [(a)]	45.00%	$ (730)	$ 204
Min Food, Inc.	39.75%	1,610	1,704
Monterey Food Service, LLC	35.00%	446	452
Ocean West Food Services, LLC [(b)]	32.50%	1,652	1,986
Syncglobal Inc.	43.00%	90	90
Total		$ 3,068	$ 4,436

(a) During the nine months ended September 30, 2023, the Company began to wind down HFFI operations. Accordingly, the machinery used in HFFI operations was impaired. See *Note 4 - Balance Sheet Components* for additional information.
(b) During the three months ended September 30, 2023, the Company ceased operations of Ocean West Food Services, LLC.

Uses of Estimates

The preparation of condensed 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 condensed 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 condensed consolidated financial statements include, but are not limited to, inventory reserves, impairment of long-lived assets, impairment of goodwill, and the purchase price allocation and fair value of assets and liabilities acquired with respect to business combinations.

Recent Accounting Pronouncements

The Company has implemented all new pronouncements that are in effect and that may impact its condensed consolidated financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its condensed consolidated financial statements or results of operations.

Note 3 - Revenue

For the three and nine months ended September 30, 2023 and 2022, 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:

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in thousands)	2023		2022		2023		2022	
Seafood	$ 87,475	31 %	$ 94,077	32 %	$ 271,748	32 %	$ 262,280	30 %
Asian Specialty	74,384	26 %	73,380	24 %	228,545	26 %	223,393	25 %
Meat and Poultry	54,787	19 %	63,647	21 %	162,848	19 %	187,671	22 %
Fresh Produce	29,578	11 %	31,260	10 %	93,425	11 %	92,215	10 %
Packaging and Other	17,342	6 %	20,867	7 %	54,775	6 %	64,176	7 %
Commodity	17,887	7 %	17,480	6 %	56,279	6 %	48,833	6 %
Total	$ 281,453	100 %	$ 300,711	100 %	$ 867,620	100 %	$ 878,568	100 %

Note 4 - Balance Sheet Components

Accounts receivable, net consisted of the following:

(In thousands)	September 30, 2023	December 31, 2022
Accounts receivable	$ 44,607	$ 45,628
Less: allowance for expected credit losses	(1,474)	(1,442)
Accounts receivable, net	$ 43,133	$ 44,186

Movement of allowance for expected credit losses was as follows:

	Nine Months Ended September 30,	
(In thousands)	2023	2022
Beginning balance	$ 1,442	$ 840
Adjustment for adoption of the CECL standard	—	690
Increase (decrease) in provision for expected credit losses	56	226
Bad debt write-offs	(24)	(8)
Ending balance	$ 1,474	$ 1,748

Prepaid expenses and other current assets consisted of the following:

(In thousands)	September 30, 2023	December 31, 2022
Prepaid expenses	$ 3,317	$ 1,504
Advances to suppliers	15,230	4,494
Other current assets	5,064	2,939
Prepaid expenses and other current assets	$ 23,611	$ 8,937

Property and equipment, net consisted of the following:

(In thousands)	September 30, 2023	December 31, 2022
Automobiles	$ 37,753	$ 34,891
Buildings	63,045	63,045
Building improvements	22,308	20,637
Furniture and fixtures	624	444
Land	49,929	49,929
Machinery and equipment	14,316	17,210
Subtotal	187,975	186,156
Less: accumulated depreciation	(52,625)	(45,826)
Property and equipment, net	$ 135,350	$ 140,330

Depreciation expense was $2.4 million and $2.2 million for the three months ended September 30, 2023 and 2022, respectively. Depreciation expense was $7.3 million and $6.6 million for the nine months ended September 30, 2023 and 2022, respectively. During the nine months ended September 30, 2023, the Company impaired machinery and recognized impairment expense of $1.2 million in distribution, selling and administrative expense in the unaudited condensed consolidated statements of operations and comprehensive income (loss). See *Note 2 - Summary of Significant Accounting Policies* for additional information regarding the Company’s operations at HFFI.

Long-term investments consisted of the following:

(In thousands)	Ownership as of September 30, 2023	September 30, 2023	December 31, 2022
Asahi Food, Inc. ("Asahi")	49%	$ 601	$ 879
Pt. Tamron Akuatik Produk Industri ("Tamron")	12%	1,800	1,800
Total long-term investments		$ 2,401	$ 2,679

The investment in Tamron is accounted for using the measurement alternative under Accounting Standards Codification ("ASC") Topic 321 *Investments—Equity Securities*, 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. The Company determined there was no impairment as of September 30, 2023 and December 31, 2022 for these investments.

Accrued expenses and other liabilities consisted of the following:

(In thousands)	September 30, 2023	December 31, 2022
Accrued compensation	$ 5,710	$ 6,798
Accrued professional fees	1,533	3,866
Accrued interest and fees	425	1,082
Self-insurance liability	2,319	1,286
Accrued other	7,170	6,616
Total accrued expenses and other liabilities	$ 17,157	$ 19,648

Note 5 - 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:

	September 30, 2023				December 31, 2022			
	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)							
Assets:								
Interest rate swaps	$ —	$ 2,624	$ —	$ 2,624	$ —	$ 530	$ —	$ 530

The Company follows the provisions of ASC Topic 820 *Fair Value Measurement* which 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 condensed 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.

Please refer to *Note 8 - Derivative Financial Instruments* for additional information regarding the Company’s interest rate swaps.

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 9 - Debt* of the Notes to the Unaudited Condensed Consolidated Financial Statements, including the current portion, as of the dates indicated:

	Fair Value Measurements			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**
September 30, 2023				
Fixed rate debt:				
Bank of America	$ —	$ —	$ 1,454	$ 1,703
Other finance institutions	—	—	49	48
Variable rate debt:				
JPMorgan Chase & Co.	$ —	$ 107,378	$ —	$ 107,378
Bank of America	—	2,239	—	2,239
East West Bank	—	5,720	—	5,720
December 31, 2022				
Fixed rate debt:				
Bank of America	$ —	$ —	$ 1,630	$ 1,948
Other finance institutions	—	—	186	197
Variable rate debt:				
JPMorgan Chase & Co.	$ —	$ 111,413	$ —	$ 111,413
Bank of America	—	2,330	—	2,330
East West Bank	—	5,822	—	5,822

The carrying value of the variable rate debt approximates its fair value because of the variability of interest rates associated with these instruments. 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 9 - Debt* for additional information regarding the Company's debt.

Note 6 - 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 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 for the nine months ended September 30, 2022 totaled approximately $0.7 million and were reflected in distribution, selling and administrative expenses in the condensed consolidated statement of operations and comprehensive income.

The information included herein was 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 Company finalized the valuation of assets acquired and liabilities assumed for the Sealand acquisition as of December 31, 2022.

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	$	34,848

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-competition 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-competition agreements are three years, with a weighted average amortization period of approximately nine years. The associated goodwill is deductible for tax purposes.

Unaudited Supplemental Pro Forma Financial Information

The following table presents the Company's unaudited pro forma results for the three and nine months ended September 30, 2022, as if the acquisition of Sealand had been consummated on January 1, 2022. 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)		Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022
Pro forma net revenue	$	300,712	$	910,397
Pro forma net income attributable to HF Group	$	(3,368)	$	3,389

Note 7 - Goodwill and Acquired Intangible Assets

Goodwill

Goodwill was $85.1 million as of September 30, 2023 and December 31, 2022. There was no change in the carrying amount of goodwill for the nine months ended September 30, 2023.

Acquired Intangible Assets

The components of the intangible assets are as follows:

	September 30, 2023			December 31, 2022		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-competition agreement	$ 3,892	$ (2,105)	$ 1,787	$ 3,892	$ (1,132)	$ 2,760
Trademarks	44,256	(13,988)	30,268	44,256	(10,673)	33,583
Customer relationships	185,266	(35,443)	149,823	185,266	(27,518)	157,748
Total	$ 233,414	$ (51,536)	$ 181,878	$ 233,414	$ (39,323)	$ 194,091

Amortization expense for acquired intangible assets was $4.1 million and $4.1 million for the three months ended September 30, 2023 and 2022, respectively. Amortization expense for acquired intangible assets was $12.2 million and $11.7 million for the nine months ended September 30, 2023 and 2022, respectively. During the nine months ended September 30, 2022, the Company impaired its acquired developed technology and recognized impairment expense of $0.4 million in distribution, selling and administrative expenses in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

Note 8 - 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 9 - 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. On April 20, 2023, the Company amended the corresponding mortgage term loans, which pegged the two mortgage term loans to 1-month Term SOFR (Secured Overnight Financing Rate) + 2.29% per annum for the remaining duration of the term loans. The amended 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. On December 19, 2021, the Company entered into the Second Amendment to Loan Agreement, which pegged the mortgage term loan to Term 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 March 15, 2023, the Company entered into an amortizing IRS contract with J.P. Morgan Chase for an initial notional amount of $120.0 million, effective from March 1, 2023 and expiring in March 2028, as a means to partially hedge its existing floating rate loans exposure. Pursuant to the agreement, the Company will pay the swap counterparty a fixed rate of 4.11% in exchange for floating payments based on Term SOFR.

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 condensed consolidated statements of operations and comprehensive income (loss).

As of September 30, 2023, the Company determined that the fair values of the IRS contracts were $2.6 million in an asset position. As of December 31, 2022, the fair values of the IRS contracts were $0.5 million in an asset position. The Company includes these in other long-term assets and other long-term liabilities, respectively, on the condensed 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 9 - Debt

Long-term debt at September 30, 2023 and December 31, 2022 is summarized as follows:

($ in thousands)

Bank Name	Maturity	Interest Rate at September 30, 2023	September 30, 2023	December 31, 2022
Bank of America [(a)]	October 2026 - December 2029	4.28% - 5.80%	$ 3,942	$ 4,315
East West Bank [(b)]	August 2027 - September 2029	4.40% - 9.00%	5,720	5,822
JPMorgan Chase & Co. [(c)]	December 2023 - January 2030	6.77% - 7.14%	107,647	111,714
Other finance institutions [(d)]	December 2023 - March 2024	5.99% - 6.14%	48	160
Total debt, principal amount			117,357	122,011
Less: debt issuance costs			(269)	(302)
Total debt, carrying value			117,088	121,709
Less: current portion			(5,868)	(6,266)
Long-term debt			$ 111,220	$ 115,443

(a) Loan balance consists of real estate term loan and equipment term loan, collateralized by one real property and specific equipment. The real estate term loan 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) Real estate term loan with a principal balance of $107.5 million as of September 30, 2023 and 111.4 million as of December 31, 2022 is secured by assets held by the Company and has a maturity date of January 2030. Equipment term loan with a principal balance of $0.1 million as of September 30, 2023 and $0.3 million as of December 31, 2022 is secured by specific vehicles and equipment as defined in loan agreements. Equipment term loan matures in December 2023.

(d) 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 September 30, 2023, the Company was in compliance with its covenants.

Note 10 - 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 1,102,972 and 797,860 potential common shares related to performance-based restricted stock units and restricted stock units that were excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2023, respectively, because their effect would have been anti-dilutive. There were 279,412 and 148,479 potential common shares related to performance-based restricted stock units and restricted stock units that were excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2022, respectively, because their effect would have been anti-dilutive.

The following table sets forth the computation of basic and diluted EPS:

($ in thousands, except share and per share data)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Numerator:				
Net income (loss) attributable to HF Foods Group Inc.	$ 1,884	$ (3,864)	$ (4,899)	$ 3,814
Denominator:				
Weighted-average common shares outstanding	54,142,396	53,798,131	54,005,010	53,716,464
Effect of dilutive securities	370,918	—	—	265,223
Weighted-average dilutive shares outstanding	54,513,314	53,798,131	54,005,010	53,981,687
Earnings (Loss) per common share:				
Basic	$ 0.03	$ (0.07)	$ (0.09)	$ 0.07
Diluted	$ 0.03	$ (0.07)	$ (0.09)	$ 0.07

Note 11 - Income Taxes

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. 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.

For the three and nine months ended September 30, 2023, the Company's effective income tax rate of (1.9)% and 27.6%, respectively, differed from the federal statutory tax rate primarily as a result of permanent differences and state income taxes. For the three and nine months ended September 30, 2022, the Company's effective income tax rate of 14.7% and 29.0%, respectively, differed from the federal statutory tax rate primarily as a result of state income taxes.

Note 12 - 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. Xiao Mou Zhang (“Mr. Zhang”) became the sole Chief Executive Officer on February 23, 2021. Mr. Zhang and certain of his immediate family also have ownership interests in various related parties involved in (i) the distribution of food and related products to restaurants and other retailers and (ii) the supply of fresh food, frozen food, and packaging supplies to distributors.

The Company believes that Mr. Zhou Min Ni (“Mr. Ni”), the Company’s former Co-Chief Executive Officer, together with various trusts for the benefit of Mr. Ni's four children, are collectively beneficial owners of the Company’s outstanding shares of common stock, and he and certain of his immediate family members have ownership interests in related parties involved in (i) the distribution of food and related products to restaurants and other retailers and (ii) the supply of fresh food, frozen food, and packaging supplies to distributors.

For the year ended December 31, 2022, North Carolina Good Taste Noodle, Inc. (“NC Noodle”) was a related party due to Mr. Jian Ming Ni's, a former Chief Financial Officer of the Company, continued ownership interest in NC Noodle. As of January 1, 2023, NC Noodle is no longer considered a related party since it has been three years since Mr. Jian Ming Ni resigned.

The related party transactions as of September 30, 2023 and December 31, 2022 and for the three and nine months ended September 30, 2023 and 2022 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 three and nine months ended September 30, 2023 and 2022, respectively:

			Three Months Ended September 30,		Nine Months Ended September 30,	
	(In thousands)	Nature	2023	2022	2023	2022
(a)	Conexus Food Solutions (formerly as Best Food Services, LLC)	Trade	$ 2,045	$ 2,246	$ 6,858	$ 8,738
(b)	Eastern Fresh NJ, LLC	Trade	—	—	—	1,093
(b)	Enson Seafood GA, Inc. (formerly “GA-GW Seafood, Inc.”)	Trade	—	—	37	—
(c)	First Choice Seafood, Inc.	Trade	—	25	—	134
(c)	Fujian RongFeng Plastic Co., Ltd	Trade	—	—	—	398
(d)	North Carolina Good Taste Noodle, Inc.	Trade	—	1,798	—	5,226
(b)	Ocean Pacific Seafood Group, Inc.	Trade	73	107	315	385
	Other	Trade	93	115	168	199
	Total		$ 2,211	$ 4,291	$ 7,378	$ 16,173

(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) 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. Mr. Zhou Min Ni previously owned an equity in this entity as of December 31, 2019. The Company has been informed by Mr. Zhou Min Ni that his equity interest was disposed of on January 1, 2020. No longer considered a related party as of January 1, 2023 since it has been three years since Mr. Jian Ming Ni resigned.

Sales

Below is a summary of sales to related parties recorded for the three and nine months ended September 30, 2023 and 2022, respectively:

		Three Months Ended September 30,		Nine Months Ended September 30,	
	(In thousands)	2023	2022	2023	2022
(a)	ABC Food Trading, LLC	$ 367	$ 815	$ 1,682	$ 3,077
(b)	Asahi Food, Inc.	275	126	661	495
(c)	Conexus Food Solutions (formerly as Best Food Services, LLC)	149	189	675	1,058
(d)	Eagle Food Service, LLC	—	576	1,942	576
(e)	First Choice Seafood, Inc.	8	9	24	27
(e)	Fortune One Foods, Inc.	19	67	42	81
(f)	N&F Logistics, Inc.	—	—	6	36
(g)	Union Food LLC	—	—	27	—
	Total	$ 818	$ 1,782	$ 5,059	$ 5,350

(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 indirectly through its parent company.
(f) Mr. Ni owns an equity interest in this entity.
(g) Tina Ni, one of Mr. Ni’s family members, owns an equity interest in this entity.

Lease Agreements

The Company leases various facilities to related parties.

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. 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. No rental income was received for the three months ended September 30, 2023 and 2022. Rental income for the nine months ended September 30, 2023 and 2022 was nil and $0.2 million, respectively, which is included in other income in the unaudited condensed 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 which 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 $0.1 million and $0.1 million for the three months ended September 30, 2023 and 2022, respectively, which is included in distribution, selling and administrative expenses in the unaudited condensed consolidated statements of operations and comprehensive income (loss). Rent incurred to the related party was $0.3 million and $0.2 million for the nine months ended September 30, 2023 and 2022, respectively, which is included in distribution, selling and administrative expenses in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

Beginning 2014, the Company leased a warehouse to Asahi Food, Inc. under a commercial lease agreement which was rescinded March 1, 2020. A new commercial lease agreement for a period of one year was entered into, expiring February 28, 2021, with a total of four renewal periods with each term being one year. Rental income was $0.04 million and $0.04 million for the three months ended September 30, 2023 and 2022, respectively, which is included in other income in the unaudited condensed consolidated statements of operations and comprehensive income (loss). Rental income was $0.1 million and $0.1 million for the nine months ended September 30, 2023 and 2022, respectively, which is included in other income in the unaudited condensed 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 September 30, 2023 and December 31, 2022, respectively:

	(In thousands)	September 30, 2023	December 31, 2022
(a)	ABC Food Trading, LLC	$ 96	$ —
(b)	Asahi Food, Inc.	168	81
(c)	Conexus Food Solutions (formerly as Best Food Services, LLC)	—	—
(d)	Eagle Food Service, LLC	—	69
(e)	Enson Seafood GA, Inc. (formerly as GA-GW Seafood, Inc.)	59	59
(f)	Fortune One Foods, Inc.	3	4
(g)	Union Food LLC	2	—
	Total	$ 328	$ 213

(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.
(g) Tina Ni, one of Mr. Ni’s family members, owns an equity interest in this entity.

The Company has reserved for 90% of the accounts receivable for Enson Seafood GA, Inc. as of September 30, 2023. This outstanding balance was reserved for 80% as of December 31, 2022. All other accounts receivable from these related parties are current and considered fully collectible. No additional allowance is deemed necessary as of September 30, 2023 and December 31, 2022.

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 September 30, 2023 and December 31, 2022, respectively:

	(In thousands)	September 30, 2023	December 31, 2022
(a)	Conexus Food Solutions (formerly as Best Food Services, LLC)	$ 451	$ 729
(b)	North Carolina Good Taste Noodle, Inc.	—	731
	Others	39	69
	Total	$ 490	$ 1,529

(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. 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 December 31, 2019. The Company has been informed by Mr. Zhou Min Ni that his equity interest was disposed of on January 1, 2020. No longer considered a related party as of January 1, 2023 since it has been three years since Mr. Jian Ming Ni resigned.

Promissory Note Payable - Related Party

The Company issued a $7.0 million unsecured subordinated promissory note to B&R Group Realty Holding, LLC in January 2020. During the nine months ended September 30, 2022, the Company paid the remaining $4.5 million principal balance of this related party promissory note payable. Interest payments paid were $0.1 million for the three and nine months ended September 30, 2022.

Note 13 - Stock-Based Compensation

In July 2021, the Company began issuing awards under the HF Foods Group Inc. 2018 Omnibus Equity Incentive Plan (the “2018 Incentive Plan”), which reserves up to 3,000,000 shares of the Company's common stock for issuance of awards to employees, non-employee directors and consultants. As of September 30, 2023, the Company had 820,915 time-based vesting restricted stock units unvested, 674,266 performance-based restricted stock units unvested, 530,395 shares of common stock vested and 974,424 shares remaining available for future awards under the 2018 Incentive Plan.

Stock-based compensation expense was $0.8 million and $0.2 million for the three months ended September 30, 2023 and 2022, respectively, and $2.6 million and $0.7 million for the nine months ended September 30, 2023 and 2022, respectively. Stock-based compensation expense was included in distribution, selling and administrative expenses in the Company's unaudited condensed consolidated statements of income and comprehensive income.

As of September 30, 2023, there was $5.0 million of total unrecognized compensation cost related to all non-vested outstanding RSUs and PSUs outstanding under the 2018 Incentive Plan, with a weighted average remaining service period of 2.01 years.

Note 14 - 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.

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. On October 13, 2023, the Company received a "Wells Notice" from the staff of the SEC (the "Wells Notice") relating to the Company's previously disclosed SEC investigation. A Wells Notice is neither a formal charge of wrongdoing nor a final determination that the recipient has violated any law an invites recipients to submit a response if they wish. The Company made a submission in response to the SEC Wells Notice explaining why an enforcement action would not be appropriate. Following that submission, the staff of the SEC determined that it would no longer be recommending that the SEC file an enforcement action against the Company at this time.

As with any SEC investigation or action, there is the possibility of potential fines and penalties. At this time, however, it is not possible to estimate the amount of any such fines and penalties, should they occur.

On May 20, 2022, the Board of Directors of HF Foods 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 Foods engaged in misconduct and breached their fiduciary duties, and demands that HF Foods 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 Foods 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 to determine whether the Company should assert any claims based on the allegations made in the Bishop Demand against certain current or former officers and directors.

On August 19, 2022, James Bishop filed a verified stockholder derivative complaint (the "Delaware Action") in the Court of Chancery of the State of Delaware (the "Court of Chancery"), which asserts similar allegations to those set forth in the Bishop Demand. Beginning in September 2022, the Court of Chancery approved a series of joint stipulations submitted by Bishop and HF Foods to stay the case through mid-May 2023.

Effective as of April 20, 2023, the Company and certain parties to the Delaware Action reached an agreement to settle the Delaware Action on the terms and conditions set forth in a binding term sheet, which was incorporated into a long-form settlement agreement on May 5, 2023 (the "Settlement Agreement"), which was filed with the Court of Chancery on May 8, 2023. The Settlement Agreement, provides for, among other things, the dismissal of the Delaware Action with prejudice, and releases of claims against all named defendants in the Delaware Action in exchange for Zhou Min Ni, a former Chairman and Chief Executive Officer of the Company, and Chan Sin Wong, a former President and Chief Operating Officer of the Company (together with Mr. Ni, the "Ni Defendants"), making a payment to the Company in the sum of $9.25 million (the "Settlement Amount") within five days of final approval of the proposed settlement; the termination of any rights the Ni Defendants and another named defendant may have had to future advancement or indemnification from the Company above certain specified caps; and the Company adopting certain changes to its bylaws and/or other internal governance policies and procedures.

On September 8, 2023, the Court of Chancery entered an Order an Final Judgment (the "Judgment") approving the proposed settlement and an application by Bishop's counsel for an award of attorneys' fees and expenses. On October 16, 2023, after the Judgment officially became final, the Ni Defendants paid the Company $1.5 million of the Settlement Amount in cash but failed to pay the balance of the Settlement Amount ($7.75 million) due under the Settlement Agreement. Effective as of November 1, 2023, the Company, the Ni Defendants, and Bishop entered into an amendment to the Settlement Agreement ("the Amendment") in accordance with the Judgment.

The Amendment provides that the Ni Defendants will pay the $7.75 million balance they owe to the Company plus interest on the outstanding balance (at an annual rate of 7.5%) in shares of common stock of the Company instead of cash based on a per share value of $3.88 per share, which was the per share closing price of the Company's common stock on Friday, October 13, 2023, the last trading day prior to the date on which the payment of the full Settlement Amount was due. The Amendment provides that, on the terms and subject to the conditions set forth in the Amendment, the Ni Defendants will transfer the requisite number of shares of common stock to the Company as promptly as practicable after entry into the Amendment. The Amendment also contains, among other things, customary representations, warranties, conditions and covenants for agreements of this type, including, an indemnity from the Ni Defendants and certain remedies in favor of the Company in the event the Amendment is terminated pursuant to its terms or either of the Ni Defendants fails to perform any of his or her obligations under the amendment or the stipulation.

AnHeart Lease Guarantee

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. 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 and therefore does not consolidate, because it does not have the power to direct the activities of AnHeart that most significantly impact AnHeart's economic performance.

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 that 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. AnHeart subsequently defaulted on these obligations. On October 25, 2023, the Company commenced a new legal action by filing a complaint in New York County Supreme Court to pursue legal remedies against AnHeart and Minsheng. As of the filing of the new summons and complaint, AnHeart and Minsheng are indebted to the Company in the amount of $474,000.

In accordance with ASC Topic 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. During the three months ended March 31, 2022, the Company recorded a lease guarantee liability of $5.9 million. The Company determined the discounted value of the lease guarantee liability using a discount rate of 4.55%. As of September 30, 2023, the Company had a lease guarantee liability of $5.6 million. The current portion of the lease guarantee liability of $0.3 million is recorded in accrued expenses and other liabilities, while the long-term portion is recorded in other long-term liabilities on the condensed 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 September 30, 2023 are presented below:

(In thousands)	Amount
Year Ending December 31,	
2023 (remaining three months)	$ 140
2024	582
2025	604
2026	621
2027	638
Thereafter	4,478
Total	7,063
Less: imputed interest	(1,513)
Total minimum lease payments	$ 5,550

Note 15 - Subsequent Events

Other than as disclosed elsewhere, no subsequent events have occurred that would require recognition in the unaudited condensed consolidated financial statements or disclosure in the accompanying notes.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTOR SUMMARY

This Quarterly Report on Form 10-Q 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," "might," "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:

- 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 effects of the COVID-19 pandemic or other pandemics;
- The steps taken by the governments where our suppliers are located, including the People's Republic of China, to address the COVID-19 pandemic or other pandemics;
- 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, regulatory investigations and potential enforcement actions;
- 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;
- The impact on the price and demand for our common stock resulting from the relative illiquidity of the market for our common stock;
- Significant stockholders’ ability to significantly influence the Company; and
- The impact of state anti-takeover laws and related provisions in our governance documents.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

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 Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC.

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 Quarterly Report on Form 10-Q 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.

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 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 6 - Acquisitions* to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

We aim to supply the increasing demand for Asian American restaurant cuisine, leveraging our nationwide network of distribution centers and our strong relations with growers and suppliers of fresh, high-quality specialty restaurant food products and supplies in the US, South America, and China. Capitalizing on our deep understanding of the Chinese culture, we have become a trusted partner serving Asian and Chinese restaurants and other foodservice customers throughout the United States, 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.

Transformation Plan

To position the business for long-term success, we have initiated a comprehensive, operational transformation plan in an effort to drive growth and cost savings. Our transformation is focused on four key areas, each of which we expect will positively impact future growth or cost savings. The components of our transformation are as follows:

- **Centralized Purchasing:** We will formalize its national category purchases and welcome new vendors into our ecosystem. This will allow us to unlock synergies from our prior acquisitions, and deliver savings in our largest categories.
- **Fleet and Transportation:** We will be establishing a national fleet maintenance program. Within this, we plan to define new truck specifications, initiate a replacement program for 50% of our current fleet, implement a national fuel savings program to maximize efficiency, and outsource domestic inbound freight logistics to a third-party partner to adopt a cohesive national approach to its supply chain. This is expected to deliver substantial improvements to our transportation system.
- **Digital Transformation:** We will be implementing a modern ERP solution across all of our distribution centers. This is expected to deliver enhanced operational efficiency and responsiveness, streamlined processes, and greater data driven decision-making.
- **Facility Upgrades:** We will be reorganizing and upgrading our facilities and distribution centers to efficiently streamline costs, and to capitalize on cross-selling opportunities with both new and existing customers.

Financial Overview

($ in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Change Amount	Change %	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Change Amount	Change %
Net revenue	$ 281,453	$ 300,711	$ (19,258)	(6.4)%	$ 867,620	$ 878,568	$ (10,948)	(1.2)%
Net income (loss)	$ 1,974	$ (3,894)	$ 5,868	NM	$ (5,383)	$ 3,740	$ (9,123)	NM
Adjusted EBITDA	$ 10,004	$ 3,985	$ 6,019	151.0 %	$ 24,024	$ 35,822	$ (11,798)	(32.9)%

NM Not meaningful

For additional information on our non-GAAP financial measures, EBITDA and Adjusted EBITDA, see the section entitled “EBITDA and Adjusted EBITDA” below.

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 condensed 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 and a reconciliation to their most directly comparable U.S. GAAP financial measures, see "*Results of Operations — EBITDA and Adjusted EBITDA*" below.

<u>Results of Operations</u>

Comparison of Three Months Ended September 30, 2023 to Three Months Ended September 30, 2022

The following table sets forth a summary of our consolidated results of operations for the three months ended September 30, 2023 and 2022**.** The historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Three Months Ended September 30,		Change	
($ in thousands)	2023	2022	Amount	%
Net revenue	$ 281,453	$ 300,711	$ (19,258)	(6.4)%
Cost of revenue	230,528	249,218	(18,690)	(7.5)%
Gross profit	50,925	51,493	(568)	(1.1)%
Distribution, selling and administrative expenses	48,841	54,589	(5,748)	(10.5)%
Income (loss) from operations	2,084	(3,096)	5,180	NM
Interest expense	2,715	2,274	441	19.4%
Other income	(490)	(462)	(28)	6.1%
Change in fair value of interest rate swap contracts	(1,984)	(284)	(1,700)	NM
Lease guarantee expense	(95)	(58)	(37)	63.8%
Income (loss) before income taxes	1,938	(4,566)	6,504	NM
Income tax expense (benefit)	(36)	(672)	636	(94.6)%
Net income (loss) and comprehensive income (loss)	1,974	(3,894)	5,868	NM
Less: net income (loss) attributable to noncontrolling interests	90	(30)	120	NM
Net income (loss) and comprehensive income (loss) attributable to HF Foods Group Inc.	$ 1,884	$ (3,864)	$ 5,748	(148.8)%

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

	Three Months Ended September 30,	
	2023	2022
Net revenue	100.0 %	100.0 %
Cost of revenue	81.9 %	82.9 %
Gross profit	18.1 %	17.1 %
Distribution, selling and administrative expenses	17.4 %	18.2 %
Income (loss) from operations	0.7 %	(1.1)%
Interest expense	1.0 %	0.8 %
Other income	(0.2)%	(0.2)%
Change in fair value of interest rate swap contracts	(0.7)%	(0.1)%
Lease guarantee expense	— %	— %
Income (loss) before income taxes	0.7 %	(1.6)%
Income tax expense (benefit)	— %	(0.2)%
Net income (loss) and comprehensive income (loss)	0.7 %	(1.4)%
Less: net income (loss) attributable to noncontrolling interests	— %	— %
Net income (loss) and comprehensive income (loss) attributable to HF Foods Group Inc.	0.7 %	(1.4)%

Net Revenue

Net revenue for the three months ended September 30, 2023 decreased by $19.3 million, or 6.4%, compared to the same period in 2022. This decrease was primarily attributable to decreases of $8.9 million and $6.6 million in Meat and Poultry and Seafood revenue, respectively, compared to the same period in 2022, driven by deflationary pricing in poultry and shrimp. During the three months ended September 30, 2022, we benefited from the significant inflation experienced in poultry pricing, which created a tough year-over-year revenue compare.

Gross Profit

Gross profit was $50.9 million for three months ended September 30, 2023 compared to $51.5 million in the same period in 2022, a decrease of $0.6 million, or 1.1%. Gross profit margin for the three months ended September 30, 2023 increased to 18.1% from 17.1% in the same period in 2022. The increase in gross profit margin was primarily attributable to a mix shift of higher gross margin shrimp and other frozen food sales realized by our centralized purchasing program and the exit of one of our lower margin chicken processing businesses, partially offset by the deflationary pressure in Meat and Poultry.

Distribution, Selling and Administrative Expenses

Distribution, selling and administrative expenses decreased by $5.7 million, or 10.5%, for the three months ended September 30, 2023 primarily due to a decrease of $3.9 million in professional fees and $0.8 million of delivery-related costs, partially offset by higher payroll and related labor costs. Distribution, selling and administrative expenses as a percentage of net revenue decreased to 17.4% for the three months ended September 30, 2023 from 18.2% in the same period in 2022, primarily due to lower professional fees offset by increased headcount.

Interest Expense

Interest expense for the three months ended September 30, 2023 increased by $0.4 million, or 19.4%, compared to the three months ended September 30, 2022, primarily due to a sharply higher interest-rate environment. Average floating interest rates on our floating-rate debt for the three months ended September 30, 2023 increased by approximately 3.1% on our line of credit and 3.1% on the JPMorgan Chase mortgage-secured term loan, compared to the same period in 2022. Our average daily line of credit balance decreased by $19.1 million, or 32.6%, to $39.4 million for the three months ended September 30, 2023 from $58.5 million for the three months ended September 30, 2022, and our average daily JPMorgan Chase mortgage-secured term loan balance decreased by $5.1 million, or 4.5%, to $108.0 million for the three months ended September 30, 2023 from $113.1 million for the three months ended September 30, 2022.

Income Tax Expense (Benefit)

Income tax benefit was $36,000 for the three months ended September 30, 2023, compared to an income tax benefit of $0.7 million for the three months ended September 30, 2022, primarily due to an increase in income before income taxes, permanent differences and state income taxes during the current period.

Net Income (Loss) Attributable to HF Foods Group Inc.

Net income attributable to HF Foods Group Inc. was $1.9 million for the three months ended September 30, 2023, compared to net loss of $3.9 million for the three months ended September 30, 2022. The increase of $5.7 million, or 148.8%, is primarily due to the decreased distribution, selling, and administrative costs, the $1.7 million change in the fair value of interest rate swaps, partially offset by lower gross profit, higher interest expense and decreased tax benefit as described above.

EBITDA and Adjusted EBITDA

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

	Three Months Ended September 30,		Change	
($ in thousands)	2023	2022	Amount	%
Net (loss) income	$ 1,974	$ (3,894)	$ 5,868	NM
Interest expense	2,715	2,274	441	19.4%
Income tax expense	(36)	(672)	636	(94.6)%
Depreciation and amortization	6,422	6,386	36	0.6%
EBITDA	11,075	4,094	6,981	170.5%
Lease guarantee expense	(95)	(58)	(37)	63.8%
Change in fair value of interest rate swap contracts	(1,984)	(284)	(1,700)	NM
Stock-based compensation expense	757	162	595	NM
Business transformation costs (1)	105	—	105	NM
Acquisition and integration costs and other (2)	146	71	75	105.6%
Adjusted EBITDA	$ 10,004	$ 3,985	$ 6,019	151.0%

NM Not meaningful

(1) Represents non-recurring costs associated with the launch of strategic projects including supply chain management improvements and technology infrastructure initiatives.

(2) Includes non-recurring contested proxy and related legal and consulting costs for the three months ended September 30, 2023.

Adjusted EBITDA was $10.0 million for the three months ended September 30, 2023, a decrease of $6.0 million, or 151.0%, compared to $4.0 million for the three months ended September 30, 2022. The increase in Adjusted EBITDA was attributable to the lower distribution, selling and administrative costs.

<u>Results of Operations</u>

Comparison of Nine Months Ended September 30, 2023 to Nine Months Ended September 30, 2022

The following table sets forth a summary of our consolidated results of operations for the nine months ended September 30, 2023 and 2022**.** The historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Nine Months Ended September 30,		Change	
($ in thousands)	2023	2022	Amount	%
Net revenue	$ 867,620	$ 878,568	$ (10,948)	(1.2)%
Cost of revenue	715,857	723,778	(7,921)	(1.1)%
Gross profit	151,763	154,790	(3,027)	(2.0)%
Distribution, selling and administrative expenses	154,013	140,840	13,173	9.4%
(Loss) income from operations	(2,250)	13,950	(16,200)	NM
Interest expense	8,430	5,101	3,329	65.3%
Other income	(845)	(1,401)	556	(39.7)%
Change in fair value of interest rate swap contracts	(2,094)	(850)	(1,244)	146.4%
Lease guarantee expense	(305)	5,831	(6,136)	NM
(Loss) income before income taxes	(7,436)	5,269	(12,705)	(241.1)%
Income tax (benefit) expense	(2,053)	1,529	(3,582)	NM
Net (loss) income and comprehensive (loss) income	(5,383)	3,740	(9,123)	(243.9)%
Less: net (loss) income attributable to noncontrolling interests	(484)	(74)	(410)	554.1 %
Net (loss) income and comprehensive (loss) income attributable to HF Foods Group Inc.	$ (4,899)	$ 3,814	$ (8,713)	(228.4)%

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

	Nine Months Ended September 30,	
	2023	2022
Net revenue	100.0 %	100.0 %
Cost of revenue	82.5 %	82.4 %
Gross profit	17.5 %	17.6 %
Distribution, selling and administrative expenses	17.8 %	16.0 %
(Loss) income from operations	(0.3)%	1.6 %
Interest expense	1.0 %	0.6 %
Other income, net	(0.1)%	(0.2)%
Change in fair value of interest rate swap contracts	(0.2)%	(0.1)%
Lease guarantee expense	— %	0.7 %
(Loss) income before income taxes	(1.0)%	0.6 %
Income tax (benefit) expense	(0.2)%	0.2 %
Net (loss) income and comprehensive (loss) income	(0.8)%	0.4 %
Less: net income attributable to noncontrolling interests	— %	— %
Net (loss) income and comprehensive (loss) income attributable to HF Foods Group Inc.	(0.8)%	0.4 %

Net Revenue

Net revenue for the nine months ended September 30, 2023 decreased by $10.9 million, or 1.2%, compared to the same period in 2022. This decrease was attributable to the $24.8 million decrease in Meat and Poultry revenue, compared to the same period in 2022, driven by deflationary pricing in poultry, as well as a $9.4 million decrease in Packaging and Other due to lower volume, partially offset by an increase of $7.4 million in Commodity revenue due to higher volume as well as the Seafood revenue generated due to the Sealand Food, Inc. acquisition (the "Sealand Acquisition").

Gross Profit

Gross profit was $151.8 million for the nine months ended September 30, 2023 compared to $154.8 million in the same period in 2022, a decrease of $3.0 million, or 2.0%. The gross profit decrease was primarily attributable to decreases in Meat and Poultry, Packaging and Other, partially offset by the additional Seafood revenue generated due to the Sealand Acquisition and increased Commodity revenue. During the nine months ended September 30, 2023, poultry pricing came down from the elevated levels we benefited from during the same period in 2022. Gross profit margin for the first nine months of 2023 remained relatively flat at 17.5%.

Distribution, Selling and Administrative Expenses

Distribution, selling and administrative expenses increased by $13.2 million, or 9.4%, primarily due to an increase of $5.1 million in payroll and related labor costs, inclusive of the additional costs due to the Sealand Acquisition, and an increase of $1.9 million in insurance related costs. Professional fees increased $1.6 million to $18.7 million for the nine months ended September 30, 2023, from $17.1 million for the nine months ended September 30, 2022. In addition, the Company recognized asset impairment of $1.2 million related to the exit of our chicken processing facility. Distribution, selling and administrative expenses as a percentage of net revenue increased to 17.8% for the nine months ended September 30, 2023 from 16.0% in the same period in 2022, primarily due to increased headcount and the higher expense described above.

Interest Expense

Interest expense for the nine months ended September 30, 2023 increased by $3.3 million or 65.3%, compared to the nine months ended September 30, 2022, primarily due to a sharply higher interest-rate environment. Average floating interest rates on our floating-rate debt for the nine months ended September 30, 2023 increased by approximately 3.9% on the line of credit and 3.9% on the JPMorgan Chase mortgage-secured term loan, compared to the same period in 2022. Our average daily line of credit balance decreased by $12.3 million, or 23.0%, to $41.2 million for the nine months ended September 30, 2023 from $53.5 million for the nine months ended September 30, 2022, and our average daily JPMorgan Chase mortgage-secured term loan balance increased by $10.7 million, or 10.9%, to $109.3 million for the nine months ended September 30, 2023 from $98.5 million for the nine months ended September 30, 2022.

Income Tax (Benefit) Expense

Income tax benefit of $2.1 million for the nine months ended September 30, 2023, compared to income tax expense of $1.5 million for the nine months ended September 30, 2022, primarily due to losses from operations during the nine months ended September 30, 2023.

Net (Loss) Income Attributable to HF Foods Group Inc.

Net loss attributable to HF Foods Group Inc. was $4.9 million for the nine months ended September 30, 2023, compared to net income of $3.8 million for the nine months ended September 30, 2022. The decrease of $8.7 million, or 228.4%, is primarily due to the increased distribution, selling, and administrative costs and interest expense described above, partially offset by the decrease of $6.1 million in lease guarantee expense and the decrease of $1.2 million change in fair value of interest rate swaps.

EBITDA and Adjusted EBITDA

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

	Nine Months Ended September 30,		Change	
($ in thousands)	2023	2022	Amount	%
Net (loss) income	$ (5,383)	$ 3,740	$ (9,123)	NM
Interest expense	8,430	5,101	3,329	65.3%
Income tax (benefit) expense	(2,053)	1,529	(3,582)	NM
Depreciation and amortization	19,551	18,245	1,306	7.2%
EBITDA	20,545	28,615	(8,070)	(28.2)%
Lease guarantee expense	(305)	5,831	(6,136)	NM
Change in fair value of interest rate swap contracts	(2,094)	(849)	(1,245)	146.6%
Stock-based compensation expense	2,605	673	1,932	NM
Business transformation costs (1)	223	—	223	NM
Acquisition, integration costs and other (2)	1,850	1,130	720	63.7%
Asset impairment charges	1,200	422	778	184.4%
Adjusted EBITDA	$ 24,024	$ 35,822	$ (11,798)	(32.9)%

NM Not meaningful

(1) Represents non-recurring costs associated with the launch of strategic projects including supply chain management improvements and technology infrastructure initiatives.

(2) Includes non-recurring contested proxy and related legal and consulting costs for the nine months ended September 30, 2023. During the three months ended September 30, 2023, we identified non-recurring charges related to our contested proxy and related legal defense which occurred in prior periods.

Adjusted EBITDA was $24.0 million for the nine months ended September 30, 2023, a decrease of $11.8 million or 32.9%, compared to $35.8 million for the nine months ended September 30, 2022. The decrease in Adjusted EBITDA was attributable to the lower gross profit and higher distribution, selling and administrative costs.

Liquidity and Capital Resources

As of September 30, 2023, we had cash of approximately $14.3 million, checks issued not presented for payment of $6.9 million and access to approximately $48.6 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.

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 September 30, 2023.

We are party to an amortizing IRS contract with J.P. Morgan Chase Bank for an initial notional amount of $120.0 million, expiring in March 2028, as a means to partially hedge our existing floating rate loans exposure. Pursuant to the agreement, we will pay the swap counterparty a fixed rate of 4.11% in exchange for floating payments based on CME Term SOFR.

Effective as of April 20, 2023, we and certain parties to the Delaware Action reached an agreement to settle the Delaware Action on the terms and conditions set forth in a binding term sheet (the “Binding Term Sheet”), which was incorporated into a long-form settlement agreement on May 5, 2023 and filed with the Court of Chancery on May 8, 2023. The Binding Term Sheet provided for, among other things, the dismissal of the Delaware Action with prejudice in exchange for Zhou Min Ni, a former Chairman and Chief Executive Officer of the Company, and Chan Sin Wong, a former President and Chief Operating Officer of the Company, making a payment to the Company in the sum of $9.25 million. The full terms of the settlement of the Delaware Action were incorporated into the long-form settlement agreement, which is subject to approval of the Court of Chancery. On September 8, 2023, the Court of Chancery approved the proposed settlement and an application by Bishop’s counsel for an award of attorneys’ fees and expenses.

Subsequent to September 30, 2023, on October 16, 2023, after approval of the settlement had become final, the Ni Defendants paid the Company $1.5 million of the Settlement Amount. As of November 9, 2023, the Ni Defendants had not yet paid the Company the balance of the Settlement Amount ($7.75 million) due under the Settlement Agreement. The Company and the Ni Defendants are in discussions regarding the timing and form of payment of the balance owed by the Ni Defendants and the Company intends to take all necessary actions to enforce the terms of the Settlement Agreement. Please refer to *Note 14 - Commitments and Contingencies* to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

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, 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 September 30, 2023, 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 nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,		**Change**	
($ in thousands)	**2023**	**2022**	**Amount**	**%**
Net cash provided by operating activities	$ 20,624	$ 6,932	$ 13,692	197.5%
Net cash used in investing activities	(2,595)	(50,234)	47,639	(94.8)%
Net cash (used in) provided by financing activities	(28,018)	46,316	(74,334)	NM
Net (decrease) increase in cash and cash equivalents	$ (9,989)	$ 3,014	$ (13,003)	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 $13.7 million, or 198%, primarily due to the timing of working capital outlays. During the three months ended September 30, 2023, we implemented new enterprise accounting and finance applications, which modified our accounts receivable, accounts payable and treasury processes. As a result of this transformation, there were temporary delays in September that affected our working capital activities.

Investing Activities

Net cash used in investing activities decreased by $47.6 million, or 95%, primarily due to payments related to acquisitions in the nine months ended September 30, 2022.

Financing Activities

Net cash (used in) provided by financing activities decreased by $74.3 million to $28.0 million used in financing activities primarily due to the change in the net impact of our line of credit from net proceeds of $16.2 million for the nine months ended September 30, 2022 to a net repayment of $5.4 million for the nine months ended September 30, 2023, as well as a decrease of $15.1 million in checks issued not presented for payment for the nine months ended September 30, 2023 compared to an increase of $0.7 million for the nine months ended September 30, 2022 related to the changes to certain processes described above. In addition, the nine months ended September 30, 2022 included proceeds from long-term debt of $46.0 million due to the increase of our mortgage secured term loan.

Critical Accounting Policies and Estimates

We have prepared the financial information in this Quarterly Report in accordance with GAAP. Preparing our condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during these reporting periods. We base our estimates and judgments on historical experience and other factors we believe are reasonable under the circumstances. These assumptions form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Part II, Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the 2022 Annual Report on Form 10-K includes a summary of the critical accounting policies we believe are the most important to aid in understanding our financial results. There have been no changes to those critical accounting policies that have had a material impact on our reported amounts of assets, liabilities, revenue, or expenses during the three months and nine months ended September 30, 2023.

Recent Accounting Pronouncements

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

Item 3. 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 8 - Derivative Financial Instruments* to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

As of September 30, 2023, our aggregate floating rate debt’s outstanding principal balance without hedging was $49.9 million, or 30.3% of total debt, consisting primarily of our revolving line of credit (see *Note 9 - Debt* to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q). 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 71.1% of our debt is 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 $0.5 million per year.

Fuel Price Risk

We are also exposed to risks relating to fluctuations 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 the third quarter of 2023 decreased in comparison to average prices in the same period of 2022, decreasing 15.4% on average. 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 4. 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 period covered by this report. In connection with this review and the audit of our consolidated financial statements for the year ended December 31, 2022, we identified five material weaknesses as were reported previously, which continue to exist as of September 30, 2023. We did not properly design or maintain effective controls over the control environment, risk assessment, control activities, information and communication components and monitoring of the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Based on this evaluation, our principal executive officer and principal financial and accounting officer have concluded that as a result of the material weaknesses and control deficiencies as reported in our Annual Report on Form 10-K for the year ended December 31, 2022, our disclosure controls and procedures were not effective as of September 30, 2023. Notwithstanding the weaknesses, our management has concluded that the financial statements included elsewhere in this report present fairly, and in all material respects, our financial position, results of operation 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

In order to address and resolve the aforementioned material weaknesses, we have begun to implement measures designed to improve our internal control over financial reporting to remediate these material weaknesses including:

- Hiring additional financial personnel and also providing enhanced Sarbanes-Oxley training entity-wide,
- Formalizing and standardizing our internal controls over financial reporting,
- Implementing enterprise accounting, finance and human capital management applications, and
- Enhancing our entity-level controls.

The measures currently in place and those that are being implemented 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, material weaknesses identified and described above will continue to exist.

Other than the remediation efforts described above, there have been no changes in our internal controls over financial reporting for the quarter ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. 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. With respect to our outstanding legal matters, we believe that the amount or estimable range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. For information relating to legal proceedings, see *Note 14 - Commitments and Contingencies* to our condensed consolidated financial statements.

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 and Quarterly Reports on Form 10-Q for the quarter ended March 31, 2023 and the quarter ended June 30, 2023, except as set forth below.

We have received a "Wells Notice" from the SEC.

On October 13, 2023, the Company received a "Wells Notice" from the staff (the "Staff") of the SEC's Division of Enforcement, stating that the Staff has made a preliminary determination to recommend that the SEC file a civil enforcement action against the Company alleging violations of certain provisions of the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). A Wells Notice is neither a formal charge of wrongdoing nor a final determination that the recipient has violated any law and invites recipients to submit a response if they wish. The Company made a submission in response to the SEC Wells Notice explaining why an enforcement action would not be appropriate. Following that submission, the Staff determined that it would no longer be recommending that the SEC file an enforcement action against the Company at this time.

The Company cannot predict with any certainty the outcome of future dealings with the SEC and whether any of those possible outcomes would have a material impact on our financial position, prospects and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds from Registered Securities.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Securities Trading Plans of Directors and Executive Officers

During the three months ended September 30, 2023, none of our officers or directors adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

Item 6. 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	Filing Date
3.1	Second Amended and Restated Certificate of Incorporation	8-K	3.1	8/11/2017
3.2	Certificate of Amendment to Certificate of Incorporation	8-K	3.1.2	8/27/2018
3.3	Amended and Restated Bylaws	8-K	3.02	11/4/2022
3.4	First Amendment to Amended and Restated Bylaws, dated April 25, 2023	8-K	3.1	4/26/2023
3.5	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock	8-K	3.1	4/11/2023
4.1	Specimen Common Stock Certificate	S-1/A	4.2	7/28/2017
4.2	Form of Unit Purchase Option between the Registrant and Chardan Capital Markets, LLC	S-1/A	4.5	7/28/2017
10.1*	Settlement Agreement, dated May 5, 2023, by and among the Company, Zhou Min Ni, Chan Sin Wong, Xiao Mou Zhang, Caixuan Xu, Jian Ming Ni, Zhehui Ni, Hong Wang, and Ren Hua Zheng			
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.INS*	XBRL Instance Document			
101.SCH*	XBRL Taxonomy Extension Schema Document			
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document			
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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HF Foods Group Inc.

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

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

Date: November 9, 2023

Execution Version

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

JAMES C. BISHOP, derivatively on behalf of HF FOODS GROUP INC., Plaintiff, v. ZHOU MIN NI, XIAO MOU ZHANG, CAIXUAN XU, JIAN MING NI, ZHEHUI NI, HONG WANG, CHAN SIN WONG, and REN HUA ZHENG, Defendants, and HF FOODS GROUP INC., Nominal Defendant.	C.A. No. 2022-0736-JTL

STIPULATION OF SETTLEMENT

This Stipulation of Settlement (the “Stipulation”) is made and entered into as of May 5, 2023 (the “Execution Date”), by and among the Special Litigation Committee of the Board of Directors (the “Board”) of HF Foods Group Inc. (the “Special Litigation Committee” or “SLC”) on behalf of nominal defendant HF Foods Group Inc. (“HF Foods” or the “Company”); plaintiff James C. Bishop (“Plaintiff”); and defendants Zhou Min Ni (“Mr. Ni”), Chan Sin Wong (“Ms. Wong”) and Jian Ming Ni (“Jonathan Ni”).

Mr. Ni, Ms. Wong, and Jonathan Ni are referred to, collectively, as the “Settling Defendants.” Defendants Xiao Mou Zhang, Caixuan Xu, Zhehui Ni, Hong Wang, and Ren Hua Zheng are referred to, collectively, as the "Additional Defendants," and with the Settling Defendants, the "Individual Defendants." The Company, Plaintiff and the Settling Defendants are referred to, collectively, as the "Settling Parties," and the Settling Parties and Individual Defendants are referred to, collectively, as the "Parties."

The Settling Parties, by and through their undersigned attorneys, have reached an agreement to settle (1) the claims asserted or that could have been asserted in the above-captioned matter styled *Bishop v. Ni*, *et al.*, filed in the Court of Chancery of the State of Delaware (the "Court"), C.A. No. 2022-0736-JTL (the "Action") and (2) the Potential Claims (defined herein) on the terms set forth below (the "Settlement"), and subject to Court approval pursuant to Court of Chancery Rule 23.1. This Stipulation is intended to fully, finally, and forever compromise, resolve, discharge, and settle all Released Claims (defined below), and to result in the dismissal of the Action with prejudice as against the Released Persons (defined below).

WHEREAS,

I. Background

A. HF Foods is a Delaware corporation headquartered in Las Vegas, Nevada that was formed through a SPAC merger on August 22, 2018. HF Foods' predecessor, Han Feng, Inc. ("Han Feng"), was a private company founded by Mr. Ni and Ms. Wong in 1997 in North Carolina. HF Foods is a leading marketer and distributor of fresh produce, frozen and dry food, and non-food products primarily to Asian restaurants and other foodservice customers throughout the United States.

B. The Settling Defendants are former directors and/or officers of HF Foods. Mr. Ni served as a director of HF Foods from August 22, 2018 through February 23, 2021, as sole CEO from August 22, 2018 through November 4, 2019, and as Co-CEO from November 4, 2019 to February 23, 2021. Ms. Wong, Mr. Ni's spouse, served as a director, Chief Operating Officer, and President of HF Foods from August 22, 2018 through November 2019, and thereafter as General Manager of the Company's Greensboro, North Carolina facility until April 30, 2023. Jonathan Ni served as HF Foods' Chief Financial Officer from August 22, 2018 through April 2019.

C. The Additional Defendants are current or former directors and officers of HF Foods. Xiao Mou Zhang has served as HF Foods' sole CEO since February 23, 2021, and previously served as HF Foods' Co-CEO with Mr. Ni. He has served as a director since November 2019. Caixuan Xu served as HF Foods' Vice President, Chief Accounting and Financial Reporting Officer from February 2019 to March 2021. She also served as the Company's CFO from April 2019 to November 2019. Zhehui Ni served as a director from August 2018 to June 2020.

Hong Wang has served as a Company director since December 2019 and during a prior period. Ren Hua Zheng served as a director from August 2018 to December 2019.

D. From 1997 through December 31, 2017, Han Feng was a privately held S corporation. During this period, Han Feng grew into a regional leader in the Asian food distribution market in the southeastern United States, with three distribution centers serving over 3,200 Chinese restaurants in 10 states.

E. On January 1, 2018, in preparing to go public, Han Feng converted to a privately held C corporation. On August 22, 2018, the privately held C corporation merged with a wholly-owned subsidiary of Atlantic Acquisition Corp., a publicly traded company, and became a public company, now HF Foods.

F. On June 25, 2019, HF Foods announced it entered into a merger with B&R Global Holdings ("B&R Global"), a food wholesaler and distributor to Asian restaurants in the western United States that served approximately 6,800 restaurants in 11 western states. On November 4, 2019, HF Foods and B&R Global completed the merger. The combined company retained the name HF Foods. The merger made HF Foods one of the largest distributors to Asian restaurants in the United States, serving more than 10,000 restaurants in 21 states.

G. On March 23, 2020, a research analyst at Hindenburg Research LLC published a report (the "Hindenburg Report") predicting that HF Foods' stock price would drop and asserting various issues with related-party transactions, among other things.

H. On March 27, 2020, HF Foods' Board established a special investigative committee (the "SIC") to investigate the claims made in the Hindenburg Report. Vinson & Elkins LLP and later DLA Piper LLP served as counsel to the SIC.

I. In March and April 2020, two putative stockholders filed substantively similar securities class actions, which later were consolidated, in the United States District Court for the Central District of California, alleging that the Company and certain of its current and former directors and officers violated Sections 10(b), 14(a), and 20(a) of the Securities Exchange Act of 1934 by making allegedly false and misleading statements (the "Securities Class Action"). The underlying allegations were similar to the assertions in the Hindenburg Report.

J. In April 2020, the United States Securities and Exchange Commission (the "SEC") began an investigation into the Company.

K. On May 15, 2020, Plaintiff, an HF Foods stockholder since August 27, 2018, sent a demand pursuant to 8 *Del. C.* § 220 (the "220 Demand") seeking to inspect certain of the Company's books and records. The Company produced approximately 1,300 pages of documents in response to the 220 Demand.

L. On August 21, 2020, Plaintiff filed a derivative action in the United States District Court for the District of Delaware, which was transferred to the United States District Court for the Central District of California (*see Bishop v. Ni, et al.*, No. 2:20-cv-10657-ODW-JPR (C.D. Ca.)), where a prior-filed derivative action was pending (together, the "Federal Derivative Actions"). The Federal Derivative Actions asserted similar claims against certain current and former directors and officers of the Company based largely on the allegations set forth in the Securities Class Action. Proceedings in the Federal Derivative Actions were stayed pending resolution of a motion to dismiss the Securities Class Action.

M. On November 9, 2020, the Company disclosed that the SEC had initiated a formal, non-public investigation into the Company and issued a request for documents and other information relating to, among other things, the matters identified in the Securities Class Action and the Federal Derivative Actions. The SEC's investigation remains ongoing.

N. On August 25, 2021, the federal court in the Securities Class Action dismissed the plaintiff's amended complaint for failure to state a claim for relief, with leave to amend, finding that the plaintiffs had failed to plead falsity and/or scienter. On September 20, 2021, after plaintiffs did not further amend the complaint, the Court entered judgment in favor of the defendants, dismissing the Securities Class Action with prejudice. No appeal was taken from this judgment.

O. In November 2021, each of the Federal Derivative Actions was voluntarily dismissed without prejudice.

P. On May 22, 2022, Plaintiff sent a litigation demand (the "Litigation Demand"), calling for the Company to initiate litigation against five of the Individual Defendants for allegedly breaching their fiduciary duties by, among other things, (1) failing to disclose that the merger of HF Foods and B&R Global was a related-party transaction, (2) misusing Company funds and committing waste in connection with various related-party transactions, including to pay for a fleet of exotic luxury vehicles for personal use; (3) profiting from the purchase of approximately $12 million in cash loans issued by HF Foods to non-related parties; (4) causing FTSE/Russell to miscalculate HF Foods' free-float of shares; and (5) failing to maintain adequate controls, which included and built upon allegations from the federal court derivative action.

Q. On June 30, 2022, in response to the Litigation Demand, the Board formed the SLC and appointed two independent directors, Russell T. Libby and Valerie P. Chase, as its members. Mr. Libby and Ms. Chase also are members of the SIC.

R. By resolutions dated June 30, 2022 and November 2, 2022, the SLC was granted the authority (i) to investigate, analyze and evaluate the allegations and claims asserted in the Litigation Demand and the Action, to consider and determine whether prosecution of the claims was in the best interests of the Company and its stockholders, and to determine what actions the Company should take with respect to the claims, and (ii) to implement its decisions on behalf of the Company, including whether to prosecute, compromise, or dismiss the claims as it deems appropriate and in the best interests of the Company and its stockholders.

S. In July 2022, the SLC retained Paul, Weiss, Rifkind, Wharton & Garrison LLP as its counsel. On August 17, 2022, the SLC retained DLA Piper, counsel to the SIC, as co-counsel to the SLC.

T. On August 19, 2022, after learning that certain individuals had declined to enter into tolling agreements, Plaintiff filed a Verified Stockholder Derivative Complaint (the "Complaint") in this Action asserting essentially the same claims as in the Litigation Demand. The Action is presently stayed pursuant to a Stipulation and Order Staying Proceedings filed in this action on March 15, 2023.[1]

II. Summary of the Investigation and Settlement Efforts

U. The SLC, in collaboration with the SIC, conducted a thorough independent investigation. The SLC and its counsel reviewed the allegations in the

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[1] The Action initially was stayed on September 22, 2022. D.I. 10. By agreement of the parties and order of the Court, the stay was extended twice and expires on May 15, 2023. D.I. 16.

Hindenburg Report, the Litigation Demand, and the underlying factual and legal merits of each theory of liability advanced in the Action. The SLC and its counsel also considered potential theories of liability not advanced in the Action.

V. As part of the investigation, including work previously conducted by the SIC, 2.7 terabytes of data was collected, 1.6 million documents were analyzed (many of which required translation from Chinese to English), and more than 75 interviews with 52 individuals were conducted. Some of these documents were later provided to Plaintiff's Counsel in connection with the mediation.

W. As a result of its investigation, the SLC concluded that certain claims against the Settling Defendants had merit and were in the best interests of the Company to pursue. The SLC also determined that some of the theories of liability alleged in the Litigation Demand and the Action, including all the theories alleged therein against the Additional Defendants, did not have merit and/or were not in the best interests of the Company to pursue. The Settling Defendants deny that any of the claims have merit and/or were in the best interests of the Company to pursue.

X. On December 28, 2022, the SLC's counsel shared with counsel for the Settling Defendants a draft complaint asserting claims for breach of fiduciary duty, waste, and unjust enrichment based on the facts known to the SLC at the time (the "Potential Claims").

Y. The Potential Claims concern three sets of transactions between the Company and related parties that allegedly occurred during the period between August 22, 2018, when the Company went public, and February 23, 2021, when Mr. Ni resigned as Chairman and co-CEO of the Company.

Z. The first set of transactions involved alleged payments of Company funds that Mr. Ni and Ms. Wong received based on monthly invoices for "service charges" allegedly owed to UGO USA Inc., an entity owned by Mr. Ni and his niece. The second set of transactions involved cash "advances" the Company provided to Revolution Industry LLC, an entity owned by Raymond Ni, the son of Mr. Ni and Ms. Wong, a substantial portion of which was allegedly transferred to Revolution Automotive LLC, which also was owned by Raymond Ni. The third set of transactions involved the alleged use of Company funds to reduce "stockholder loans" that Mr. Ni and a family member allegedly owed to the Company.

AA. The SLC asserts that none of these three sets of transactions were disclosed to, or approved by, independent members of the Board as they occurred. In February 2021, the Company terminated its relationships with UGO USA Inc. and Revolution Industry LLC.

BB. On January 31, 2023, the Company filed a 10-K for the year ending December 31, 2021, which disclosed certain factual findings of the SIC's investigation and analyzed the impact of those findings on the Company's historical financial statements.

CC. At the recommendation of the SLC, the Company engaged former Vice Chancellor Joseph R. Slights III (the "Mediator") to serve as a mediator to assist the Settling Parties in trying to reach a settlement. The Mediator conducted a full-day mediation session on February 7, 2023. Although the Settling Parties did not reach a resolution that day, settlement negotiations continued under the direction of the Mediator.

DD. On April 12, 2023, the Settling Parties conducted a second full-day mediation. The Settling Parties did not reach a resolution after the second day of mediation, but continued to work towards a resolution.

EE. On April 20, 2023, after additional negotiations, and with the Mediator's assistance, the Settling Parties entered into a binding term sheet ("Binding Term Sheet") providing for the settlement of the Action, including the Potential Claims.

III. Plaintiff's Claims and the Benefits of the Settlement

FF. Based on its investigation into the claims asserted in the Action and the Potential Claims, the SLC, on behalf of HF Foods, has concluded that the Settlement is in the best interests of the Company and that the Settlement confers substantial benefits upon HF Foods and its stockholders, and that the interests of HF

Foods and its stockholders would be served best by settlement of the Action, including the Potential Claims, on the terms and conditions set forth herein.

GG. Plaintiff agrees that the interests of HF Foods and its stockholders would be served best by settlement of the Action, including the Potential Claims, on the terms and conditions set forth herein, which will provide substantial and immediate benefits for HF Foods and its stockholders. In addition to these substantial benefits, Plaintiff and his counsel have considered: (i) the attendant risks of continued litigation and the uncertainty of the outcome of the Action; (ii) the work undertaken by the SLC and its conclusion that the Action and the Potential Claims should be resolved; (iii) the probability of success on the merits; (iv) the inherent problems of proof associated with, and possible defenses to, the claims asserted in the Action; (v) the desirability of permitting the Settlement to be consummated according to its terms; (vi) the expense and length of continued proceedings necessary to prosecute the Action through trial and appeals; and (vii) the conclusion of Plaintiff and his counsel that the terms and conditions of the Settlement are fair, reasonable, and adequate.

IV. The Settling Parties' Denials of Wrongdoing and Liability

HH. The Settling Defendants deny any and all allegations of wrongdoing, liability, violations of law, or damages arising out of or related to any of the conduct, statements, acts, or omissions alleged in the Action, including the Potential Claims, and maintain that their conduct was at all times proper, in the best interests of HF

Foods and its stockholders, and in compliance with applicable law. The Settling Defendants also deny that HF Foods or its stockholders were harmed by any conduct or lack thereof of the Settling Defendants alleged in the Action or that could have been alleged therein, including the Potential Claims. Nevertheless, the Settling Defendants wish to eliminate the uncertainty, distraction, risk, burden, and expense of further litigation, and to permit the operation of HF Foods without further distraction and diversion of its Board and personnel with respect to the Action. The Settling Defendants have therefore determined to settle the Action on the terms and conditions set forth in this Stipulation solely to put the Released Claims (as defined below) to rest, finally and forever, without in any way acknowledging any wrongdoing, fault, liability, or damages.

II. Nothing in this Stipulation shall be construed as any admission by the Settling Defendants of any wrongdoing, fault, liability, or damages whatsoever. This Stipulation is not a finding or evidence of the validity or invalidity of any claims or defenses in the Action, any wrongdoing by the Settling Defendants, or any damages or injury to HF Foods or its stockholders. The SLC is joining in this Stipulation and supports the Settlement because it considers the terms of the Settlement to be beneficial to HF Foods and its stockholders.

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED, by and among the Settling Parties, subject to the approval of the Court pursuant to Court of Chancery Rule 23.1, that the Action shall be fully and finally compromised and settled, the Released Claims shall be released as against the Released Persons, and the Action shall be dismissed with prejudice in its entirety, upon and subject to the following terms and conditions of the Settlement:

I. DEFINITIONS

1.1 "Corporate Governance Measures" means those measures set forth in a Corporate Governance Term Sheet referenced in Paragraph 4 of the Binding Term Sheet.

1.2 "Claims" means any and all manner of claims, demands, rights, liabilities, losses, obligations, duties, damages, costs, debts, expenses, interest, penalties, sanctions, fees, attorneys' fees, actions, potential actions, causes of action, suits, agreements, judgments, decrees, matters, issues and controversies of any kind, nature, or description whatsoever, whether disclosed or undisclosed, accrued or unaccrued, apparent or not apparent, direct or derivative, foreseen or unforeseen, matured or not matured, suspected or unsuspected, liquidated or not liquidated, fixed or contingent, including known claims and Unknown Claims (as defined below), whether based on state, local, foreign, federal, statutory, regulatory, common, or other law or rule (including claims within the exclusive jurisdiction of the federal courts).

1.3 "Company Released Claims" means any Claims (a) that are, have been, or could have been asserted in the Action to the extent based on, arising out of, or relating to the allegations made in the Action, or that are otherwise based on, arise out of, or relate to the allegations made in the Action, including the Potential Claims; or (b) that are based upon, arise out of, or relate to the institution, defense, prosecution or settlement of the Action, ***provided, however***, "Company Released Claims" shall not include, and neither this Stipulation nor any aspect of the Settlement shall affect, (a) claims relating to enforcement of the Settlement or this Stipulation, or (b) any rights to payment for the benefit of, and as directed by, the Company under any policy of insurance (including directors and officers liability insurance) paid for by the Company.

1.4 "Current HF Foods Stockholders" means any Person or Persons (as defined below) who are record or beneficial owners of HF Foods common stock as of the close of business on the Execution Date.

1.5. "Effective Date" means the first date by which each of the following conditions has been met: (i) Final Approval of Settlement (as defined below); and (ii) the full Settlement Amount has been paid in accordance with the provisions of Section 2.1 below.

1.6. "Final" means, with respect to any judgment or order, that (i) if no appeal is filed, the expiration date of the time for filing or noticing of any appeal of the judgment or order; or (ii) if there is an appeal from the judgment or order, the date of (a) final dismissal of all such appeals, or the final dismissal of any proceeding on certiorari or otherwise to review the judgment or order, or (b) the date the judgment or order is finally affirmed on an appeal, the expiration of the time to file a petition for a writ of certiorari or other form of review, or the denial of a writ of certiorari or other form of review of the judgment or order, and, if certiorari or other form of review is granted, the date of final affirmance of the judgment or order following review pursuant to that grant. However, any appeal or proceeding seeking subsequent judicial review pertaining solely to an order issued with respect to attorneys' fees or expenses shall not in any way delay or preclude the Judgment from becoming Final.

1.7. "Final Approval of Settlement" means that (i) the Court has entered the Judgment—with no material modification to the form of Judgment—approving the Settlement, dismissing the Action with prejudice on the merits and without costs to any party (except any costs specifically identified in this Stipulation), and providing for the Releases set forth below; and (ii) such Judgment is Final; ***provided, however***, and notwithstanding any provision to the contrary in this Stipulation, Final Approval of Settlement shall not include (and the Settlement is expressly not conditioned on) the award of attorneys' fees or the payment of expenses to counsel for any Person in connection with the Settlement, including any appeal related to any such award.

1.8. "HF Foods' Counsel" means Paul, Weiss, Rifkind, Wharton & Garrison LLP.

1.9. "Judgment" means the Order and Final Judgment to be entered by the Court, substantially in the form annexed hereto as Exhibit C, dismissing the Action with prejudice and discharging the Released Claims as against the Released Persons.

1.10. "Notice" means the Notice of Pendency and Proposed Settlement of Action, substantially in the form annexed hereto as Exhibit B.

1.11. "Person" means a natural person, individual, corporation, partnership, limited partnership, limited liability partnership, limited liability company, association, joint venture, joint stock company, estate, legal representative, trust, unincorporated association, government, or any political subdivision or agency thereof, or any other business or legal entity.

1.12. "Plaintiff's Counsel" means counsel to Plaintiff in this Action including deLeeuw Law LLC, Herman Jones LLP, and the Law Offices of Timothy L. Miles, and any other legal counsel who, at the direction of Plaintiff or under the supervision of Plaintiff's Counsel, performed services in the Action.

1.13. "Released Persons" means HF Foods, the Individual Defendants, the members of the SIC, the members of the SLC, the SIC's and SLC's counsel, Plaintiff, Plaintiff's Counsel, and each of the foregoing entities' and individuals' respective past, present, or future family members, spouses, heirs, trusts, trustees, executors, estates, administrators, beneficiaries, distributees, foundations, agents, employees, fiduciaries, partners, partnerships, general or limited partners or partnerships, joint ventures, member firms, limited liability companies, corporations, parents, subsidiaries, divisions, affiliates, associated entities, stockholders, principals, officers, directors, managing directors, members, managing members, managing agents, predecessors, predecessors-in-interest, successors, successors-in-interest, assigns, financial or investment advisors, advisors, consultants, investment bankers, underwriters, brokers, dealers, financing sources, lenders, commercial bankers, attorneys, personal or legal representatives, accountants, and associates.

1.14. "Released Claims" means the Company Released Claims and the Settling Defendants' Released Claims.

1.15. "Releases" means the releases set forth in Section II.B below.

1.16. "Scheduling Order" means an order scheduling a hearing on the Stipulation and approving the form of Notice and method of giving notice, substantially in the form annexed hereto as Exhibit A.

1.17. "Settlement Amount" means a total of nine million two hundred and fifty thousand U.S. dollars in cash ($9,250,000.00).

1.18. "Settlement Hearing" means the hearing (or hearings) at which the Court will review and assess the adequacy, fairness, and reasonableness of the Settlement, and the appropriateness and amount of the award of attorneys' fees and expenses to be awarded by the Court.

1.19. "Settling Defendants' Released Claims" means any Claims (a) that are, have been, or could have been asserted in the Action to the extent based on, arising out of, or relating to the allegations made in the Action, or that are otherwise based on, arise out of, or relate to the allegations made in the Action, including the Potential Claims; (b) that are based upon, arise out of, or relate to the institution, defense, prosecution or settlement of the Action; (c) that are based upon, arise out of, or relate any rights or claim to advancement or indemnification from the Company in any circumstance whatsoever, other than Mr. Ni's and Ms. Wong's right to the Advancement Amount as provided for in Section 2.2 and Jonathan Ni's right to the JN Advancement Amount as provided for in Section 2.3; or (d) that seek or demand payment, other than as directed by the Company, associated with coverage under any policy of insurance (including directors and officers liability insurance) paid for by the Company, ***provided, however***, "Settling Defendants' Released Claims" shall not include, and neither this Stipulation nor any aspect of the Settlement shall affect, claims relating to enforcement of the Settlement or this Stipulation.

1.20. "Unknown Claims" means any claims that Plaintiff, any Released Person, HF Foods, or any other Current HF Foods Stockholder does not know or suspect to exist in his, her, or its favor at the time of the release of the Released Claims against any of the Released Persons, including those which, if known by him, her, or it, might have affected his, her, or its decision(s) with respect to the Settlement. With respect to any of the Released Claims, the Settling Parties stipulate and agree that, upon Final Approval of the Settlement, they shall be deemed to have, and by operation of the Judgment shall have, expressly waived, relinquished, and released any and all provisions, rights, and benefits conferred by or under California Civil Code § 1542,[2] and any law of any state or territory of the United States, or principle of common law or foreign law, that is similar, comparable, or equivalent to California Civil Code § 1542. The Settling Parties acknowledge that they may hereafter discover facts in addition to or different from those now known or believed to be true by them, with respect to the subject matter of the Released Claims, but it is the intention of the Settling Parties to completely, fully, finally, and forever compromise, settle, release, discharge, and extinguish any and all Released Claims without regard to the subsequent discovery of additional or different facts. The Settling Parties acknowledge that the foregoing waiver was separately bargained for and is a key element of the Settlement, and was relied upon by each and all of the Settling Parties in entering into the Settlement.

II. TERMS OF THE SETTLEMENT

A. Settlement and the Settlement Consideration

2.1 In consideration for the full and final release, settlement, and discharge of any and all Released Claims against the Released Persons, and notwithstanding the existence of any timely filed objections to the Settlement, or

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[2] California Civil Code § 1542 provides:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

any collateral attack on the Settlement or any part thereof, within five (5) calendar days after Final Approval of Settlement, Mr. Ni and Ms. Wong shall pay the Settlement Amount to HF Foods by wire transfer. HF Foods shall provide to counsel for Mr. Ni and Ms. Wong wire payment instructions and an IRS Form W-9 for HF Foods no later than five (5) business days after the date of the Execution Date. Payment of the Settlement Amount shall be made by wire transfer to HF Foods; payment shall not be made by check.

2.2 In accordance with Paragraph 2 of the Binding Term Sheet, the Company will pay, and will not seek to recoup, up to a total of $2.85 million for the advancement of legal fees and expenses that Mr. Ni and/or Ms. Wong actually incurred on or before April 20, 2023 (the “Advancement Amount”), for which Mr. Ni and Ms. Wong already have submitted invoices (some of which have been paid), or will do so within thirty (30) days of the Execution Date. Effective as of April 20, 2023, the Company shall have no obligation whatsoever to provide any indemnification or any advancement of legal fees or expenses to Mr. Ni and Ms. Wong beyond the Advancement Amount.

2.3 In accordance with Paragraph 3 of the Binding Term Sheet, the Company will pay, and will not seek to recoup, up to a total of $522,485 for the advancement of legal fees and expenses that Jonathan Ni actually incurred (the “JN Advancement Amount”), for which Jonathan Ni already has submitted invoices (some of which have been paid), or will do so within thirty (30) days of the Execution Date. Effective as of April 20, 2023, the Company shall have no obligation whatsoever to provide any indemnification or any advancement of legal fees or expenses to Jonathan Ni beyond the JN Advancement Amount.

2.4 Each of the Settling Defendants agree to cooperate with the Company, and to act only at the direction of the Company, in pursuing any rights to payment under any policy of insurance (including directors and officers liability insurance) paid for by the Company.

2.5 Within thirty (30) days of Final Approval of Settlement, the Board shall adopt resolutions and amend or establish corporate policies or governance documents, as applicable, to implement the Corporate Governance Measures referenced in Paragraph 4 of the Binding Term Sheet, which shall remain in effect for no less than five (5) years.

B. Releases

2.6 Upon the Effective Date, Plaintiff, the Company, any stockholder of the Company, and all of their respective successors-in-interest, predecessors, representatives, trustees, executors, administrators, heirs, assigns or transferees, immediate and remote, and any person or entity acting for or on behalf of, or claiming under, any of them, and each of them, shall be deemed to have, and by operation of the Judgment approving this Settlement shall have, completely discharged, dismissed with prejudice on the merits, released and settled, to the fullest extent permitted by law, the Company Released Claims against the Released Persons and shall be forever barred and enjoined from commencing, instituting, prosecuting, or continuing to prosecute any of the Company Released Claims against any of the Released Persons.

2.7 Upon the Effective Date, the Settling Defendants and all of their respective successors-in-interest, predecessors, representatives, trustees, executors, administrators, heirs, assigns or transferees, immediate and remote, and any person or entity acting for or on behalf of, or claiming under, any of them, and each of them, shall be deemed to have, and by operation of the Judgment approving this Settlement shall have, completely discharged, dismissed with prejudice on the merits, released and settled, to the fullest extent permitted by law, the Settling Defendants' Released Claims against the Released Persons and shall be forever barred and enjoined from commencing, instituting, prosecuting, or continuing to prosecute any of the Settling Defendants' Released Claims against any of the Released Persons.

2.8 The Settlement shall eliminate all further risk and liability relating to the Released Claims, and the Settlement shall be a final and complete resolution of all disputes asserted or that could be or could have been asserted with respect to the Released Claims, including, without limitation, any claims for contribution in accordance with 10 *Del. C.* § 6304 and any similar laws or statutes. All such claims shall be enjoined from further prosecution.

2.9 Pursuant to 10 *Del. C.* § 6304(b) and any similar laws or statutes, damages recoverable for the Released Claims against any alleged tortfeasor who is not otherwise a party to the Settlement (whether or not a party to the Action) shall be reduced to the extent of the pro rata share, if any, of the Individual Defendants for common damages.

2.10 The members of the SLC and the Individual Defendants shall each bear his, her, or its own fees, costs, and expenses related to the Action and the Settlement, subject to Sections 2.2 and 2.3 of this Stipulation.

III. PROCEDURE FOR APPROVAL

3.1 Within three (3) calendar days after the Execution Date, the Settling Parties shall jointly submit the Stipulation together with its related documents to the Court, and shall apply to the Court for entry of the proposed Scheduling Order, substantially in the form annexed hereto as Exhibit A.

3.2 Within ten (10) business days after the entry of the Scheduling Order, HF Foods shall mail, or cause to be mailed, by first class U.S. mail or other mail service if mailed outside the U.S., postage prepaid, the Notice, substantially in the form attached hereto as Exhibit B, to all Current HF Foods Stockholders who are record holders of HF Foods stock as of the Execution Date. All record stockholders who are not also the beneficial owners of the shares of the Company's common stock held by them of record shall be requested to forward the Notice to the beneficial owners of those shares. The Company shall also use reasonable efforts to give notice to all beneficial owners by (i) making additional copies of the Notice available to any record holder who, prior to the Settlement Hearing, requests the same for distribution to beneficial owners by physical mailing or by electronic means; and (ii) mailing or transmitting by electronic means additional copies of the Notice to beneficial owners as reasonably requested by record holders who provide names and addresses for such beneficial holders.

3.3 No later than ten (10) business days before the Settlement Hearing, HF Foods' Counsel shall serve on counsel in the Action and file with the Court an appropriate affidavit with respect to the preparation and mailing of the Notice and posting of the Notice and Stipulation.

3.4 The Settling Parties submit that the proposed content and manner of notice constitutes adequate and reasonable notice to Current HF Foods Stockholders pursuant to applicable law and due process.

3.5 The Settling Parties and their attorneys agree to use their individual and collective best efforts and to cooperate with one another to obtain Court approval of the Settlement. The Settling Parties and their attorneys further agree to use their individual and collective best efforts to effect, take, or cause to be taken all actions, and to do, or cause to be done, all things reasonably necessary, proper, or advisable under applicable laws, regulations, and agreements to consummate and make effective, as promptly as practicable, the Settlement provided for hereunder and the dismissal of the Action as to the Released Persons with prejudice.

3.6 If the Settlement embodied in this Stipulation is approved by the Court, the Settling Parties shall request that the Court enter the Judgment, substantially in the form attached hereto as Exhibit C.

IV. ATTORNEYS' FEES AND EXPENSES

4.1. The Settling Parties understand that Plaintiff's Counsel intend to petition the Court for an all-in award of attorneys' fees and litigation expenses to Plaintiff's Counsel (the "Fee and Expense Award"), based on the benefits provided to HF Foods and its stockholders from the prosecution of the Action and the Settlement.

4.2. After all of the substantive terms of the Settlement were agreed upon, Plaintiff's Counsel engaged in arm's-length negotiations with the SLC and its counsel concerning an appropriate Fee and Expense Award for all Plaintiff's Counsel for their efforts in achieving the benefits conferred on HF Foods and its stockholders from the prosecution of the Action and the Settlement. As a result of those negotiations, it has been agreed that Plaintiff's Counsel will apply for a Fee and Expense Award in an amount not to exceed $925,000 in attorneys' fees and $7,500 in out-of-pocket expenses. HF Foods, the SLC, and the Settling Defendants agree that they shall not oppose a fee and expense request at or below the foregoing amount.

4.3. Upon receipt of Court approval, the Fee and Expense Award shall be paid to Plaintiff's Counsel within five (5) business days after HF Foods receives payment of the Settlement Amount pursuant to Section 2.1 above. HF Foods shall be solely responsible for the payment of the Fee and Expense Award from the Settlement Amount, and the Settling Parties agree that no other person or entity shall have any responsibility to contribute to or pay the Fee and Expense Award. The Company acknowledges that Plaintiff's Counsel expended substantial efforts which assisted in achieving the results of the Settlement and in causing the Company to agree to adopt and implement certain material corporate governance reforms referenced in Section 2.5.

4.4. The Fee and Expense Award shall be the sole compensation for Plaintiff's Counsel in connection with the Action and the Settlement. The Released Persons shall have no responsibility or liability whatsoever with respect to the allocation of the Fee and Expense Award to or among Plaintiff's Counsel.

4.5. The Individual Defendants shall not be liable for or obligated to pay any fees, expenses, costs, or disbursements, or to incur any expense on behalf of, any person or entity (including, without limitation, Plaintiff or Plaintiff's Counsel), directly or indirectly, in connection with the Action or the Settlement, except as expressly provided for in this Stipulation.

4.6. This Stipulation, the Settlement, the Judgment, and whether the Judgment becomes Final, are not conditioned upon the approval of an award of attorneys' fees, costs, or expenses, either at all or in any particular amount, by the Court. Plaintiff's Counsel warrants that no portion of any Fee and Expense Award shall be paid to Plaintiff, provided, however, that if approved by the Court, Plaintiff's Counsel may provide an amount of up to $7,500 of its Fee and Expense Award to Plaintiff as an incentive award for his efforts in pursuing this Action.

V. STAY PENDING COURT APPROVAL

5.1. Pending Court approval of the Stipulation, the Settling Parties agree to stay any and all proceedings in the Action other than those incident to the Settlement.

5.2. Except as necessary to pursue the Settlement and determine Plaintiff's Fee and Expense Award (if any), until the earlier of the Effective Date or an order of the Court substantially denying or declining to approve the Settlement in accordance with the Stipulation, the Settling Parties agree not to institute, commence, prosecute, continue, or in any way participate in, whether directly or indirectly, representatively, individually, derivatively on behalf of HF Foods, or in any other capacity, any action or other proceeding asserting any Released Claims.

5.3. Notwithstanding Sections 5.1 and 5.2, nothing herein shall in any way impair or restrict the rights of any Settling Party to defend this Stipulation or to otherwise respond in the event any Person objects to the Stipulation, the proposed Judgment to be entered, and/or Plaintiff's fee and expense application.

VI. EFFECT OF DISAPPROVAL, CANCELLATION, OR TERMINATION

6.1. The Company (as directed by the SLC), Plaintiff, and the Settling Defendants (provided the Settling Defendants unanimously agree amongst themselves) shall each have the right to terminate the Settlement and this Stipulation solely by providing written notice of their election to do so ("Termination Notice") to the other Settling Parties within thirty (30) calendar days of: (i) the Court's declining to enter the Scheduling Order in any material respect; (ii) the Court's refusal to approve this Stipulation or any part of it that materially affects any Settling Party's rights or obligations hereunder; (iii) the Court's declining to enter the Judgment in any material respect; or (iv) the date upon which the Judgment is modified or reversed in any material respect by an appellate court. Neither a modification nor a reversal on appeal of the amount of fees, costs, and expenses awarded by the Court to Plaintiff's Counsel shall be deemed a material modification of the Judgment or this Stipulation.

6.2. In the event that the Settlement is terminated pursuant to the terms of Section 6.1 of this Stipulation or the Effective Date otherwise fails to occur for any other reason, then (i) the Settlement and this Stipulation (other than this Section VI) shall be canceled and terminated; (ii) any judgment entered in the Action and any related orders entered by the Court shall in all events be treated as vacated, *nunc pro tunc*; (iii) the Releases provided under the Settlement shall be null and void; (iv) to the extent the Settlement Amount has been paid, it shall be repaid by HF Foods to the persons and entities who paid on behalf of the Mr. Ni and Ms. Wong within five (5) calendar days after termination of the Settlement; (v) the fact of the Settlement shall not be admissible in any proceeding before any court or tribunal; (vi) all proceedings in the Action shall revert to their status as of immediately prior to the Settling Parties' execution of the Binding Term Sheet, and no materials created by or received from another party that were used in, obtained during, or related to settlement discussions shall be admissible for any purpose in any court or tribunal, or used, absent consent from the disclosing party, for any other purpose or in any other capacity, except to the extent that such materials are otherwise required to be produced during discovery in any other litigation; (vii) the Settling Parties shall jointly petition the Court for a revised schedule for further proceedings; and (viii) the Settling Parties shall proceed in all respects as if the

Settlement and this Stipulation (other than this Section VI) had not been entered into by the Settling Parties.

VII. NO ADMISSION OF LIABILITY/NO UNDERTAKING OF CONFIDENTIALITY

7.1. The Settlement and this Stipulation shall in no event be construed as, or deemed to be, evidence of or an admission or concession on the part of any of the Settling Defendants with respect to any claim or factual allegation or of any fault, liability, wrongdoing, or damage, or any infirmity in the defenses that any of the Settling Defendants have or could have asserted in the Action, including the Potential Claims.

7.2. The Settlement and this Stipulation shall in no event be construed as, or deemed to require the Parties to keep the Settlement or Stipulation confidential. Any Party may make any argument regarding the validity of any of the claims or defenses that have or could have been asserted in the Action, including the Potential Claims.

VIII. MISCELLANEOUS PROVISIONS

8.1. Mr. Ni and Ms. Wong warrant that, as to the payments made or to be made on behalf of them, at the time of entering into this Stipulation and at the time of such payment they, or to the best of their knowledge any persons or entities contributing to the payment of the Settlement Amount, were not insolvent, nor will the payment required to be made by or on behalf of them render them insolvent, within the meaning of and/or for the purposes of the United States Bankruptcy Code, including §§ 101 and 547 thereof. This representation is made by each of Mr. Ni and Ms. Wong and not by their counsel.

8.2. This Stipulation shall be deemed to have been mutually prepared by the Settling Parties and shall not be construed against any of them by reason of authorship.

8.3. The Settling Parties agree that in the event of any breach of this Stipulation, all the Settling Parties' rights and remedies at law, equity, or otherwise, are expressly reserved.

8.4. To the extent permitted by law, all agreements made and orders entered during the course of the Action relating to the confidentiality of documents or information shall survive this Stipulation.

8.5. This Stipulation, its exhibits, the Binding Term Sheet, and any related agreement executed by HF Foods (at the direction of the SLC), Plaintiff, and the Settling Defendants, embody the entire agreement and understanding of the Settling Parties and supersede all prior agreements and understandings, if any, in respect of the subject matter contained herein. No representations, warranties or statements of any nature whatsoever, whether written or oral, have been made to or relied upon by any Settling Party concerning the subject matter of this Stipulation and the Binding Term Sheet, other than the representations, warranties and covenants expressly set forth in such documents.

8.6. This Stipulation may be executed in one or more counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document. Any signature to the Stipulation by means of facsimile or electronic scanning shall be treated in all manner and respects as an original signature and shall be considered to have the same binding legal effect as if it were the original signed version thereof and without any necessity for delivery of the originally signed signature pages in order for this to constitute a binding agreement.

8.7. The Settling Parties or any Released Persons may file this Stipulation and/or Judgment in any action that has been or may be brought against them in order to support a claim or defense based on principles of res judicata, collateral estoppel, release, good faith settlement, judgment bar or reduction, or any other theory of claim preclusion or issue preclusion or similar defense or counterclaim or in connection with any insurance litigation.

8.8. The headings herein are used for the purpose of convenience only and are not meant to have legal effect.

8.9. Each counsel or other person executing this Stipulation on behalf of any Settling Party warrants that he or she has the full authority to bind his or her principal to this Stipulation.

8.10. Plaintiff represents and warrants that he has not assigned, encumbered, or in any manner transferred in whole or in part any of Plaintiff's claims referred to in this Stipulation or that could have been alleged in the Action.

8.11. This Stipulation shall not be modified or amended, nor shall any provision of this Stipulation be deemed waived, unless such modification, amendment, or waiver is in writing and executed by or on behalf of the Settling Party(ies) against whom such modification, amendment, or waiver is sought to be enforced.

8.12. Any failure by any Settling Party to insist upon the strict performance by any other Settling Party of any of the provisions of this Stipulation shall not be deemed a waiver of any of the provisions hereof, and such party, notwithstanding such failure, shall have the right thereafter to insist upon the strict performance of any and all of the provisions of this Stipulation to be performed by such other Settling Party. Waiver by any Settling Party of any breach of this Stipulation by any other Settling Party shall not be deemed a waiver of any other prior or subsequent breach of this Stipulation, and failure by any Settling Party to assert any claim for breach of this Stipulation shall not be deemed to be a waiver as to that or any other breach and will not preclude any Settling Party from seeking to remedy a breach and enforce the terms of this Stipulation. Each of the Settling Parties' respective obligations hereunder are several and not joint, and the breach or default by one Settling Party shall not be imputed to, nor shall any Settling Party have any liability or responsibility for, the obligations of any other Settling Party herein.

8.13. This Stipulation shall be binding upon, and inure to the benefit of, the successors and assigns of the Settling Parties hereto.

8.14. Notwithstanding the entry of the Judgment, the Court shall retain jurisdiction with respect to the implementation, enforcement, and interpretation of the terms of the Stipulation, and all Settling Parties submit to the jurisdiction of the Court for all matters relating to the administration, enforcement, and consummation of the Settlement and the implementation, enforcement, and interpretation of the Stipulation, including, without limitation, any matters relating to awards of attorneys' fees and expenses to Plaintiff's Counsel. Each Settling Party (i) consents to personal jurisdiction in any such action (but no other action) brought in the Court; (ii) consents to service of process by registered mail upon such Settling Party or such Settling Party's agent; and (iii) waives any objection to venue in the Court and any claim that Delaware or the Court is an inconvenient forum.

8.15. The construction and interpretation of this Stipulation shall be governed by and construed in accordance with the laws of the State of Delaware and without regard to the laws that might otherwise govern under principles of conflicts of law applicable hereto.

8.16. Without further order of the Court, the Settling Parties hereto may agree to reasonable extensions of time to carry out any of the provisions of the Stipulation.

8.17. The following exhibits are annexed hereto and incorporated herein by reference:

(a) Exhibit A: Scheduling Order With Respect to Notice and Settlement Hearing;

(b) Exhibit B: Notice of Pendency and Proposed Settlement of Action;

(c) Exhibit C: Final Order and Judgment.

IN WITNESS WHEREOF, IT IS HEREBY AGREED by the undersigned as of the date noted above.

[SIGNATURE PAGES FOLLOW]

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Exhibit 31.1

Certification of Chief Executive Officer

I, Xiao Mou Zhang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: November 9, 2023

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

Exhibit 31.2

Certification of Chief Financial Officer

I, Carlos Rodriguez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: November 9, 2023

By: */s/ Carlos Rodriguez*
Carlos Rodriguez
Chief Financial Officer

Exhibit 32.1

Section 1350 Certification of Chief Executive Officer

In connection with the Quarterly Report on Form 10-Q of HF Foods Group Inc. (the “Company”) for the quarterly period ended September 30, 2023 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.

Date: November 9, 2023

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

Exhibit 32.2

Section 1350 Certification of Chief Financial Officer

In connection with the Quarterly Report on Form 10-Q of HF Foods Group Inc. (the “Company”) for the quarterly period ended September 30, 2023 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.

Date: November 9, 2023

By: */s/ Carlos Rodriguez*
Carlos Rodriguez
Chief Financial Officer