

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NO. 001-38180

HF FOODS GROUP INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)  
6001 W. Market Street  
Greensboro, NC  
(Address of Principal Executive Offices)

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

27409  
(Zip Code)

(Registrant's Telephone Number, Including Area Code): (336) 268-2080

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

Title of each Class  
Common Stock, par value \$[\*] per share

Name of each Exchange on which registered  
Nasdaq Capital Market

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant on June 29, 2018, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately \$46,245,420 based on the closing price of \$10.15 per share as reported on the Nasdaq Capital Market on June 29, 2018.

As of March 27, 2019, the registrant had 22,167,486 shares of common stock issued and outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE:**

Part III of this Annual Report on Form 10-K incorporates by reference certain portions of the registrant’s definitive proxy statement for its 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this report.

---

---

**HF FOODS GROUP INC.**  
**ANNUAL REPORT ON FORM 10-K**  
**For the Fiscal Year Ended December 31, 2018**

**Table of Contents**

	<u>Page No.</u>
<b>PART I</b>	
<b>Cautionary Note About Forward-Looking Statements</b>	2
<b>Item 1. Business</b>	3
<b>Item 1A. Risk Factors</b>	13
<b>Item 2. Properties</b>	24
<b>Item 3. Legal Proceedings</b>	25
<b>Item 4. Mine Safety Disclosures</b>	25
<b>PART II</b>	
<b>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</b>	25
<b>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	26
<b>Item 8. Financial Statements and Supplementary Data</b>	36
<b>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</b>	66
<b>Item 9A. Controls and Procedures</b>	66
<b>Item 9B. Other Information</b>	66
<b>PART III</b>	
<b>Item 10. Directors, Executive Officers and Corporate Governance</b>	67
<b>Item 11. Executive Compensation</b>	67
<b>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Matters</b>	67
<b>Item 13. Certain Relationships and Related Transactions, and Director Independence</b>	67
<b>Item 14. Principal Accounting Fees and Services</b>	67
<b>PART IV</b>	
<b>Item 15. Exhibits and Financial Statement Schedules</b>	67
<b>Item 16. Form 10-K Summary</b>	69

## CAUTIONARY NOTE ABOUT FORWARD LOOKING STATEMENTS

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

- Unfavorable macroeconomic conditions in the United States;
- Competition in the food service distribution industry particularly the entry of new competitors into the Chinese/Asian restaurant market niche;
- Increases in fuel costs;
- Increases in commodity prices;
- Disruption of relationships with vendors and increases in product prices;
- US government tariffs on products imported into the United States, particularly from China;
- Changes in consumer eating and dining out habits;
- Disruption of relationships with or loss of customers;
- Our ability to execute our acquisition strategy;
- Availability of financing to execute our acquisition strategy;
- Our ability to renew or replace the current lease of our warehouse in Georgia;
- Control of the Company by our Chief Executive Officer and principal stockholder;
- Failure to retain our senior management and other key personnel particularly, Zhou Min Ni and Chan Sin Wong;
- 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;
- Failure to protect our intellectual property rights;
- Any cyber security incident, other technology disruption or delay in implementing our information technology systems;
- The development of an active trading market for our common stock; and
- other factors discussed in “Item 1A. Risk Factors.” and “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations.” in this Annual Report on Form 10-K.

All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that are made from time to time in our other filings with the Securities and Exchange Commission (the “SEC”) and public communications. We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date hereof. Except as otherwise required by law, we undertake no obligation to update or revise any forward-looking statement as a result of new information, future events or otherwise.

## **PART I.**

### **ITEM 1. BUSINESS.**

#### **Overview**

HF Foods Group Inc. acting through its subsidiaries (“HF Foods,” the “Company,” “we,” “us,” or “our”), is a foodservice distributor operated by Chinese Americans, providing Chinese restaurants, primarily Chinese takeout restaurants located in the southeastern United States, with good quality food and supplies at competitive prices. Since our inception in 1997, fueled by increasing demand in the Chinese foods market segment, which our management believes is highly fragmented with unsophisticated competitors and has natural cultural barriers, we have grown our business and currently serve approximately 3,200 restaurant customers in ten states with our deep understanding of Chinese Culture and our business know-how in the Chinese community.

Chinese takeout restaurants are located in most, if not all, urban and suburban areas in the United States. They focus on serving Chinese cuisine mainly to non-Chinese Americans. Our management believes that, for the most part, these takeout restaurants are operated by individual families with very few workers, and over 80% of the restaurants we service are owned by Chinese Americans from Fuzhou (“Fuzhouese”), the province capital of Fujian, China. The industry has been able to grow rapidly because it provides good food at low cost and in a convenient way. We offer an array of specialty Chinese foods and supplies that are not widely available elsewhere. By becoming a one-stop-shopping location for our customers, we have made it more difficult for small competitors to enter this market. As a way to focus our efforts, we concentrate on serving primarily the fast growing Chinese restaurants in the southeastern region of the United States. With natural cultural barriers, we are able to maintain market position with our core customers and compete effectively against large competitors serving mainstream restaurants, like Sysco and US Food Services, who have not effectively penetrated this market segment.

In the past 20 years of operation, we have developed distribution channels throughout the southeastern United States. We have three distribution centers located in Greensboro, North Carolina, Ocala, Florida, and Atlanta Georgia. We have developed a proprietary information system for management of customer relationships and inventory management and are able to sustain our growth partly because of this information system. We also use a call-center located in China, which allows us to serve our customers on a 24-hour basis in their native language, while lowering the administrative cost in the United States. Supported by technology, we have been able to support our growing customer base and, at the same time, keep operating costs low. By utilizing private networks, we have linked our Greensboro headquarters with both our other distribution centers and our outsourced call center in China. This communication system allows us to communicate seamlessly both internally and externally with our customers.

#### **Development of Business**

We were founded by Zhou Min Ni and his wife, Chan Sin Wong in 1997. They came to the United States from Fuzhou, the provincial capital of Fujian, China. Like many other Fuzhouese, they started by working in Chinese takeout restaurants. After gaining experience, they established their own takeout restaurants in North Carolina. From the experience of operating Chinese takeout restaurants, they realized there was a great potential in the business of providing supplies to takeout restaurants.

The Company was founded in Kernersville, North Carolina in a 3,000-square-foot warehouse. In 2001, we opened a warehouse in Florida to further expand our reach to the southeastern United States. In 2003, we purchased a warehouse in Greensboro, North Carolina to support growing customer demand. In June 2005, we started to outsource our sales and customer services to a call center in China, which allows us to operate on a 24-hour basis and provides a solid platform for expansion. In late 2005, we opened a warehouse in Atlanta, Georgia. We acquired HD Food Service, a wholesaler operated in Winston Salem, North Carolina, in late 2008. This successful acquisition resulted in business expansion and sales growth.

## Business Model and Competitive Advantage

We are committed to providing our customers with a wide range of products at competitive prices. Since inception, we have differentiated ourselves from our competitors with our distinctive product portfolio, supplier relationships, locations, and technology. Our wide range of product offerings sets us apart from other mainstream competitors such as Sysco and US Foods, as many of the items we offer are specific to the Chinese restaurant industry. More importantly, our relationships with our suppliers allow us to procure a large variety of products in volume at a low cost. We also import specialized items that would be difficult to procure domestically. With three warehouses and over one hundred trucks executing daily routes within 200 miles of our distribution centers, we offer our customers prompt delivery of high quality products.

We believe that the following elements of our business model provide us with a competitive advantage and has resulted in our success:

- We offer a wide array of specialty products that are not widely provided by large distributors serving the mainstream market.
- We have a deep understanding of Chinese Culture and most of our employees can speak the native language of our customers.
- We outsource our sales and customer service to a call center located in China serving our customers in Chinese, which incurs lower administrative expenses and operates efficiently.
- We capitalize on economies of scale, giving us strong negotiating power with suppliers.
- We have developed a sophisticated infrastructure with three distribution centers and a fleet of well-maintained trucks for prompt delivery.
- With the self-developed proprietary information system, we are able to manage our customer relationships and inventory efficiently and reduce operating expenses.
- We have over 20 years of successful operational experience and a record of successful acquisitions.

We plan to strategically consolidate our market segment by acquiring competitors, including other distributors and wholesalers, to expand our business into untapped regions around the United States and to eventually grow into a nationwide foodservice distributor. We will continue to invest in the management technology system to further improve our operational efficiency, accuracy and customer satisfaction. We will also explore value-added products such as semi-prepared products to help our customers upgrade their service.

## Industry and Market Analysis

We distribute food and supplies to Chinese/Asian restaurants, primarily Chinese takeout restaurants that mainly serve non-Chinese Americans, which is a niche market segment of the foodservice distribution industry. The foodservice industry in the U.S. is generally large and has a long history, with several large players such as Sysco Corporation, US Foods Holding Corp. and Performance Food Group Company, each serving a significant market share of the industry by offering a broad line of products and services, or carrying specific products for large chains. However, they do not generally serve Chinese restaurants.

### Chinese/Asian Takeout Restaurants

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

*Primarily Serving Non-Chinese Americans.* There are tens of thousands of Chinese takeout restaurants spread across the U.S., which primarily serve non-Chinese American customers. Although the products they serve cater to the preferences of a wide American mainstream of customers and are more simply prepared when compared with traditional well-served Chinese restaurant cuisine, they still maintain typical Chinese ingredients and cooking styles.

*Operated by Fuzhouese Individual Families.* Over 80% of the Chinese takeout restaurants we service are operated and owned by individual families with very few (two or three) workers. The owners usually are the first or second generation of Fuzhouese, Chinese American from Fuzhou, the province capital of Fujian, China. These takeout restaurants have very limited resources and appreciate value-added service to help them improve their operational efficiency. The owners and workers in the Chinese takeout restaurants usually speak Mandarin or the Fuzhou dialect, their regional dialect. Understanding the Chinese Culture and language is important for efficient communication with these customers.

*Close-held Chinese American Community.* Second or third generation Chinese Americans living in the U.S. inherit their traditional cultural, and ethnic languages, and we believe that people in these communities prefer to do business with Chinese Americans as opposed to other ethnic groups if they have a choice.

*Unique Cooking Style and Ingredients for Chinese Cuisines.* Chinese cuisine requires unique cooking styles such as steaming and wokking, and requires specialty ingredients and vegetables such as bitter melons, Chinese yams, vine spinach, Chinese cabbage and winter melon. They also use Chinese and Asian seasonings and spices including peanut oil, cooking wine, vinegar, dark soy source, black bean sauce, pepper oil and chili oil. Most of the unique ingredients for Chinese cuisine are not widely available from mainstream U.S. suppliers.

### Growth Potential

*Growing Consumption Trend for Food Away from Home.* According to the National Restaurant Association, the percentage of Americans who prefer to have food away from home increased from 41.2% in 2014 to 43.8% in 2016. Our management believes the trend of consuming food away from home also represents a potential increase of demand for Chinese takeout restaurants.

*More Recognition by Americans of Chinese Cuisines.* With the growing influence of China's economy and culture, more and more Americans are consuming Chinese cuisines. The management of the Company has seen increasing demand for Chinese cuisine and believe it will bring expansion opportunities for Chinese restaurants, and thus the food distribution industry.

### Current Industry Landscape and Opportunities

*Natural Culture Barriers to Entry.* Understanding Chinese cooking culture is important to run a Chinese restaurant and, therefore, most Chinese takeout restaurants are operated by Chinese Americans, especially Fuzhouese. It is very difficult for mainstream food distributors to serve these restaurants because of cultural and language barriers.

*Highly Fragmented Market Segment.* The market is currently highly fragmented with many unsophisticated competitors and there is no recognized industry leader nationwide. Most participants are small players such as wholesalers, specialty import brokers, farmers markets, and local produce retailers without the support of sophisticated logistics infrastructure. We believe we are the only Chinese food distributor operating in the southeastern United States with a well-developed logistics infrastructure and experienced management team and that the fragmented market gives us the opportunity to consolidate the market and develop a dominant market position.

*Infrastructure Barriers for New Entrants.* The food distribution industry requires large capital investment and resources to build a logistics infrastructure with warehouses and a fleet of trucks to cover its distribution network. In addition, larger suppliers have greater negotiating power with vendors and price advantages for customers.

*Demand for Value-Added Services.* Our customers are Chinese/Asian restaurants, primarily takeout restaurants. Usually, these restaurants are relatively small with only approximately 1,000 square feet and are operated by family members with very few workers. Most of them are open seven days a week, twelve hours a day. These customers are price and quality sensitive and prefer large suppliers with scale economies providing competitive prices for products. Given the limited labor forces and resources of these restaurants, most desire to have more value-added services from the suppliers to help them to operate more efficiently.

In sum, we see a great opportunity for market consolidation. We believe we have advantages to address the current market imperfections and become a national leader in the niche market. With economies of scale, we can provide high quality products at competitive prices in an efficient way.

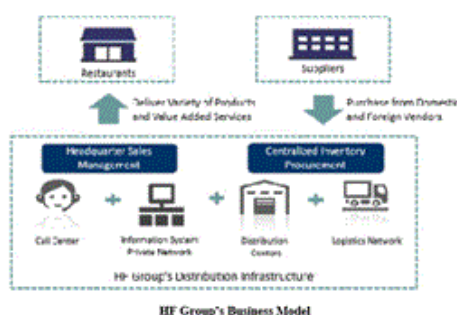
### Business Model

Our business model features an integrated structure with three distribution centers with 400,000 square feet of total storage space, a fleet of 105 refrigerated vehicles for short-distance delivery, 12 tractors and 17 trailers for long-haul operations, and centralized inventory management and procurement, supported by an outsourced call center located in China for customer relationship management. We offer a variety of high quality products at competitive prices to our customers. Customers can benefit from our efficient supply chain to support such customer’s growth.

We offer one-stop service to Chinese restaurants with over 1,000 types of products, including fresh and frozen meats, Chinese specialty vegetables, sauces, and packaging materials for takeout restaurants. Chinese restaurants, especially small or takeout restaurants, can find almost all the products they need in our product lists, which can help them to save their workload to manage their purchase of inventory. We use an outsourced call center in Fuzhou, China, with 24 hour availability for sales and marketing, order placement and post-sales service, which reduces our operating costs, and offers service in Mandarin and Fuzhou dialect, in addition to English.

With 20 years of operations, we have established a large supplier network and we maintain long-term relationships with many major suppliers. The procurement team is led by Zhou Min Ni, CEO of the Company, who has a deep insight in the industry. The centralized procurement management system gives us negotiating power given the large procurement quantities, improves our turnover of inventory and account payables, and reduces our operating costs.

The graph below depicts our business model:



### Products

We offer a wide range of products with over 1,000 products for the Chinese/Asian restaurants, primarily Chinese takeout restaurants. Products range from perishable produce to takeout food packaging materials. To meet our customers’ demands, we have a large variety and a complete line of products in our inventory. Eighty percent of sales volume currently consists of domestic goods such as frozen meat and vegetables, which are procured through large suppliers or directly from the producer. The remaining twenty percent are imported specialty products. We provide full service one-stop-shop for our customers in the southeastern United States by providing most of the products needed by our customers, from order placement to delivery and post-sales services. Services to customers are supported by physical facilities, vehicles, material handling equipment and techniques, and administrative and operating staffs.

The products we distribute include:

- **Meat and Poultry:** We provide our customers a variety of beef, pork, chicken and duck products with different brands to choose from, such as Smithfield, Teys Australia and Tyson.



- **Rice, Noodles and Skins:** Rice is indispensable for Chinese cuisines and we provide our customers with a wide variety of high quality rice and seasonings. Brands includes kikkoman, Ajinomoto, WY, Hunt's, and other well-known brands. Noodles and spring rolls are not merely a principal food in Chinese cuisines, but also can convey different meanings in different situations. In our noodle and wrapper section, customers can find a complete selection of noodles and wrappers.
- **Vegetables:** We offer fresh, seasonal fruits and vegetables including celery, Chinese cabbage, and winter melon, which is widely used in Chinese cuisines.
- **Dry products:** We offer a variety of specialty sauces, oil, dried mushrooms, and dried beans.
- **Seafood:** We are committed to provide our customers with the freshest possible seafood. We provide our customers with all sorts of seafood including lobster, shrimp, crab, scallops and flavorful fish such as tuna and Alaskan salmon with different brands to choose from, brands like Asian Star and Atlantic Bay.
- **Canned foods:** We offer preserved food and frozen or canned products such as preserved vegetables, bamboo shoots and water chestnut.
- **Frozen pastry:** We offer a wide selection of frozen food, from french fries to chicken nuggets, from apple sticks to cream cheese, and a large variety of specialty products for Chinese cuisine such as bun, dim sum, dumpling and sumai.
- **Packaging, disposable and utensils:** We offer a wide range of take-out accessories for customers, from bamboo chopsticks to takeout containers, plastic cups to and sushi combo boxes.

The following table set forth sales percentage by category for the year ended December 31, 2018:

Category	Percentage
Meat and Frozen Food	37%
Cooking Supplies	22%
Vegetables	20%
Grocery/Other	13%
Packaging Supplies	8%
	100.0%

#### Customer Service

We use an outsourced call center located in China to manage our sales order, customer development, sales promotion and post-sales services. The outsourced call center is located in Fuzhou, the capital city of Fujian Province of China, with local employees speaking Mandarin, Fuzhounese and English. By offering the customer service in their native language, the sales persons can communicate smoothly and efficiently with our customers and understand what the customers need. With cultural understanding and a common language, sales people can design a product portfolio for our customers and use a precision marketing strategy to promote our products. The location of the outsourced call center controls costs by employing skilled sales persons at lower wages in China as compared with the U.S.

Currently, we maintain our sales department, including decision making for sales strategies and supervision of sales performance by its key sales managers, in our headquarters in Greensboro, North Carolina. The sales managers work closely with the sales persons in China to ensure our sales strategies are exactly implemented. Our plan is to further integrate our operating model with the outsourced call center to expand our business and operate more efficiently.

A proprietary information system is used to maintain the customers' record, including location, size, contact information, purchasing history, preference, order and payment record. Customers can directly call the outsourced call center in China to inquire about products and place orders. Once orders are confirmed, electronic sales orders are generated by the information system and sent to the distribution center closest to the customer. Upon receipt of the sales orders, products are pulled from the shelves and moved to staging area at the loading docks. Daily as early as 2:00 AM, products are loaded into delivery vehicles from the staging area in preparation for delivery. Products are delivered to customers within 2 days of the order. Customer analysis can be generated through the information system and guides the sales person to follow up with customers for product promotion and post-sales services.

We offer a refund policy for non-satisfaction without penalty, which many of our small competitors in the market segment are unable to provide. We provide a 100% satisfaction guarantee to our customer. When a shipment is made and the products are not to the standards of the customer, we allow our customers to reject the order in whole or in part with no penalty within 24 hours. The non-penalty refund policy is designed to help us earn the trust and loyalty of our customers.

### **Inventory Procurement**

We implemented a centralized inventory procurement under the lead of Zhou Min Ni, our CEO, and other experienced managers. All the inventory procurement of all the distribution centers are summarized and sent to the procurement team in Greensboro, North Carolina. Centralized procurement allows us to have negotiating power with its suppliers and to control procurement costs.

We maintain a large supplier network through a vendor pool with a carefully selection of suppliers to ensure the product quality, availability and competitive pricing. Eighty percent of sales volume currently consists of domestic goods such as frozen meat and vegetables, which are procured through large suppliers or directly from the producer. The remaining twenty percent are imported specialty products. The procurement team directly manages our major vendors for large and frequent purchases and engages brokers for our smaller suppliers of specialty goods. Utilizing brokers allows us to maintain lower costs due to the brokers' volume.

The key procurement team members closely monitor the supply market for seasonal products such as vegetables and make procurement adjustments according to market conditions. In addition, they use dual-sourcing method for their suppliers and can negotiate lower prices for comparable products. For high volume sale products such as certain vegetables and meats, we usually negotiates long term agreements with its suppliers to ensure stabile pricing and minimize risk due to market fluctuation.

Each distribution center reviews the inventory level in the information system on daily basis and submits purchase requests as needed to the procurement team at the headquarters. The procurement team in the headquarters also can make decisions based on an analysis of the inventory data in the system. Upon completion of the procurement of the products, the delivery schedule is based on the needs of each location. The lead-time for products is dependent on the product category and need. For perishable goods, products are usually delivered by suppliers within 72 hours of placing the order. Products that are ordered through import brokers have lead times of up to 7 days.

We employ a large supplier network to ensure product availability and low pricing. These suppliers range from small importers of specialty goods to large produce and meat suppliers. JBS USA LLC accounted for approximately 13.2% of our aggregate purchases during the year ended December 31, 2017. None of our suppliers accounted for more than 10% of our aggregate purchases during the year ended December 31, 2018.

### **Warehousing**

We use our information system for warehouse management with daily inventory monitoring. The system allows us to manage our inventory in an efficient way. It optimizes the inventory level and turnover, reducing waste, and helps to reduce labor costs to track and record the inventory.

Inventory levels are maintained based on the category of products. Perishable goods are kept at seven days levels. This includes produce and frozen goods. Non-perishable goods are held in greater quantities of inventory based on the pricing of the market. Non-perishable items are carefully monitored for pricing changes. As they have extended shelf life, there is an advantage to ordering larger quantities of stock. The inventory will, generally, turnover in just over three weeks, which we believe is average for distributors of similar size. Maintaining this level of inventory allows us to manage surges in demand.

Products are stored throughout warehouses in our distribution centers. A routine inventory count is taken weekly to ensure stock quantity and replenishment needs. Forty percent of the inventory consists of fresh meats and produce; this inventory is counted daily and turns over on average in about ten days. The other sixty percent consists of frozen and dry goods which are physically inventoried annually with top 50 items in volume with interim cycle counts every two weeks and average turnover of about 30 days. Perishable items are stored in freezers for a period of 7 to 15 days, depending on the shelf life. Non-perishable items are stored on racks until shelf life is reached or product is sold, whichever comes first. Products are broken down from their pallets and sold in their original packaging. Items stored in the warehouse are not removed from their original packaging. Each package is sold as one unit and priced accordingly.

## Locations

We currently have three distribution centers located in Greensboro, North Carolina, Ocala, Florida, and Atlanta, Georgia, with a total of 400,000 square feet of storage, including refrigerated storage of 95,000 square feet. The distribution centers are located on the route of many of our suppliers; delivery of each truckload can be made to each location with one large order. Each warehouse is equipped with multiple loading docks, allowing parallel methods of loading goods to the trucks during the start of each shift. Warehouse locations are also located in industrial regions, allowing large delivery trucks to enter without the need of acquiring permits.

It is important for us to strategically place our warehouses within certain markets to maximize our market capture. We currently strategically place our warehouses within markets that are not saturated and have limited competitors. This allows us to quickly penetrate the market and develop customer relationships that will assist in promotion of products and services. Upon penetrating the market, we will establish our warehouse into the regions to streamline our distribution network. This strategy is designed to improve the delivery routes and maximize the utilization of our delivery vehicles.

The table below summarizes the details of the three distribution centers:

Location	Total Size (Square Feet)	Size of Refrigerated Storage (Square Feet)	Year Established	Number of Truck
Greensboro, NC	170,000	45,000	2002	50
Ocala, FL	130,000	30,000	2008	35
Atlanta, GA	100,000	25,000	2006	20
Total:	<u>400,000</u>	<u>100,000</u>		<u>105</u>

## Fleet Management

We currently own a fleet of 105 refrigerated vehicles. Each vehicle is 24 feet long and has a 12,000 pound capacity. All vehicles are identical in make and model. This is essential, as the fleet can be maintained by a single set of mechanics and suppliers for commonality. These vehicles are maintained by an in-house mechanic and follow a strict maintenance schedule. Each vehicle has a 7-year life cycle of approximately 250,000 miles. Each vehicle is refueled daily upon return from their delivery route. As delivery vehicles reach their usable life, they will be retired and replaced with larger vehicles that are 30 feet long and have a capacity of 36,000 pounds. This change in vehicle is dictated by our expected growth. We also operate a fleet of 12 tractors and 17 trailers for long-haul operations.

## Promotion and Marketing

We don't advertise in the media or magazines. We have found that it is more efficient to telemarket and have drivers promote our business while executing deliveries. Our drivers visit the Chinese/Asian restaurants along their delivery route and are trained to market our products to non-customers along their route. Telemarketing is conducted by sales persons from the outsourced call center in China.

## Competitive Strengths

We believe we have the following competitive strengths that differentiate us from competitors in the niche industry sector of food service distribution to Chinese restaurants:

*A Large Array of Products to Meet the Demands of Customers.* We offer over 1,000 products ranging from meats, vegetables and specialty products to packaging materials. Compared with the mainstream foodservice distributors in the United States, our products are selected to meet the demand of Chinese restaurants. A large array of products allows Chinese restaurants to purchase from us almost all of the products they need for operation, and receive one-stop service, which can help them run their business more efficiently with limited operation resources.

*Cultural Understanding and Language Advantages.* The majority of Chinese restaurants are owned and operated by Fuzhounese. By offering customers service in their native language, the sales persons can communicate smoothly and efficiently with our customers and understand what the customers need. With cultural understanding and a common language, sales people can design a product portfolio for our customers and use a precision marketing strategy to promote the Group's products. The location of the outsourced call center controls costs by employing skilled salespersons at lower wages in China as compared with the U.S.

*Outsourced Customer Call Center with Low Costs.* We use an outsourced call center in China to manage our sales order, customer development, sales promotion, and post-sales services. The outsourced call center is located in Fuzhou, the capital city of Fujian Province of China, with local employees speaking Mandarin, Fuzhou dialect and English. In addition to the advantage provided by interacting with customers in their native language, the location of the outsourced call center also helps us control costs by employing skilled sales persons at lower wages in China as compared with the U.S.

*Cost Efficiency with Economies of Scale.* We have developed our business around our three distribution centers serving over 3,200 Chinese restaurants in ten states in the southeastern United States. We believe we are the only Asian/Chinese food service distributor with a well-developed logistic infrastructure and experienced management team in the regions covered by our distribution network. Compared with small and local distributors, we operate in a more cost-efficient manner and have generated economies of scale, which allows us to offer products with competitive prices to our customers.

*Strong Negotiation Power with Vendors.* With a large purchase volume and a centralized procurement management, we have strong negotiating power with our vendors and are able to source high quality products at lower prices than many competitors. Our inventory procurement team is led by Mr. Zhou Min Ni, our founder and Chief Executive Officer, who has 20 years of operational experience in the industry. With a developed inventory procurement system supported by strong negotiating power and an experienced management team, we can offer our customers high quality products at competitive prices.

*Developed Logistics Infrastructure.* We have developed a sophisticated infrastructure with three distribution centers with a total storage capacity of 400,000 square feet and a fleet of 105 refrigerated vehicles, 12 tractors and 17 trailers. Our distribution network covers ten states in the southeastern United States, including North Carolina, South Carolina, Georgia, Florida, Alabama, Virginia, West Virginia, Tennessee, Kentucky, and Mississippi. In conjunction with the development of our logistics infrastructure and business expansion, we have also developed our proprietary information system to manage our customer relationships and inventory. The logistics infrastructure provides efficiency and economies of scale resulting in significant advantages for us and creates a high entry barrier for potential competitors.

*Proprietary Information System.* We have developed a proprietary electronic information system for our customer relationship and inventory management. All customer information including preferences, purchase and payment history is recorded in the system and can be used to provide post-sales services and promotion. We use our system to daily monitor our inventory, which provides prompt management of inventory and important information to make operating decisions. The use of the electronic information system improves our management efficiency and reduces operating costs and makes us more competitive in the industry.

*Experienced Management and Proven Growth.* Key management personnel include Mr. Zhou Min Ni, Chief Executive Officer and his wife Chan Sin Wong, President, who founded the business and have grown it into a regional leader serving over 3,200 Chinese restaurants in ten states in the southeastern United States over the past 20 years. We have also built a team with operational experience, financial expertise and IT knowledge to grow the business. We believe that we are well-positioned to expand our business into other underserved regions through consolidation of small competitors.

## **Competition**

The foodservice distribution industry is large and highly competitive. There are a few very large distributors serving the mainstream market. However, with natural cultural barriers, the mainstream foodservice distributors haven't yet earned a significant market share for Chinese restaurants. Management believes that the market participants in the niche market segment that we are serving is highly fragmented and immature. With the continuing growth of demand for Chinese cuisine, we believe that this industry sector has significant opportunity for consolidation.

The competitors serving the industry sector for Chinese restaurants include a large number of small wholesalers, some medium-sized distributors, as well as large mainstream market players. However, we believe there is no dominating market player in this segment. Our customers also make purchase from local farms, retailers and grocery stores. Small wholesalers usually supply specialized items such as spices, specialized sauces, and specialty foods, which may also be carried in our product lists, but are not able offer the broadline products that we do. Compared with the medium-sized distributors and large mainstream market players, we have advantages of offering a relatively broad line of products, efficient operation infrastructure, and cultural understanding to maintain our market position and continue to grow our business.

## **Trademarks and Other Intellectual Property**

We own three Trademarks: US Trademark 4,422,688, Han Feng, Inc., US Trademark 4,381,017, Han Feng, Inc., and common law trademark used for Han Feng.

## **Insurance**

We use a combination of insurance and self-insurance to provide coverage for potential liability for worker's compensation, automobile and general liability, product liability, director and officer's liability, employee health care benefits and other casualty and property risks. Changes in legal trends and interpretations, variability in inflation rates, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, insolvency or insurance carriers, and changes in discount rates could all affect ultimate settlements of claims. We evaluate our insurance requirements on an ongoing basis to ensure it maintains adequate levels of coverage.

## **Employees**

As of December 31, 2018, we had a workforce of approximately 400 persons, including both our employees and workers engaged through agency placements, 350 of whom are full-time associates and the remaining 50 of whom work part-time. We have 80 employees who have worked for us for 10 years or more. Our workforce is not unionized nor, to our knowledge, are there any plans for them to unionize. We have never experienced a strike or significant work stoppage. We regard our employee relations to be good.

## **Government Regulation**

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

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

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

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

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

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

Our operations are also subject to a broad range of U.S. federal, state, and local environmental laws and regulations, as well as zoning and building regulations. Environmental laws and regulations cover a variety of procedures, including appropriately managing wastewater and stormwater; complying with clean air laws, including those governing vehicle emissions; properly handling and disposing of solid and hazardous wastes; protecting against and appropriately investigating and remediating spills and releases; and monitoring and maintaining underground and aboveground storage tanks for diesel fuel and other petroleum products. As of December 31, 2018, the costs of managing our compliance with environmental laws and regulations was [•].

The U.S. Foreign Corrupt Practices Act (FCPA) prohibits bribery of public officials to obtain or retain business in foreign jurisdictions. The FCPA also requires us to keep accurate books and records and to maintain internal accounting controls to detect and prevent bribery and to ensure that transactions are properly authorized. We will be required to implement and continue to develop a robust anti-corruption compliance program applicable to its operations to detect and prevent bribery and to comply with these and other anti-corruption laws in countries where it may operate.

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

## ITEM 1A. RISK FACTORS.

The following are significant factors known to us that could materially adversely affect our business, reputation, operating results, industry, financial position or future financial performance.

### **Risk Factors Relating to Our Business**

#### ***Unfavorable macroeconomic conditions in the U.S. may adversely affect the results of operations and financial condition of the Company.***

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

- Decrease in discretionary spending of consumers could adversely impact sales of Chinese/Asian restaurants, and their purchases from us. Future economic conditions affecting disposable consumer income, such as employment levels, business conditions, changes in housing market conditions, the availability of consumer credit, interest rates, tax rates and fuel and energy costs, could reduce overall consumer spending.
- Food cost and fuel cost inflation experienced by consumers can lead to reductions in the frequency of and the amount spent by consumers for food-away-from-home purchases, which could negatively impact our business by reducing demand for our products.
- Heightened uncertainty in the financial markets negatively affects consumer confidence and discretionary spending, which can cause disruptions with our customers and suppliers.
- Liquidity issues and the inability of our customers to consistently access credit markets to obtain cash to support their operations can cause temporary interruptions in our ability to conduct day-to-day transactions involving the collection of funds from such customers.
- Liquidity issues and the inability of suppliers to consistently access credit markets to obtain cash to support their operations can cause temporary interruptions in our ability to obtain the foodservice products and supplies needed by us in the quantities and at the prices requested.

In addition, our existing operations are mainly located in the Southeastern United States. The geographic concentration of our operations creates an exposure to the economy of the Southeastern United States and any downturn in this region could materially adversely affect our financial condition and results of operations.

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

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

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

***We may not be able to fully compensate for increases in fuel costs when the fuel price experiences highly volatility, and its operating results would be adversely affected.***

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

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

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

In addition, we purchase seasonal Chinese specialties of vegetables and fruits from farms and other vendors. Increased frequency or duration of extreme weather conditions could also impair production capabilities, disrupt our supply chain or impact demand for its products. Input costs could increase at any point in time for a large portion of the products that we sell for a prolonged period. Our inability to obtain adequate supplies of foodservice and related products as a result of any of the foregoing factors or otherwise could mean that we are unable to fulfill our obligations to customers, and customers may turn to other distributors.

The purchasing prices of our products vary from time to time, which is subject to market conditions and negotiation with suppliers. The prices of some of our products, especially seasonal products, such as vegetables and fruits, have significant fluctuations. We can mitigate the risk of fluctuation in the purchasing and distribution costs by either fixing a price for a certain supply period through negotiation with its suppliers, streamlining its inventory turnover, and passing portions of the price fluctuation to its customers. However, we may not always be able to do that if there are significant and frequent fluctuations. If we are unable to mitigate these price fluctuations, our performance results will be adversely affected.

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



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

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

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

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

***We may not be able to achieve the financial targets in the projections disclosed in our June 18, 2018 Proxy Statement.***

Our ability to meet the financial targets as disclosed in our June 18, 2018 Proxy Statement depends largely on our successful execution of business plan including various related initiatives. There are various risks related to these efforts, including the risk that these efforts may not provide the expected benefits in its anticipated time frame, if at all, and may prove costlier than expected; and the risk of adverse effects to our business, results of operations and liquidity if past and future undertakings, and the associated changes to our business, do not prove to be cost effective or do not result in the cost savings and other benefits at the levels that we anticipate. Our intentions and expectations with regard to the execution of our business plan, and the timing of any related initiatives, are subject to change at any time based on management's subjective evaluation of our overall business needs. If we are unable to successfully execute our business plan, whether due to the failure to realize the anticipated benefits from our various business initiatives in the anticipated time frame or otherwise, we may be unable to achieve these financial targets.

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

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

***If we are unable to renew or replace the current lease of our warehouse located in Georgia on favorable terms, or the current lease is terminated prior to expiration of its stated term, and we cannot find suitable alternate locations, our operations and profitability could be negatively impacted.***

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

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

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

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

The foodservice distribution industry is labor intensive. Our success depends in part upon our ability to attract, train and retain a sufficient number of employees who understand and appreciate our culture and are able to represent our brand effectively and establish credibility with our business partners and customers. Our ability to meet our labor needs, while controlling wage and labor-related costs, is subject to numerous external factors, including the availability of a sufficient number of qualified persons in the work force of the regions in which we are located, unemployment levels within those regions, prevailing wage rates, changing demographics, health and other insurance costs and changes in employment legislation. In the event of increasing wage rates, if we fail to increase our wages competitively, the quality of our workforce could decline, causing our customer service to suffer, while increasing our wages could cause our earnings to decrease. If we are unable to hire and retain employees capable of meeting our business needs and expectations, our business and brand image may be impaired. Any failure to meet our staffing needs or any material increase in turnover rates of our employees may adversely affect our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our operations carry an exposure to litigation risk from consumers, customers, our labor force and others, and may be a party to individual personal injury, product liability and other legal actions in the ordinary course of its business, including litigation arising from food-related illness. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. The cost to defend future litigation may be significant. There may also be adverse publicity associated with litigation that may decrease consumer confidence in our businesses, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may materially adversely affect our businesses, financial condition, results of operations and cash flows.

***Increased commodity prices and availability may impact profitability.***

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

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

We sell our products based on the cost of such products plus a percentage markup. We import approximately 20% of our products from other countries, including China. The U.S. government is currently imposing and proposing increased tariffs on certain products imported into the U.S., including products imported from China. Some of our imported products may be subject to these increased tariffs and accordingly, our purchasing costs will be increased. We may determine to increase our sales prices in order to pass these increased costs to our customers. In the event we determine to take such action, our customers may reduce their orders from us, which could negatively affect our profitability and operating results.

***Severe weather, natural disasters and adverse climate changes may materially adversely affect our financial condition and results of operations.***

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

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

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

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

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

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

As of December 31, 2018, we have \$8.194 million of debt borrowed from a bank credit lines and \$14.565 million of long-term mortgage loans, which could adversely affect our cash flow, our ability to raise additional capital or obtain financing in the future, react to changes in business and repay other debts. These bank loans contain covenants that restrict the ability of us to incur additional debt and operate our business. We may not be able to generate the significant amount of cash needed to pay interest and principal on its debt facilities or refinance all or a portion of its indebtedness, due to the factors, including significant change of economic condition, market competition, whether conditions, outbreak of disaster, and failure of execution of its business plan.

#### **Risk Factors Relating to our Acquisition Strategy**

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

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

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

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

***There is a scarcity of and competition for acquisition opportunities.***

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

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

***Risks related to acquisition financing.***

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

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

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

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

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

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

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

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

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

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

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

## Risk Factors Relating to our Common Stock

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

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

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

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

- factors influencing consumer food choices;
- the operating and securities price performance of companies that investors consider comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors;
- changes in global financial markets and global economies and general market conditions, such as tariffs, interest rates, commodity and equity prices and the value of financial assets;
- additions or departures of key personnel;
- operating results that vary from the expectations of securities analysts and investors;
- sales of our equity securities by stockholders or managements or sales of additional equity securities by us;
- actions by stockholders; and
- passage of legislation or other regulatory developments that adversely affect us or our industry.

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

Stockholders of a public company sometimes bring securities class action suits against the company following periods of instability in the market price of that company’s securities. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our results of operations and financial condition.

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



***Zhou Min Ni beneficially owns approximately 31% of our outstanding common stock and has the ability to control our business and affairs, which may prevent us from taking actions that may be favorable to our other stockholders.***

As of December 31, 2018, Zhou Min Ni, who is our Chief Executive Officer and Chairman of our board of directors, beneficially owned approximately 6,689,896 of our outstanding common stock, representing approximately 31% of the voting power of our capital stock. As a result, Zhou Min Ni has the ability to control all matters requiring approval by our stockholders, including the election and removal of directors and any proposed merger, consolidation or sale of all or substantially all of our assets. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control of us or impeding a merger or consolidation, takeover or other business combination involving us that could be favorable to you.

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

Our current management doesn't have experience in running a public company and conducting corporate governance required of a public company. It may take time for our management team to learn to comply with the reporting, disclosure and corporate governance requirements and listing standards of the Nasdaq Stock Market. We may need to recruit expertise on corporate governance and capital markets to comply with applicable regulations and communicate with the capital markets, which may increase our operating expenses.

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

The Sarbanes-Oxley Act of 2002 requires, among other things, that we design, implement and maintain adequate internal controls and procedures over financial reporting. Our management has concluded that (i) our internal controls over financial reporting were not effective as of December 31, 2018, (ii) there existed a material weaknesses in our internal control over financial reporting as of December 31, 2018, and (iii) our disclosure controls and procedures were not effective as of December 31, 2018. Please see the discussion of these conclusions below under Item 9A. "Controls and Procedures" of this Annual Report on Form 10-K.

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

***We are not required to obtain an attestation report on our assessment of our internal control over financial reporting from an independent registered public accounting firm, which may cause investors to lose confidence in us and cause the price of our common stock to be negatively impacted.***

Under rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are not required to obtain from our independent registered public accounting firm an attestation report on our assessment of our internal control over financial reporting, and we have not voluntarily sought such a report in the past. If we do not voluntarily seek to obtain an unqualified attestation report on our assessment of our internal control over financial reporting from our independent registered public accounting firm in the future, or if we seek to obtain such a report but our independent registered public accounting firm is unable to provide one to us, investors may lose confidence in us and the price of our common stock may be negatively impacted.

***We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are an "emerging growth company", as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We intend to take advantage of these reporting exemptions until we are no longer an emerging growth company. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain an emerging growth company for up to five years, although we will lose that status sooner if we have more than \$1.07 billion of revenues in a fiscal year, have more than \$700 million in market value of our common stock held by non-affiliates as of any June 30 or issue more than \$1.0 billion of non-convertible debt over a rolling three-year period.

Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to avail ourselves of this exemption and, therefore, we will not be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

To the extent that we rely on any of the exemptions available to emerging growth companies, you will receive less information about our executive compensation and internal control over financial reporting than issuers that are not emerging growth companies.

***On January 11, 2019, we received written notice from Nasdaq that we were not in compliance with Nasdaq’s continued listing requirements due to our failure to hold an annual meeting of stockholders for the fiscal year ended December 31, 2017. Our common stock may be delisted from the Nasdaq Capital Market if we cannot satisfy Nasdaq’s continued listing requirements.***

On January 11, 2019, we received written notice from the Listing Qualifications Staff of The Nasdaq Stock Market (“Nasdaq”) notifying us that we no longer comply with Nasdaq Listing Rule 5620(a) and 5810(c)(2)(G) due to our failure to hold an annual meeting of stockholders within twelve months of the end of the Company’s fiscal year ended December 31, 2017 (the “Annual Meeting Requirement”).

Nasdaq’s notice has no immediate effect on the listing of our common stock on The Nasdaq Capital Market. Under Nasdaq Listing Rule 5810(c)(2)(G), we had 45 calendar days from January 11, 2019 to submit to Nasdaq a plan to regain compliance with the Annual Meeting Requirement. If Nasdaq accepts our plan, Nasdaq may grant an extension of up to 180 calendar days from the end of the fiscal year ended December 31, 2018, or until July 1, 2019, to regain compliance. On February 21, 2019, we provided Nasdaq with a plan to regain compliance with the Annual Meeting Requirement, which, among other things, explained the reasons for not holding our 2017 annual meeting of stockholders and stated our intention to hold an annual meeting of stockholders on or before July 1, 2019. As of the date of this report, we have not received a response to our compliance plan from Nasdaq. There can be no assurance that we will be able to regain compliance with the Annual Meeting Requirement or maintain compliance with any other Nasdaq requirement in the future.

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

As of March 27, 2019, there were 22,167,486 shares of our common stock outstanding. Of this number, 2,137,653 shares of common stock were freely tradable without restriction, unless the shares are purchased by our affiliates. The remaining 20,029,833 shares of common stock were “restricted securities” as that term is defined under Rule 144 of the Securities Act. None of our directors, executive officers or employees are subject to lock-up agreements or market stand-off provisions that limit their ability to sell shares of our common stock. The sale of a large number of shares of our common stock, or the belief that such sales may occur, could cause a drop in the market price of our common stock.

***If securities analysts do not publish, or cease publishing, research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, the price of our common stock and trading volume could decline.***

The trading market for our common stock could be influenced by any research and reports that securities or industry analysts publish about us, our business or our market. If one or more of the analysts who covers us downgrades our common stock or publishes inaccurate or unfavorable research about us, our business or our market, the price of our common stock would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause the price of our common stock and trading volume to decline.

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

We have not declared or paid dividends on our common stock and we do not intend to do so in the near term. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock in the near term, and capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

## **ITEM 2. PROPERTIES.**

Our headquarter is located at 6001 West Market Street, Greensboro, North Carolina 27409, which is owned by us. As of December 31, 2018, we utilize distribution, warehouse and office facilities within the southeastern region of the United States. Our significant facilities are listed below by location, ownership, and function as of December 31, 2018:

<b>Location Owned/Leased Use</b>	<b>Owned/Leased</b>	<b>Use</b>
6001 West Market St Greensboro, NC 27409 Owned warehouse	Owned	Warehouse
303 Albemarle St., Lexington, NC 27292 Owned warehouse	Owned	Warehouse
80 Coleman Blvd, Pooler, GA 31322 Owned warehouse	Owned	Warehouse
601 SW 33rd Ave Ocala, FL 34474 Owned warehouse	Owned	Warehouse
520-530 SW 31st Ave., Ocala, FL 34474 Owned warehouse	Owned	Warehouse
Shop Road Extension, Columbia, SC Owned land	Owned	Land
114 Furlong Industrial Dr, Kernersville, NC Owned warehouse	Owned	Warehouse
36 Enterprise Blvd., Atlanta, GA Leased warehouse	Leased	Warehouse

Each of the properties identified above serve our two operating segments: sales to independent restaurants and wholesale. For additional information about our material properties, please see section entitled “BUSINESS – Locations” above.

**ITEM 3. LEGAL PROCEEDINGS.**

On or about January 4, 2017, Kirmland Food Distribution, Inc., a subsidiary of us, entered into a tolling agreement with the United States Department of Labor, Wage and Hour Division, Atlanta Regional Office (“DOL”), in connection with that agency’s administrative investigation of the Company’s compliance with laws regulating employee wage payment and prior undertaking of back wages payments. The inquiry concerned wage practices and record keeping during the years 2013 through 2016 and continuing through the present time. On or about March 11, 2019, Kirmland entered into a settlement agreement with the DOL to fully resolve these matters pursuant to which it will pay \$1,794,752 for alleged back wages and liquidated damages as restitution to 133 current and former employees of Kirmland and five contract labor suppliers, pay a penalty of \$36,414 to DOL, and agreed to undertake a number of affirmative compliance measures going forward.

We are not a party to any material pending legal proceeding.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**PART II.**

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

Shares of our common are listed for trading on The Nasdaq Capital Market (“Nasdaq”) under the symbol, “HFFG,” and have been publicly traded since August 8, 2017. Prior to that date, there was no public market for our stock.

***Holder of Record***

As of March 27, 2019, there were 22,167,486 shares of our common stock issued and outstanding and held by 27 stockholders of record. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

***Dividends***

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

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

*You should read the following description of our results of operations and financial condition in conjunction with its consolidated audited financial statements for the years ended December 31, 2018 and 2017.*

### Overview

We market and distribute fresh produce, frozen and dry food, and non-food products to primarily Asian/Chinese restaurants and other foodservice customers throughout the Southeast region of the United States.

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

Effective August 22, 2018, Atlantic consummated the transactions contemplated by a merger agreement (the “Merger Agreement”), dated as of March 28, 2018, by and among Atlantic, HF Group Merger Sub Inc., a Delaware subsidiary formed by Atlantic, HF Group Holding Corporation, a North Carolina corporation (“HF Holding”), the stockholders of HF Holding, and Zhou Min Ni, as representative of the stockholders of HF Holding. Pursuant to the Merger Agreement, HF Holding merged with HF Merger Sub and HF Holding became the surviving entity (the “Merger”) and a wholly-owned subsidiary of Atlantic (the “Acquisition”). Additionally, upon the closing of the transactions contemplated by the Merger Agreement (the “Closing”), (i) the stockholders of HF Holding became the holders of a majority of the shares of common stock of Atlantic, and (ii) Atlantic changed its name to HF Foods Group Inc. (collectively, these transactions are referred to as the “Transactions”).

At closing on August 22, 2018, Atlantic issued the HF Holding stockholders an aggregate of 19,969,831 shares of its common stock, equal to approximately 88.5% of the aggregate issued and outstanding shares of Atlantic’s common stock. The pre-Transaction stockholders of Atlantic owned the remaining 11.5% of the issued and outstanding shares of common stock of the combined entities.

Following the consummation of the Transactions on August 22, 2018, there were 22,167,486 shares of common stock issued and outstanding, consisting of (i) 19,969,831 shares issued to HF Holding’s stockholders pursuant to the Merger Agreement, (ii) 400,000 shares redeemed by one of Atlantic’s shareholders in conjunction with the Transactions, (iii) 10,000 restricted shares issued to one of Atlantic’s shareholders in conjunction with the Transactions, and (iv) 2,587,655 shares originally issued to the pre-Transaction stockholders of Atlantic.

### Outlook

We plan to continue to expand our business through acquisition of other distributors and wholesalers, which depends on access to sufficient capital. If we are unable able to obtain equity or debt financing, or borrowings from bank loans, we may not be able to execute our plan to acquire other distributors and wholesalers. Even if we are able to make such acquisitions, we may not be able to successfully integrate any acquired businesses or improve their profitability, which could have a material adverse effect on our financial condition and future operating performance.

Our net revenue for the year ended December 31, 2018 was \$291.0 million, a decrease of \$4.5 million, or 1.5%, from \$295.5 million for the year ended December 31, 2017. Net income attributable to HF Foods’ stockholders for the year ended December 31, 2018 was \$6.3 million, a decrease of \$3.4 million, or 35%, from \$9.6 million for the year ended December 31, 2017. Adjusted EBITDA for the year ended December 31, 2018 was \$14.2 million, an increase of \$0.1 million, or 1%, from \$14.1 million for the year ended December 31, 2017. For additional information on Adjusted EBITDA, see the section entitled “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS— Adjusted EBITDA” below.

### How to Assess HF Foods’ Performance

In assessing our performance, we consider a variety of performance and financial measures, including principal growth in net revenue, gross profit, distribution, general and administrative expenses, and adjusted EBITDA. The key measures that we use to evaluate the performance 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 sales are driven by changes in number of customers, product inflation that is reflected in the pricing of its products, and mix of products sold.

### ***Gross Profit***

Gross profit is equal to net sales minus cost of goods sold. Cost of goods sold primarily includes inventory costs (net of supplier consideration), inbound freight, custom clearance fees and other miscellaneous expenses. Cost of goods sold generally changes as HF Foods incurs higher or lower costs from suppliers and as the customer and product mix changes.

### ***Distribution, General and Administrative Expenses***

Distribution, general and administrative expenses primarily consist of salaries and benefits for employees and contract labors, trucking and fuels expenses, utilities, maintenance and repairs expenses, insurance expense, depreciation and amortization expenses, selling and marketing expenses, professional fees and other operating expenses.

### ***Adjusted EBITDA***

We believe that Adjusted EBITDA is a useful performance measure and can be used to facilitate a comparison of HF Foods' operating performance on a consistent basis from period to period and to provide for a more complete understanding of factors and trends affecting our business than GAAP measures alone can provide. Our management believes that Adjusted EBITDA is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and more reflective of other factors that affect our operating performance. Our management believes that the use of these non-GAAP financial measures 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 Adjusted EBITDA in order to provide supplemental information that we consider relevant for the readers of our consolidated financial statements included elsewhere in this report, and such information is not meant to replace or supersede U.S. GAAP measures.

We define Adjusted EBITDA as net income (loss) before interest expense, income taxes, and depreciation and amortization, further adjusted to exclude certain unusual, non-cash, non-recurring, cost reduction, and other adjustment items. The definition of Adjusted EBITDA may not be the same as similarly titled measures used by other companies in the industry. Adjusted EBITDA is not defined under U.S. GAAP and is subject to important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of HF Foods results as reported under U.S. GAAP. For example, Adjusted EBITDA:

- excludes certain tax payments that may represent a reduction in cash available to HF Foods;
- 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 Adjusted EBITDA, see the section entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Adjusted EBITDA" below.

## Results of Operations for the years ended December 31, 2018 and 2017

The following table sets forth a summary of our consolidated results of operations for the years ended December 31, 2018 and 2017. The historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the years ended December 31		Changes	
	2018	2017	Amount	%
Net revenue	\$ 291,006,698	\$ 295,549,980	\$ (4,543,282)	(1.5)%
Cost of revenue	241,441,149	251,615,013	(10,173,864)	(4.0)%
<b>Gross profit</b>	<b>49,565,549</b>	<b>43,934,967</b>	5,630,582	12.8%
Distribution, selling and administrative expenses	41,039,438	32,924,877	8,114,561	24.6%
<b>Income from operations</b>	<b>8,526,111</b>	<b>11,010,090</b>	(2,483,979)	(22.6)%
Interest income	493,358	21,105	472,253	2238%
Interest expenses and bank charges	(1,372,508)	(1,339,897)	(32,611)	2.4%
Other income	1,196,989	1,010,038	186,951	18.5%
<b>Income before income tax provision</b>	<b>8,843,950</b>	<b>10,701,336</b>	(1,857,386)	(17.4)%
Provision for income taxes	2,490,255	623,266	1,866,989	299.5%
<b>Net income</b>	<b>6,353,695</b>	<b>10,078,070</b>	(3,724,375)	(37)%
Less: net income attributable to noncontrolling interest	67,240	431,999	(364,759)	(84.4)%
<b>Net income attributable to HF Foods Group Inc.</b>	<b>\$ 6,286,455</b>	<b>\$ 9,646,071</b>	<b>\$ (3,359,616)</b>	<b>(34.8)%</b>

### Net Revenue

Our net revenue was \$291.0 million for the year ended December 31, 2018, which consisted of \$272.2 million, or 93.5% of net revenue, of sales to independent restaurants (Chinese/Asian restaurants) and \$18.8 million, or 6.5% of net revenue, of sales to wholesale distributors. Net revenue was \$295.5 million for the year ended December 31, 2017, which consisted of \$275.5 million, or 93.2% of net revenue, of sales to independent restaurants and \$20.0 million, or 6.8% of net revenue, of sales to wholesale distributors.

The following table sets forth the breakdown of net revenue:

	For the years ended December 31,				Changes	
	2018		2017		Amount	%
	Amount	%	Amount	%		
<b>Net revenue</b>						
Sales to independent restaurants	\$ 272,172,106	93.5%	\$ 275,481,019	93.2%	\$ (3,308,913)	(1.2)%
Wholesale	18,834,592	6.5%	20,068,961	6.8%	(1,234,369)	(6.2)%
Total	<u>\$ 291,006,698</u>	<u>100.0%</u>	<u>\$ 295,549,980</u>	<u>100.0%</u>	<u>\$ (4,543,282)</u>	<u>(1.5)%</u>

Compared with the year ended December 31, 2017, net revenue decreased by \$4.5 million, or 1.5%, for the year ended December 31, 2018, which was primarily attributable to a \$1.2 million decrease in sales to wholesale customers and a \$3.3 million decrease in sales to independent restaurants. We conduct wholesale sales as a supplemental business for foodservice distribution to restaurants by purchasing full truckloads of product from suppliers and redistributing to smaller distributors who are typically not large enough to order truckload quantities, or do not want to keep inventory for long periods. The larger purchases can improve overall bargaining power with suppliers by increasing total order quantity. The net revenue from wholesale for the year ended December 31, 2018 showed a 6.2% decrease compared with the year ended December 31, 2017. Commencing the second quarter of 2018, we stopped selling to two customers with very low gross margin in order to improve the overall margin of the business. In addition, decreases in commodity prices, such as chicken, also contributed to the decreased sales in 2018.

Sales to independent restaurants decreased by \$3.3 million in 2018 primarily due to the reduced commodity prices in 2018. We observed a 15% - 30% decrease in price across different products categories. The quantity of products sold in 2018 actually increased due to new customers obtained in 2018. Our sales quantity increased by 17.5% from 263.4 million items for the year ended December 31, 2017 to 308.5 million items for the year ended December 31, 2018. However, as a result of the decrease in prices described above, overall sales to independent restaurants decreased.

### Cost of Revenue and Gross Profit

The following tables set forth the calculation of gross profit and gross margin for sales to independent restaurants, wholesalers, and total net revenue:

	For the years ended December 31,		Changes	
	2018	2017	Amount	%
<b>Sales to independent restaurants</b>				
Net revenue	\$ 272,172,106	\$ 275,481,019	\$ (3,308,913)	(1.2)%
Cost of revenue	223,535,244	232,914,638	(9,379,394)	(4.0)%
Gross profit	<u>\$ 48,636,862</u>	<u>\$ 42,566,381</u>	<u>\$ 6,070,481</u>	<u>14.3%</u>
Gross Margin	17.9%	15.5%	2.4%	
<b>Wholesale</b>				
Net revenue	\$ 18,834,592	\$ 20,068,961	\$ (1,234,369)	(6.2)%
Cost of revenue	17,905,905	18,700,375	(794,470)	(4.2)%
Gross profit	<u>\$ 928,687</u>	<u>\$ 1,368,586</u>	<u>\$ (439,899)</u>	<u>(32.1)%</u>
Gross Margin	4.9%	6.8%	(1.9)%	
<b>Total sales</b>				
Net revenue	\$ 291,006,698	\$ 295,549,980	\$ (4,543,282)	(1.5)%
Cost of revenue	241,441,149	251,615,013	(10,173,864)	(4.0)%
Gross profit	<u>\$ 49,565,549</u>	<u>\$ 43,934,967</u>	<u>\$ 5,630,582</u>	<u>12.8%</u>
Gross Margin	17%	14.9%	2.1%	

Cost of revenue was \$241.4 million for the year ended December 31, 2018, a decrease of \$10.2 million, or 4.0%, from \$251.6 million for the year ended December 31, 2017, which was attributable primarily to the decrease of \$9.4 million in cost of revenue for the sales to independent restaurants and a \$ 0.8 million decrease in cost for wholesale revenue.

Gross profit was \$49.5 million for the year ended December 31, 2018, an increase of \$5.6 million, or 12.8%, from \$43.9 million for the year ended December 31, 2017, which was attributable primarily to the increase of \$6.0 million in gross profit derived from sales to independent restaurants which increased from \$42.6 million in 2017 to \$48.6 million in 2018. In 2018, we observed a 15-30% commodity price decrease across different products categories. Due to the international trade war in 2018 many of our products, mainly chicken and other agricultural products, were not able to be sold to China and stayed in the US, which resulted in a decrease in the prices for such products. Due to lower commodity prices, gross margin increased as our mark up remained the same in 2018 and represented a higher percentage of sales than in 2017. In addition, we generated new customers in 2018 which contributed to the increased sales quantity partially offsetting the impact of decreased sales prices.

Gross margin increased from 14.9% for the year ended December 31, 2017 to 17% for the year ended December 31, 2018, representing an increase of 210 basis points, which resulted primarily from an increase of 240 basis point in gross margin from the sales to independent restaurants and offset by a decrease of 190 base points from the wholesale segment. The increase in gross margin was attributable mainly to (a) decreased commodity prices for many of our products caused by the trade war between the United States and China in 2018 as described above, (b) lower purchase prices negotiated with suppliers as a result of larger purchase volumes and strengthened negotiating power, and (c) improvement of our centralized procurement function resulting in more efficient management of inventory, logistics and vendor payment.

Gross margin for our wholesale segment decreased by \$440,000, or 32.1%, and our wholesale revenue decreased by \$1.2 million or 6.2%. The decrease in margins resulted from increased sales to related parties relative to total wholesale revenue in 2018 as compared to 2017. The wholesale price for related parties is generally lower than third party customers due to the larger quantities purchased by related parties resulting in lower margin than the sales made to third parties. For the year ended December 31, 2018, 96.3% of the wholesale revenue was generated by related parties, compared to 92% in 2017.

#### ***Distribution, Selling and Administrative Expenses***

Distribution, selling and administrative expenses were \$41.0 million for the year ended December 31, 2018, an increase of \$8.1 million, or 24.65%, from \$32.9 million for the year ended December 31, 2017. The increase was mainly attributable to: (a) an increase of \$5.7 million in salaries for senior management and contract labor costs as we implemented a time clock system and switched from annual salary to hourly wage for our production workers in order to comply with DOL requirements resulting in a 15% increase in wages for production workers, (b) \$1.8 million of accrued labor dispute expenses related to Kirnland Food Distribution (“Kirnland”) which are described in more detail below, (c) an increase of \$0.5 million in professional fees for legal, consulting and auditing services in connection with our restructuring in preparation for the merger with Atlantic, and (d) an increase of \$1.1 million in advertising expenses.

Kirnland Food Distribution, Inc., a subsidiary of the Company, has been under an inquiry by the United States Department of Labor, Wage and Hour Division, Atlanta Regional Office (the “Department”) concerning wage practices and record keeping for the period from April 2013 through July 2018. On March 11, 2019, we entered into an agreement with the Department to settle the claims arising from this investigation on behalf of the current and former employees for back wages, liquidated damages, and penalties in a total aggregate amount of \$1,831,167, to be paid on or before May 15, 2019. The \$1.8 million has been accrued in distribution, selling and administrative expenses in the consolidated financial statements for the year ended December 31, 2018. For additional information regarding this settlement, please see the section entitled “LEGAL PROCEEDINGS” above.

#### ***Interest Expenses and Bank Charges***

Interest expenses and bank charges are generated primarily from lines of credit, capital leases and long-term debt. Interest expenses and bank charges were \$1.4 million and \$1.3 million for the years ended December 31, 2018 and 2017, respectively.

#### ***Other Income***

Other income consists primarily of non-operating income and rental income. Other income was \$1.2 million for the year ended December 31, 2018 as compared to \$1.0 million for the year ended December 31, 2017, representing an increase of \$0.2 million, which was attributable primarily to rental income earned by a subsidiary acquired in the middle of 2017 and increased sales from pallet in 2018.

#### ***Income taxes Provision***

Provision for income taxes increased by \$1.9 million, or 300%, from \$0.6 million for the year ended December 31, 2017 to \$2.5 million for the year ended December 31, 2018, as a result of all S corporation and partnership entities within HF Foods being converted to C corporations effective January 1, 2018 and being taxed at the corporate level. Before January 1, 2018, only one subsidiary was taxed at the corporate level.

#### ***Net Income Attributable to Non-controlling interest***

Net income attributable to non-controlling interest was derived from one minority owned subsidiary and decreased by \$364,759, or 84.4%, from \$431,999 for the year ended December 31, 2017 to \$67,240 for the year ended December 31, 2018, as a result of the decrease of net income of the subsidiary which is partially owned by non-controlling interest holders.



### Net Income Attributable to HF Foods' Stockholders

As a result of above, net income attributable to our stockholders decreased by \$3.4 million, or 34.8%, from \$9.6 million for the year ended December 31, 2017 to \$6.3 million for the year ended December 31, 2018.

### Adjusted EBITDA

The following table sets forth of the calculation of our adjusted EBITDA and reconciliation to Net Income, the closest US GAAP measure:

	For the years ended December 31,		Changes	
	2018	2017	Amount	%
Net income	\$ 6,353,695	\$ 10,078,070	\$ (3,724,375)	(37.0)%
Interests expenses	1,372,508	1,339,897	32,611	2.4%
Income tax provision	2,490,255	623,266	1,866,989	299.5%
Depreciation & Amortization	2,134,832	2,004,374	130,458	6.5%
Non-recurring expenses*	1,831,167	—	1,831,167	N/A
<b>Adjusted EBITDA</b>	<b>\$ 14,182,457</b>	<b>\$ 14,045,607</b>	<b>\$ 136,850</b>	<b>1.0%</b>
Percentage of revenue	4.9%	4.8%	0.1%	

\* Non-recurring expenses consisted of \$1.8 million of labor dispute expenses accrued for Kirland, which was discussed in the section of Distribution, Selling and Administrative Expenses above.

Adjusted EBITDA was \$14.2 million for the year ended December 31, 2018, an increase of \$0.1 million, or 1%, compared to \$14.1 million for the year ended December 31, 2017. This was due mainly to the fact that the increase in our gross profit was higher than the increase of distribution, selling and administrative expenses. As a percentage of revenue, adjusted EBITDA was 4.9% and 4.8% for the years ended December 31, 2018 and 2017, respectively.

### Liquidity and Capital Resources

As of December 31, 2018, we had cash of approximately \$5.5 million. We funded working capital and other capital requirements primarily by equity contribution from shareholders, 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 repay debts.

Han Feng, our main operating entity, maintains a \$14,500,000 revolving credit facility with East West Bank which is due May 27, 2019, accrues interest based on the prime rate less 0.15%, but in no event less than 3.25% per annum, and is secured by virtually all assets of Han Feng, premises and an adjoining undeveloped parcel of land owned by R&N Holding, and premises owned by R&N Lexington. The outstanding balance on the facility at December 31, 2018 was \$5,644,000. The line of credit agreement contains certain financial covenants which, among other things, require Han Feng to maintain certain financial ratios. As of the date of this report, Han Feng was in compliance with the covenants under the line of credit agreement.

New Southern Food Distributors, Inc. another of our operating subsidiaries ("NSF"), maintains a \$5,000,000 revolving credit facility with Bank of America. The maximum borrowings are determined by certain percentages of eligible accounts receivable and inventories, is due in February 2020, accrues interest based on the LIBOR rate plus 2.75% (3.99% at December 31, 2018) and is secured by three real properties owned by NSF, and guaranteed by the Company and certain of our subsidiaries and affiliates. The outstanding balance on the facility at December 31, 2018 was \$2,550,146. The line of credit agreement contains certain financial covenants which, among other things, require NSF to maintain certain financial ratios. As of the date of this report, NSF was in compliance with the covenants under the line of credit.

Although management believes that the cash generated from operations will be sufficient to meet our normal working capital needs for at least the next twelve months, 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, trends in the foodservice distribution industry, the expected collectability of accounts receivable and the realization of the inventories as of December 31, 2018. Based on the above considerations, management is of the opinion that we have sufficient funds to meet our working capital requirements and debt obligations as they become due. However, there is no assurance that we will be successful in our plan. There are a number of factors that could potentially arise that could result in shortfalls to our plan, such as the demand for our products, economic conditions, the competitive pricing in the foodservice distribution industry and our banks and suppliers being able to provide continued support. If the future cash flow from operations and other capital resources are insufficient to fund our liquidity needs, we may be forced to reduce or delay our acquisition plan, sell assets, obtain additional debt or equity capital which may not be available on terms acceptable to us, if at all, or refinance all or a portion of our debt.

The following table summarizes cash flow data for the years ended December 31, 2018 and 2017:

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Net cash provided by operating activities	\$ 11,953,466	\$ 15,286,862
Net cash used in investing activities	(6,365,313)	(5,468,604)
Net cash used in financing activities	(6,184,793)	(9,688,359)
Net increase (decrease) in cash and cash equivalents	<u>\$ (596,640)</u>	<u>\$ 129,899</u>

### ***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 adjusted for the effect of working capital changes. Net cash provided by operating activities was approximately \$12.0 million for the year ended December 31, 2018, a decrease of 3.3 million, or 22%, compared to net cash provided by operating activities of \$15.3 million for the year ended December 31, 2017. The decrease was a result of a decrease of \$3.7 million in net income, partially offset by an increase of \$0.4 million from change of working capital mainly resulting from the change in related party accounts receivable, advances to related parties suppliers, advance from customers and other current assets.

### ***Investing Activities***

Net cash used in investing activities was approximately \$6.4 million for the year ended December 31, 2018, an increase of \$0.9 million, or 16%, compared to \$5.5 million net cash used investing activities for the year ended December 31, 2017. The increase was a combined result of increased cash paid for the purchase of property and equipment of \$0.8 million, increased cash paid for notes receivable of \$2.3 million, offset by cash acquired from the reverse merger with Atlantic Acquisition of \$1.4 million, net of cash paid for stock redemptions in connection with the acquisition, and a decrease of cash paid for notes receivable to related parties of \$0.8 million.

### ***Financing Activities***

Net cash used in financing activities was approximately \$6.2 million for the year ended December 31, 2018, a decrease of \$3.5 million, or 36%, compared with \$9.7 million for the year ended December 31, 2017. The decrease was a combined result of an increase of \$1.3 million of proceeds from lines of credit and a decrease of \$7.4 million in cash dividend to shareholders, offset by an increase of \$5.2 million in repayment of lines of credit and long term debt.

## Commitments and Contractual Obligations

The following table presents our material contractual obligations as of December 31, 2018:

Contractual Obligations	Total	Less than 1	1-3 years	3-5 years	More than 5
		year			Years
Lines of credit	\$ 8,194,146	\$ 8,194,146	\$ —	\$ —	\$ —
Long-term debt	14,565,295	1,455,441	2,425,369	5,990,266	4,694,219
Capital lease obligations	285,599	164,894	120,705	—	—
Operating lease commitments	232,120	180,810	51,013	297	-
Total	<u>\$ 23,277,160</u>	<u>\$ 9,995,291</u>	<u>\$ 2,597,087</u>	<u>\$ 5,990,563</u>	<u>\$ 4,694,219</u>

On July 2, 2018, AnHeart, Inc., one of our subsidiaries, entered into two separate leases for two buildings located in Manhattan, New York, at 273 Fifth Avenue and 275 Fifth Avenue, for 30 years and 15 years, respectively, which are net leases, meaning that AnHeart is required to pay all costs associated with the buildings, including utilities, maintenance and repairs. HF Holding provided a guaranty for all rent and related costs of the leases, including costs associated with the construction of a two-story structure at 273 Fifth Avenue and rehabilitation of the building at 275 Fifth Avenue. Under the lease for 273 Fifth Avenue, the fixed rent costs over 30 years commence at \$325,000 for the first year and escalate every year during the term to \$1,047,000 in year 30. Under the lease for 275 Fifth Avenue, the fixed rent costs over 15 years commence at \$462,000 for the first year and escalate every year during the term to approximately \$760,878 in year 15. The 275 Fifth Avenue lease includes an option to extend the term for an additional 10 years. Under the leases, AnHeart delivered a letters of credit in favor of the Landlord in the amount of \$213,000 as security for AnHeart's obligations under the lease at 273 Fifth Avenue, and \$115,500 with respect to 275 Fifth Avenue. We entered into the leases for the purpose of expanding our product lines to include Chinese herb supplements, and to use the sites to develop into a hub for such products. We have since determined to cease this business expansion.

On February 23, 2019, we executed an agreement to transfer all of our ownership interest in AnHeart to Jianping An, a resident of New York for a sum of \$20,000. The transfer of ownership has been disclosed and landlord consent is expected. However, the transfer of ownership does not release HF Holding's guaranty of AnHeart's obligations or liabilities under the original lease agreements. Under the terms of the transfer agreement, AnHeart executed a security agreement which grants us a security interest in AnHeart assets and a covenant to assign the leases to us if AnHeart defaults. Further, AnHeart has tendered an unconditional guaranty of all liabilities arising under the leases, in favor of the Company, executed by Minsheng Pharmaceutical Group Company, Ltd., a Chinese manufacturer and distributor of herbal medicines.

### Off -balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements.

### Critical Accounting Policies

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

We believe that among our significant accounting policies, which are described in Note 2 to the audited consolidated financial statements included in this report, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, we believe these are the most critical to fully understand and evaluate our financial condition and results of operations.

### Accounts receivable

Accounts receivable represent amounts due from customers in the ordinary course of business and are recorded at the invoiced amount and do not bear interest. Receivables are presented net of the allowance for doubtful accounts in the accompanying unaudited condensed consolidated balance sheets. We evaluate the collectability of our accounts receivable and determine the appropriate allowance for doubtful accounts based on a combination of factors. When we become aware of a customer's inability to meet its financial obligation, a specific allowance for doubtful accounts is recorded, reducing the receivable to the net amount we reasonably expect to collect. In addition, allowances are recorded for all other receivables based on historic collection trends, write-offs and the aging of receivables. We use specific criteria to determine uncollectible receivables to be written off, including bankruptcy, accounts referred to outside parties for collection, and accounts past due over specified periods. As of December 31, 2018 and December 31, 2017, the allowances for doubtful accounts were \$658,104 and \$567,108, respectively.

### Revenue recognition

We recognize revenue from the sale of products when title and risk of loss passes and the customer accepts the goods, which generally occurs at delivery. Sales taxes invoiced to customers and remitted to government authorities are excluded from net sales.

On January 1, 2018 we adopted Accounting Standards Update ("ASU") 2014-09 Revenue from Contracts with Customers (FASB ASC Topic 606) using the modified retrospective method for contracts that were not completed as of January 1, 2018. The results of applying Topic 606 using the modified retrospective approach were insignificant and did not have a material impact on our consolidated financial condition, results of operations, cash flows, business process, controls or systems.

The core principle underlying the revenue recognition ASU is that we will recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which we expect to be entitled in such exchange. This will require us to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The majority of our contracts have one single performance obligation as the promise to transfer the individual goods is not separately identifiable from other promises in the contracts and is, therefore, not distinct. Our revenue streams are recognized at a point in time.

The contract assets and contract liabilities are recorded on the Condensed Consolidated Balance Sheet as accounts receivable and advance payment from customers as of December 31, 2018 and December 31, 2017. For the year ended December 31, 2018, revenue recognized from performance obligations related to prior periods was insignificant.

Revenue expected to be recognized in any future periods related to remaining performance obligations is insignificant. The following table summarizes disaggregated revenue from contracts with customers by geographic locations:

	For the Years Ended	
	December 31, 2018	December 31, 2017
North Carolina	\$ 138,790,263	\$ 140,933,148
Florida	88,670,044	87,174,466
Georgia	63,546,391	67,442,366
Total	<u>\$ 291,006,698</u>	<u>\$ 295,549,980</u>

### ***Impairment of Long-lived Assets***

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

### ***Income taxes***

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

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. We do not believe that there was any uncertain tax position at December 31, 2018, and 2017.

### ***Recent accounting pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, "Leases" to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet with a corresponding liability and disclosing key information about leasing arrangements. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim reporting periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. We are evaluating the impact of the adoption of this revised guidance on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, "Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control". The amendments affect reporting entities that are required to evaluate whether they should consolidate a variable interest entity in certain situations involving entities under common control. Specifically, the amendments change the evaluation of whether a reporting entity is the primary beneficiary of a variable interest entity by changing how a reporting entity that is a single decision maker of a variable interest entity treats indirect interests in the entity held through related parties that are under common control with the reporting entity. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim reporting periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. We do not expect that adoption of this guidance will have a material impact on our consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash”, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments should be applied using a retrospective transition method to each period presented. The adoption of this guidance will increase cash and cash equivalents by the amount of the restricted cash on our consolidated statement of cash flows.

In July 2017, the FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), and Derivatives and Hedging (Topic 815). The guidance of Part I is to clarify accounting for certain financial instruments with down round feature in a financial instrument that reduces the strike price of an issued financial instrument if the issuer sells shares of its stock for an amount less than the currently stated strike price of the issued financial instrument or issues an equity-linked financial instrument with a strike price below the currently stated strike price of the issued financial instrument. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features. The amendments also re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. The amendments in Part I of ASU No. 2017-11 are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. We are currently evaluating the impact of our pending adoption of ASU 2017-11 on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”. The amendments eliminate the stranded tax effects resulting from the United States Tax Cuts and Jobs Act (the “Act”) and will improve the usefulness of information reported to financial statement users. ASU No. 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We do not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

**HF Foods Group Inc.**  
**Consolidated Financial Statements**  
**For the Fiscal Years Ended December 31, 2018 and December 31, 2017**  
**Index to Financial Statements**

	<b>Page</b>
Report of Independent Registered Public Accounting Firm	37
Consolidated Financial Statements	
Consolidated Balance Sheets	38
Consolidated Statements of Income	39
Consolidated Statements of Cash Flows	40
Consolidated Statements of Changes in Shareholders’ Equity	41
Notes to Consolidated Financial Statements	42

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of HF Foods Group Inc. and its subsidiaries (collectively, the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of income, changes in shareholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

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

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

/s/ Friedman LLP

We have served as the Company’s auditor since 2017.

New York, New York  
April 1, 2019

**HF Foods Group Inc.**  
**Consolidated Balance Sheets**

	As of	
	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 5,489,404	\$ 6,086,044
Accounts receivable, net	14,406,476	14,700,854
Accounts receivable - related parties, net	2,292,151	1,586,420
Inventories, net	22,175,769	22,669,225
Advances to suppliers, net	280,267	1,042,554
Advances to suppliers - related parties, net	1,526,482	3,248,309
Notes receivable	3,803,826	-
Notes receivable - related parties, current	8,117,686	-
Other current assets	950,703	554,865
<b>TOTAL CURRENT ASSETS</b>	<b>59,042,764</b>	<b>49,888,271</b>
Property and equipment, net	22,650,021	21,709,467
Deferred tax assets	117,933	-
Long term notes receivable	-	764,493
Long-term notes receivable - related parties	423,263	6,860,056
Other long-term assets	242,426	1,435,613
<b>TOTAL ASSETS</b>	<b>\$ 82,476,407</b>	<b>\$ 80,657,900</b>
<b>CURRENT LIABILITIES:</b>		
Lines of credit	\$ 8,194,146	\$ 11,894,146
Accounts payable	17,474,206	17,275,485
Accounts payable - related parties	3,923,120	4,075,927
Advance from customers	61,406	49,677
Advance from customers - related parties	166,490	1,350,296
Current portion of long-term debt, net	1,455,441	1,372,125
Current portion of obligations under capital leases	164,894	434,003
Income tax payable	-	512,415
Dividend payable	-	1,000,000
Accrued expenses	2,148,602	991,388
<b>TOTAL CURRENT LIABILITIES</b>	<b>33,588,305</b>	<b>38,955,462</b>
Long-term debt, net	13,109,854	14,249,579
Obligations under capital leases, non-current	120,705	118,535
Deferred tax liabilities	1,196,061	436,212
<b>TOTAL LIABILITIES</b>	<b>\$ 48,014,925</b>	<b>\$ 53,759,788</b>
<b>Commitments and contingencies</b>		
<b>EQUITY:</b>		
Common Stock, \$0.0001 par value, 30,000,000 shares authorized, 22,167,486 and 19,969,831 shares issued and outstanding as of December 31, 2018 and December 31, 2017, respectively	2,217	1,997
Additional paid-in capital	22,920,603	21,549,703
Retained earnings	10,433,984	4,255,213
Total shareholders' equity	33,356,804	25,806,913
Noncontrolling interest	1,104,678	1,091,199
<b>TOTAL EQUITY</b>	<b>34,461,482</b>	<b>26,898,112</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 82,476,407</b>	<b>\$ 80,657,900</b>



**HF Foods Group Inc.**  
**Consolidated Statements of Income**

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Net revenue - third parties	\$ 272,859,695	\$ 277,100,116
Net revenue - related parties	18,147,003	18,449,864
<b>TOTAL NET REVENUE</b>	<b>291,006,698</b>	<b>295,549,980</b>
Cost of revenue - third parties	223,694,206	233,538,139
Cost of revenue - related parties	17,746,943	18,076,874
<b>TOTAL COST OF REVENUE</b>	<b>241,441,149</b>	<b>251,615,013</b>
<b>GROSS PROFIT</b>	<b>49,565,549</b>	<b>43,934,967</b>
<b>DISTRIBUTION, SELLING AND ADMINISTRATIVE EXPENSES</b>	<b>41,039,438</b>	<b>32,924,877</b>
<b>INCOME FROM OPERATIONS</b>	<b>8,526,111</b>	<b>11,010,090</b>
<b>Other Income (Expenses)</b>		
Interest income	493,358	21,105
Interest expense and bank charges	(1,372,508)	(1,339,897)
Rental income and other income	1,196,989	1,010,038
<b>Total Other Income (Expenses), net</b>	<b>317,839</b>	<b>(308,754)</b>
<b>INCOME BEFORE INCOME TAX PROVISION</b>	<b>8,843,950</b>	<b>10,701,336</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>2,490,255</b>	<b>623,266</b>
<b>NET INCOME</b>	<b>6,353,695</b>	<b>10,078,070</b>
Less: net income attributable to noncontrolling interest	67,240	431,999
<b>NET INCOME ATTRIBUTABLE TO HF FOODS GROUP INC.</b>	<b>\$ 6,286,455</b>	<b>\$ 9,646,071</b>
<b>NET INCOME</b>	<b>6,353,695</b>	<b>10,078,070</b>
Less: Pro forma adjustment to reflect income tax expenses if taxed under C Corporation	-	3,439,857
Less: Net income attributable to noncontrolling interest	67,240	431,999
Net income used to compute pro forma net earnings per share	6,286,455	6,206,214
<b>Earnings per common share - basic and diluted</b>	<b>\$ 0.30</b>	<b>\$ 0.48</b>
<b>Pro Forma earnings per common share - basic and diluted</b>	<b>0.30</b>	<b>0.31</b>
<b>Weighted average shares - basic and diluted</b>	<b>20,991,004</b>	<b>19,969,831</b>

**HF Foods Group Inc.**  
**Consolidated Statements of Cash Flows**

**For the years ended December 31**  
**2018**                      **2017**

<b>Cash flows from operating activities:</b>			
<b>Net Income</b>	<b>\$</b>	<b>6,353,695</b>	<b>\$ 10,078,070</b>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization expense		2,134,832	2,004,374
Gain from disposal of equipment		-	(25,000)
Provision of doubtful accounts		90,996	220,986
Deferred tax expenses (benefits)		641,916	(125,854)
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable, net		203,381	(802,144)
Accounts receivable - related parties, net		(705,731)	1,265,021
Inventories		493,456	850,373
Advances to suppliers		762,288	84,722
Advances to suppliers - related parties, net		1,721,827	(2,514,778)
Other current assets		(513,940)	2,679,389
Other long-term assets		1,193,186	456,068
Accounts payable		198,721	217,582
Accounts payable - related parties		(152,807)	33,999
Advance from customers		11,729	(2,148,648)
Advance from customers - related parties		(1,183,806)	2,514,778
Income tax payable		(453,492)	415,120
Accrued expenses		1,157,215	82,804
<b>Net cash provided by operating activities</b>		<b>11,953,466</b>	<b>15,286,862</b>
<b>Cash flows from investing activities:</b>			
Cash received from business combination of HG Realty		-	31,070
Cash received from business combination with Atlantic Acquisition Corp.		1,430,298	-
Purchase of property and equipment		(3,075,385)	(2,264,680)
Proceeds from disposal of equipment		-	25,000
Payment made for notes receivable		(3,039,333)	(764,493)
Payment made for long-term notes receivable to related parties		(1,680,893)	(2,495,501)
<b>Net cash used in investing activities</b>		<b>(6,365,313)</b>	<b>(5,468,604)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from lines of credit		3,900,000	2,600,000
Repayment of lines of credit		(7,600,000)	(4,400,000)
Proceeds from long-term debt		2,250,350	2,580,889
Repayment of long-term debt		(3,573,698)	(1,884,319)
Cash distribution paid to shareholders		(1,161,445)	(8,584,929)
<b>Net cash used in financing activities</b>		<b>(6,184,793)</b>	<b>(9,688,359)</b>
<b>Net increase (decrease) in cash</b>		<b>(596,640)</b>	<b>129,899</b>
<b>Cash at beginning of the year</b>		<b>6,086,044</b>	<b>5,956,145</b>
<b>Cash at end of the year</b>	<b>\$</b>	<b>5,489,404</b>	<b>\$ 6,086,044</b>
<b>Supplemental cash flow information</b>			
<b>Cash paid for interest</b>	<b>\$</b>	<b>1,344,750</b>	<b>\$ 1,268,953</b>
<b>Cash paid for income taxes</b>	<b>\$</b>	<b>2,065,000</b>	<b>\$ 288,909</b>

**HF Foods Group Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Years Ended December 31, 2018 and 2017**

	Ordinary shares		Additional paid-in capital	Retained earnings	Shareholders' Equity	Noncontrolling Interest	Total shareholders' equity
	Number of shares	Amount					
<b>Balance at December 31, 2016</b>	<b>19,969,831</b>	<b>\$ 1,997</b>	<b>\$13,717,122</b>	<b>\$ 9,979,901</b>	<b>\$ 23,699,020</b>	<b>\$ 659,200</b>	<b>\$ 24,358,220</b>
Net income	-	-	-	9,646,071	9,646,071	431,999	10,078,070
Net assets transferred from business combination with HG Realty	-	-	2,582,581	-	2,582,581	-	2,582,581
Capital contribution by shareholders through converting retained earnings to additional paid-in capital	-	-	5,250,000	(5,250,000)	-	-	-
Effect of the conversion of S corporations and partnership entities to C corporations	-	-	-	(535,830)	(535,830)	-	(535,830)
Cash distribution to shareholders	-	-	-	(9,584,929)	(9,584,929)	-	(9,584,929)
<b>Balance at December 31, 2017</b>	<b>19,969,831</b>	<b>\$ 1,997</b>	<b>\$21,549,703</b>	<b>\$ 4,255,213</b>	<b>\$ 25,806,913</b>	<b>\$ 1,091,199</b>	<b>\$ 26,898,112</b>
Effect of reverse acquisition	2,197,655	220	1,370,900	-	1,371,120	-	1,371,120
Net income	-	-	-	6,286,455	6,286,455	67,240	6,353,695
Distribution to shareholders	-	-	-	(107,684)	(107,684)	(53,761)	(161,445)
<b>Balance at December 31, 2018</b>	<b>22,167,486</b>	<b>\$ 2,217</b>	<b>\$22,920,603</b>	<b>\$10,433,984</b>	<b>\$ 33,356,804</b>	<b>\$ 1,104,678</b>	<b>\$ 34,461,482</b>

**HF FOODS GROUP INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION AND BUSINESS DESCRIPTION**

***Organization and General***

HF Foods Group Inc. (“HF Foods”, or the “Company”) markets and distributes fresh produce, frozen and dry food, and non-food products to primarily Asian/Chinese restaurants and other foodservice customers throughout the Southeast region of the United States.

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

***Business Combination***

Effective August 22, 2018, Atlantic consummated the transactions contemplated by a merger agreement (the “Merger Agreement”), dated as of March 28, 2018, by and among Atlantic, HF Group Merger Sub Inc., a Delaware subsidiary formed by Atlantic, HF Group Holding Corporation, a North Carolina corporation (“HF Holding”), the stockholders of HF Holding, and Zhou Min Ni, as representative of the stockholders of HF Holding. Pursuant to the Merger Agreement, HF Holding merged with HF Merger Sub and HF Holding became the surviving entity (the “Merger”) and a wholly-owned subsidiary of Atlantic (the “Acquisition”). Additionally, upon the closing of the transactions contemplated by the Merger Agreement (the “Closing”), (i) the stockholders of HF Holding became the holders of a majority of the shares of common stock of Atlantic, and (ii) Atlantic changed its name to HF Foods Group Inc. (Collectively, these transactions are referred to as the “Transactions”).

At closing on August 22, 2018, Atlantic issued the HF Holding stockholders an aggregate of 19,969,831 shares of its common stock, equal to approximately 88.5% of the aggregate issued and outstanding shares of Atlantic’s common stock. The pre-Transaction stockholders of Atlantic owned the remaining 11.5% of the issued and outstanding shares of common stock of the combined entities.

Following the consummation of the Transactions on August 22, 2018, there were 22,167,486 shares of common stock issued and outstanding, consisting of (i) 19,969,831 shares issued to HF Holding’s stockholders pursuant to the Merger Agreement, (ii) 400,000 shares redeemed by one of Atlantic’s shareholders in conjunction with the Transactions, (iii) 10,000 restricted shares issued to one of Atlantic’s shareholders in conjunction with the Transactions, and (iv) 2,587,655 shares originally issued to the pre-Transaction stockholders of Atlantic.

The Acquisition is treated by Atlantic as a reverse business combination under the acquisition method of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). For accounting purposes, HF Holding is considered to be acquiring Atlantic in this transaction. Therefore, the aggregate consideration paid in connection with the business combination will be allocated to Atlantic’s tangible and intangible assets and liabilities based on their fair market values. The assets and liabilities and results of operations of Atlantic will be consolidated into the results of operations of HF Holding as of the completion of the business combination.

***Reorganization of HF Group***

HF Holding was incorporated in the State of North Carolina on October 11, 2017. Effective January 1, 2018, HF Holding entered into a Contribution Agreement (the “Agreement”) whereby the controlling shareholders of the following 11 entities contributed their respective stocks to HF Holding in exchange for all of HF Holding’s outstanding shares. Upon completion of the share exchanges, these entities became either wholly-owned or majority-owned subsidiaries of HF Holding (hereafter collectively referred to as “HF Group”).

- Han Feng, Inc. (“Han Feng”)

- Truse Trucking, Inc. (“TT”)
- Morning First Delivery, Inc. (“MFD”)
- R&N Holdings, LLC (“R&N Holdings”)
- R&N Lexington, LLC (“R&N Lexington”)
- Kirnsway Manufacturing Inc. (“Kirnsway”)
- Chinesetg, Inc. (“Chinesetg”)
- New Southern Food Distributors, Inc. (“NSF”)
- B&B Trucking Services, Inc. (“BB”)
- Kirnland Food Distribution, Inc. (“Kirnland”)
- HG Realty LLC (“HG Realty”)

In accordance with Accounting Standards Codification (“ASC”) 805-50-25, the transaction consummated through the Agreement has been accounted for as a transaction among entities under common control since the same shareholders control all these 11 entities prior to the execution of the Agreement. The consolidated financial statements of the Company have been prepared to report results of operations for the period in which the transfer occurred as though the transfer of net assets or exchange of equity interests had occurred at the beginning of the period presented, in this case January 1, 2017. Results of operations for the period presented comprise those of the previously separate entities combined from the beginning of the period to the end of the period. By eliminating the effects of intra-entity transactions in determining the results of operations for the period before the combination, those results will be on substantially the same basis as the results of operations for the period after the date of combination. The effects of intra-entity transactions on current assets, current liabilities, revenue, and cost of sales for periods presented and on retained earnings at the beginning of the periods presented are eliminated to the extent possible. Furthermore, ASC 805-50-45-5 indicates that the financial statements and financial information presented for prior years also shall be retrospectively adjusted to furnish comparative information.

In accordance with ASC 805-50-30-5, when accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interests should initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of the transfer. If the carrying amounts of the assets and liabilities transferred differ from the historical cost of the parent of the entities under common control, then the financial statements of the receiving entity should reflect the transferred assets and liabilities at the historical cost of the parent of the entities under common control. Accordingly, the Company has recorded the assets and liabilities transferred from the above entities at their carrying amount.

HF FOODS GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BUSINESS DESCRIPTION (Continued)

The following table summarizes the entities under HF Group after the above-mentioned reorganization:

Name	Date of incorporation	State of incorporation	Percentage of legal ownership by HF Holding	Principal activities
<b>Parent:</b>				
HF Holding	October 11, 2017	North Carolina	—	Holding Company
<b>Subsidiaries:</b>				
Han Feng	January 14, 1997	North Carolina	100%	Distributing food and related products
TT	August 6, 2002	North Carolina	100%	Trucking service
MFD	April 15, 1999	North Carolina	100%	Trucking service
R&N Holdings	November 21, 2002	North Carolina	100%	Real estate holding
R&N Lexington	May 27, 2010	North Carolina	100%	Real estate holding
Kirnsway	May 24, 2006	North Carolina	100%	Design and printing services
Chinesetg	July 12, 2011	North Carolina	100%	Design and printing services
NSF	December 17, 2008	Florida	100%	Distributing food and related products
BB	September 12, 2001	Florida	100%	Trucking service
Kirmland	April 11, 2006	Georgia	66.7%	Distributing food and related products
HG Realty	May 11, 2012	Georgia	100%	Real estate holding

On June 5, 2018, AnHeart Inc. (“AnHeart”) was incorporated and 100% owned by HF Holding. On February 23, 2019, the Company transferred all of its ownership interest in AnHeart to Jianping An, a resident of New York. AnHeart had no activities since inception other than being formed solely to enter into lease agreements for two premises in New York City, NY (Note 8).

## NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Presentation and Principles of Consolidation*

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP. The consolidated financial statements include the financial statements of HF Foods and its subsidiaries. All inter-company balances and transactions have been eliminated upon consolidation.

### *Noncontrolling Interests*

U.S. GAAP requires that noncontrolling interests in subsidiaries and affiliates be reported in the equity section of a company's balance sheet. In addition, the amounts attributable to the net income (loss) of those subsidiaries are reported separately in the consolidated statements of income.

### *Uses of Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during each reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements include the allowances for doubtful accounts, estimated useful lives and fair value in connection with the impairment of property and equipment.

### *Cash and Cash Equivalents*

The Company considers all highly liquid investments purchased with a maturity of three or fewer months to be cash equivalents. As of December 31, 2018 and 2017, the Company had no cash equivalents.

### *Accounts Receivable*

Accounts receivable represent amounts due from customers in the ordinary course of business and are recorded at the invoiced amount and do not bear interest. Receivables are presented net of the allowance for doubtful accounts in the accompanying unaudited condensed consolidated balance sheets. The Company evaluates the collectability of its accounts receivable and determines the appropriate allowance for doubtful accounts based on a combination of factors. When the Company is aware of a customer's inability to meet its financial obligation, a specific allowance for doubtful accounts is recorded, reducing the receivable to the net amount the Company reasonably expects to collect. In addition, allowances are recorded for all other receivables based on historic collection trends, write-offs and the aging of receivables. The Company uses specific criteria to determine uncollectible receivables to be written off, including bankruptcy, accounts referred to outside parties for collection, and accounts past due over specified periods. As of December 31, 2018 and 2017, the allowances for doubtful accounts were \$658,104 and \$567,108, respectively.

HF FOODS GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Inventories***

The Company's inventories, consisting mainly of food and other food service-related products, are primarily considered as finished goods. Inventory costs, including the purchase price of the product and freight charges to deliver it to the Company's warehouses, are net of certain cash or non-cash consideration received from vendors. The Company assesses the need for valuation allowances for slow-moving, excess and obsolete inventories by estimating the net recoverable value of such goods based upon inventory category, inventory age, specifically identified items, and overall economic conditions. Inventories are stated at the lower of cost or net realizable value using the first-in, first-out (FIFO) method. No inventory reserves were recorded for the years ended December 31, 2018 and 2017.

***Property and Equipment***

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

	<b>Estimated useful lives (years)</b>
Buildings and improvements	7 - 39
Machinery and equipment	3 - 7
Motor vehicles	5

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

***Impairment of Long-lived Assets***

The Company assesses its long-lived assets such as property and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Factors which may indicate potential impairment include a significant underperformance related to the historical or projected future operating results or a significant negative industry or economic trend. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their fair value. The Company did not record any impairment loss on its long-lived assets as of December 31, 2018 and 2017.

***Revenue Recognition***

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

On January 1, 2018 the Company adopted Accounting Standards Update ("ASU") 2014-09 Revenue from Contracts with Customers (FASB ASC Topic 606) using the modified retrospective method for contracts that were not completed as of January 1, 2018. The results of applying Topic 606 using the modified retrospective approach were insignificant and did not have a material impact on our consolidated financial condition, results of operations, cash flows, business process, controls or systems.



The core principle underlying the revenue recognition ASU is that the Company will recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the Company expects to be entitled in such exchange. This will require the Company to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The majority of our contracts have one single performance obligation as the promise to transfer the individual goods is not separately identifiable from other promises in the contracts and is, therefore, not distinct. The Company's revenue streams are recognized at a point in time.

The contract assets and contract liabilities are recorded on the Condensed Consolidated Balance Sheet as accounts receivable and advance payment from customers as of December 31, 2018 and 2017. For the years ended December 31, 2018, revenue recognized from performance obligations related to prior periods was insignificant.

Revenue expected to be recognized in any future periods related to remaining performance obligations is insignificant. The following table summarizes disaggregated revenue from contracts with customers by geographic locations:

	For the Years Ended	
	December 31, 2018	December 31, 2017
North Carolina	\$ 138,790,263	\$ 140,933,148
Florida	88,670,044	87,174,466
Georgia	63,546,391	67,442,366
Total	<u>\$ 291,006,698</u>	<u>\$ 295,549,980</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Shipping and Handling Costs***

Shipping and handling costs, which include costs related to the selection of products and their delivery to customers, are presented in distribution, selling and administrative expenses. Shipping and handling costs were \$5,205,673 and \$4,763,185 for the years ended December 31, 2018 and 2017, respectively.

***Income Taxes***

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

The Company recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company does not believe that there was any uncertain tax positions at December 31, 2018 and 2017.

***Capital Lease Obligations***

The Company has recorded capital lease obligations for equipment leases at both December 31, 2018 and 2017. In each case, the Company records the equipment as its own assets under lease accounting guidance. Further, each lease contains provisions indicating continuing involvement with the equipment at the end of the lease period. As a result, in accordance with applicable accounting guidance, related assets subject to the leases are reflected on the Company's unaudited condensed consolidated balance sheets and depreciated over the lesser of the lease term or their remaining useful lives. The present value of the lease payments associated with the equipment is recorded as capital lease obligations.

***Earnings Per Share***

The Company computes earnings per share ("EPS") in accordance with ASC 260, "Earnings per Share" ("ASC 260"). 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 and warrants) 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 is no anti-dilutive effect for the years ended December 31, 2018 and 2017.

### ***Fair Value of Financial Instruments***

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

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2 - Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3 - Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the balance sheets for cash, accounts receivable, advances to suppliers, other current assets, accounts payable, income tax payable, advance from customers, accrued and other liabilities approximate their fair value based on the short-term maturity of these instruments.

### ***Concentrations and Credit Risk***

#### *Credit risk*

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

#### *Concentration risk*

There were no receivables from any one customer representing more than 10% of the Company's consolidated gross accounts receivable at December 31, 2018 and 2017.

For the years ended December 31, 2018 and 2017, no supplier accounted for more than 10% of the total cost of revenue. As of December 31, 2018, three suppliers accounted for 55%, 18% and 12% of total advance payments outstanding and these three suppliers accounted for 65%, 22% and 14% of advance payments to related parties, respectively. As of December 31, 2017, one supplier accounted for 69% of total advance payments outstanding and this supplier accounted for 92% of advance payments to related parties.

## HF FOODS GROUP INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Recent Accounting Pronouncements*

In February 2016, the FASB issued ASU No. 2016-02, "Leases" to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet with a corresponding liability and disclosing key information about leasing arrangements. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim reporting periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is evaluating the impact of the adoption of this revised guidance on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, "Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control". The amendments affect reporting entities that are required to evaluate whether they should consolidate a variable interest entity in certain situations involving entities under common control. Specifically, the amendments change the evaluation of whether a reporting entity is the primary beneficiary of a variable interest entity by changing how a reporting entity that is a single decision maker of a variable interest entity treats indirect interests in the entity held through related parties that are under common control with the reporting entity. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim reporting periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. The Company does not expect that adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash", which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments should be applied using a retrospective transition method to each period presented. The adoption of this guidance will increase cash and cash equivalents by the amount of the restricted cash on the Company's consolidated statement of cash flows.

In July 2017, the FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), and Derivatives and Hedging (Topic 815). The guidance of Part I is to clarify accounting for certain financial instruments with down round feature in a financial instrument that reduces the strike price of an issued financial instrument if the issuer sells shares of its stock for an amount less than the currently stated strike price of the issued financial instrument or issues an equity-linked financial instrument with a strike price below the currently stated strike price of the issued financial instrument. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features. The amendments also re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. The amendments in Part I of ASU No. 2017-11 are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect.. The Company is currently evaluating the impact of its pending adoption of ASU 2017-11 on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". The amendments eliminate the stranded tax effects resulting from the United States Tax Cuts and Jobs Act (the "Act") and will improve the usefulness of information reported to financial statement users. ASU No. 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.. The Company does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

**NOTE 3 - ACCOUNTS RECEIVABLE, NET**

Accounts receivable consisted of the following:

	As of December 31, 2018	As of December 31, 2017
Accounts receivable	\$ 15,064,580	\$ 15,267,962
Less: allowance for doubtful accounts	(658,104)	(567,108)
Accounts receivable, net	<u>\$ 14,406,476</u>	<u>\$ 14,700,854</u>

Movement of allowance for doubtful accounts is as follows:

	For the Years Ended	
	December 31, 2018	December 31, 2017
Beginning balance	\$ 567,108	\$ 670,280
Provision for doubtful accounts	119,329	220,9866
Less: write off/recovery	(28,333)	(324,158)
Ending balance	<u>\$ 658,104</u>	<u>\$ 567,1088</u>

**HF FOODS GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4- NOTES RECEIVABLE**

On September 30, 2018, the Company entered into a line of credit promissory note agreement with Feilong Trading, Inc, which is a supplier to the Company. Pursuant to the promissory note agreement, Feilong Trading, Inc could borrow up to \$4,000,000 from time to time. The note bears interest at the rate of 5% per annum on the unpaid balance, compounded monthly. The entire amount of all unpaid principal and accrued interest shall be due and payable in full by September 30, 2019. As of December 31, 2018, outstanding balance of the notes receivable were \$3,803,826. On March 1 2019, the Company and Feilong Trading, Inc agreed to extend the expiration date to March 1, 2024. Meanwhile, the Company's major shareholder Mr. Zhou Min Ni agreed to personally guarantee the repayment of this note receivable.

**NOTE 5 - PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of the following:

	As of September 30, 2018	As of December 31, 2017
Land	\$ 1,608,647	\$ 1,608,647
Buildings and improvements	18,784,628	18,589,496
Machinery and equipment	10,160,205	9,430,221
Motor vehicles	10,267,095	8,288,868
Subtotal	40,280,575	37,917,232
Less: accumulated depreciation	(18,170,554)	(16,207,765)
Property and equipment, net	<u>\$ 22,650,021</u>	<u>\$ 21,709,467</u>

Depreciation expense was \$2,134,832 and \$2,004,374 for the years ended December 31, 2018 and 2017, respectively.

**NOTE 6 - LINES OF CREDIT**

On July 1, 2016, Han Feng, the Company's main operating entity, entered into a line of credit agreement with East West Bank. The line of credit agreement provided for a revolving credit of \$14,500,000. The line of credit is secured by virtually all assets of Han Feng, premises and an adjoining undeveloped parcel of land owned by R&N Holding, and premises owned by R&N Lexington. The principal and all accrued unpaid interest were originally due in May 2018 and was extended to May 27, 2019, to provide uninterrupted credit facility while the renewal of the line of credit is being reviewed by the bank. Interest is based on the prime rate less 0.15%, but in no event less than 3.25% per annum, and is payable monthly (5.35% at December 31, 2018). The outstanding balance on the line of credit as at December 31, 2018 and 2017 was \$5,644,000 and \$9,344,000, respectively. The line of credit agreement contains certain financial covenants which, among other things, require Han Feng to maintain certain financial ratios. At December 31, 2018 and 2017, Han Feng was in compliance with the covenants under the line of credit agreement. The line of credit was guaranteed by the two shareholders of the Company, as well as four subsidiaries of the Company, TT, MFD, R&N Holding and R&N Lexington.

On November 14, 2012, NSF, the Company's another operating entity, entered into a line of credit agreement with Bank of America. The line of credit agreement provided for a revolving credit of \$4,000,000. The line of credit is secured by three real properties owned by NSF, and guaranteed by the two shareholders of the Company, as well as BB, a subsidiary of the Company. The maximum borrowings are determined by certain percentages of eligible accounts receivable and inventories. The principal and all accrued unpaid interest were due in January 2018. The line of credit was renewed upon maturity, with the revolving credit increased to \$5,000,000, and is now due in February 2020. Interest is based on the LIBOR rate plus 2.75% (3.99% at December 31, 2018). The outstanding balance on the line of credit as at December 31, 2018 and 2017 was \$2,550,146 and \$2,550,146, respectively. The line of credit agreement contains certain financial covenants which, among other things, require NSF to maintain certain financial ratios. At December 31, 2018, NSF was not in compliance with the covenants under the line of credit agreement. The Company is currently working with bank to either get a waiver or modify the covenant term. However, failure to comply with the covenant may cause the bank to demand repayment in full anytime. At December 31, 2017, NSF was in compliance with the covenants under the line of credit agreement.

#### NOTE 7 - LONG-TERM DEBT

Long-term debt at December 31, 2018 and 2017 is as follows:

Bank name	Maturity	Interest rate at December 31, 2018	As of December 31, 2018	As of December 31, 2017
East West Bank – (b)	June 2022 - August 2027	5.27% - 5.75%	\$ 5,053,539	\$ 5,220,809
Capital Bank – (c)	October 2027	3.85%	5,138,988	5,333,677
Bank of America – (d)	February 2023	5.18%	1,363,211	2,262,500
Bank of Montreal – (a)	April 2021 - March 2024	5.17% - 6.17%	2,256,724	1,071,398
GE Capital – (a)	October 2019	5.94%	—	36,359
Other finance companies – (e)	March 2019 - December 2022	5.75% - 7.45%	752,833	1,696,961
<b>Total debt</b>			<b>14,565,295</b>	<b>15,621,704</b>
Less: current portion			(1,455,441)	(1,372,125)
<b>Long-term debt</b>			<b>\$ 13,109,854</b>	<b>\$ 14,249,579</b>

The terms of the various loan agreements related to long-term bank borrowings contain certain restrictive financial covenants which, among other things, require the Company to maintain specified levels of debt to tangible net assets and debt service coverage. As of December 31, 2018 and 2017, the Company was in compliance with such covenants.

The loans outstanding were guaranteed by the following properties, entities or individuals:

- (a) Not collateralized or guaranteed.
- (b) Guaranteed by two shareholders of the Company, as well as five subsidiaries of the Company, Han Feng, TT, MFD, R&N Holding and R&N Lexington. Also secured by assets of Han Feng and R&N Lexington and R&N Holding, two real properties of R&N Holding, and a real property of R&N Lexington. Balloon payment of these long-term debts is \$3,642,215.
- (c) Guaranteed by two shareholders, as well as Han Feng, one subsidiary of the Company. Also secured by a real property owned by HG Realty. Balloon payment of this debt is \$3,116,687.
- (d) Guaranteed by two shareholders, as well as two subsidiaries of the Company, NSF and BB. Secured by a real property, equipment and fixtures, inventories, receivables and all other personal property owned by NSF. Balloon payment of this long-term debt is \$1,684,898.
- (e) Secured by vehicles.

HF FOODS GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 7 - LONG-TERM DEBT (Continued)**

The future maturities of long-term debt at December 31,2018 are as follows:

Twelve months ending December 31,	
2019	\$ 1,455,441
2020	1,304,686
2021	1,120,683
2022	4,677,260
2023	1,313,006
Thereafter	4,694,219
<b>Total</b>	<b>\$ 14,565,295</b>

**NOTE 8 - LEASES**

**Capital Lease Obligations**

The Company leases vehicles or delivery trucks under capital leases with various expiration dates through 2023. At December 31, 2018 and 2017, the cost of assets acquired under capital leases is \$1,484,911 and\$ 1,297,900, respectively, and the related accumulated depreciation is \$810,753 and \$535,590, respectively, and the net book value is \$674,157 and \$762,310, respectively. Depreciation expense related to these assets for the years ended December 31, 2018 and 2017 were \$275,163 and \$259,580, respectively.

Capital lease obligations consisted of the following:

	As of December 31, 2018	As of December 31, 2017
Vehicles due in monthly installments of \$40,470 inclusive of interest at 14.38%, due in March 2019	\$ 118,535	\$ 552,538
Computers due in monthly installments of \$4,073 inclusive of interest at 5.3%, due in June 20121-August 2021	\$ 167,063	\$ -
Less: current portion	(164,894)	(434,003)
Obligations under capitalized leases payable after one year	<u>\$ 120,705</u>	<u>\$ 118,535</u>

**Operating lease commitments**

The Company's operating leases mainly include forklifts, housing units and two buildings located in New York city, as described below. These leases had an average remaining lease term of approximately 5 years as of December 31, 2018 for forklift and 27 years for real estate lease. Rental expense charged to expenses under operating leases for the years ended December 31, 2018 and 2017 amounted to \$356,798 and \$575,693, respectively.



On July 2, 2018, AnHeart entered into two separate leases for two buildings located in Manhattan, New York, at 273 Fifth Avenue and 275 Fifth Avenue, for 30 years and 15 years, respectively, which are net leases, meaning that AnHeart is required to pay all costs associated with the buildings, including utilities, maintenance and repairs. HF Holding provided a guaranty for all rent and related costs of the leases, including costs associated with the construction of a two-story structure at 273 fifth avenue and rehabilitation of the building at 275 fifth avenue. Under the lease for 273 Fifth Avenue, the fixed rent costs over 30 years commence at \$325,000 for the first year and escalate every year during the term to \$1,047,000 in year 30. Under the lease for 275 Fifth Avenue, the fixed rent costs over 15 years commence at \$462,000 for the first year and escalate every year during the term to approximately \$760,878 in year 15. The 275 fifth avenue lease includes an option to extend the term for an additional 10 years. Under the leases, AnHeart delivered two letters of credit in favor of the Landlord as security for AnHeart's obligations under the leases. With respect to 273 Fifth Avenue, the letter of credit is in the amount of \$213,000. With respect to 275 Fifth Avenue, the letter of credit is in the amount of \$115,500. The Company entered into the leases for the purpose of expanding its product lines to include Chinese herb supplements, and management determined at the time of the execution of the leases to use the sites to develop into a hub for such products. However, management has since determined to cease the said business expansion.

On February 23, 2019, the Company executed an agreement to transfer all of its ownership interest in AnHeart to Jianping An, a resident of New York for a sum of \$20,000. The transfer of ownership has been disclosed and landlord consent is expected. However, the transfer of ownership does not release HF Holding's guaranty of AnHeart's obligations or liabilities under the original lease agreements. Under the terms of the sale of shares, AnHeart has executed a security agreement which provides a security interest in AnHeart assets and a covenant that the Company will be assigned the leases if AnHeart defaults. Further, Anheart has tendered an unconditional guaranty of all AnHeart liabilities arising from the leases, in favor of the Company, executed by Minsheng Pharmaceutical Group Company, Ltd., a Chinese manufacturer and distributor of herbal medicines.

Future minimum lease obligations for operating leases with initial terms in excess of one year at December 31, 2018 are as follows:

Twelve months ended December 31,	
2019	\$ 180,810
2020	42,030
2021	8,983
2022	297
2023	-
Thereafter	-
<b>Total</b>	<b>\$ 232,120</b>

HF FOODS GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - TAXES

A. Corporate Income Taxes (“CIT”)

Prior to January 1, 2018, Han Feng, TT, MFD, Kirnsway, Chinesetg, NSF and BB had elected under the Internal Revenue Code to be S corporations. R&N Holdings, R&N Lexington and HG realty were formed as partnerships. An S corporation or partnership is considered a flow-through entity and is generally not subject to federal or state income tax on corporate level. In lieu of corporate income taxes, the stockholders and members of these entities are taxed on their proportionate share of the entities’ taxable income. Kirmland did not elect to be treated as S corporation and was the only entity that is subject to corporate income taxes under this report.

Effective January 1, 2018, all of the above-listed S corporation and partnership entities have been converted to C corporations and will be taxed at corporate level going forward. Accordingly, the Company shall account for income taxes of all these entities under ASC 740. The Company has recognized the impact on deferred income tax assets and liabilities from the future conversion of the above-mentioned S corporations and partnership entities to C corporations in the consolidated financial statements as of December 31, 2017.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the “Act”), which significantly changed U.S. tax law. The Act lowered the Company’s U.S. statutory federal income tax rate from 35% to 21% effective January 1, 2018, while also imposing a deemed repatriation tax on deferred foreign income. The Act also created a new minimum tax on certain future foreign earnings. The Company expects the new federal income tax rate will significantly lower the Company’s income tax expenses going forward. The Company does not expect the repatriation tax and new minimum tax on certain future foreign earnings to have any impact on the Company’s operations since it currently has no foreign income and does not expect to generate any foreign income in the future.

(i) The Income tax provision (benefit) of the Company for the years ended December 31, 2018 and 2017 consists of the following:

	For the Years Ended	
	December 31, 2018	December 31, 2017
Current:		
Federal	\$ 1,474,467	\$ 631,487
State	373,871	117,633
Current income tax provision	1,848,338	749,120
Deferred:		
Federal	520,163	(104,771)
State	121,754	(21,083)
Deferred income tax expense (benefit)	641,917	(125,854)
Total income tax provision	\$ 2,490,255	\$ 623,266

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

	As of December 31, 2018	As of December 31, 2017
<b>Deferred tax assets:</b>		
Allowance for doubtful accounts	\$ 165,083	\$ 139,947
Inventories	113,730	1,750
Section 481(a) adjustment	40,317	140,310
Accrued expenses	46,750	237,550
Total deferred tax assets	<u>365,880</u>	<u>519,557</u>
<b>Deferred tax liabilities:</b>		
Property and equipment	(1,444,008)	(955,769)
Total deferred tax liabilities	<u>(1,444,008)</u>	<u>(955,769)</u>
Net deferred tax assets (liabilities)	<u>\$ (1,078,128)</u>	<u>\$ (436,212)</u>

The net deferred tax liabilities presented in the Company's Consolidated Balance Sheets were as follows□

	As of December 31, 2018	As of December 31, 2017
Noncurrent deferred tax assets	\$ 117,933	\$ -
Noncurrent deferred tax liabilities	(1,196,061)	(436,212)
Net deferred tax liabilities	<u>\$ (1,078,128)</u>	<u>\$ (436,212)</u>

The above-disclosed deferred income tax assets and liabilities as of December 31, 2017 included deferred tax assets in the amount of \$398,699 and deferred tax liabilities in the amount of \$934,529 derived from the effect of future conversion of the above-mentioned S corporations and partnership entities to C corporations.

HF FOODS GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – TAXES (Continued)

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

	For the Years Ended	
	December 31, 2018	December 31, 2017
Federal statutory tax rate	21.0%	34.0%
State statutory tax rate	4.4%	6.0%
U.S. permanent difference	1.0%	(1.2)%
Others	1.7%	-
Effect of flow-through entities	—	(33)%
Effective tax rate	<u>28.1%</u>	<u>5.8%</u>

**B. Pro Forma Income Taxes Information**

As mentioned before, prior to January 1, 2018, Han Feng, TT, MFD, Kirnsway, Chinesetg, NSF and BB had elected under the Internal Revenue Code to be S corporations. R&N Holdings, R&N Lexington, and HG realty were formed as partnerships. Starting January 1, 2018, all of the above-mentioned entities have been converted to C corporations and will be subject to regular corporate income tax rate going forward.

The following pro forma financial information presents the income tax expenses and EPS for year ended December 31, 2017, as if all of these S corporation and partnership entities had been converted to C corporations as of the beginning of each period presented:

(i) The Pro forma Income tax provision of the Company for the year ended December 31, 2017 consists of the following:

	For the Year Ended December 31, 2017 (Unaudited)
Current:	
Federal	\$ 3,677,489
State	478,675
Current income tax provision	<u>4,156,164</u>
Deferred:	
Federal	(73,805)
State	(19,236)
Deferred income tax provision	<u>(93,041)</u>
Total income tax provision	<u>\$ 4,063,123</u>

(ii) The Pro forma deferred tax assets and liabilities are as follows:

	As of December 31, 2017 (Unaudited)
Deferred tax assets	519,557
Deferred tax liabilities	(955,769)
Net deferred tax liabilities	<u>\$ (436,212)</u>

(iii) The pro forma earnings per share:

	For the Year ended December 31, 2017
Pro forma net income	\$ 6,638,213
Less: net income (loss) attributable to noncontrolling interest	431,999
Pro forma net income attributable to HF Foods Group, Inc.	<u>6,206,214</u>
Pro forma earnings per common share - basic and diluted	\$ 0.31
Pro forma weighted average shares - basic and diluted	<u>19,969,831</u>

HF FOODS GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 10 – RELATED PARTY TRANSACTIONS**

The Company records transactions with various related parties. These related party transactions as of December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017 are identified as follows:

**Related Party Balances:**

**a. Accounts receivable - related parties, net**

Below is a summary of accounts receivable with related parties as of December 31, 2018 and 2017, respectively:

Name of Related Party	As of December 31, 2018	As of December 31, 2017
(a) Allstate Trading Company Inc.	\$ 1,000	\$ 176,660
(b) Enson Seafood GA Inc. (formerly “GA-GW Seafood, Inc.”)	255,412	87,814
(c) Eagle Food Service LLC	817,275	656,799
(d) Fortune One Foods Inc.	130,314	154,904
(e) Eastern Fresh LLC	784,836	340,114
(f) New Marco Food Inc.	—	170,129
(g) Enson Trading LLC	170,633	—
(h) Enson Philadelphia Inc.	49,027	—
(i) Hengfeng Food Service Inc.	83,654	—
<b>Total</b>	<b>\$ 2,292,151</b>	<b>\$ 1,586,420</b>

- a. Mr. Zhou Min Ni, the Chairman and Chief Executive Officer of the Company, owns 40% equity interest of this entity;
- b. Mr. Zhou Min Ni owns 50% equity interest of this entity;
- c. Tina Ni, one of Mr. Zhou Min Ni’s family member owns 50% equity interest of this entity;
- d. Mr. Zhou Min Ni owns 17.5% equity interest of this entity;
- e. Mr. Zhou Min Ni owns 30% equity interest of this entity;
- f. Mr. Zhou Min Ni owns 30% equity interest of this entity.
- g. Mr. Zhou Min Ni owns 25% equity interest of Enson Trading LLC.
- h. Mr. Zhou Min Ni owns 25% equity interest of Enson Philadelphia Inc.
- i. Mr. Zhou Min Ni owns 45% equity interest of Hengfeng Food Service Inc.

All accounts receivable from these related parties are current and considered fully collectible. No allowance is deemed necessary.

**b. Advances to suppliers - related parties, net**

The Company periodically provides purchase advances to various vendors, including the related party suppliers. These advances are made in the normal course of business and are considered fully realizable.

Below is a summary of advances to related party suppliers as of December 31, 2018 and 2017, respectively:

Name of Related Party	As of December 31, 2018	As of December 31, 2017
(1) Enson Seafood GA Inc. (formerly "GA-GW Seafood, Inc.")	\$ —	\$ 2,978,161
(2) Ocean Pacific Seafood Group	208,960	145,888
(3) Han Feng Information Tech. Jinhua Inc.	—	5,167
(4) NSG International Inc. ("NSG")	-	119,093
(5) Revolution Industry LLC	329,394	—
(6) First Choice Seafood Inc.	988,128	—
<b>Total</b>	<b>\$ 1,526,482</b>	<b>\$ 3,248,309</b>

- (1) Mr. Zhou Min Ni owns 50% equity interest of this entity. The large advances to Enson Seafood GA Inc. ("Enson Seafood") made in 2017 was a result of the Company's decision to take advantage of the large refrigerated facilities owned by Enson Seafood. The Company made these advances to Enson Seafood for the purchases of large quantities of frozen foods. Enson Seafood takes possession of these frozen goods until they are shipped based on the Company's sales orders. The Company did not include these advanced purchases in its inventory since the title and risk of these goods remained with Enson Seafood;
- (2) Mr. Zhou Min Ni owns 25% equity interest of this entity;
- (3) Mr. Zhou Min Ni owns 37% of its equity interest;
- (4) Mr. Zhou Min Ni owns 30% of its equity interest;
- (5) The son of Mr. Zhou Min N, Raymond Ni owns 100% of Revolution Industry LLC;
- (6) First Choice Seafood is owned by Enson Seafood GA Inc, as described in (1).

HF FOODS GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)

c. Notes receivables - related parties

The Company had previously made advances or loans to certain entities that are either owned by the controlling shareholders of the Company or family members of the controlling shareholders.

As of December 31, 2018 and 2017, the outstanding loans to various related parties consist of the following:

Name of Related Party	As of December 31, 2018	As of December 31, 2017
Enson Seafood GA Inc. (formerly "GA-GW Seafood, Inc.")	\$ 1,987,241	\$ 550,000
NSG International Inc. ("NSG")	6,092,397	5,993,552
Eastern Fresh LLC ("Eastern")	—	316,504
Revolution Automotive LLC ("Revolution Automotive") <sup>(1)</sup>	461,311	—
<b>Total</b>	<b>\$ 8,540,949</b>	<b>\$ 6,860,056</b>
Less: Current portion	\$ 8,117,686	\$ —
<b>Total</b>	<b>\$ 423,263</b>	<b>\$ 6,860,056</b>

(1) The son of Mr. Zhou Min Ni, Raymond Ni owns 100% of Revolution Automotive LLC.

On January 1, 2018, the Company signed a promissory note agreement with Enson Seafood. Pursuant to the promissory note agreement, the outstanding balances of \$550,000 due from Enson Seafood as of December 31, 2017 was converted into promissory notes bearing annual interest of 5%. The interest shall be accrued starting January 1, 2018. The principal plus interest shall be paid off no later than December 31, 2019. Interest is computed on the outstanding balance on the basis of the actual number of days elapsed in a year of 360 days.

On September 30, 2018, the Company signed a promissory note agreement with Enson Seafood for \$2,000,000. Pursuant to the promissory note agreement, Enson Seafood will make monthly payment of \$171,214.96 for 12 months, including interest. The loan bears interest of 5% per annum on the unpaid balance, compounded monthly. The principal plus interest shall be paid off no later than September 30, 2019, with an option to renew.

On January 1, 2018, the Company signed a promissory note agreement with NSG. Pursuant to the promissory note agreement, the outstanding balances of \$5,993,552 due from NSG as of December 31, 2017 was converted into promissory notes bearing annual interest of 5%. The interest shall be accrued starting January 1, 2018. The principal plus interest shall be paid off no later than December 31, 2019. Interest is computed on the outstanding balance on the basis of the actual number of days elapsed in a year of 360 days.

The promissory note with Eastern in the original amount of \$1,000,000 was signed on May 31, 2017 bearing annual interest rate of 5%. This note has been repaid in full.

On March 1, 2018, the Company signed promissory note agreement with Revolution Automotive for \$483,628. Pursuant to the promissory note agreement, Revolution Automotive will make monthly payment of \$5,000 for 60 months, including interest, with final payment of \$284,453. The loan bears interest of 5% per annum. Interest is computed on the outstanding balance on the basis of the actual number of days elapsed in a year of 360 days. The principal plus interest shall be paid off no later than April 30, 2023.

On March 1, 2019, the Company and each of Enson Seafood and NSG agreed to extend the expiration date of their notes payable to February 29, 2024 and Mr. Zhou Min Ni agreed to personally guarantee these notes.



**d. Accounts payable - related parties**

As of December 31, 2018 and 2017, the Company had a total accounts payable balance of \$3,923,120 and \$ 4,075,927 due to various related parties, respectively. All these accounts payable to related parties occurred in the ordinary course of business and are payable upon demand without interest.

**e. Advance from customers - related parties**

The Company also periodically receives advances from its related parties for business purposes. These advances are interest free and due upon demand. The balances for advance from customers involving related parties amounted to \$166,490 and \$1,350,296 as of December 31, 2018 and 2017, respectively.

**Lease Agreements with Related Parties:**

A subsidiary of the Company, RN Holding, leases a facility to a related party under an operating lease agreement expiring in 2019. The cost of the leased building is \$400,000 at December 31, 2018 and 2017, and the accumulated depreciation of the leased building is \$100,000 and \$89,743 at December 31, 2018 and 2017, respectively. Rental income for the years ended December 31, 2018 and 2017 amounted to \$45,600 and 45,600, respectively.

In 2017, a subsidiary of the Company, HG Realty, leased a warehouse to a related party under an operating lease agreement expiring on September 21, 2027. The cost of the leased building is \$3,223,745 as at December 31, 2018 and 2017, and the accumulated depreciation of the leased building is \$433,966 and \$351,306 as at December 31, 2018 and 2017, respectively. Rental income for the years ended December 31, 2018 and 2017 were \$480,000 and \$490,000.

**Related Party Sales and Purchases Transactions:**

The Company also makes regular sales to or purchases from various related parties during the normal course of business. The total sales made to related parties amounted to \$18,147,003 and \$18,449,864 for the years ended December 31, 2018 and 2017, respectively. The total purchases made from related parties were \$31,676,828 and \$32,221,005 for the years ended December 31, 2018 and 2017, respectively.

HF FOODS GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - SEGMENT REPORTING

ASC 280, "Segment Reporting," establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for details on the Company's business segments. The Company uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. Management, including the chief operating decision maker, reviews operation results by the revenue of different products. Based on management's assessment, the Company has determined that it has two operating segments: sales to independent restaurants and wholesale.

The following table presents net sales by segment for the years ended December 31, 2018 and 2017, respectively:

	For the Years Ended	
	December 31, 2018	December 31, 2017
Sales to independent restaurants	\$ 272,172,106	\$ 275,481,019
Wholesale	18,834,592	20,068,961
Total	<u>\$ 291,006,698</u>	<u>\$ 295,549,980</u>

All the Company's revenue was generated from its business operation in the U.S.

	For the Year Ended December 31, 2018		
	Sales to independent restaurants	Wholesale	Total
Revenue	\$ 272,172,106	\$ 18,834,592	\$ 291,006,698
Cost of revenue	223,535,244	17,905,905	241,441,149
Gross profit	<u>\$ 48,636,862</u>	<u>\$ 928,687</u>	<u>\$ 49,565,549</u>
Depreciation and amortization	\$ 1,996,661	\$ 138,171	\$ 2,134,832
Total capital expenditures	<u>\$ 2,876,339</u>	<u>\$ 199,046</u>	<u>\$ 3,075,385</u>

	For the Year Ended December 31, 2017		
	Sales to independent restaurants	Wholesale	Total
Revenue	\$ 275,481,019	\$ 20,068,961	\$ 295,549,980
Cost of revenue	232,914,638	18,700,375	251,615,013
Gross profit	<u>\$ 42,566,381</u>	<u>\$ 1,368,586</u>	<u>\$ 43,934,967</u>
Depreciation and amortization	\$ 1,868,269	\$ 136,105	\$ 2,004,374
Total capital expenditures	<u>\$ 2,110,900</u>	<u>\$ 153,780</u>	<u>\$ 2,264,680</u>

**HF FOODS GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 - SEGMENT REPORTING (Continued)**

	As of December 31, 2018	As of December 31, 2017
Total assets:		
Sales to independent restaurants	\$ 77,138,353	\$ 75,180,924
Wholesale	5,338,054	5,476,976
Total Assets	\$ 82,476,407	\$ 80,657,900

**NOTE 12 – CONTINGENCY**

Kirland Food Distribution, Inc., a subsidiary of the Company, has been under an inquiry by the United States Department of Labor, Wage and Hour Division, Atlanta Regional Office (the “Department”), concerning pre-acquisition wage practices and record keeping for the period from April 2013 through July 2018. On March 11, 2019, the Company and the Department have concluded an agreement to settle the claims arising from this investigation on behalf of the current and former employees for back wages, liquidated damages and penalties in a total aggregate amount of \$1,831,167, to be paid on or before May 15, 2019. The \$1.8 million has been accrued in distribution, selling and administrative expenses in the consolidated financial statements for the year ended December 31, 2018.

The Company believes that it has resolved the past issues raised by the Department of Labor, and also plans on providing the Department of Labor with its remedial actions to address the issues raised currently and on an ongoing basis.

In addition, as described in Note 8, HF Holding is the guarantor for AnHeart’s lease agreements. Although the Company transferred all ownership in AnHeart to a third party, the transfer does not release HF Holding’s liability and obligation as a guarantor.

**NOTE 13 – SUBSEQUENT EVENTS**

On February 23, 2019, the Company executed an agreement to transfer all of its ownership interest in AnHeart to Jianping An, a resident of New York for a sum of \$20,000.

On March 1, 2019, the Company, Feilong Trading, Inc., Enson Seafood, and NSG agreed to extend the expiration date of the notes receivable agreement to March 1, 2024, February 29, 2024 and February 29, 2024, respectively. (refer to Note 4 and note 10).

There were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the fiscal year ended December 31, 2018. Based on this evaluation, our principal executive officer and principal financial and accounting officer have concluded that as a result of the material weakness in our internal control over financial reporting as described below, our disclosure controls and procedures were not effective as of December 31, 2018. Notwithstanding the material weaknesses, our management has concluded that the financial statements included elsewhere in this report present fairly, and all materials respects, our financial position on 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.

***Management's Report on Internal Control Over Financial Reporting***

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

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

As of December 31, 2018, our management assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In connection with this review and the audit of our consolidated financial statements for the year ended December 31, 2018, we identified material weakness and control deficiencies in our internal control over financial reporting. The material weakness related to the deficiency in the ability of our in-house accounting professionals to generate financial statements in the form required by applicable SEC requirements. Control deficiencies are related to the lack of proper documentation to evidence the review of customer orders and purchase orders, and lack of proper documentation to evidence customers' acknowledgement of transaction amounts and account balances. Due to the foregoing material weakness and control deficiencies, management concluded that as of December 31, 2018, our internal control over financial reporting was ineffective.

In order to address and resolve the foregoing material weakness, 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 with requisite training and experience in the preparation of financial statements in compliance with applicable SEC requirements, formalizing our processes to generate documentation sufficient to support customer orders and purchase orders, and implementing controls to obtain documentation evidencing customer agreements to transaction amounts and account balances.

The measures we are implementing are subject to continued management review supported by confirmation and testing, as well as audit committee oversight. Management remains committed to the implementation of remediation 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/or operated for a sufficient period of time, and subsequent evaluation of their effectiveness is completed, the material weaknesses identified and described above will continue to exist.

Our independent registered public accounting firm is not yet required to formally attest to the effectiveness of our internal controls over financial reporting, and will not be required to do so for as long as we are an "emerging growth company" pursuant to the provisions of the JOBS Act.

***Changes in Internal Controls Over Financial Reporting***

There have been no changes in our internal control over financial reporting for the three months ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

None.

**PART III.**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information required by this item will be set forth under “Proposal No. 1: Election of Directors” in the Company’s Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

The information required by this item regarding Section 16(a) beneficial ownership reporting compliance will be set forth under “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION.**

The information required by this item will be set forth under “Executive and Director Compensation” in the Company’s Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

The Equity Compensation Plan Information table required pursuant to Item 201(d) of Regulation S-K will be set forth in the Company’s Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

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

The information required by this item will be set forth under “Stock Ownership” in the Company’s Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

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

The information required by this item will be set forth under “Transactions with Related Persons” and “Determination of Independence” in the Company’s Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information required by this item will be set forth under “Ratification of Freedman LLP as Independent Registered Public Accounting Firm for 2019” in Company’s Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

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

<u>Exhibit Number</u>	<u>Description</u>
2.1	<a href="#"><u>Merger Agreement dated March 27, 2018, by and among Atlantic Acquisition Corp., HF Group Merger Sub Inc., HF Group Holding Corporation, the stockholders of HF Group Holding Corporation and Zhou Min Ni, as the stockholders’ representative (incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on July 18, 2018)</u></a>

- 3.1 [Amended and Restated Certificate of Incorporation \(incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 2017\)](#)
- 3.2 [Certificate of Amendment to Certificate of Incorporation \(incorporated by reference to Exhibit 3.1.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2018\)](#)
- 3.3 [Bylaws \(incorporated by reference to Exhibit 3.4 to the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 28, 2017\)](#)
- 4.1 [Specimen Common Stock Certificate \(incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 28, 2017\)](#)
- 4.2 [Form of Rights Agreement, dated August 8, 2017, by and between American Stock Transfer & Trust Company, LLC and the Registrant \(incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 2017\)](#)
- 4.3 [Form of Unit Purchase Option between the Registrant and Chardan Capital Markets, LLC \(incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 28, 2017\)](#)
- 10.1 [Investment Management Trust Account Agreement, dated August 8, 2017, by and between American Stock Transfer & Trust Company, LLC and the Registrant \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 2017\)](#)
- 10.2 [Registration Rights Agreement, dated August 8, 2017, by and among the Registrant and the initial stockholders \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 2017\)](#)
- 10.3 [Stock Escrow Agreement dated August 8, 2017 among the Registrant, American Stock Transfer & Trust Company, LLC, and the initial stockholders \(incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 2017\)](#)
- 10.4 [Form of Letter Agreement by and between the Registrant, the initial stockholders and the officers and directors of the Company \(incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 28, 2017\)](#)
- 10.5 [HF Food Group Inc. 2018 Omnibus Equity Incentive Plan \(incorporated by reference to Appendix B to the Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on July 18, 2018\)\\*](#)
- 10.6 [Form of Escrow Agreement between Atlantic Acquisition Corp., Loeb and Loeb L.P. as escrow agent and HF Group and Zhou Min Ni, as representative of the stockholders of HF Group \(incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2018\)](#)
- 10.7 [Form of Registration Rights Agreement between the Company, HF Group Holdings Corporation and Zhou Min Ni, as representative of the stockholders of HF Group \(incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2018\)](#)
- 10.8 [Form of Lock Up Agreement dated August 22, 2018 between Atlantic Acquisition Corp. and the stockholders of HF Group \(incorporated by reference to Exhibit 10.10 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2018\)](#)
- 10.9 [Employment Agreement as amended dated as of August 22, 2018 between HF Foods Group Inc. and Zhou Min Ni \(incorporated by reference to Exhibit 10.10 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 13, 2018\)\\*](#)

10.10	<a href="#">Employment Agreement as amended dated as of August 22, 2018 between HF Foods Group Inc. and Chan Sin Wong (incorporated by reference to Exhibit 10.11 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 13, 2018)*</a>
10.11	<a href="#">Employment Agreement as amended dated as of August 22, 2018 between HF Foods Group Inc. and Jian Ming Ni (incorporated by reference to Exhibit 10.12 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 13, 2018)*</a>
10.12	<a href="#">Credit Agreement dated as of January 5, 2012 between Han Feng, Inc. and East West Bank (filed herewith)</a>
10.13	<a href="#">Amendment to Credit Agreement dated as of May 21, 2013 by and between Han Feng, Inc. and East West Bank (filed herewith)</a>
10.14	<a href="#">Second Amendment to Credit Agreement dated as of December 10, 2013 by and between Han Feng, Inc. and East West Bank (filed herewith)</a>
10.15	<a href="#">Third Amendment to Credit Agreement dated as of July 1, 2016 between Han Feng, Inc. and East West Bank (filed herewith)</a>
10.16	<a href="#">Fourth Amendment to Credit Agreement dated July 18, 2017 between Han Feng, Inc. and East West Bank (filed herewith)</a>
10.17	<a href="#">Credit Agreement dated as of February 26, 2018 between New Southern Food Distributors, Inc. and Bank of America, N.A. (filed herewith)</a>
10.18	<a href="#">Warehouse Lease Agreement dated as January 7, 2019 between Yoan Chang Trading and Kirnland Food Service (filed herewith)</a>
21	<a href="#">Subsidiaries of Registrant (filed herewith)</a>
31.1	<a href="#">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 (filed herewith)</a>
31.2	<a href="#">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 (filed herewith)</a>
32.1	<a href="#">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 (filed herewith)</a>
32.2	<a href="#">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 (filed herewith)</a>
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

\* Management contract or compensatory plan or arrangement.

**ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

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

### HF Foods Group Inc.

Date: April 1, 2019

By: /s/ Zhou Min Ni  
Zhou Min Ni  
Chief Executive Officer  
(Principal executive officer)

Date: April 1, 2019

By: /s/ Jian ("Jonathan") Ming Ni  
Jian ("Jonathan") Ming Ni  
Chief Financial Officer  
(Principal financial and accounting officer)

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Zhou Min Ni</u> Zhou Min Ni	Chairman of the Board, Chief Executive Officer (Principal executive officer)	April 1, 2019
<u>/s/ Jian ("Jonathan") Ming Ni</u> Jian ("Jonathan") Ming Ni	Chief Financial Officer (Principal financial officer and accounting officer)	April 1, 2019
<u>/s/ Chan Sin Wong</u> Chan Sin Wong	Director, President	April 1, 2019
<u>/s/ Ren Hua Zheng</u> Ren Hua Zheng	Director	April 1, 2019
<u>/s/ Hong Wang</u> Hong Wang	Director	April 1, 2019
<u>/s/ Zhehui Ni</u> Zhehui Ni	Director	April 1, 2019



CREDIT AGREEMENT

CREDIT AGREEMENT, dated as of January 5, 2012 (this "Agreement"), by and between HAN FENG, INC., a North Carolina corporation having its principal place of business at 6001 West Market Street, Greensboro, North Carolina 27409, and NEW SUN WAH TRADING CORPORATION, a South Carolina corporation having its principal place of business at 6001 West Market Street, Greensboro, North Carolina 27409 (each a "Borrower" and together the "Borrowers"), and EAST WEST BANK, 1040 Avenue of the Americas, 16<sup>th</sup> Floor, New York, New York 10018 (referred to herein as the "Bank").

1. AMOUNT AND TERMS OF THE LOANS

1.01. Loans

Subject to the terms and conditions of this Agreement, the Bank agrees to make loans (each a "Loan" and, collectively, the "Loans") to the Borrowers from time to time during the Commitment Period in an aggregate principal amount at any one time outstanding not to exceed the lesser of the Commitment Amount and the Borrowing Base. During the Commitment Period, each Borrower may borrow, prepay in whole or in part in accordance with Section 1.05(a) and reborrow under the Commitment, all in accordance with the terms and conditions hereof. The aggregate outstanding principal balance of the Loans shall be due and payable in full on the Maturity Date. On the Maturity Date the principal balance of the Loan outstanding for each Borrower shall be debited from such Borrower's Account (as defined in Section 1.03(b)), or, if sufficient funds are unavailable in such Account on that day, then any other account of the Borrowers or either of them maintained with the Bank.

1.02. Note

(a) The Loans shall be evidenced by a promissory note of the Borrowers, substantially in the form of Exhibit A, with appropriate insertions therein as to date and principal amount (as indorsed or modified from time to time, including all replacements thereof and substitutions therefor, the "Note"), payable to the order of the Bank and representing the joint and several obligation of the Borrowers to pay the aggregate outstanding principal balance of the Loans, in each case with interest thereon as prescribed in Section 2.01.

(b) The Bank is hereby authorized to record (i) the date and amount of each Loan made by the Bank, (ii) the Borrower to which such Loan was made, and (iii) the date and amount of each payment and prepayment of principal of any Loans on the schedule (and any continuations thereof) annexed to and constituting a part of the Note. No failure so to record or any error in so recording shall affect the obligation of the Borrowers to repay the Loans, with interest thereon, as herein provided.

---

### 1.03. Procedure for Borrowing

(a) Each Borrower may borrow Loans on any Business Day during the Commitment Period, provided that such Borrower shall notify the Bank in writing, which may be by facsimile not later than 12:00 noon on the same Business Day, specifying (i) the aggregate principal amount of Loans to be borrowed and (ii) the requested Borrowing Date. Such notice shall be irrevocable and confirmed immediately by delivery to the Bank of a written Borrowing Request. Each Loan shall be in a principal amount equal to \$10,000 or an integral multiple thereof, or, if less, the difference between the aggregate outstanding principal amount of all Loans and the Borrowing Availability.

(b) Subject to the satisfaction of the terms and conditions of this Agreement, as determined by the Bank, the Bank shall disburse the proceeds of each Loan to a Borrower by crediting the account of such Borrower maintained at the Bank (including any successor or other account maintained at the Bank and designated in writing by such Borrower to the Bank, the "Account") with the amount of such requested Loan.

### 1.04. Termination or Reduction of Commitment

The Borrowers, acting jointly, shall have the right, upon at least three Business Days' prior written notice to the Bank, at any time, to terminate the Commitment or from time to time to permanently reduce the Commitment, provided, however, that any such reduction shall be in the amount of \$100,000 or an integral multiple of \$100,000 in excess thereof. Simultaneously with each reduction of the Commitment under this Section, the Borrowers shall prepay the Loans as required by Section 1.05(b).

### 1.05. Payments of the Loans

(a) Voluntary Prepayments. Each Borrower may, at its option, prepay the Loans without premium or penalty in full at any time or in part from time to time by notifying the Bank in writing not later than the date of such prepayment specifying the principal amount of the Loans to be prepaid and the date of prepayment. Each such notice shall be irrevocable and the amount specified in each such notice shall be due and payable on the date specified. Each partial prepayment of the Loans pursuant to this Subsection shall be in an aggregate principal amount of \$10,000 or an integral multiple thereof, or, if less, the outstanding principal balances of the Loans.

(b) Mandatory Prepayments of Loans. (i) Simultaneously with each reduction of the Commitment under Section 1.04, the Borrowers shall prepay the outstanding Loans by the amount, if any, by which the aggregate unpaid principal balance of the Loans exceeds the amount of the Commitment as so reduced.

(ii) If, at any time, the sum of the aggregate outstanding principal balance of the Loans exceeds the Borrowing Base, the Borrowers shall immediately prepay the outstanding Loans in an amount equal to such excess.

(c) In General. Simultaneously with each prepayment of the Loans, the Borrower making such prepayment shall prepay all accrued interest on the amount prepaid through the date of prepayment.

#### 1.06. Treatment and Application of Payments

(a) Each payment, including each prepayment, of principal and interest on the Loans, and of all fees to be paid to the Bank in connection with this Agreement (the "*Fees*") shall be made by the Borrowers, or either of them, prior to 12:00 noon on the date such payment is due, at the Bank's office set forth in Section 9.02, in lawful money of the United States, in funds immediately available to the Bank and without set-off or counterclaim. The failure of the Borrowers to make any such payment by such time shall not constitute a Default, provided that such payment is made on such due date, but any such payment made after 12:00 noon on such due date shall be deemed to have been made prior to 12:00 noon on the next Business Day for the purpose of calculating interest.

(b) If any payment shall be due and payable on a day which is not a Business Day, the due date thereof shall be extended to the next Business Day and interest shall be payable at the applicable rate specified herein during such extension, provided, however, that if such next Business Day is after the Maturity Date, any such payment shall be due on the immediately preceding Business Day.

#### 1.07. Use of Proceeds

The Borrowers agree that the proceeds of the Loans shall be used solely, directly or indirectly, (i) for working capital and general corporate purposes, (ii) to pay all of the Fees due hereunder, and (iii) pay the out-of-pocket fees and expenses incurred by the Borrowers in connection with the Loan Documents. Notwithstanding anything to the contrary contained in any Loan Document, the Borrowers agree that no part of the proceeds of the Loans will be used, directly or indirectly, for a purpose which violates any law, rule or regulation of any Governmental Authority, including, without limitation, the provisions of Regulations T, U or X of the Board of Governors of the Federal Reserve System, as amended.

### 1.08. Guarantees and Deeds of Trust

(a) All obligations of the Borrowers hereunder shall be unconditionally, jointly and severally guaranteed (i) by ZHOU MN NI and CHAN SIN WONG (the "*Individual Guarantors*"), pursuant to the terms of a General Guarantee to be in form and substance satisfactory to the Bank and its counsel (as the same may be amended, supplemented or otherwise modified from time to time, the "*Individual Guarantee*") and (ii) by TRUSE TRUCKING INC., a North Carolina corporation, G & S TRUCKING INC, a South Carolina corporation, MORNING FIRST DELIVERY, INC. , a North Carolina corporation, R & N COLUMBIA REALTY LLC, a South Carolina corporation, R & N HOLDINGS, LLC, a North Carolina limited liability company, and R & N LEXINGTON, L.L.C., a North Carolina limited liability company (the "*Company Guarantor?*" and together with the Individual Guarantor, the "*Guarantors*"), pursuant to the terms of General Guarantees to be in form and substance satisfactory to the Bank and its counsel (as the same may be amended, supplemented or otherwise modified from time to time, the "*Company Guarantees*" and together with the Individual Guarantee, the "*Guarantees*").

(b) R & N HOLDINGS, LLC shall execute a separate Company Guarantee which shall be secured by a second deed of trust in the principal amount of \$1,850,000 recorded against premises owned by such company known as 6001 West Market Street, Greensboro, North Carolina 27409, together with an adjoining undeveloped parcel of land known as 204-210 Moe Road, Greensboro, North Carolina (the "*West Market Deed of Trust*"), such deed of trust to be insured by title insurance to be in form and substance satisfactory to the Bank and its counsel, and such other documents related thereto as may be reasonably required by the Bank.

(c) R & N LEXINGTON, L.L.C. shall execute a separate Company Guarantee which shall be secured by a second deed of trust in the principal amount of \$1,400,000 recorded against premises owned by such company known as 303 Albemarle Street, Lexington, North Carolina 27292 (the "*Albemarle Deed of Trust*"), such deed of trust to be insured by title insurance to be in form and substance satisfactory to the Bank and its counsel, and such other documents related thereto as may be reasonably required by the Bank.

### 1.09. Security Agreement

(a) All obligations of the Borrowers hereunder shall be secured pursuant to the terms of a Security Agreements to be in form and substance satisfactory to the Bank and its counsel (as the same may be amended, supplemented or otherwise modified from time to time, the "*Security Agreements*").

## 2. INTEREST, FEES, YIELD PROTECTIONS, ETC.

### 2.01. Interest Rate and Payment Dates

(a) Prior to Maturity. Except as otherwise provided in Section 2.01(b), prior to maturity, the outstanding principal balance of the Loans shall bear interest at a rate per annum equal to 1.00% in excess of the Prime Rate, but in no event less than 4.5% per annum.

(b) Default Rate. If any payment of principal and/or interest is not paid when due (whether at stated maturity, by acceleration or otherwise) the unpaid principal balance of the Loans shall bear interest at a rate per annum (whether before or after the entry of a judgment thereon) equal to 5% above the rate which would otherwise be applicable under Section 2.01(a) and any overdue interest or other amount payable under the Loan Documents shall bear interest at a rate per annum equal to the 6.00% in excess of the Prime Rate. All such interest shall be payable on demand.

(c) In General. Interest on all amounts due and payable hereunder shall be calculated on the basis of a 360-day year for the actual number of days elapsed. Except as otherwise provided in Section 2.01(b), interest shall be payable monthly in arrears on the fifth day of each month (commencing with the first such date to occur after the making of the first Loan hereunder), and, as provided in Section 1.05(c), upon each prepayment of the Loans. Each payment of interest shall be debited on the due date thereof from the Account designated by the Borrowers, or, if sufficient funds are unavailable in the Account on such day, then any other account of the Borrowers or either of them maintained with the Bank. Any change in the interest rate on the Loans resulting from a change in the Prime Rate or reserve requirements shall become effective as of the opening of business on the day on which such change shall become effective. Each determination of the Prime Rate by the Bank pursuant to this Agreement shall be conclusive and binding on all parties hereto absent manifest error. The Borrowers acknowledge that to the extent interest payable on a Loan is based on the Prime Rate, such rate is only one of the bases for computing interest on loans made by the Bank, and by basing interest payable on a Loan on the Prime Rate, the Bank has not committed to charge, and the Borrowers have not in any way bargained for, interest based on a lower rate than that at which, or the lowest rate at which, the Bank may now or in the future make loans to other borrowers.

(d) Highest Lawful Rate. At no time shall the interest rate payable on the Loans, together with the Fees and all other amounts payable under the Loan Documents to the Bank, to the extent the same are construed to constitute interest, exceed the maximum rate of interest that at any time may be contracted for, taken, charged or received by the Bank under the Loan Documents under applicable law. If for any period during the term of this Agreement, any amount paid to the Bank under the Loan Documents, to the extent the same shall (but for the provisions of this Section) constitute or be deemed to constitute interest, would exceed the maximum amount of interest permitted during such period, then such excess amount shall be applied or shall be deemed to have been applied as a prepayment of the Loans in such order as the Bank shall determine.

## 2.02. Fees

Facility Fee. The Borrowers agree to pay to the Bank the Facility Fee, due and payable on the Effective Date.

### 2.03. Taxes; Net Payments

(a) All payments made by the Borrowers or either of them under the Loan Documents shall be made free and clear of, and without reduction for or on account of, any Taxes required by law to be withheld from any amounts payable under the Loan Documents. In the event that a Borrower is prohibited by law from making payments under the Loan Documents free of deductions or withholdings, such Borrower shall pay such additional amounts to the Bank as may be necessary in order that the actual amounts received by the Bank in respect of interest and any other amounts payable under the Loan Documents after such deduction or withholding (and after payment of any additional taxes or other charges due as a consequence of the payment of such additional amounts) shall equal the amount which would have been received if such deduction or withholding were not required.

(b) The Borrowers agree to pay any current or future stamp or documentary Taxes and any other excise or property Taxes, charges or similar levies that arise from any payment made hereunder or from the execution, delivery or registration of, or any amendment of, supplement to or modification of, or any waiver or consent under or in respect of, the Loan Documents or otherwise with respect to, the Loan Documents.

### 2.04. Capital Adequacy

If (i) the enactment or promulgation of, or any change or phasing in of, any United States or foreign law or regulation or in the interpretation thereof by any Governmental Authority charged with the administration thereof, (ii) compliance with any directive or guideline from any central bank or United States or foreign Governmental Authority (whether having the force of law) promulgated or made after the date hereof, or (iii) compliance with the Risk-Based Capital Guidelines of the Board of Governors of the Federal Reserve System as set forth in 12 CFR Parts 208 and 225, or of the Comptroller of the Currency, Department of the Treasury, as set forth in 12 CFR Part 3, or similar legislation, rules, guidelines, directives or regulations under any applicable United States or foreign Governmental Authority affects or would affect the amount of capital required to be maintained by the Bank (or any lending office of the Bank) or any corporation directly or indirectly owning or controlling the Bank or imposes any restriction on or otherwise adversely affects the Bank (or any lending office of the Bank) or any corporation directly or indirectly owning or controlling the Bank and the Bank shall have determined that such enactment, promulgation, change or compliance has the effect of reducing the rate of return on the Bank's capital or the asset value to the Bank of any loan made by the Bank as a consequence, directly or indirectly, of its obligations to make and maintain the funding of the Loans at a level below that which the Bank could have achieved but for such enactment, promulgation, change or compliance (after taking into account the Bank's policies regarding capital adequacy) by an amount deemed by the Bank to be material, then, upon demand by the Bank, the Borrower shall promptly pay to the Bank such additional amount or amounts as shall be sufficient to compensate the Bank for such reduction in such rate of return or asset value. Such demand shall be accompanied by a statement setting forth in reasonable detail the calculations of any amounts payable pursuant to this Section, which statement shall be conclusive absent manifest error.

## 2.05. Bank's Records

The Bank's records with respect to the Loans, the interest rates applicable thereto, each payment and prepayment by the Borrowers of principal and interest on the Loans and fees, expenses and any other amounts due and payable in connection with this Agreement shall be presumed correct absent manifest error.

## 2.06. Obligations Joint and Several

All obligations of the Borrowers hereunder shall be joint and several.

## 3. REPRESENTATIONS AND WARRANTIES

In order to induce the Bank to enter into this Agreement and to make the Loans, the Borrower makes the following representations and warranties to the Bank:

### 3.01. Existence and Power; Subsidiaries

(a) Each of Han Feng, Inc., Truse Trucking Inc. and Morning First Delivery, Inc. is a duly formed and validly existing corporation, in good standing under the laws of the State of North Carolina, has all requisite power and authority to own its Property and to carry on its business as now conducted, and is in good standing and authorized to do business in each jurisdiction in which the nature of the business conducted therein or the Property owned by it therein makes such qualification necessary, except where such failure to qualify could not reasonably be expected to have a Material Adverse Effect on it. As of the Effective Date, none of them has any Subsidiaries.

(b) Each of New Sun Wah Trading Corporation and G & S Trucking Inc is a duly formed and validly existing corporation, in good standing under the laws of the State of South Carolina, has all requisite power and authority to own its Property and to carry on its business as now conducted, and is in good standing and authorized to do business in each jurisdiction in which the nature of the business conducted therein or the Property owned by it therein makes such qualification necessary, except where such failure to qualify could not reasonably be expected to have a Material Adverse Effect on it. As of the Effective Date, neither of them has any Subsidiaries.

(c) Each of R & N Holdings, LLC and R & N Lexington, L.L.C. is a duly formed and validly existing limited liability company, in good standing under the laws of the State of North Carolina, has all requisite power and authority to own its Property and to carry on its business as now conducted, and is in good standing and authorized to do business in each jurisdiction in, which the nature of the business conducted therein or the Property owned by it therein makes such qualification necessary, except where such failure to qualify could not reasonably be expected to have a Material Adverse Effect on it. As of the Effective Date, neither of them has any Subsidiaries.

(d) R & N Columbia Realty LLC is a duly formed and validly existing limited liability company, in good standing under the laws of the State of South Carolina, has all requisite power and authority to own its Property and to carry on its business as now conducted, and is in good standing and authorized to do business in each jurisdiction in which the nature of the business conducted therein or the Property owned by it therein makes such qualification necessary, except where such failure to qualify could not reasonably be expected to have a Material Adverse Effect on it. As of the Effective Date, it does not have any Subsidiaries.

### 3.02. Authority and Execution

(a) Each of the Borrowers has full legal power and authority to enter into, execute, deliver and perform the terms of the Loan Documents to which it is a party, all of which have been duly authorized by all proper and necessary corporate or other applicable action and are in full compliance with its Organizational Documents. Each of the Borrowers has duly executed and delivered the Loan Documents to which it is a party.

(b) Each of the Company Guarantors has full legal power and authority to enter into, execute, deliver and perform the terms of the Loan Documents to which it is a party, all of which have been duly authorized by all proper and necessary limited liability company or other applicable action and are in full compliance with its Organizational Documents. Each of the Company Guarantors has duly executed and delivered the Loan Documents to which it is a party.

(c) Each of the Individual Guarantors has full legal power and authority to enter into, execute, deliver and perform the terms of the Loan Documents to which he or she is a party. Each of the Individual Guarantors has duly executed and delivered the Loan Documents to which he or she is a party.

### 3.03. Binding Agreement

The Loan Documents (other than the Note) constitute, and the Note, when issued and delivered pursuant hereto for value received, will constitute, the valid and legally binding obligations of each Credit Party, in each case, to the extent it is a party thereto, enforceable in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally.



#### 3.04. Absence of Defaults; No Conflicting Agreements

Neither of the Borrowers, nor any other Credit Party, is in default under any mortgage, indenture, contract or agreement to which it is a party or by which it or any of its Property is bound. The execution, delivery and carrying out of the terms of the Loan Documents will not (i) constitute a default under any such mortgage, indenture, contract or agreement, or result in the creation or imposition of, or obligation to create, any Lien upon any Property of either Borrower or any other Credit Party, except for Liens created pursuant to the Loan Documents, (ii) result in a breach of or require the mandatory repayment of or other acceleration of payment under or pursuant to the terms of any such mortgage, indenture, contract or agreement or (iii) result in the violation of any statute, regulation, rule and order of any Governmental Authority which is applicable to it.

#### 3.05. Consents

No consent, authorization or approval of, filing with, notice to, or exemption by, any Governmental Authority or any other Person is required to authorize, or is required in connection with the execution, delivery and performance of the Loan Documents and the transactions contemplated thereby, or is required as a condition to the validity or enforceability of the Loan Documents, except for the filing of financing statements to perfect the Liens granted pursuant to the Security Agreements.

#### 3.06. Litigation

There are no actions, suits or proceedings at law or in equity or by or before any Governmental Authority pending or, to the knowledge of either Borrower, threatened against any Credit Party, maintained by any Credit Party or which may affect the Property of any Credit Party, which could reasonably be expected to have a Material Adverse Effect on any Credit Party, which call into question the validity or enforceability of, or otherwise seek to invalidate, any Loan Document, or might, individually or in the aggregate, materially and adversely affect any of the transactions contemplated by any Loan Document.

#### 3.07. Compliance with Applicable Laws

Neither Borrower, nor any other Credit Party, is in default with respect to any judgment, order, writ, injunction, decree or decision of any Governmental Authority. Each of the Borrowers, and each other Credit Party, is in compliance in all material respects with all statutes, regulations, rules and orders applicable to it, including, without limitation, Environmental Laws.

#### 3.08. Taxes

Each of the Borrowers has filed or caused to be filed all tax returns required to be filed and has paid, or has made adequate provision for the payment of, all taxes shown to be due and payable on said returns or in any assessments made against it (except such thereof as are being contested in good faith and by appropriate proceedings diligently conducted, and for which adequate reserves have been set aside in accordance with GAAP), and no tax Liens have been filed and no claims are being asserted with respect to such taxes.

### 3.09. Financial Statements

Each of the Borrowers has heretofore delivered to the Bank its balance sheet and related statements of operations, stockholders' equity and cash flows for the fiscal year last ended (the "Financial Statements"), which (a) fairly present the Borrower's financial condition on such date and results of operations for the year ended on such date, and (b) have been prepared in conformity with GAAP. Except as reflected in the Financial Statements or in the notes thereto, such Borrower has no obligation or liability of any kind (whether fixed, accrued, contingent, unmatured or otherwise) which, in accordance with GAAP, should have been shown on the Financial Statements and was not. Since the date of the Financial Statements, each Borrower has conducted its business only in the ordinary course and there has been no Material Adverse Change

### 3.10. Governmental Regulations

Neither Borrower, nor any Person controlled by, controlling, or under common control with, either Borrower, is subject to regulation under the Federal Power Act, as amended, or the Investment Company Act of 1940, as amended, or is subject to any statute or regulation which prohibits or restricts the incurrence of Indebtedness, including, without limitation, statutes or regulations relative to common or contract carriers or to the sale of electricity, gas, steam, water, telephone, telegraph or other public utility services.

### 3.11. Federal Reserve Regulations; Use of Loan Proceeds

Neither Borrower is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No part of the proceeds of the Loans will be used, directly or indirectly, for a purpose that violates any law, rule or regulation of any Governmental Authority, including, without limitation, the provisions of Regulations T, U or X of the Board of Governors of the Federal Reserve System, as amended. After giving effect to the making of the Loans, Margin Stock will constitute less than 25% of the aggregate assets (as determined by any reasonable method) of the Borrowers.

### 3.12. Property

(a) Each Borrower and each other Credit Party has (i) good and marketable title to all of its Property, title to which is material to it, and (ii) a valid leasehold interest in all Property, a leasehold interest in which is material to it, in each case subject to no Liens, except Permitted Liens.

(b) Each of the Borrowers owns, or is entitled to use, all trademarks, trade names, copyrights, patents and other intellectual property material to its business, and the use thereof by each Borrower does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

### 3.13. Plans

Neither of the Borrowers nor any of their ERISA Affiliates is a party to a multiemployer plan as defined in Section 4001(a)(3) of ERISA. The Borrower and its ERISA Affiliates have fulfilled all obligations under the minimum funding standards of ERISA and the Code with respect to each Pension Plan established or maintained by the Borrower or its ERISA Affiliates and with respect to each such Pension Plan are not subject to any material liability to the PBGC under Title IV of ERISA. With respect to each Employee Benefit Plan, the Borrower is in compliance in all material respects with the currently applicable provisions of ERISA and the Code.

### 3.14. Environmental Matters

(a) Each of the Borrowers and Company Guarantors is in compliance in all material respects with the requirements of all applicable Environmental Laws, the violation of which could have a Material Adverse Effect on such Borrower or Company Guarantor.

(b) No hazardous substances have been generated or manufactured on, transported to or from, treated at, stored at or discharged from any real property owned, leased or operated by a Borrower or Company Guarantor except in compliance with all applicable Environmental Laws.

(c) Neither Borrower nor any Company Guarantor has received notice or otherwise learned of any claim, demand, suit, action, proceeding, event, condition, report, directive, Lien, violation, non-compliance or investigation indicating or concerning any potential or actual liability or remedial action arising in connection with: (x) any non-compliance with or violation of the requirements of any applicable Environmental Laws, or (y) the presence of, or release or threatened release of any hazardous substance on or from any real property owned, leased or operated by such Borrower or Company Guarantor.

### 3.15. Security Interests

Subject to the filing of UCC-1 financing statements in the applicable filing offices, the payment of the fees in respect thereof and the filing of continuation statements when required by applicable law, the security interests granted under the Security Agreements constitute valid, binding and continuing duly perfected first priority Liens in and to the Collateral, subject to no other Liens, other than Permitted Liens.

### 3.16. No Misrepresentation

No representation or warranty contained in any Loan Document and no certificate or report from time to time furnished by any Credit Party in connection with the transactions contemplated thereby, contains or will contain a misstatement of material fact, or, to the best knowledge of such Credit Party, omits or will omit to state a material fact required to be stated in order to make the statements therein contained not misleading in the light of the circumstances under which made, provided that any projections or pro-forma financial information contained therein are good faith estimates based upon assumptions believed by such Credit Party to be reasonable at the time such estimates are made.

### 3.17. Solvency

After giving effect to the Loans to be made on the Effective Date, each Borrower and Company Guarantor is Solvent.

## 4. CONDITIONS TO LOANS

### 4.01. Conditions Precedent to Effectiveness

The effectiveness of this Agreement, and the obligation of the Bank to make a Loan on the first Borrowing Date, is subject to the fulfillment of the following conditions prior to or simultaneously therewith:

#### (a) This Agreement

The Bank shall have received counterparts of this Agreement duly executed by Authorized Signatories of the Borrowers.

#### (b) Note

The Bank shall have received the Note, duly executed by Authorized Signatories of the Borrowers.

#### (c) Security Agreement

(i) The Bank shall have received the Security Agreements from each Borrower, duly executed by an Authorized Signatory of such Borrower, together with such financing statements and other documents as the Bank may require in connection with the perfection of its security interests therein.

(ii) The Bank shall have received Uniform Commercial Code, tax and judgment lien search reports with respect to each public office where Liens are or may be filed disclosing that there are no Liens of record in such official's office covering any Collateral or showing any Borrower or Company Guarantor as debtor thereunder (other than Permitted Liens).

(d) Guarantees

The Bank shall have received (i) the Individual Guarantee, duly executed by the Individual Guarantors and (ii) the Company Guarantees duly executed by an Authorized Signatory of each Company Guarantor.

(e) Deeds of Trust

The Bank shall have received (i) the recorded West Market Deed of Trust, (ii) the recorded Albemarle Deed of Trust, (iii) title policies in favor of the Bank insuring both such deeds of trust, (iv) such other documents as may be required by the Bank in connection therewith, including without limitation, UCC-1 fixture filings with respect to the subject real property.

(f) Evidence of Action

The Bank shall have received a certificate, dated the Effective Date, of an officer of each Borrower and of the Managing Person of each Company Guarantor:

(i) attaching a true and complete copy of the resolutions of its Managing Person and of all documents evidencing all necessary company action (in form and substance satisfactory to the Bank) taken by it to authorize the Loan Documents to which it is a party and the transactions contemplated thereby,

(ii) attaching a true and complete copy of its Organizational Documents,

(iii) attaching a certificate of good standing of the Secretary of State of the State of North Carolina or the Secretary of State of the State of South Carolina, as the case may be, and of each other jurisdiction in which it is qualified to do business, issued not more than 10 days prior to the Effective Date, and

(iv) setting forth the incumbency of its officer or officers (or other analogous counterpart) who may sign the Loan Documents to which it is a party, including therein a signature specimen of such officer or officers (or other analogous counterpart).

(g) Officer's Certificate

The Bank shall have received a certificate, in all respects satisfactory to the Bank, of an officer of each Borrower, dated the Effective Date, certifying that:

(i) Absence of Litigation. There is no injunction, writ, preliminary restraining order or other order of any nature by which the Borrower is bound or to which any of its Property is subject issued by any Governmental Authority in any respect affecting the transactions provided for in the Loan Documents and no action or proceeding by or before any Governmental Authority has been commenced against the Borrower or is pending or, to the knowledge of the Borrower, threatened against the Borrower, seeking to prevent or delay the transactions contemplated by the Loan Documents or challenging any other terms and provisions hereof or thereof or seeking any damages in connection therewith.

(ii) Approvals and Consents. All approvals and consents of all Persons required to be obtained in connection with the consummation by the Borrower of the transactions contemplated by the Loan Documents have been obtained and are in full force and effect, and all notices required to be given by the Borrower have been given and all required waiting periods applicable to the Borrower have expired.

(iii) Absence of Material Adverse Change. No Material Adverse Change in the business, assets, liabilities, financial condition or results of operations of the Borrower has occurred since the date of the Financial Statements.

(iv) No Liens other than Permitted Liens. Upon the making of the Loans on the Effective Date, there exist no Liens on any Property of the Borrower other than Permitted Liens.

(h) Fees and Expenses

All Fees and expenses owed by the Borrowers to the Bank shall have been paid.

(i) Fees and Expenses of Bank's Counsel

The fees and expenses of the Bank's counsel in connection with the preparation, negotiation and closing of the Loan Documents shall have been paid.

(j) Financial Statement of Individual Guarantor

The Bank shall have received a personal financial statement of each Individual Guarantor, in form and substance satisfactory to the Bank.

(k) Borrowing Base Certificate

The Bank shall have received a duly completed and executed Borrowing Base Certificate.

(l) Insurance

The Bank shall have received evidence satisfactory to it that the insurance required by Section 5.02 is in effect and shall receive evidence that all policies have been indorsed to provide, in respect of the interests of the Bank, that (i) the Bank shall be an additional insured on liability coverage and loss payee on property coverage and (ii) 30 days' prior written notice of any cancellation or modification thereof or any reduction of amounts payable thereunder shall be given to the Bank.

(m) Other Documents

The Bank shall have received such other documents, each in form and substance reasonably satisfactory to the Bank, as the Bank shall reasonably require in connection with the making of the Loans.

4.02. Certain Conditions Precedent to Each Loan

The agreement of the Bank to make a Loan (including, without limitation, the Loan on the first Borrowing Date) is subject to the satisfaction of the following conditions precedent:

(a) Compliance

On the Borrowing Date after giving effect to the Loans to be made on such date, (i) the Borrowers shall be in compliance with all of the terms, covenants and conditions of the Loan Documents to which it is a party, (ii) there shall exist no Default or Event of Default, (iii) the representations and warranties contained in the Loan Documents shall be true and correct with the same effect as though such representations and warranties had been made on such Borrowing Date, except to the extent the same relate solely to an earlier date, (iv) no Material Adverse Change shall have occurred with respect to any Credit Party and (v) and all outstanding Loans plus the requested Loan shall not exceed the Borrowing Base.

(b) Loan Closings

All documents required by the provisions of the Loan Documents to be executed or delivered to the Bank on or before the applicable Borrowing Date shall have been executed and shall have been delivered to the Bank on or before such Borrowing Date.

(c) Borrowing Request

The Bank shall have received a Borrowing Request duly executed by an Authorized Signatory of the Borrower borrowing the Loan.

Each request for a Loan and the acceptance by a Borrower of the proceeds thereof shall constitute a representation and warranty by the Borrowers, as of the date of the Loans comprising such borrowing, that the conditions specified in Subsections 4.02(a) and (b) have been satisfied.

## 5. AFFIRMATIVE COVENANTS

The Borrowers agree that, so long as this Agreement is in effect, any Loan remains outstanding and unpaid, or any other amount is owing under any Loan Document to the Bank, the Borrowers shall:

### 5.01. Financial and Other Information

Maintain a standard system of accounting in accordance with GAAP, and furnish to the Bank:

- (a) The following periodic reports and information:
  - (i) within 15 calendar days after the last day of each calendar month, a Borrowing Base Certificate indicating a computation of the Borrowing Base as of the last day of such month for each Borrower executed by an Authorized Signatory of such Borrower;
  - (ii) within 15 days after the last day of each calendar month, an accounts receivable aging report as of the last day of such month, organized by invoice date, for each Borrower executed by an Authorized Signatory of such Borrower;
  - (iii) within 15 days after the last day of each calendar month, an accounts payable aging report as of the last day of such month for each Borrower executed by an Authorized Signatory of such Borrower;



(iv) within 15 days after the last day of each calendar month, an inventory report as of the last day of such month for each Borrower executed by an Authorized Signatory of such Borrower;

(v) within 60 days after the last day of each calendar quarter, a combined and combining balance sheet of the Borrowers and the Company Guarantors as at the end of such quarter, together with the related combined and combining statements of operations, stockholder's equity and cash flows for such quarter, prepared in accordance with GAAP applied on a basis consistently maintained throughout the periods involved prepared and executed by an Authorized Signatory of each Borrower;

(vi) not later than 60 days after the last day of each calendar year, a report setting forth all account debtors of each Borrower as of the last day of such fiscal year;

(b) As soon as available, but in any event within 120 days after the end of each fiscal year of the Borrowers, a combined and combining balance sheet of the Borrowers and the Company Guarantors as at the end of such fiscal year, together with the related combined and combining statements of operations, stockholder's equity and cash flows for such fiscal year, prepared in accordance with GAAP applied on a basis consistently maintained throughout the periods involved and audited by a certified public accountant selected by the Borrower and reasonably satisfactory to the Bank,

(c) As soon as available, but not later than 10 days after the filing of same with the Internal Revenue Service, a copy of the federal return of corporate income of each of the Borrowers (Form 1120-S) for the most recently completed tax year, together with all schedules and supporting documentation, all in the form filed with the Internal Revenue Service and, in the event a Borrower shall file with the Internal Revenue Service an Application for Automatic Extension of Time to File Corporation Income Tax Return (Form 7004) with respect to such tax return, such Borrower agrees to furnish to the Bank a copy of such tax return not later than 270 days after the end of the relevant fiscal year;

(d) As soon as available, but not later than 10 days after the filing of same with the Internal Revenue Service, a copy of the federal income tax return of each Company Guarantor for the most recently completed tax year, together with all schedules and supporting documentation, all in the form filed with the Internal Revenue Service and, in the event a Company Guarantor shall file with the Internal Revenue Service an Application for Automatic Extension of Time to File Corporation Income Tax Return (Form 7004) or an Application for Automatic Extension of Time to File U.S. Return for Partnership, REMIC or for Certain Trusts (Form 8736), as applicable, with respect to such tax return, such Corporate Guarantor agrees to furnish to the Bank a copy of such tax return not later than 270 days after the end of the relevant fiscal year;

(e) As soon as available, but not later than 10 days after the filing of same with the Internal Revenue Service, a copy of the federal income tax return of each Individual Guarantor, or a joint return for the Individual Guarantors, as applicable, for the most recently completed tax year, together with all schedules and supporting documentation, all in the form filed with the Internal Revenue Service and, in the event such Individual Guarantor shall file with the Internal Revenue Service an Application for Automatic Extension of Time to File U.S. Individual Income Tax Return (Form 4868) with respect to such tax return, the Borrower agrees to furnish to the Bank a copy of same, not later than October 31<sup>st</sup> of the year in which Application for Automatic Extension is filed;

(f) No later than October 31<sup>st</sup> of each year, a personal financial statement of each Individual Guarantor as of the end of the previous year, in form and substance satisfactory to the Bank;

(g) Concurrently with the delivery of the financial statements required by Section 5.01(b), a certificate of an Authorized Signatory of each of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto and (ii) setting forth the computations required by the financial covenants set forth in Section 6.08;

(h) Prompt written notice if: (i) any Indebtedness of any Credit Party is declared or shall become due and payable prior to its stated maturity, or is called and not paid when due, (ii) a default shall have occurred under any note (other than the Note) or (iii) the holder of, or any obligee with respect to, any Indebtedness of any Credit Party has the right to declare any such Indebtedness due and payable prior to its stated maturity;

(i) Prompt written notice of: (i) any citation, summons, subpoena, order to show cause or other document naming any Credit Party a party to any proceeding before any Governmental Authority that could reasonably be expected to have a Material Adverse Effect on any Credit Party or that expressly calls into question the validity or enforceability of any of the Loan Documents, (ii) any lapse or other termination of any material license, permit, franchise or other authorization of any Credit Party, or (iii) any refusal by any Person or Governmental Authority to renew or extend any such material license, permit, franchise or other authorization, which lapse, termination, refusal or dispute could reasonably be expected to have a Material Adverse Effect on any Credit Party;

(1) Prompt written notice of: (i) any development in its business affairs which could reasonably be expected to have a Material Adverse

Effect on any Credit Party, disclosing the nature thereof, and (ii) any information (coming to its attention) which indicates that any financial statements which are the subject of any representations contained in this Agreement, or which are furnished to the Bank pursuant to this Agreement, fail, to a material extent, to present fairly the financial condition and results of operations purported to be presented therein, disclosing the nature thereof;

(k) Prompt written notice of the occurrence of an Event of Default or Default hereunder, setting forth details of such Event of Default or Default and the action which is proposed to be taken with respect thereto;

<sup>(1)</sup> Such other information as the Bank shall reasonably request from time to time.

5.02. Existence, Maintenance of Properties, Insurance, Licenses

(a) At all times preserve and keep in full force its corporate existence and rights; (b) observe and comply in all material respects with all laws, rules and regulations applicable to it, including, without limitation, ERISA and all Environmental Laws; (c) at all times maintain and preserve all Property used or necessary in the conduct of its affairs and keep the same in good repair, working order and condition; (d) keep its insurable Properties adequately insured at all times, by financially sound and reputable insurers, and maintain such insurance, to such extent and against such risks, as is customary (including self-insurance) in the case of comparable businesses, with such coverage and in such amounts as may be required by the Bank from time to time; (e) obtain and maintain such other insurance policies, including without limitation key person insurance, as the Bank may require from time to time; (f) conduct and operate its affairs in substantially the manner in which they are presently conducted and operated; and (g) maintain, in full force and effect, all material licenses, franchises, permits, authorizations and other rights as are necessary for the conduct of its business.

5.03. Payment of Taxes Indebtedness, etc.

Pay and discharge when due (i) all taxes, assessments and governmental charges and levies upon, or with respect to the Borrower and upon its Property prior to the date penalties attach thereto, and (ii) all Indebtedness, obligations and claims for labor, materials and supplies or otherwise which, if unpaid, might (x) have a Material Adverse Effect on the Borrowers or either of them, or (y) become a Lien upon any Property, in each case, unless being contested by the affected Borrower in good faith by appropriate proceedings, and such Borrower shall have set aside adequate reserves therefor.

#### 5.04. Maintenance of Records• Inspection; Collateral Audit

(a) At all times maintain proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities and, at all reasonable times during normal business hours and as often as the Bank may reasonably request upon reasonable notice, permit any Bank representative to visit and inspect any of the properties of the Borrowers, and to make extracts from its books and to discuss its affairs, finances and accounts with its officers and its independent certified public accountants or other parties preparing statements for or on behalf of the Borrowers or either of them.

(b) Permit the Bank or any agent of the Bank to perform annually a field examination, Collateral analysis, Collateral audit or other business analysis or audit relating to a Borrower at such time as reasonably requested by the Bank. Such Borrower shall pay to the Bank, promptly after demand therefor, all reasonable out-of-pocket costs and expenses incurred by the Bank in connection with any such examination, analysis or audit. Notwithstanding the foregoing, at any time when a Default exists, the Bank shall have the right to perform additional field examinations, Collateral analyses, Collateral audits or other business analyses or audits relating to such Borrower at the expense of the Borrowers.

#### 5.05. Maintenance of Accounts

(i) Maintain all of their respective operating and deposit accounts at the Bank, except such accounts as the Bank agrees in writing (in its sole discretion) may be maintained with other banks, the aggregate balances in which shall not exceed \$10,000 at any time and (ii) deposit all of its revenue, upon receipt, into an operating or deposit account at the Bank.

### 6. NEGATIVE COVENANTS

The Borrower agrees that, so long as this Agreement is in effect, any Loan remains outstanding and unpaid, or any other amount is owing under any Loan Document to the Bank, neither Borrower shall, directly or indirectly:

#### 6.01. Indebtedness

Create, incur, assume or permit to exist any Indebtedness, except: (i) Indebtedness due under the Loan Documents, (ii) other Indebtedness to the Bank (Indebtedness in respect of guarantees executed in favor of the Bank) and (iii) other Indebtedness not in excess of \$200,000 in the aggregate at any one time outstanding.

## 6.02. Liens

Create, incur, assume or suffer to exist any Lien upon any of its Property, whether now owned or hereafter acquired, except: (i) Liens in favor of the Bank, (ii) Liens for taxes, assessments or similar charges incurred in the ordinary course of business which are not delinquent, (iii) Liens in connection with workers' compensation, unemployment insurance or other social security obligations (but not ERISA), (iv) Liens arising by operation of law such as mechanics', materialmen's, carriers', and warehousemen's liens incurred in the ordinary course of business which are not delinquent, (v) judgment liens in existence less than 30 days after the entry thereof or with respect to which execution has been stayed, (vi) unexercised banker's Liens; (vii) Liens on any asset securing Indebtedness permitted by Section 6.01(iii) which is purchase-money Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring assets (including capitalized leases), *provided that* such Lien attaches only to the asset so acquired and such Lien attaches to such asset concurrently with or within 90 days after the acquisition thereof, (viii) any interest or title of a licensor, sublicensor, lessor or sublessor with respect to any assets under any license or lease agreement entered into in the ordinary course of business; *provided that* the same do not interfere in any material respect with the business of the Borrower or materially detract from the value of the relevant assets of the Borrower, (ix) Liens to the extent arising solely from the filing of protective Uniform Commercial Code Financing Statements in respect of equipment leased to the Borrower in the ordinary course of its business under true, as opposed to finance, leases, (x) any interest or title of a lessor secured by a lessor's interest under any lease permitted by the Loan Documents and (xi) Liens in existence on the Effective Date as set forth on Schedule 6.02 (the foregoing, collectively, "*Permitted Liens*").

## 6.03. Merger, Sale of Assets, Nature of Business

Consolidate with, be acquired by, or merge into or with any Person, or liquidate, wind up or dissolve or sell, lease or otherwise dispose of any of its Property, except in the ordinary course of business, or materially change the nature of its business as conducted on the Effective Date.

## 6.04. Investments

Make any loan or advance to, or enter into any arrangement for the purpose of providing funds or credit to, or make any other investment, by capital contribution or otherwise, in or with any Person (each of the foregoing, an "*Investment*"), except (i) any money market account maintained at the Bank or investment account maintained at an affiliate of the Bank, and (ii) extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business.

## 6.05. Compliance with ERISA

(i) Terminate, or permit any ERISA Affiliate to terminate, any Pension Plan so as to result in any material liability to the Borrower, or (ii) permit, with respect to any Employee Benefit Plan any prohibited transaction or prohibited transactions under ERISA or the Code, resulting in any material liability to the Borrower, or (iii) permit to exist any occurrence of any reportable event as defined in Section 4043(c) of ERISA with respect to a Pension Plan if with respect to such reportable event there is or would be any material liability of the Borrower.

#### 6.06. Restricted Payments

Declare or pay any dividends in cash or otherwise, or set apart any sum for the payment of dividends on, or make any other distribution by reduction of capital or otherwise in respect of any shares of its stock of any class or any other equity interest or warrant or right, other than, so long as the Borrower maintain an effective 'S' election under the Code and applicable state law, dividends and distributions paid in cash by the Borrower to its shareholders for the sole purpose of paying ongoing estimated and actual federal, state and local income tax liabilities, if any, of such shareholders resulting solely from the inclusion of the Borrower's net income in such shareholders' taxable income, provided, that (A) both immediately before and after giving effect thereto, no Default shall or would exist, and (B) such dividends and distributions shall not, in the aggregate, exceed in any taxable year the sum of (x) an amount not in excess of the minimum aggregate amount of estimated federal, state and local income tax payments which would be required to be made by such shareholders during such taxable year in order to avoid penalties and interest otherwise payable on account of the failure to pay a sufficient amount of estimated taxes as required by law and (y) an amount not in excess of the aggregate amount of actual federal, state and local income tax liabilities due and payable by such shareholders during such taxable year (after taking into account any estimated tax payments made in respect thereof), in each case solely as a direct result of each such shareholders' being shareholders of the Borrower.

#### 6.07. Transactions with Affiliates

Enter into any transactions, including without limitation, the purchase, sale or exchange of property or the rendering of any service, with any Affiliate except in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms no less favorable to the Borrower as would obtain in any arm's-length transaction with a Person not an Affiliate.

#### 6.08. Financial Covenants

(a) Global Debt Coverage Ratio.

The Borrower shall not permit the Global Debt Coverage Ratio (as defined herein) as of the end of each fiscal year to be less than 1.35:1.00.

(b) Current Ratio.

The Borrowers shall not permit the Current Ratio as of the end of each calendar quarter to be less than 1.10:1.00.

(c) Maximum Total Liabilities to Effective Tangible Net Worth.

The Borrower shall not permit the ratio of Maximum Total Liabilities to Effective Tangible Net Worth (as those terms are defined herein) at the end of each calendar quarter to be more than 3.75:1.00.

(d) Annual Profitability.

The Net Income (as defined herein) of the Borrowers at the end of each fiscal year shall be \$500,000 or greater.

6.09. Use of Proceeds

The Borrowers shall not use the proceeds of the Loans any purpose other than the purposes set forth in Section 1.07.

7. DEFAULT

7.01. Events of Default

Each of the following shall constitute an "Event of Default" hereunder:

- (a) The failure of the Borrowers to make any payment of principal on the Loans on the date when due and payable; or
- (b) The failure of the Borrowers to make any payment of interest, Fees, expenses or other amounts payable under any Loan Document which failure shall have continued unremedied for a period of three Business Days after the date when due and payable; or
- (c) The failure of either Borrower to observe or perform any covenant or agreement contained in Section 1.07 or Article 6; or
- (d) The failure of any Credit Party to observe or perform any other term, covenant, or agreement contained in any Loan Document to which it is a party, which failure shall have continued unremedied for a period of 30 days after the occurrence thereof; or
- (e) The failure of any Credit Party to observe or perform any other term, covenant, or agreement contained in any other agreement to which it is a party with the Bank, which failure shall have continued unremedied for a period of 30 days after the occurrence thereof; or
- (f) Any representation, warranty, certification or statement made by either Borrower (or any of its officers) in any Loan Document to which it is a party, or in any certificate, financial statement or other document delivered or to be delivered by it pursuant thereto, shall prove to have been incorrect or misleading in any material respect when made or deemed made; or

(g) (i) Any Indebtedness of either Borrower (other than its obligations hereunder) in an amount in excess of \$50,000, whether as principal, guarantor, surety or other obligor (x) shall become or shall be declared to be due and payable prior to the expressed maturity thereof, or (y) shall not be paid when due or within any grace period for the payment thereof, or (ii) any holder of any obligation referred to in clause (i) of this Subsection (0 shall have the right to declare such obligation due and payable prior to the expressed maturity thereof., or

(h) Either Borrower or any Guarantor shall (i) suspend or discontinue its business, (ii) make an assignment for the benefit of creditors, (iii) generally not be paying its debts as such debts become due, (iv) admit in writing its inability to pay its debts as they become due, (v) file a voluntary petition in bankruptcy, (vi) become insolvent (however such insolvency shall be evidenced), (vii) file any petition or answer seeking for itself any reorganization, arrangement, composition, readjustment of debt, liquidation or dissolution or similar relief under any present or future statute, law or regulation of any jurisdiction, (viii) petition or apply to any tribunal for any receiver, custodian or any trustee for any substantial part of its Property, (ix) be the subject of any such proceeding filed against it which remains undismissed for a period of 60 days, (x) file any answer admitting or not contesting the material allegations of any such petition filed against it or any order, judgment or decree approving such petition in any such proceeding, (xi) seek, approve, consent to, or acquiesce in, any such proceeding, or in the appointment of any trustee, receiver, sequestrator, custodian, liquidator, or fiscal agent for it, or any substantial part of its Property, or an order is entered appointing any such trustee, receiver, custodian, liquidator or fiscal agent and such order remains in effect for 60 days, or (xii) take any formal action for the purpose of effecting any of the foregoing or looking to the liquidation or dissolution of the Borrower or any Guarantor; or

(i) (1) An order for relief is entered under the United States bankruptcy laws, or (2) any other decree or order is entered by a court having jurisdiction (i) adjudging either Borrower or any Guarantor bankrupt or insolvent, (ii) approving as properly filed a petition seeking reorganization, liquidation, arrangement, adjustment or composition of or in respect of such Borrower or Guarantor under the United States bankruptcy laws or any other applicable Federal or state law, (iii) appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of such Borrower or Guarantor or of any substantial part of the Property thereof, or (iv) ordering the winding up or liquidation of the affairs of such Borrower or Guarantor, and any such decree or order under this clause (2) continues unstayed and in effect for a period of 60 days; or



0) Judgments or other orders for the payment of money aggregating in excess of \$50,000 shall be rendered against the Borrowers or either of them and shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismitted for a period of 30 days; *provided, however*, that any such judgment or order shall not give rise to an Event of Default under this Section 7.01(i) if and for so long as (A) the amount of such judgment or order is covered by a valid and binding policy of insurance between the defendant and the insurer, which shall be rated at least "A" by A.M. Best Company, covering full payment thereof and (B) such insurer has been notified, and has not disputed the claim made for payment, of the amount of such judgment or order; or

(k) Any Loan Document shall cease, for any reason, to be in full force and effect, or either Borrower or any obligor thereunder shall so assert in writing or shall disavow any of its obligations thereunder or hereunder; or

(1) (i) Any Termination Event shall occur; (ii) any accumulated funding deficiency as defined in Section 302 of ERISA, whether or not waived, shall exist with respect to any Pension Plan; (iii) any Person shall engage in any prohibited transaction involving any Employee Benefit Plan; (iv) either Borrower shall fail to pay when due an amount which is payable by it to the PBGC or to a Pension Plan under Title IV of ERISA; (v) the imposition of any tax under Section 4980(B)(a) of the Code; (vi) the assessment of a civil penalty with respect to any Employee Benefit Plan under Section 502(c) of ERISA; or (vii) any other event or condition shall occur or exist with respect to an Employee Benefit Plan which would have a Material Adverse Effect on any Credit Party; or

(m) A Material Adverse Change shall have occurred with respect to any Credit Party; or

(n) A Change of Control or a Change in Management shall have occurred.

#### 7.02. Remedies

Upon the occurrence of an Event of Default or at any time thereafter during the continuance thereof, (a) if such event is an Event of Default specified in Section 7.01(g) or 7.01(h), (i) the Loans, all accrued and unpaid interest thereon and all other amounts owing under the Loan Documents shall immediately become due and payable, (ii) the Commitment shall immediately terminate and the Bank shall have no obligation to make any additional Loans hereunder, and (iii) the Bank may exercise any and all remedies and other rights provided in the Loan Documents, and (b) if such event is any other Event of Default, any or all of the following actions may be taken: (i) the Bank may by notice to the Borrowers, (x) declare the Loans, all accrued and unpaid interest thereon and all other amounts owing under any Loan Documents to be due and payable, whereupon the same shall immediately become due and payable, and (y) declare the Commitment to be immediately terminated, whereupon the Bank shall have no obligation to make any additional Loans hereunder, and (ii) the Bank may exercise any and all remedies and other rights provided in the Loan Documents, presentment, demand, protest and all other notices of any kind being in each case hereby expressly waived by the Borrowers.

## **8. DEFINITIONS AND PRINCIPLES OF CONSTRUCTION**

### **8.01. Definitions**

In addition to terms defined elsewhere in the Loan Documents, capitalized terms appearing in this Agreement are used as defined in Annex I hereto

### **8.02. Principles of Construction**

(a) All terms defined in a Loan Document shall have the meanings given such terms therein when used in the other Loan Documents or any certificate, opinion or other document made or delivered pursuant thereto, unless otherwise defined therein.

(b) The words "hereof", "herein", "hereto" and "hereunder" and similar words when used in a Loan Document shall refer to such Loan Document as a whole and not to any particular provision thereof, and Section, Subsection, schedule and exhibit references contained therein shall refer to Sections or Subsections thereof or schedules or exhibits thereto unless otherwise expressly provided therein.

(c) The phrase "may not" is prohibitive and not permissive.

(d) Unless the context otherwise requires, words in the singular number include the plural, and words in the plural include the singular.

(e) Unless specifically provided in a Loan Document to the contrary, any reference to a time shall refer to such time in New York City.

(f) Unless specifically provided in a Loan Document to the contrary, in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding".

## **9. OTHER PROVISIONS**

### **9.01. Amendments and Waivers**

No amendment or waiver of any provision of this Agreement or any Loan Document shall in any event be effective unless the same shall be in writing and signed by all parties, and such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

## 9.02. Notices

All notices, requests and demands to or upon the respective parties to the Loan Documents to be effective shall be in writing and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made (i) when delivered by hand, (ii) five days after having been deposited with the United States Postal Service as certified or registered mail, return receipt requested, with first-class postage and fees prepaid, (iii) on the next Business Day after being consigned, for next business day delivery, to Federal Express or another comparable overnight courier service, or (iv) when sent by facsimile transmission upon electronic confirmation of receipt, addressed as follows:

### The Borrowers:

Han Feng, Inc. and New Sun Wah Trading Corporation  
6001 West. Market Street  
Greensboro, North Carolina 27409  
Attention: Zhou MM Ni, CEO  
Telephone: (336) 268-2080  
Fax: (336) 268-2655

### The Bank:

East West Bank  
1040 Avenue of the Americas  
16<sup>th</sup> Floor  
New York, New York 10018  
Attention: Terry Mang, Vice President  
Telephone: (646) 480-6189  
Fax: (212) 302-2738

except that any notice by the Borrowers to the Bank pursuant to Section 1.03 shall not be effective until received. Any party to a Loan Document may change its address for notices by giving notice to each of the other parties as provided in this Section, but such notice shall not be effective against any such party until actually received. Any party to a Loan Document may rely on signatures thereon which are transmitted by fax or other electronic means as fully as if manually signed.

## 9.03. Assignments and Participations

This Agreement, the Note and the other Loan Documents to which the Borrowers are a party shall be binding upon and inure to the benefit of the Borrowers and the Bank, all future holders of the Note and their respective successors and assigns, provided, however, that the Borrower may neither delegate its liabilities and obligations, nor assign its rights and benefits, under any Loan Document to any Person. The Bank shall have the right at any time, upon written notice to the Borrower, to sell, assign, transfer or negotiate, or grant participations in, all or any part of the Bank's rights with respect to the Loans to one or more banks, insurance companies, financial institutions, pension funds or mutual funds, *provided, however*, the Borrowers shall not, at any time, be obligated to pay any participant hereunder any sum pursuant to Section 2.03 or 2.04 in excess of the sum which the Borrowers would have been obligated to pay to the Bank in respect of such interest had the Bank not sold such participation. The Bank may at any time assign all or any part of its rights under the Loan Documents to a Federal Reserve Bank, without notice to the Borrowers, provided that any such assignment shall not release the Bank from its obligations thereunder.

#### 9.04. No Waiver• Cumulative Remedies

No failure to exercise and no delay in exercising, on the part of the Bank, any right, remedy, power or privilege under any Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege under any Loan Document preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges under the Loan Documents are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

#### 9.05. Survival of Representations and Warranties and Certain Obligations

(a) All representations and warranties made under the Loan Documents and in any document, certificate or statement delivered pursuant thereto or in connection therewith shall survive the execution and delivery of the Loan Documents.

(b) The obligations of the Borrowers under Sections 2.03, 2.04, 9.06 and 9.07 shall survive the payment of the Loans and all other amounts payable under the Loan Documents. The Bank's determination of any amount or amounts owed by the Borrowers to it under any such Section shall be presumed correct absent manifest error.

#### 9.06. Expenses

The Borrowers agree, promptly upon presentation of a statement or invoice therefor, and whether or not any Loans are made, (i) to pay or reimburse the Bank for all its out-of-pocket costs and expenses reasonably incurred in connection with the development, preparation and execution of, the Loan Documents and any amendment, supplement or modification thereto (whether or not executed or effective), any documents prepared in connection therewith and the consummation of the transactions contemplated thereby, including, without limitation, the reasonable fees and disbursements of the Bank's counsel, (ii) to pay or reimburse the Bank for all of its costs and expenses, including, without limitation, reasonable fees and disbursements of counsel, incurred in connection with (A) any Default or Event of Default and any enforcement or collection proceedings resulting therefrom or in connection with the negotiation of any restructuring or "work-out" (whether consummated or not) of the obligations of the Borrowers under any of the Loan Documents and (B) the enforcement of this Section, and (iii) to pay, indemnify and hold the Bank and each of its officers, directors and employees harmless from and against any and all other liabilities, obligations, claims, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including, without limitation, reasonable counsel fees and disbursements) with respect to the enforcement and performance of the Loan Documents, the use of the proceeds of the Loans and the enforcement and performance of the provisions of any subordination agreement involving the Bank, and, if and to the extent that the foregoing indemnity may be unenforceable for any reason, the Borrowers agree to make the maximum payment not prohibited under applicable law; provided, however, that the Borrowers shall have no obligation to pay any of the liabilities set forth in this Section to the Bank arising from the finally adjudicated gross negligence or willful misconduct of the Bank or claims between one indemnified party and another indemnified party.

9.07. Indemnity

The Borrowers agree to indemnify and hold harmless the Bank and its Affiliates, directors, officers, employees, attorneys and agents (each an "Indemnified Person") from and against any loss, cost, liability, damage or expense (including the reasonable fees and disbursements of counsel of such Indemnified Person, including all local counsel hired by any such counsel) incurred by such Indemnified Person in investigating, preparing for, defending against, or providing evidence, producing documents or taking any other action in respect of, any commenced or threatened litigation, administrative proceeding or investigation under any federal securities law or any other statute of any jurisdiction, or any regulation, or at common law or otherwise, which is alleged to arise out of or is based upon (i) any untrue statement or alleged untrue statement of any material fact by any Credit Party in any document or schedule executed or filed with any Governmental Authority by or on behalf of such Credit Party; (ii) any omission or alleged omission to state any material fact required to be stated in such document or schedule, or necessary to make the statements made therein, in light of the circumstances under which made, not misleading; (iii) any acts, practices or omissions or alleged acts, practices or omissions of each Borrower or its agents relating to the use of the proceeds of the Loans, or in violation of any federal securities law or of any other statute, regulation or other law of any jurisdiction applicable thereto; or (iv) any acquisition or proposed acquisition by any Credit Party of all or a portion of the stock, or all or a portion of the assets, of any Person whether such Indemnified Person is a party thereto. The indemnity set forth herein shall be in addition to any other obligations or liabilities of each Borrower to each Indemnified Person under this Agreement or any other Loan Document or at common law or otherwise, and shall survive any termination of this Agreement or any other Loan Document and the payment of all indebtedness of such Borrower under the Loan Documents, provided that the Borrower shall have no obligation under this Section to an Indemnified Person with respect to any of the foregoing to the extent determined in a final judgment of a court having jurisdiction to have resulted primarily out of the gross negligence or willful misconduct of such Indemnified Person.

#### 9.08. Limitation of Liability

No claim may be made by the Borrowers or either of them or any other Person against the Bank or any directors, officers, employees or agents of the Bank for any special, indirect, consequential or punitive damages in respect of any claim for breach of contract or any other theory of liability arising out of or related to the transactions contemplated by any Loan Document, or any act, omission or event occurring in connection therewith, and the Borrowers hereby waive, release and agree not to sue upon any claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

#### 9.09. Counterparts

Each Loan Document (other than the Note) may be executed by one or more of the parties thereto on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same document. It shall not be necessary in making proof of any Loan Document to produce or account for more than one counterpart signed by the party to be charged. A counterpart of any Loan Document, and of any an amendment, modification, consent or waiver to or of any Loan Document, transmitted by telecopy shall be deemed to be an originally executed counterpart. A set of the copies of the Loan Documents signed by all the parties thereto shall be deposited with the Borrowers and the Bank. Any party to a Loan Document may rely upon the signatures of any other party thereto which are transmitted by telecopy or other electronic means to the same extent as if originally signed.

#### 9.10. Set-off

In addition to any rights and remedies of the Bank provided by law, upon the occurrence of an Event of Default and the acceleration of the obligations owing in connection with the Loan Documents, or at any time upon the occurrence and during the continuance of an Event of Default under Section 7.01(a) or 7.01(b), the Bank shall have the right, without prior notice to the Borrowers, any such notice being expressly waived by the Borrowers to the extent not prohibited by applicable law, to set-off and apply against any indebtedness, whether matured or unmatured, of the Borrowers to the Bank, any amount owing from the Bank to the Borrowers, at, or at any time after, the happening of any of the above-mentioned events. To the extent not prohibited by applicable law, the aforesaid right of set-off may be exercised by the Bank against a Borrower or against any trustee in bankruptcy, custodian, debtor in possession, assignee for the benefit of creditors, receiver, or execution, judgment or attachment creditor of a Borrower or against anyone else claiming through or against a Borrower or such trustee in bankruptcy, custodian, debtor in possession, assignee for the benefit of creditors, receiver, or execution, judgment or attachment creditor, notwithstanding the fact that such right of set-off shall not have been exercised by the Bank prior to the making, filing or issuance, or service upon the Bank of, or of notice of, any such petition, assignment for the benefit of creditors, appointment or application for the appointment of a receiver, or issuance of execution, subpoena, order or warrant. The Bank agrees promptly to notify such Borrower after any such set-off and application made by the Bank, provided that the failure to give such notice shall not affect the validity of such set-off and application.

9.11. Construction

The Borrower represents that it has been represented by counsel in connection with the Loan Documents and the transactions contemplated thereby and that the principle that agreements are to be construed against the party drafting the same shall be inapplicable.

9.12. Governing Law

The Loan Documents and the rights and obligations of the parties thereunder shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of New York.

9.13. Headings Descriptive

Section headings have been inserted in the Loan Documents for convenience only and shall not be construed to be a part thereof.

9.14. Severability

Every provision of the Loan Documents is intended to be severable, and if any term or provision thereof shall be invalid, illegal or unenforceable for any reason, the validity, legality and enforceability of the remaining provisions thereof shall not be affected or impaired thereby, and any invalidity, illegality or unenforceability in any jurisdiction shall not affect the validity, legality or enforceability of any such term or provision in any other jurisdiction.

9.15. Integration

All exhibits to a Loan Document shall be deemed to be a part thereof. The Loan Documents embody the entire agreement and understanding between the Borrowers and the Bank with respect to the subject matter thereof and supersede all prior agreements and understandings between the Borrowers and the Bank with respect to the subject matter thereof

9.16. Consent to Jurisdiction

Each of the Borrowers and the Bank hereby irrevocably submits to the jurisdiction of any New York State or Federal court sitting in the State and County of New York over any suit, action or proceeding arising out of or relating to the Loan Documents. Each of the Borrowers and the Bank hereby irrevocably waives, to the fullest extent permitted or not prohibited by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in such a court and any claim that any such suit, action or proceeding brought in such a court has been brought in an inconvenient forum. Each of the Borrowers and the Bank hereby agrees that a final judgment in any such suit, action or proceeding brought in such a court, after all appropriate appeals, shall be conclusive and binding upon it.

9.17. Service of Process

Each of the Borrowers and the Bank hereby irrevocably consents to the service of process in any suit, action or proceeding by sending the same by first class mail, return receipt requested or by overnight courier service, to the address of such party set forth in Section 9.02. Each of the Borrowers and the Bank hereby agrees that any such service (i) shall be deemed in every respect effective service of process upon it in any such suit, action, or proceeding, and (ii) shall to the fullest extent enforceable by law, be taken and held to be valid personal service upon and personal delivery to it.

9.18. No Limitation on Service or Suit •

Nothing in the Loan Documents or any modification, waiver, consent or amendment thereto shall affect the right of the Bank to serve process in any manner permitted by law or limit the right of the Bank to bring proceedings against the Borrowers or either of them in the courts of any jurisdiction or jurisdictions in which such Borrower or Borrowers may be served.

9.19. WAIVER OF TRIAL BY JURY

EACH OF THE BORROWERS AND THE BANK HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION ARISING OUT OF, UNDER OR IN CONNECTION WITH THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREIN. FURTHER, THE BORROWERS HEREBY CERTIFY THAT NO REPRESENTATIVE OR AGENT OF THE BANK, OR COUNSEL TO THE BANK, HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT, IN THE EVENT OF SUCH LITIGATION; SEEK TO ENFORCE THIS WAIVER OF RIGHT TO JURY TRIAL PROVISION. THE BORROWERS ACKNOWLEDGE THAT THE BANK HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, INTER ALIA, THE PROVISIONS OF THIS SECTION.

9.20. USA Patriot Act Notice

The Bank hereby notifies the Borrowers that, pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), the Bank is required to obtain, verify and record information that identifies the Borrowers, which information includes the name and address of the Borrowers and other information that will allow it to identify the Borrowers in accordance with the Patriot Act.



IN WITNESS WHEREOF, the parties hereto have executed and delivered this Credit Agreement as of the day and year first written above.

HAN FENG, INC.

By: /s/ Zhou Min Ni /s/  
Name: Zhou Min Ni  
Title: Chief Executive Officer

By: /s/ Chan Sin Wong /s/  
Name: Chan Sin Wong  
Title: President

NEW SUN WAH TRADING CORPORATION

By: /s/ Zhou Min Ni  
Name: Zhou Min Ni  
Title: Chief Executive Officer

By: /s/ Chan Sin Wong  
Name: Chan Sin Wong  
Title: President

EAST WEST BANK

By: /s/ Terry Mang  
Name: Terry Mang  
Title: Vice President

DEFINITIONS

"Account": as defined in Section 1.03(b).

"Account Receivable" means any right of a Borrower to payment for goods sold or services rendered, whether now existing or hereafter arising.

"Affiliate": as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, control of a Person shall mean the power, direct or indirect, (i) to vote 5% or more of the securities or other interests having ordinary voting power for the election of directors or other managing Persons thereof or (ii) to direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"Agreement": this Credit Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Authorized Signatory": as to (i) any Person which is a corporation, the chairman of the board, the president, any vice president, the chief financial officer or any other officer (acceptable to the Bank) of such Person and (ii) any Person which is not a corporation, the general partner or other Managing Person thereof or a duly authorized representative of such Managing Person (acceptable to the Bank).

"Borrowing Availability": on the date of any Loan request, the excess of (i) the lesser of (a) the Borrowing Base and the (b) the Commitment Amount, each computed at such date, over (ii) the outstanding principal amount of the Loans computed at such date prior to giving effect to the requested Loan.

"Borrowing Base": on any date, shall mean sum of (i) 80% of Eligible Accounts outstanding on such date, and (ii) 50% of Eligible Inventory on such date up to a maximum value of \$5,000,000, except that the aggregate amount of advances against Eligible Inventory cannot exceed the aggregate amount of advances against Eligible Accounts.

"Borrowing Base Certificate": a certificate in substantially the form attached hereto as Exhibit B.

"Borrowing Date": any date upon which a Loan is made hereunder.

"Borrowing Request": a request in the form customarily used by the Bank.

"Business Day": any day other than a Saturday, a Sunday or a day on which commercial banks located in New York City are authorized or required by law or other governmental action to close.

"*Capital Lease*": with respect to any Person, any lease of property (whether real, personal or mixed) by such Person as lessee which, in conformity with GAAP, is accounted for as a capital lease on the balance sheet of such Person.

"*Capital Lease Obligations*": with respect to any Person, obligations of such Person under Capital Leases accounted for as liabilities in accordance with GAAP.

"*Capital Stock*": as to any Person, all shares, interests, partnership interests, limited liability company membership interests, participations, rights in or other equivalents (however designated) of such Person's equity (however designated) and any rights, warrants or options exchangeable for or convertible into such shares, interests, participations, rights or other equity.

"*Change in Management*" means that at any time Zhou MM Ni and Chan Sin Wong shall cease (whether due to retirement, disability, death or otherwise) to hold the office, serve in the capacity or exercise the managerial policy-making responsibilities which on the date hereof he holds, serves in or exercises with or on behalf of the Borrower, unless he is replaced within 6 months by another individual or individuals reasonably acceptable to the Bank.

"*Change of Control*": any time at which 100% of the Capital Stock of each of the Borrowers is not owned by Zhou Min Ni and Chan Sin Wong.

"*Code*": the Internal Revenue Code of 1986, as the same may be amended from time to time, or any successor thereto, and the rules and regulations issued thereunder, as from time to time in effect.

"*Collateral*": the Property in which a security interest has been granted to the Bank pursuant to the Security Agreement.

"*Commitment*": the Bank's obligation to make Loans hereunder, in an aggregate amount not exceeding the Commitment Amount or as otherwise provided herein.

"*Commitment Amount*": Ten Million (\$10,000,000) Dollars, as such figure may be reduced from time to time pursuant to Section 1.04.

"*Commitment Period*": the period commencing on the Effective Date and ending on the Business Day immediately preceding the Maturity Date.

"*Company Guarantor*": as defined in Section 1.08.

"*Credit Party*": the Borrowers, the Guarantors and each other party (other than the Bank) to a Loan Document.

"*Current Assets*": assets which are classified as current assets in accordance with GAAP.

"*Current Liabilities*": liabilities which are classified as current liabilities in accordance with GAAP.

"*Current Ratio*": as of any date, the ratio of Current Assets of the Borrowers and the Company Guarantors, on a combined basis, as of such date to Current Liabilities of the Borrowers and the Company Guarantors, on a combined basis, as of such date.

"*Default*": any event or condition which constitutes an Event of Default or which, with the giving of notice, the lapse of time, or any other condition, would, unless cured or waived, become an Event of Default.

"*EBITDA*": for any period, Net Income for such period, *plus*, without duplication and to the extent deducted in determining such Net Income, the sum of (i) Interest Expense for such period, (ii) the aggregate amount of taxes accrued for such period and dividends permitted to be paid pursuant to Section 6.06 and in fact so paid, (iii) the aggregate amount attributable to depreciation and amortization for such period, (iv) all other non-cash charges and non-cash losses and (v) the aggregate amount of extraordinary or non-recurring non-cash losses during such period, *minus*, without duplication and to the extent added in determining such Net Income for such period, the aggregate amount of extraordinary or non-recurring gains during such period.

"*Effective Date*": January 5, 2012.

"*Effective Tangible Net Worth*": the aggregate of total stockholder's equity plus subordinated debt of the Borrowers and the Company Guarantors, on a combined basis, less any intangible assets and less any loans or advances to, or investments in, any related entities or individuals, of the Borrowers and the Company Guarantors, on a combined basis.

"*Eligible Accounts*": Accounts Receivable of either or both of the Borrowers (without duplication) subject to a fully perfected first priority security interest in favor of the Bank pursuant to a Security Agreement and which conform to the representations and warranties contained in the Security Agreements, reduced by the amount of any returns, discounts, claims, credits and allowances of any nature and less reserves for other matters affecting the creditworthiness of account debtors owing the accounts receivable, but specifically excluding the following:

- (1) bill and hold (deferred shipment) transactions,
- (2) all Accounts Receivable which have not been paid in full within 90 days after the invoice date thereof;
- (3) all Accounts Receivable due from (i) any Affiliate of the Borrower, (ii) from an account debtor which is the subject of any reorganization, bankruptcy, receivership, custodianship, insolvency or other analogous condition or (ii) from any Person who is, or is an Affiliate of, a Family Member,

- (4) all Accounts Receivable subject to a purchase money security interest or other lien in favor of any person, such as floor-plan arrangements,
- (5) Accounts Receivable from any government (federal, state, local or foreign) or any agency, bureau or department thereof, excluding Canadian accounts or accounts that are subject to credit insurance payable to the Bank issued by an insurer acceptable to the Bank and on terms and in amounts acceptable to the Bank,
- (6) contra accounts,
- (7) Accounts Receivable subject to any dispute, setoff, counterclaim or other claim or defense on the part of the account debtor denying liability under such Accounts Receivable in whole or in part,
- (8) Accounts Receivable not payable in U.S. Dollars or which are not evidenced by an invoice or which are evidenced by an instrument or chattel paper,
- (9) Accounts Receivable due from a customer 25% or more of whose Accounts Receivable (by dollar amount) due to Borrower are outstanding 90 days or more after the invoice date thereof,
- (0) Accounts receivable which are due from an account debtor with no regular place of business in the United States (unless such Accounts Receivable are secured by clean letters of credit in favor of the Borrower and in which the Bank has a fully perfected first priority security interest, are secured by letters of credit in favor of the Bank or which are assigned to the Bank or are covered by export insurance (provided that in each of the foregoing situations the letter of credit or export insurance policy, as applicable, is (x) in form and substance acceptable to the Bank and (y) issued by a bank or insurance company, as applicable, doing business in the United States and acceptable to the Bank) and
- (1) Accounts Receivable due from an account debtor to the extent the aggregate outstanding amount of Accounts Receivable due from such account debtor and its Affiliates exceeds 25% of the aggregate amount of all Accounts Receivable due to the Borrower (but only to the extent of such excess).

*"Eligible Inventory"*: Inventory of either or both of the Borrowers (without duplication) subject to a fully perfected first priority security interest in favor of the Bank, valued at the lower of cost or market value, which is not on consignment from or to any third party and which conforms to the representations and warranties contained in the Security Agreements, less five (5%) percent of such value (to account for (a) obsolete Inventory, (b) damaged or defective Inventory, (c) Inventory consisting of samples, displays or otherwise not of a type held for sale in the ordinary course of a Borrower's business, (d) Inventory (i) not saleable within 360 days from the date of acquisition or creation thereof or (ii) consisting of a type of spare part held for sale to customers in the ordinary course of business which has not been the subject of a sale for 360 days, (e) Inventory to be returned to suppliers, (1) any reserves reasonably required by Bank for market-value declines, bill-and-hold (deferred shipment) sales, and any other matters in the reasonable determination of the Bank, (g) Inventory not produced in material compliance with the applicable requirements of the Fair Labor Standards Act, (h) Inventory which is not located on premises owned or leased by a Borrower in the United States of America, (i) special-order and custom-made goods not saleable in the ordinary course of business and (j) any other Inventory deemed ineligible in the reasonable determination of the Bank) plus Inventory held by, or in transit to, third parties notwithstanding that such Inventory may not be subject to a fully perfected first priority security interest in favor of the Bank.

*"Employee Benefit Plan"*: an employee benefit plan within the meaning of Section 3(3) of ERISA maintained, sponsored or contributed to by a Borrower.

*"Environmental Laws"*: any and all federal, state and local laws relating to the environment, the use, storage, transporting, manufacturing, handling, discharge, disposal or recycling of hazardous substances, materials or pollutants or industrial hygiene and including, without limitation, (i) the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 USCA §9601 et seq.; (ii) the Resource Conservation and Recovery Act of 1976, as amended, 42 USCA §6901 et seq.; (iii) the Toxic Substance Control Act, as amended, 15 USCA §2601 et seq.; (iv) the Water Pollution Control Act, as amended, 33 USCA §1251 et seq.; (v) the Clean Air Act, as amended, 42 USCA §7401 et seq.; (vi) the Hazardous Materials Transportation Authorization Act of 1994, 49 USCA §5101 et seq. and (viii) all rules, regulations judgments decrees injunctions and restrictions thereunder and any analogous state law.

*"ERISA"*: the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations issued thereunder.

*"ERISA Affiliate"*: with respect to a Pension Plan, ERISA, the PBGC or a provision of the Code pertaining to employee benefit plans, any Person that is a member of any group of organizations within the meaning of Section 414 of the Code of which a Borrower or any Subsidiary of the Borrower is a member.

*"Event of Default"*: any of the events specified in Section 7.01, provided that any requirement for the giving of notice, the lapse of time or any other condition has been satisfied.

*"Facility Fee"*: a fee in the amount of Ten Thousand (\$10,000) Dollars.

*"Family Member"*: means the spouse, lineal descendants, siblings, and spouses and lineal descendants of siblings of Zhou Min Ni and Chan Sin Wong, or any trust(s) for the benefit of Zhou Min Ni and Chan Sin Wong, or for the benefit of the lineal descendants, siblings, and spouses and lineal descendants of siblings of Zhou Min Ni and Chan Sin Wong.

*"Federal Funds Rate"*: for any day, a rate per annum (expressed as a decimal, rounded upwards, if necessary, to the next higher 1/100 of 1%) equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (i) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if such rate is not so published for any day, the Federal Funds Rate for such day shall be the average of the quotations for such day on such transactions received by the Bank.

*"Fees"*: as defined in Section 1.06(a).

*"Financial Statements"*: as defined in Section 3.10.

*"GAAP"*: generally accepted accounting principles in the United States as in effect from time to time.

*"Global Debt Service Coverage Ratio"*: the earnings before interest, taxes, depreciation and amortization minus distribution (EBITDA) of the Borrowers and the Company Guarantors, on a combined basis, divided by Current Maturity of Long Term Debt plus Interest Expense of the Borrowers and the Company Guarantors, on a combined basis.

*"Governmental Authority"*: any court, or any federal or foreign, state, municipal or other governmental department, commission, board, bureau, agency, authority, instrumentality, or any arbitrator.

*"Guarantees"* and *"Guarantors"*: as defined in Section 1.08.

*"Indebtedness"*: as to any Person, at a particular time, all items which constitute, without duplication, (i) indebtedness for borrowed money or the deferred purchase price of Property (other than trade payables incurred in the ordinary course of business), (ii) indebtedness evidenced by notes, bonds, debentures or similar instruments, (iii) obligations with respect to any conditional sale or title retention agreement, (iv) indebtedness arising under acceptance and letter of credit facilities and the amount available to be drawn under all letters of credit issued for the account of such Person, (v) all liabilities secured by any Lien on any Property owned by such Person (other than carriers', warehousemen's, mechanics', repairmen's or other like non-consensual statutory Liens arising in the ordinary course of business with respect to obligations which are not past due), (vi) all guarantees or other liabilities with respect to any Indebtedness of any other Person and (vii) all lease obligations which are required to be capitalized under GAAP.

*"Individual Guarantor"*: as defined in Section 1.08.

*"Interest Expense"*: for any period, total cash interest expense (including that attributable to Capital Lease Obligations in accordance with GAAP) of a Person with respect to all outstanding Indebtedness of such Person.

*"Inventory"* means all finished goods, raw materials and other merchandise of the Borrower, whether now owned or hereafter acquired, held for sale, excluding, to the extent included therein, work-in-process, scrap inventory, manufacturing supplies, packaging materials, displays and spare parts (other than spare parts held for sale to customers in the ordinary course of business).

*"Lien"*: any mortgage, pledge, hypothecation, assignment, deposit or preferential arrangement, encumbrance, lien (statutory or other), or other security agreement or security interest of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement and any capital or financing lease having substantially the same economic effect as any of the foregoing.

*"Loan Documents"*: collectively, this Agreement, the Note, the Guarantees, the Security Agreement and any other document delivered pursuant to this Agreement.

*"Loans"*: as defined in Section 1.01.

*"Managing Person"*: with respect to any Person that is (i) a corporation, its board of directors, (ii) a limited liability company, its board of control, managing member or members, (iii) a limited partnership, its general partner, (iv) a general partnership or a limited liability partnership, its managing partner or executive committee or (v) any other Person, the managing body thereof or other Person analogous to the foregoing.

*"Margin Stock"*: any "margin stock", as defined in Regulation U of the Board of Governors of the Federal Reserve System, as the same may be amended or supplemented from time to time.

*"Material Adverse Change; Material Adverse Effect"*: with respect to any Person, a material adverse change in, or effect on, as the case may be (i) the financial condition, operations, business or Property of such Person, (ii) the ability of such Person to perform its obligations under the Loan Documents or (iii) the ability of the Bank to enforce the Loan Documents.

*"Maturity Date"*: the date occurring on the first anniversary of the Effective Date, or such earlier date on which all outstanding Loans shall become due and payable, whether by acceleration or otherwise.

*"Maximum Total Liabilities"*: the aggregate of current liabilities and non-current liabilities (including outstanding Letters of Credit and any contingent liabilities) of the Borrowers and the Company Guarantors, on a combined basis, less subordinated debt of the Borrowers and the Company Guarantors, on a combined basis.



*"Net Income"*: for any period, net income (or loss) of the Borrowers for such period taken as a single accounting period determined in accordance with GAAP.

*"Note"*: as defined in Section 1.02.

*"Organizational Documents"*: as to any Person which is (i) a corporation, the certificate or articles of incorporation and by-laws of such Person, (ii) a limited liability company, the articles of organization and limited liability company agreement or similar agreement of such Person, (iii) a partnership, the partnership agreement or similar agreement of such Person, or (iv) any other form of entity or organization, the organizational documents analogous to the foregoing.

*"PBGC"*: the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA, or any Governmental Authority succeeding to the functions thereof

*"Pension Plan"*: at any date of determination, any Employee Benefit Plan (including a multiemployer plan as defined in Section 4001(a)(3) of ERISA), the funding requirements of which (under Section 302 of ERISA or Section 412 of the Code) are, or at any time within the six years immediately preceding such date, were in whole or in part, the responsibility of the Borrower or any ERISA Affiliate.

*"Permitted Liens"*: as defined in Section 6.02.

*"Person"*: an individual, a partnership, a corporation, a limited liability company, a business trust, a joint stock company, a trust, an unincorporated association, a joint venture, a Governmental Authority or any other entity of whatever nature.

*"Prime Rate"*: a rate of interest per annum equal to the rate of interest published in New York, New York from time to time in The Wall Street Journal as the prime rate, such rate to be adjusted automatically (without notice) on the effective date of any change in such published announced rate. The Borrower acknowledges that the Prime Rate is not necessarily the lowest rate at which the Bank may make loans or other extensions of credit.

*"Property"*: all types of real, personal, tangible, intangible or mixed property. *"Security Agreement"*: as defined in Section 1.09.

*"Solvent"*: means, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay such debts and liabilities as they mature and (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute unreasonably small capital. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that would reasonably be expected to become an actual or matured liability.

*"Subsidiary"*: any corporation or other Person, at least a majority of the outstanding Capital Stock of which is owned (either directly or indirectly) by a Borrower.

*"Taxes"*: any and all present or future taxes, levies, imposts, duties, charges, fees, deductions or withholdings of any nature and whatever called, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority.

*"Termination Event"*: with respect to any Pension Plan, (i) a reportable event set forth in Section 4043(c), 4063(a) or 4068(f) of ERISA or an event requiring security to a Pension Plan under Section 401(a)(29) of the Code, (ii) the termination of a Pension Plan, the filing of a notice of intent to terminate a Pension Plan, or the treatment of a Pension Plan amendment as a termination under Section 4041(c) of ERISA, (iii) the institution of proceedings to terminate a Pension Plan under Section 4042 of ERISA, or (iv) the appointment of a trustee to administer any Pension Plan under Section 4042 of ERISA.

## AMENDMENT TO CREDIT AGREEMENT

This Amendment to Credit Agreement dated as of May 21, 2013 (this "*Amendment*"), by and between **HAN FENG, INC.**, a North Carolina corporation having its principal place of business at 6001 West Market Street, Greensboro, North Carolina 27409 (the "*Borrower*"), and **EAST WEST BANK**, 535 Madison Avenue, 8<sup>th</sup> Floor New York, New York 10022 (referred to herein as the "*Bank*").

### Recitals

Whereas, the Borrower, New Sun Wah Trading Corporation, a corporation originally formed in the State of South Carolina ("*New Sun Wah*"), and the Bank entered into a Credit Agreement as of January 5, 2012 (the "*Credit Agreement*"), providing for a credit facility from the Bank to the Borrower and New Sun Wah in the maximum principal amount of Ten Million (\$10,000,000) Dollars,

Whereas, the Borrower is the successor in interest to New Sun Wah by merger of New Sun Wah into the Borrower as of March 26, 2012 pursuant to Articles of Merger filed with the Secretary of State of the State of North Carolina as of such date, the Borrower being the surviving entity after such merger and New Sun Wah being a division of the Borrower,

Whereas, the Credit Agreement refers to certain affiliates of the Borrower that have also been merged into other affiliated entities, and

Whereas, the Borrower and the Bank wish to increase the maximum principal amount of the credit facility to Twelve Million (\$12,000,000) Dollars, and to amend certain terms and conditions of such credit facility, all as set forth herein,

### Terms and Conditions

1. The Credit Agreement is hereby amended by the terms and conditions set forth in this Amendment effective as of May 21, 2013, and in the event of any conflict the terms of this Amendment shall govern.
2. Inasmuch as the Borrower is the successor in interest by merger to New Sun Wah, all references to New Sun Wah in the Credit Agreement shall be deemed a reference to the Borrower, and all references to the "Borrowers" or "each Borrower" in the Credit Agreement shall mean Han Feng, Inc., the Borrower herein.
3. The following definitions set forth in Annex I of the Credit Agreement are hereby amended to read as follows:

*'Agreement'*: this Credit Agreement, as amended by Amendment to Credit Agreement between the Borrower and the Bank dated as of May 21, 2013 (the "*First Atnendmene*"), as the same may be further amended, supplemented or otherwise modified from time to time.

---

**"Borrowing Base":** on any date, shall mean sum of (i) 80% of Eligible Accounts outstanding on such date, and (ii) 50% of Eligible Inventory on such date up to a maximum value of \$6,000,000, except that the aggregate amount of advances against Eligible Inventory cannot exceed the aggregate amount of advances against Eligible Accounts. The foregoing advance rates can be adjusted by the Bank at its discretion at any time and from time to time upon prior written notice to the Borrower.

**"Borrowing Base Certificate":** a certificate in substantially the form attached to the First Amendment as Exhibit B.

**"Commitment Amount":** Twelve Million (\$ 12,000,000) Dollars, as such figure may be reduced from time to time pursuant to Section 1.04.

**"Eligible Accounts":** Accounts Receivable of the Borrower subject to a fully perfected first priority security interest in favor of the Bank pursuant to a Security Agreement and which conform to the representations and warranties contained in the Security Agreements, reduced by the amount of any returns, discounts, claims, credits and allowances of any nature and less reserves for other matters affecting the creditworthiness of account debtors owing the accounts receivable, but specifically excluding the following:

(1) bill and hold (deferred shipment) transactions,

(2) all Accounts Receivable which have not been paid in full within 90 days after the invoice date thereof

(3) all Accounts Receivable due from (i) any Affiliate of the Borrower, (ii) from an account debtor which is the subject of any reorganization, bankruptcy, receivership, custodianship, insolvency or other analogous condition or (iii) from any Person who is, or is an Affiliate of a Family Member,

(4) all Accounts Receivable subject to a purchase money security interest or other lien in favor of any person, such as floor-plan arrangements,

(5) Accounts Receivable from any government (federal, state, local or foreign) or any agency, bureau or department thereof excluding Canadian accounts or accounts that are subject to credit insurance payable to the Bank issued by an insurer acceptable to the Bank and on terms and in amounts acceptable to the Bank,

(6) contra accounts,

*(7) Accounts Receivable subject to any dispute, setoff counterclaim or other claim or defense on the part of the account debtor denying liability under such Accounts Receivable in whole or in part,*

*(8) Accounts Receivable not payable in U.S. Dollars or which are not evidenced by an invoice or which are evidenced by an instrument or chattel paper,*

*(9) Accounts Receivable due, from a customer 25% or more of whose Accounts Receivable (by dollar amount) due to Borrower are outstanding 90 days or more after the invoice date thereof*

*(0) Accounts receivable which are due from an account debtor with no regular place of business in the United States (unless such Accounts Receivable are secured by clean letters of credit in favor of the Borrower and in which the Bank has a fully perfected first priority security interest, are secured by letters of credit in favor of the Bank or which are assigned to the Bank or are covered by export insurance (provided that in each of the foregoing situations the letter of credit or export insurance policy, as applicable, is (x) in form and substance acceptable to the Bank and (y) issued by a bank or insurance company, as applicable, doing business in the United States and acceptable to the Bank) and*

*(1) Accounts Receivable due from an account debtor to the extent the aggregate outstanding amount of Accounts Receivable due from such account debtor and its Affiliates exceeds 25% of the aggregate amount of all Accounts Receivable due to the Borrower (but only to the extent of such excess).*

*"Eligible Inventory": Inventory of the Borrower subject to a fully perfected first priority security interest in favor of the Bank, valued at the lower of cost or market value, which is not on consignment from or to any third party and which conforms to the representations and warranties contained in the Security Agreements, less (1) fifteen (15%) percent of perishable goods that are part of Inventory, (2) two (2%) percent of such value to account for Inventory not saleable within 360 days from the date of acquisition or creation thereof or consisting of a type of spare part held for sale to customers in the ordinary course of business which has not been the subject of a sale for 360 days, and (3) such additional reserves as may be required by the Bank with respect to the value of Inventory that, in the Bank's reasonable determination, (a) is obsolete, (b) is damaged or defective, (c) consists of samples, displays or otherwise not of a type held for sale in the ordinary course of a Borrower's business, (d) is to be returned to suppliers, (e) is subject to any market-value declines, bill-and-hold (deferred shipment) sales, or any other adverse matters or conditions as reasonably determined by the Bank, (f) is not produced in material compliance with the applicable requirements of the Fair Labor Standards Act, (g) is not located on premises owned or leased by the Borrower in the United States of America, (1) consists of special-order and custom-made goods not saleable in the ordinary course of business, and (i) is deemed ineligible in the reasonable determination of the Bank, plus Inventory held by, or in transit to, third parties notwithstanding that such Inventory may not be subject to a fully perfected first priority security interest in favor of the Bank*

*"Maturity Date": April 5, 2016, or such earlier date on which all outstanding Loans shall become due and payable, whether by acceleration or otherwise.*

4. Section 1.02 of the Credit Agreement is hereby amended by adding the following sentence to the end of Section 1.02(a): *"Upon the signing of the First Amendment, the Note signed and delivered with the Credit Agreement shall be replaced with a promissory note substantially in the form attached to the First Amendment as Exhibit A, which replacement note shall operate thereafter as the Note."*

5. Section 1.08 of the Credit Agreement is hereby amended to read in full as follows: *1.08. Guarantees and Deeds of Trust*

*(a) All obligations of the Borrower hereunder shall be unconditionally, jointly and severally guaranteed (i) by ZHOU MIN NI and CH AN SIN WONG (the "Individual Guarantors"), pursuant to the terms of a General Guarantee to be in form and substance satisfactory to the Bank and its counsel (as the same may be amended, supplemented or otherwise modified from time to time, the "Individual Guarantee") and (ii) by TRUSE TRUCKING INC., a North Carolina corporation (the surviving entity in a merger with G & S TRUCKING INC, a South Carolina corporation), MORNING FIRST DELIVERY, INC. , a North Carolina corporation, R & N HOLDINGS, LLC, a North Carolina limited liability company (the surviving entity in a merger with R & N COLUMBIA REALTY LLC, a South Carolina corporation), and R & N LEXINGTON, L.L.C., a North Carolina limited liability company (the "Company Guarantors" and together with the Individual Guarantor, the "Guarantors"), pursuant to the terms of General Guarantees to be in form and substance satisfactory to the Bank and its counsel (as the same may be amended, supplemented or otherwise modified from time to time, the "Company Guarantees" and together with the Individual Guarantee, the "Guarantees").*

*(b) The second deed of trust in the principal amount of \$1,850, 000 recorded against premises owned by such company known as 6001 West Market Street, Greensboro, North Carolina 27409, together with an adjoining undeveloped parcel of land known as 204-210 Aloe Road, Greensboro, North Carolina, given pursuant to a Company Guarantee by R & N HOLDINGS, LLC in favor of the Bank, shall be released of record by the Bank.*

(c) The separate Company Guarantee given by R & N LEXINGTON, L.L.C. in favor of the Bank shall continue to be secured by a second deed of trust in the principal amount of \$1,400,000 recorded against premises owned by such company known as 303 Albemarle Street, Lexington, North Carolina 27292 (the "Albemarle Deed of Trust"), such deed of trust to be insured by title insurance to be in form and substance satisfactory to the Bank and its counsel, and such other documents related thereto as may be reasonably required by the Bank.

6. Section 2.01(a) of the Credit Agreement is hereby amended to read in full as follows: 2.01 Interest Rate and Payment Dates

Prior to Maturity. Except as otherwise provided in Section 2.01(b), after May 21, 2013 and prior to maturity, the outstanding principal balance of the Loans shall bear interest at a rate per annum equal to 0.75% in excess of the Prime Rate, but in no event less than 4.0% per annum.

7. Section 2.02 of the Credit Agreement is hereby amended by adding the following sentence: "An additional facility fee in the sum of Twenty-One Thousand (\$21,000) Dollars shall be paid to the Bank by the Borrower upon the signing of the First Amendment."

8. Section 5.01(a) is hereby amended to read in full as follows:

5.01 Financial and Other Information

Maintain a standard system of accounting in accordance with GAAP, and furnish to the Bank:

(a) The following periodic reports and information:

within 20 calendar days after the last day of each calendar month, a Borrowing Base Certificate indicating a computation of the Borrowing Base as of the last day of such month for each Borrower executed by an Authorized Signatory of such Borrower;

(ii) within 20 calendar days after the last day of each calendar month, an accounts receivable aging report as of the last day of such month, organized by invoice date, for each Borrower executed by an Authorized Signatory of such Borrower;

(iii) within 20 calendar days after the last day of each calendar month, an accounts payable aging report as of the last day of such month for each Borrower executed by an Authorized Signatory of such Borrower;

(iv) within 20 calendar days after the last day of each calendar month, an inventory report as of the last day of such month for each Borrower executed by an Authorized Signatory of such Borrower;

(v) within 60 calendar days after the last day of each calendar quarter, a combined and combining balance sheet of the Borrowers and the Company Guarantors as at the end of such quarter, together with the related combined and combining statements of operations, stockholder's equity and cashflows for such quarter, prepared in accordance with GAAP applied on a basis consistently maintained throughout the periods involved prepared and executed by an Authorized Signatory of each Borrower;

(vi) not later than 30 calendar days after the last day of each calendar year, a report setting forth all account debtors of each Borrower as of the last day of such fiscal year; and

(vii) not later than 90 calendar days after the last day of each calendar year, the financial projections of the Borrower, including without limitation a balance sheet and income statement for such projections.

9. Section 6.08(b) and the definition of "Current Ratio" in Annex I are hereby deleted, and Section 6.08 (b) is hereby replaced by the following:

**(b) Accounts Receivable of Affiliates.**

The Borrower shall not permit the amount of the accounts receivable of its Affiliates to exceed, in the aggregate, the following amounts as determined by the Bank on a quarterly basis as of the dates specified:

<i>Dates</i>	<i>Limits of Accounts Receivable</i>
June 30, 2013	\$7,500,000
Sept 30, 2013	\$7,000,000
Dec. 31, 2013	\$6,500, 000
March 31, 2014	\$6,000,000
June 30, 2014	\$5,500, 000
Sept 30, 2014 and after	\$5,000,000

10. Section 6.08(c) is hereby amended to read in full as follows: (c)

Maximum Total Liabilities to Effective Tangible Net Worth.

*The Borrower shall not permit the ratio of Maximum Total Liabilities to Effective Tangible Net Worth (as those terms are defined herein) at the end of each calendar quarter to be more than 3.0:1.00.*

11. Section 6.08(d) and the definition of "Net Income" in Annex I are hereby deleted.

12. The addresses in Section 9.02 for Notices are hereby amended as follows:

*The Borrowers:*

*Han Feng, Inc.  
6001 West Market Street  
Greensboro, North Carolina 27409  
Attention: Zhou Min Ni, CEO  
Telephone: (336) 268-2080  
Fax: (336) 268-2655*

*The Bank:*

*East West Bank  
535 Madison Avenue  
8<sup>th</sup> Floor  
New York, New York 10022  
Attention: Terry Mang, Vice President  
Telephone: (212) 298-3813  
Fax: (212) 702-8785*

0. This Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

[signature page follows]



IN WITNESS WHEREOF, the parties hereto have executed and delivered this Credit Agreement as of the day and year first written above.

HAN FENG, INC.

By: /s/ Zhou MinNi /s/  
Name: Zhou Min Ni  
Title: Chief Executive Officer

By: /s/ Chan Sin Wong /s/  
Name: Chan Sin Wong  
Title: President

EAST WEST BANK

By: /s/ Terry Mang  
Name: Terry Mang  
Title: Vice President

## SECOND AMENDMENT TO CREDIT AGREEMENT

This Second Amendment to Credit Agreement dated as of December 10, 2013 (this "**Amendment**"), by and between HAN FENG, INC., a North Carolina corporation having its principal place of business at 6001 West Market Street, Greensboro, North Carolina 27409 (the "**Borrower**"), and EAST WEST BANK, 535 Madison Avenue, New York, New York 10022 (referred to herein as the "**Bank**").

### Recitals

Whereas, the Borrower, New Sun Wah Trading Corporation, a corporation originally formed in the State of South Carolina ("**New Sun Wah**"), and the Bank entered into a credit agreement as of January 5, 2012, providing for a credit facility from the Bank to the Borrower and New Sun Wah in the maximum principal amount of Ten Million (\$10,000,000) Dollars,

Whereas, the Borrower is the successor in interest to New Sun Wah by merger of New Sun Wah into the Borrower as of March 26, 2012 pursuant to Articles of Merger filed with the Secretary of State of the State of North Carolina as of such date, the Borrower being the surviving entity after such merger and New Sun Wah being a division of the Borrower,

Whereas, the Borrower and the Bank increased the maximum principal amount of the credit facility to Twelve Million (\$12,000,000) Dollars, and amended certain terms and conditions of such credit facility, pursuant to an amendment to credit agreement between the Borrower and the Bank dated as of May 21, 2013 (the "**First Amendment**"),

Whereas, the Borrower and the Bank wish to further amend such credit agreement, as amended by the First Amendment (the "**Credit Agreement**"), to (i) revise the rate of interest on the loans made thereunder, and (ii) revise a financial covenant definition, all as set forth herein

### Terms and Conditions

1. The Credit Agreement is hereby amended by the terms and conditions set forth in this Amendment effective as of the date hereof, and in the event of any conflict the terms of this Amendment shall govern.
2. Section 2.01(a) of the Credit Agreement is hereby amended to read in full as follows:

#### 2.01 Interest Rate and Payment Dates

Prior to Maturity. Except as otherwise provided in Section 2.01(b), prior to maturity, the outstanding principal balance of the Loans shall bear interest at a rate per annum equal to the Prime Rate in effect from time to time, but in no event less than 3.25% per annum.

---

3. The definitions of "Effective Tangible Net Worth" and "Maximum Total Liabilities" set forth in Annex I of the Credit Agreement are hereby deleted and replaced with the following definition:

*"Maximum Total Liabilities to Effective Tangible Net Worth" Total liabilities minus debt subordinated to East West Bank divided by effective tangible net worth (defined as total book net worth plus minority interest, less loans to officers/stockholders/affiliates minus intangible assets and accumulated amortization plus debt subordinated to East West Bank), all as determined with reference to the consolidated financial statements of the Borrower and its affiliates and/or subsidiaries.*

4. This Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Credit Agreement as of the day and year first written above.

HAN FENG, INC.

By: /s/ Zhou Min Ni

Name: Zhou Min Ni  
Title: Chief Executive Officer

EAST WEST BANK

By: /s/ Terry Mang

Name: Terry Mang  
Title: Vice President

### THIRD AMENDMENT TO CREDIT AGREEMENT

This Third Amendment to Credit Agreement dated as of July 1, 2016 (the "**Third Amendment**"), is made between **HAN FENG, INC.**, a North Carolina corporation having its principal place of business at 6001 West Market Street, Greensboro, North Carolina 27409 (the "**Borrower**"), and **EAST WEST BANK**, 535 Madison Avenue, 8<sup>th</sup> Floor, New York, New York 10022 (referred to herein as the "**Bank**").

#### Recitals

Whereas, the Borrower, New Sun Wah Trading Corporation, a corporation originally formed in the State of South Carolina ("**New Sun Wah**"), and the Bank entered into a credit agreement as of January 5, 2012, providing for a credit facility from the Bank to the Borrower and New Sun Wah in the maximum principal amount of Ten Million (\$10,000,000) Dollars,

Whereas, the Borrower is the successor in interest to New Sun Wah by merger of New Sun Wah into the Borrower as of March 26, 2012 pursuant to Articles of Merger filed with the Secretary of State of the State of North Carolina as of such date, the Borrower being the surviving entity after such merger and New Sun Wah being a division of the Borrower,

Whereas, the Borrower and the Bank increased the maximum principal amount of the credit facility to Twelve Million (\$12,000,000) Dollars, and amended certain other terms and conditions of such credit facility, pursuant to an amendment to credit agreement between the Borrower and the Bank dated as of May 21, 2013 (the "**First Amendment**"),

Whereas, the Borrower and the Bank revised the interest rate applicable to such credit facility, and amended certain other terms and conditions of the credit facility, pursuant to a second amendment to credit agreement between the Borrower and the Bank dated as of December 20, 2013 (the "**Second Amendment**")

Whereas, the Borrower and the Bank wish to further amend such credit agreement, as amended by the First Amendment and the Second Amendment (the "**Credit Agreement**"), to, among other things, (i) increase the maximum principal amount of the credit facility to Fourteen Million Five Hundred Thousand (\$14,500,000) Dollars, (ii) extend the maturity date of the credit facility, (iii) revise the rate of interest on the loans made thereunder, and (iv) revise certain covenants and definitions of the Credit Agreement, all as set forth herein,

#### Terms and Conditions

1. The Credit Agreement is hereby amended by the terms and conditions set forth in this Third Amendment effective as of the date hereof, and in the event of any conflict the terms of this Third Amendment shall govern.
  2. Section 1.02 of the Credit Agreement is hereby amended by adding the following sentence to the end of Section 1.02(a): "*Upon the signing of the Third Amendment, the Note signed and delivered with the Credit Agreement shall be replaced with a promissory note substantially in the form attached to the Third Amendment as Exhibit A, which replacement note shall operate thereafter as the Note.*"
-

3. Section 2.01(a) of the Credit Agreement is hereby amended to read in full as

follows: 2.01 Interest Rate and Payment Dates

(a) Prior to Maturity. Except as otherwise provided in Section 2.01(b), prior to maturity, the outstanding principal balance of the Loans shall bear interest at a rate per annum equal to the Prime Rate in effect from time to time, less 0.15%, but in no event less than 3.25% per annum.

4. The following paragraph is hereby added as Section 2.01(e) of the Credit Agreement, to read in full as follows:

(e) Late Charges. If a payment is more than 10 days late, Borrower will be charged 6.0% of the unpaid portion of the payment as a late charge.

Section 2.02 of the Credit Agreement is hereby amended by adding the following sentence: "An additional facility fee in the sum of Fourteen Thousand (\$14,000) Dollars shall be paid to the Bank by the Borrower upon the signing of the Third Amendment."

6. Section 6.08 (b) is hereby replaced by the following:

(b) Accounts Receivable of Affiliates.

The Borrower shall not permit the amount of the accounts receivable of its Affiliates and Han Feng Global, Inc. (which is not an Affiliate) to exceed, in the aggregate, the following amounts as determined by the Bank on a quarterly basis as of the dates specified:

<u>Dates</u>	<u>Limits of Accounts Receivable</u>
June 30, 2016	\$9,500,000
Sept. 30, 2016	\$9,500,000
Dec. 31, 2016	\$9,250,000
March 31, 2017	\$9,250,000
June 30, 2017	\$9,000,000
Sept. 30, 2017	\$9,000,000
Dec. 31, 2017 and after	\$8,750,000

7. The following definitions set forth in Annex I of the Credit Agreement are hereby amended to read as follows:

**"Agreement"**: this Credit Agreement, as amended by Amendment to Credit Agreement between the Borrower and the Bank dated as of May 21, 2013 (the "**First Amendment**"), the Second Amendment to Credit Agreement between the Borrower and the Bank dated as of December 20, 2013 (the "**Second Amendment**"), and the Third Amendment to Credit Agreement between the Borrower and the Bank dated as of July 1, 2016 (the "**Third Amendment**"), as the same may be further amended, supplemented or otherwise modified from time to time.

**"Commitment Amount"**: Fourteen Million Five Hundred Thousand (\$14,500,000) Dollars, as such figure may be reduced from time to time pursuant to Section 1.04.

**"Eligible Accounts"**: Accounts Receivable of the Borrower subject to a fully perfected first priority security interest in favor of the Bank pursuant to a Security Agreement and which conform to the representations and warranties contained in the Security Agreements, reduced by the amount of any returns, discounts, claims, credits and allowances of any nature and less reserves for other matters affecting the creditworthiness of account debtors owing the accounts receivable, but specifically excluding the following:

- (1) bill and hold (deferred shipment) transactions,
- (2) all Accounts Receivable which have not been paid in full within 90 days after the invoice date thereof
- (3) all Accounts Receivable due from (i) any Affiliate of the Borrower, (ii) from an account debtor which is the subject of any reorganization, bankruptcy, receivership, custodianship, insolvency or other analogous condition or (ii) from any Person who is, or is an Affiliate of a Family Member,
- (4) all Accounts Receivable subject to a purchase money security interest or other lien in favor of any person, such as floor-plan arrangements,
- (5) Accounts Receivable from any government (federal, state, local or foreign) or any agency, bureau or department thereof excluding Canadian accounts or accounts that are subject to credit insurance payable to the Bank issued by an insurer acceptable to the Bank and on terms and in amounts acceptable to the Bank,
- (6) contra accounts,

(7) *Accounts Receivable subject to any dispute, setoff, counterclaim or other claim or defense on the part of the account debtor denying liability under such Accounts Receivable in whole or in part,*

(8) *Accounts Receivable not payable in U.S. Dollars or which are not evidenced by an invoice or which are evidenced by an instrument or chattel paper,*

(9) *Accounts Receivable due from a customer 25% or more of whose Accounts Receivable (by dollar amount) due to Borrower are outstanding 90 days or more after the invoice date thereof*

(10) *Accounts receivable which are due from an account debtor with no regular place of business in the United States (unless such Accounts Receivable are secured by clean letters of credit in favor of the Borrower and in which the Bank has a fully perfected first priority security interest, are secured by letters of credit in favor of the Bank or which are assigned to the Bank or are covered by export insurance (provided that in each of the foregoing situations the letter of credit or export insurance policy, as applicable, is (x) in form and substance acceptable to the Bank and (y) issued by a bank or insurance company, as applicable, doing business in the United States and acceptable to the Bank),*

(11) *Accounts Receivable due from an account debtor to the extent the aggregate outstanding amount of Accounts Receivable due from such account debtor and its Affiliates exceeds 25% of the aggregate amount of all Accounts Receivable due to the Borrower (but only to the extent of such excess), and*

(12) *any Accounts Receivable due from Han Feng Global, Inc. in excess of Seven Hundred Fifty Thousand (\$750,000) Dollars.*

**"Han Feng Global, Inc.":** *a Delaware corporation that is qualified to do business in the State of Georgia under the trade name "NSG Trading" and which is not an Affiliate.*

**"Maturity Date":** *May 31, 2018, or such earlier date on which all outstanding Loans shall become due and payable, whether by acceleration or otherwise.*

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Credit Agreement as of the day and year first written above.

HAN FENG, INC.

/s/ Zhou Min Ni  
Name: Zhou Min Ni  
Title: Chief Executive Officer

EAST WEST BANK  
By: /s/ Terry Mang  
Name: Terry Mang  
Title: Vice President



FOURTH AMENDMENT TO CREDIT AGREEMENT

This Fourth Amendment to Credit Agreement dated as of July 18, 2017 (the "**Fourth Amendment**"), is made between HAN FENG, INC., a North Carolina corporation having its principal place of business at 6001 West Market Street, Greensboro, North Carolina 27409 (the "**Borrower**"), and EAST WEST BANK, 535 Madison Avenue, 8th Floor, New York, New York 10022 (referred to herein as the "**Bank**").

Recitals

Whereas, the Borrower, New Sun Wah Trading Corporation, a corporation originally formed in the State of South Carolina ("**New Sun Wah**"), and the Bank entered into a credit agreement as of January 5, 2012, providing for a credit facility from the Bank to the Borrower and New Sun Wah in the maximum principal amount of Ten Million (\$10,000,000) Dollars,

Whereas, the Borrower is the successor in interest to New Sun Wah by merger of New Sun Wah into the Borrower as of March 26, 2012 pursuant to Articles of Merger filed with the Secretary of State of the State of North Carolina as of such date, the Borrower being the surviving entity after such merger and New Sun Wah being a division of the Borrower,

Whereas, the Borrower and the Bank increased the maximum principal amount of the credit facility to Twelve Million (\$12,000,000) Dollars, and amended certain other terms and conditions of such credit facility, pursuant to an amendment to credit agreement between the Borrower and the Bank dated as of May 21, 2013 (the "**First Amendment**"),

Whereas, the Borrower and the Bank revised the interest rate applicable to such credit facility, and amended certain other terms and conditions of the credit facility, pursuant to a second amendment to credit agreement between the Borrower and the Bank dated as of December 20, 2013 (the "**Second Amendment**")

Whereas, the Borrower and the Bank further amended such credit facility to, among other things, (i) increase the maximum principal amount of the credit facility to Fourteen Million Five Hundred Thousand (\$14,500,000) Dollars, (ii) extend the maturity date of the credit facility, (iii) revise the rate of interest on the loans made thereunder, and (iv) revise certain covenants and definitions of the Credit Agreement, pursuant to a third amendment to credit agreement between the Borrower and the Bank dated as of July 1, 2016 (the "**Third Amendment**"),

Whereas, the Borrower and the Bank wish to further amend such credit agreement, as amended by the First Amendment, the Second Amendment and the Third Amendment (the "**Credit Agreement**"), to, among other things, limit the aggregate amount of Loans advanced under the credit facility until certain conditions are met, as set forth herein,

---

## Terms and Conditions

1. The Credit Agreement is hereby amended by the terms and conditions set forth in this Fourth Amendment effective as of the date hereof, and in the event of any conflict the terms of this Fourth Amendment shall govern.
2. The following definitions set forth in Annex I of the Credit Agreement are hereby amended to read as follows:

*"Agreement": this Credit Agreement, as amended by Amendment to Credit Agreement between the Borrower and the Bank dated as of May 21, 2013 (the "First Amendment"), the Second Amendment to Credit Agreement between the Borrower and the Bank dated as of December 20, 2013 (the "Second Amendment"), the Third Amendment to Credit Agreement between the Borrower and the Bank dated as of July 1, 2016 (the "Third Amendment"), and the Fourth Amendment to Credit Agreement between the Borrower and the Bank dated as of July \_\_, 2017 (the "Fourth Amendment"), as the same may be further amended, supplemented or otherwise modified from time to time.*

3. The following provision is hereby added to Section 1.04 of the Credit Agreement:

**Notwithstanding the Commitment Amount in effect from time to time, and without limiting the effect of any other provision of this Credit Agreement with respect to the amount of Loans that can be advanced hereunder, the Bank may limit the aggregate amount of the Loans advanced to the Borrower to the sum of Twelve Million Five Hundred Thousand (\$12,500,000.00) Dollars for so long as any Indebtedness from the Borrower to League Realty USA LLC, a New York limited liability company, including without limitation a loan in the approximate sum of \$2,000,000, remains outstanding.**

4. The following provision is hereby added as Section 6.08(e) of the Credit Agreement:

**(e) Minimum Effective Tangible Net Worth minus Investment in Affiliates shall not be less than (i) \$7,600,000 prior to December 31, 2017, and (ii) \$9,000,000 at December 31, 2017, and thereafter.**

5. The following provision is hereby added as Section 7.03 of the Credit Agreement:

**7.03 Non-Compliance Fee.** The Borrower acknowledges that if the Borrower fails to timely furnish the Bank with any financial records required by this Note or otherwise fails to timely perform any other term, obligation or covenant required by this Note or any related document (singularly and collectively referred to as "*Non-Compliance*"), the Bank will incur costs and damages as result of the Borrower's Non-Compliance, and in consideration of such costs and damages, the Borrower agrees to pay the Bank a fee equal to 2.500% per annum of the then outstanding Loan balance, calculated based on a 30-day month over a 360-day year (the "*Predetermined Fee Amount*"). Any fee under this section will be imposed monthly in the Predetermined Fee Amount and due on the interest payment due date until the Non-Compliance is cured by the Borrower. A Predetermined Fee Amount will be calculated and imposed in accordance with this section for each recurring event of Non-Compliance.

6. Except as amended by the terms of this Fourth Amendment to Credit Agreement, the provisions of the Credit Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Fourth Amendment to Credit Agreement as of the day and year first written above.

HAN FENG, INC.

By: /s/ Zhou Min Ni  
Name: Zhou Min Ni  
Title: Chief Executive Officer

By: /s/ Chan Sin Wong  
Name: Chan Sin Wong  
Title: President

EAST WEST BANK

By: /s/ Terry Mang  
Name: Terry Mang  
Title: Vice President

**LOAN AGREEMENT**

This Agreement dated as of February 26, 2018, is between Bank of America, N.A. (the "Bank") and NEW SOUTHERN FOOD DISTRIBUTORS, INC. (the "Borrower").

The Borrower's obligation to repay any line of credit, loan and/or credit facility described in this Agreement is contained in that/those certain Promissory Note(s) in the original principal amount of Five Million and 00/100 Dollars (\$5,000,000.00) dated February 26, 2018 and any additional promissory notes now or hereafter executed and delivered by the Borrower to the Bank and any renewals, modifications, amendments and extensions thereof (collectively the "Note"), which is/are expressly NOT incorporated herein pursuant to Section 201.08(6), Florida Statutes and Rules 12B-4.052(6)(b) and (12)(g), Florida Administrative Code.

**1. DEFINITIONS**

In addition to the terms which are defined elsewhere in this Agreement, the following terms have the meanings indicated for the purposes of this Agreement:

1.1 "Acceptable Inventory" means inventory which satisfies the following requirements:

- (a) The inventory is owned by the Borrower free of any title defects or any liens or interests of others except the security interest in favor of the Bank. This does not prohibit any statutory liens which may exist in favor of the growers of agricultural products which are purchased by the Borrower.
- (b) The inventory is located at locations which the Borrower has disclosed to the Bank and which are acceptable to the Bank. If the inventory is covered by a negotiable document of title (such as a warehouse receipt) that document must be delivered to the Bank. Inventory which is in transit is not acceptable.
- (c) The inventory is held for sale in the ordinary course of the Borrower's business and is of good and merchantable quality. Display items, work-in-process, parts, raw materials, samples, and packing and shipping materials are not acceptable. Inventory which is obsolete, unsalable, damaged, defective, used, discontinued or slow-moving, or which has been returned by the buyer, is not acceptable.
- (d) The inventory is covered by insurance as required in the "Covenants" section of this Agreement.
- (e) The inventory has not been manufactured to the specifications of a particular account debtor.
- (f) The inventory is not subject to any licensing agreements which would prohibit or restrict in any way the ability of the Bank to sell the inventory to third parties.
- (g) The inventory has been produced in compliance with the requirements of the U.S. Fair Labor Standards Act (29 U.S.C. §§201 et seq.).
- (h) The inventory is not placed on consignment.
- (i) The inventory is otherwise acceptable to the Bank.

1.2 "Acceptable Receivable" means an account receivable which satisfies the following requirements:

- (a) The account has resulted from the sale of goods or the performance of services by the Borrower in the ordinary course of the Borrower's business and without any further obligation on the part of the Borrower to service, repair, or maintain any such goods sold other than pursuant to any applicable warranty.
- (b) There are no conditions which must be satisfied before the Borrower is entitled to receive payment of the account. Accounts arising from COD sales, consignments or guaranteed sales are not acceptable.
- (c) The debtor upon the account does not claim any defense to payment of the account, whether well founded or otherwise.
- (d) The account is not the obligation of an account debtor who has asserted or may assert any counterclaims or offsets against the Borrower (including offsets for any "contra accounts" owed by the Borrower to the account debtor for goods purchased by the Borrower or for services performed for the Borrower).
- (e) The account represents a genuine obligation of the debtor for goods sold to and accepted by the debtor, or for services performed for and accepted by the debtor. To the extent any credit balances exist in favor of the debtor, such credit balances shall be deducted from the account balance.
- (f) The account balance does not include the amount of any finance or service charges payable by the account debtor. To the extent any finance charges or service charges are included, such amounts shall be deducted from the account balance.
- (g) The Borrower has sent an invoice to the debtor in the amount of the account.
- (h) The Borrower is not prohibited by the laws of the state where the account debtor is located from bringing an action in the courts of that state to enforce the debtor's obligation to pay the account. The Borrower has taken all appropriate actions to ensure access to the courts of the state where the account debtor is located, including, where necessary, the filing of a Notice of Business Activities Report or other similar filing with the applicable state agency or the qualification by the Borrower as a foreign corporation authorized to transact business in such state.

The account is owned by the Borrower free of any title defects or any liens or interests of others except the security interest in favor of the Bank.

The debtor upon the account is not any of the following:

- ( ) An employee, affiliate, parent or subsidiary of the Borrower, or an entity which has common officers or directors with the Borrower.
- (ii) The U.S. government or any agency or department of the U.S. government unless the Bank agrees in writing to accept the obligation, the Borrower complies with the procedures in the Federal Assignment of Claims Act of 1940 (41 U.S.C. § 6305) with respect to the obligation, and the underlying contract expressly provides that neither the U.S. government nor any agency or department thereof shall have the right of set-off against the Borrower.
- (iii) Any state, county, city, town or municipality.
- (iv) Any person or entity located in a foreign country unless (A) the account is supported by an irrevocable letter of credit issued by a bank acceptable to the Bank, and, if requested by the Bank, the original of such letter of credit and/or any usance drafts drawn under such letter of credit and accepted by the issuing or confirming bank have been delivered to the Bank, or (B) the account is covered by foreign credit insurance acceptable to the Bank and the account is otherwise an Acceptable Receivable.
- (k) The account is not in default. An account will be considered in default if any of the following occur:
  - (i) the account is not paid within ninety (90) days from its invoice date.

- (ii) the debtor obligated upon the account suspends business, makes a general assignment for the benefit of creditors, or fails to pay its debts generally as they come due; or
  - (iii) any petition is filed by or against the debtor obligated upon the account under any bankruptcy law or any other law or laws for the relief of debtors.
- (l) The account is not the obligation of a debtor who is in default (as defined above) on 25% or more of the accounts upon which such debtor is obligated.
  - (m) The account does not arise from the sale of goods which remain in the Borrower's possession or under the Borrower's control.
  - (n) The account is not evidenced by a promissory note or chattel paper, nor is the account debtor obligated to the Borrower under any other obligation which is evidenced by a promissory note.
  - (o) The account is otherwise acceptable to the Bank.

In addition to the foregoing limitations, the dollar amount of accounts included as Acceptable Receivables which are the obligations of a single debtor shall not exceed the concentration limit established for that debtor. To the extent the total of such accounts exceeds a debtor's concentration limit, the amount of any such excess shall be excluded. The concentration limit for each debtor shall be equal to 25% of the total amount of the Borrower's Acceptable Receivables at that time.

1.3 "Borrowing Base" means the sum of:

- (a) 80% of the balance due on Acceptable Receivables; and
- (b) the lesser of Two Million Dollars and No Cents (\$2,000,000.00) or 50% of the value of Acceptable Inventory.

In determining the value of Acceptable Inventory to be included in the Borrowing Base, the Bank will use the lowest of (i) the Borrower's cost, (ii) the Borrower's estimated market value, or (iii) the Bank's independent determination of the resale value of such inventory in such quantities and on such terms as the Bank deems appropriate.

"After calculating the Borrowing Base as provided above, the Bank may deduct such reserves as the Bank may establish from time to time in its reasonable credit judgment including without limitation, a **slow moving reserve in the amount of \$1,225,000 or such other amount as required by the Bank**, reserves for rent at leased locations subject to statutory or contractual landlord liens, inventory shrinkage, dilution, customs charges, warehousemen's or bailee's charges, liabilities to growers of agricultural products which are entitled to lien rights under the federal Perishable Agricultural Commodities Act or any applicable state law, and the amount of estimated maximum exposure, as determined by the Bank from time to time, under any interest rate contracts which the Borrower enters into with the Bank (including interest rate swaps, caps, floors and options thereon, combinations thereof or similar contracts).

1.4 "Credit Limit" means the amount of Five Million and 00/100 Dollars (\$5,000,000.00).

1.5 "Guarantor" means any person, if any, providing a guaranty with respect to the obligations hereunder.

1.6 "Obligor" means any Borrower, Guarantor and/or Pledgor, or if the Borrower is comprised of the trustees of a trust, any trustor.

1.7 "Pledgor" means any person, if any, providing a pledge of collateral with respect to the obligations hereunder.

2. FACILITY NO. 1: LINE OF CREDIT AMOUNT AND TERMS

2.1 Line of Credit Amount.

- (a) During the availability period described below, the Bank will provide a line of credit to the Borrower (the "Line of Credit"). The amount of the Line of Credit (the "Facility No. 1 Commitment") is equal to the lesser of (i) the Credit Limit or (ii) the Borrowing Base.
- (b) This is a revolving line of credit. During the availability period, the Borrower may repay principal amounts and reborrow them.
- (c) The Borrower agrees not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrower exceeds this limit, the Borrower will immediately pay the excess to the Bank upon the Bank's demand.

2.2 Availability Period. The Line of Credit is available between the date of this Agreement and February 21, 2020, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date").

The availability period for this Line of Credit will be considered renewed if and only if the Bank has sent to the Borrower a written notice of renewal for the Line of Credit (the "Renewal Notice"). If this Line of Credit is renewed, it will continue to be subject to all the terms and conditions set forth in this Agreement except as modified by the Renewal Notice. If this Line of Credit is renewed, the term "Expiration Date" shall mean the date set forth in the Renewal Notice as the Expiration Date. The same process for renewal will apply to any subsequent renewal of this Line of Credit. A renewal fee may be charged at the Bank's option. The amount of the renewal fee will be specified in the Renewal Notice.

2.3 Conditions to Availability of Credit.

In addition to the items required to be delivered to the Bank under the paragraph entitled "Financial Information" in the "Covenants" section of this Agreement, the Borrower will promptly deliver the following to the Bank at such times as may be requested by the Bank:

- (a) A borrowing base certificate, in form and detail satisfactory to the Bank, setting forth the Acceptable Receivables and the Acceptable Inventory on which the requested extension of credit is to be based.
- (b) Copies of the invoices or the record of invoices from the Borrower's sales journal for such Acceptable Receivables and a listing of the names and addresses of the debtors obligated thereunder.
- (c) Copies of the delivery receipts, purchase orders, shipping instructions, bills of lading and other documentation pertaining to such Acceptable Receivables.
- (d) Copies of the cash receipts journal pertaining to the borrowing base certificate.

2.4 Repayment Terms. The Borrower will pay interest and principal on this facility in accordance with the terms of the debt instrument evidencing this facility.

2.5 Interest Rate.

- (a) The interest rate is a rate per year equal to the LIBOR Daily Floating Rate plus 2.75 percentage point(s).
- (b) The LIBOR Daily Floating Rate is a fluctuating rate of interest which can change on each banking day. The rate will be adjusted on each banking day to equal the London Interbank Offered Rate (or a comparable or successor rate which is approved by the Bank) for U.S. Dollar deposits for delivery on the date in question for a one month term beginning on that date. The Bank will use the London Interbank Offered Rate as published by Bloomberg, (or other commercially available source providing quotations of such rate as selected by the Bank from time to time) as determined at approximately 11:00 a.m. London time two (2) London Banking Days prior to the date in question, as adjusted from time to time in the Bank's sole discretion for reserve requirements, deposit insurance assessment rates and other regulatory costs. If such rate is not available at such time for any reason, then the rate will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which banks in London are open for business and dealing in offshore dollars. If at any time the LIBOR Daily Floating Rate is less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

3. COLLATERAL

3.1 Personal Property. The personal property listed below now owned or owned in the future by the parties listed below will secure the Borrower's obligations to the Bank under this Agreement or, if the collateral is owned by a Guarantor, will secure the guaranty, if so indicated in the security agreement. The collateral is further defined in security agreement(s) executed by the owners of the collateral.

- (a) Inventory owned by NEW SOUTHERN FOOD DISTRIBUTORS, INC.
- (b) Receivables owned by NEW SOUTHERN FOOD DISTRIBUTORS, INC.

4. LOAN ADMINISTRATION AND FEES

4.1 Fees.

- (a) The Borrower will pay to the Bank the fees set forth on Schedule A.

4.2 Collection of Payments; Payments Generally.

- (a) Payments will be made by debit to a deposit account, if direct debit is provided for in this Agreement or is otherwise authorized by the Borrower. For payments not made by direct debit, payments will be made by mail to the address shown on the Borrower's statement, or by such other method as may be permitted by the Bank.
- (b) Each disbursement by the Bank and each payment by the Borrower will be evidenced by records kept by the Bank which will, absent manifest error, be conclusively presumed to be correct and accurate and constitute an account stated between the Borrower and the Bank.
- (c) All payments to be made by the Borrower shall be made free and clear of and without condition or deduction for any counterclaim, defense, recoupment or setoff.

4.3 Borrower's Instructions. Subject to the terms, conditions and procedures stated elsewhere in this Agreement, the Bank may honor instructions for advances or repayments and any other instructions under this Agreement given by the, Borrower (if an individual), or by any one of the individuals the Bank reasonably believes is authorized to sign loan agreements on behalf of the Borrower, or any other individual(s) designated by any one of such authorized signers (each an "Authorized Individual"). The Bank may honor any such instructions made by any one of the Authorized Individuals, whether such instructions are given in writing or by telephone, telefax or Internet and intranet websites designated by the Bank with respect to separate products or services offered by the Bank.

4.4 Direct Debit.

- (a) The Borrower agrees that on the due date of any amount due under this Agreement, the Bank will debit the amount due from deposit account number FL-898025791616 owned by NEW SOUTHERN FOOD DISTRIBUTORS, INC., or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower (the "Designated Account"). Should there be insufficient funds in the Designated Account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by the Borrower.
- (b) The Borrower may terminate this direct debit arrangement at any time by sending written notice to the Bank at the address specified at the end of this Agreement. If the Borrower terminates this arrangement, then the principal amount outstanding under this Agreement will at the option of the Bank bear interest at a rate per annum which is 1.0 percentage point(s) higher than the rate of interest otherwise provided under this Agreement.

4.5 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located. All payments and disbursements which would be due or which are received on a day which is not a banking day will be due or applied, as applicable, on the next banking day.



- 4.6 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid. To the extent that any calculation of interest or any fee required to be paid under this Agreement shall be less than zero, such rate shall be deemed zero for purposes of this Agreement
- 4.7 Default Rate. Upon the occurrence of any default or after maturity or after judgment has been rendered on any obligation under this Agreement, all amounts outstanding under this Agreement, including any unpaid interest, fees, or costs, will at the option of the Bank bear interest at a rate which is 6.0 percentage point(s) higher than the rate of interest otherwise provided under this Agreement. This may result in compounding of interest. This will not constitute a waiver of any default.
- 4.8 Overdrafts. At the Bank's sole option in each instance, the Bank may do one of the following:
- (a) The Bank may make advances under this Agreement to prevent or cover an overdraft on any account of the Borrower with the Bank. Each such advance will accrue interest from the date of the advance or the date on which the account is overdrawn, whichever occurs first, at the interest rate described in this Agreement. The Bank may make such advances even if the advances may cause any credit limit under this Agreement to be exceeded.
  - (b) The Bank may reduce the amount of credit otherwise available under this Agreement by the amount of any overdraft on any account of the Borrower with the Bank.

This paragraph shall not be deemed to authorize the Borrower to create overdrafts on any of the Borrower's accounts with the Bank.

- 4.9 Payments in Kind. If the Bank requires delivery in kind of the proceeds of collection of the Borrower's accounts receivable, such proceeds shall be credited to interest, principal, and other sums owed to the Bank under this Agreement in the order and proportion determined by the Bank in its sole discretion. All such credits will be conditioned upon collection and any returned items may, at the Bank's option, be charged to the Borrower.

## 5. CONDITIONS

Before the Bank is required to extend any credit to the Borrower under this Agreement, it must receive any documents and other items it may reasonably require, in form and content acceptable to the Bank, including any items specifically listed below.

- 5.1 Authorizations. If the Borrower or any other Obligor is anything other than a natural person, evidence that the execution, delivery and performance by the Borrower and/or such Obligor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.
- 5.2 Governing Documents. If required by the Bank, a copy of the Borrower's organizational documents.
- 5.3 Guaranties. Guaranties signed by Zhou M. Ni and B & B Trucking Services Inc.
- 5.4 Security Agreements. Signed original security agreements covering the personal property collateral which the Bank requires.
- 5.5 Perfection and Evidence of Priority. Evidence that the security interests and liens in favor of the Bank are valid, enforceable, properly perfected in a manner acceptable to the Bank and prior to all others' rights and interests, except those the Bank consents to in writing.
- 5.6 Payment of Fees. Payment of all fees, expenses and other amounts due and owing to the Bank. If any fee is not paid in cash, the Bank may, in its discretion, treat the fee as a principal advance under this Agreement or deduct the fee from the loan proceeds.

5.7 Good Standing. Certificates of good standing for the Borrower from its state of formation and from any other state in which the Borrower is required to qualify to conduct its business.

5.8 Insurance. Evidence of insurance coverage, as required in the "Covenants" section of this Agreement.

## 6. REPRESENTATIONS AND WARRANTIES

When the Borrower signs this Agreement, and until the Bank is repaid in full, the Borrower makes the following representations and warranties. Each request for an extension of credit constitutes a renewal of these representations and warranties as of the date of the request:

6.1 Formation. If the Borrower is anything other than a natural person, it is duly formed and existing under the laws of the state or other jurisdiction where organized.

6.2 Authorization. This Agreement, and any instrument or agreement required under this Agreement, are within the Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.

6.3 Good Standing. In each state in which the Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name (e.g. trade name or d/b/a) statutes.

### 6.4 Government Sanctions.

(a) The Borrower represents that no Obligor, nor any affiliated entities of any Obligor, including in the case of any Obligor that is not a natural person, subsidiaries nor, to the knowledge of the Borrower, any owner, trustee, director, officer, employee, agent, affiliate or representative of the Borrower or any other Obligor is an individual or entity ("Person") currently the subject of any sanctions administered or enforced by the United States Government, including, without limitation, the U.S. Department of Treasury's Office of Foreign Assets Control, the United Nations Security Council, the European Union, Her Majesty's Treasury, or other relevant sanctions authority (collectively, "Sanctions"), nor is the Borrower or any other Obligor located, organized or resident in a country or territory that is the subject of Sanctions.

(b) The Borrower represents and covenants that it will not, directly or indirectly, use the proceeds of the credit provided under this Agreement, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in any country or territory, that, at the time of such funding, is the subject of Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

6.5 Financial Information. All financial and other information that has been or will be supplied to the Bank is sufficiently complete to give the Bank accurate knowledge of the Borrower's (and any other Obligor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of the Borrower (or any other Obligor). If the Borrower is comprised of the trustees of a trust, the above representations shall also pertain to the trustor(s) of the trust.

6.6 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against the Borrower or any other Obligor which, if lost, would impair the Borrower's or such Obligor's financial condition or ability to repay its obligations as contemplated by this Agreement or any other agreement contemplated hereby, except as have been disclosed in writing to the Bank prior to the date of this Agreement.

6.7 Other Obligations. The Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except as have been disclosed in writing to the Bank prior to the date of this Agreement.

- 6.8 Tax Matters. The Borrower has no knowledge of any pending assessments or adjustments of income tax for itself; for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank prior to the date of this Agreement.
- 6.9 Collateral. All collateral required in this Agreement is owned by the grantor of the security interest free of any title defects or any liens or interests of others, except those which have been approved by the Bank in writing.
- 6.10 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement and/or the Note.
- 6.11 ERISA Plans.
- (a) Each Plan (other than a multiemployer plan) is in compliance in all material respects with ERISA, the Code and other federal or state law, including all applicable minimum funding standards and there have been no prohibited transactions with respect to any Plan (other than a multiemployer plan), which has resulted or could reasonably be expected to result in a material adverse effect.
- (b) With respect to any Plan subject to Title IV of ERISA:
- (i) No reportable event has occurred under Section 4043(c) of ERISA which requires notice.
- (ii) No action by the Borrower or any ERISA Affiliate to terminate or withdraw from any Plan has been taken and no notice of intent to terminate a Plan has been filed under Section 4041 or 4042 of ERISA.
- (c) The following terms have the meanings indicated for purposes of this Agreement:
- (I) "Code" means the Internal Revenue Code of 1986, as amended.
- (ii) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- (iii) "ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code.
- (iv) "Plan" means a plan within the meaning of Section 3(2) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate, including any multiemployer plan within the meaning of Section 4001(a)(3) of ERISA.
- 6.12 No Plan Assets. The Borrower represents that, as of the date hereof and throughout the term of this Agreement, no Borrower or Guarantor, if any, is (1) an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (2) a plan or account subject to Section 4975 of the Internal Revenue Code of 1986 (the "Code"); (3) an entity deemed to hold "plan assets" of any such plans or accounts for purposes of ERISA or the Code; or (4) a "governmental plan" within the meaning of ERISA.
- 6.13 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms, and any instrument or agreement required under this Agreement, when executed and delivered, will be similarly legal, valid, binding and enforceable.
- 6.14 No Conflicts. This Agreement does not conflict with any law, agreement, or obligation by which the Borrower or any other Obligor is bound.
- 6.15 Permits, Franchises. The Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights, copyrights, and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.
- 6.16 Insurance. The Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

6.17 Merchantable Inventory; Compliance with FSLA. All inventory which is included in the Borrowing Base is of good and merchantable quality and free from defects, and has been produced in compliance with the requirements of the U.S. Fair Labor Standards Act (29 U.S.C. §§201 et seq.).

## 7. COVENANTS

The Borrower agrees, so long as credit is available under this Agreement and until the Bank is repaid in full, the Borrower shall:

### 7.1 Use of Proceeds.

(a) To use the proceeds of the credit extended under this Agreement only for business purposes.

7.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time. The Bank reserves the right, upon written notice to the Borrower, to require the Borrower to deliver financial information and statements to the Bank more frequently than otherwise provided below, and to use such additional information and statements to measure any applicable financial covenants in this Agreement.

(a) Within 120 days of the fiscal year end, the annual financial statements of NEW SOUTHERN FOOD DISTRIBUTORS, INC. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant ("CPA") acceptable to the Bank. The statements shall be prepared on a consolidated basis.

(b) Within 45 days after each period's end (including the last period in each fiscal year), quarterly financial statements of NEW SOUTHERN FOOD DISTRIBUTORS, INC. These financial statements may be company-prepared. The statements shall be prepared on a consolidated basis.

(c) A detailed aging of the Borrower's receivables by invoice or a summary aging by account debtor, as specified by the Bank, within 30 days after the end of each month.

(d) Within 45 days of the end of each quarter (including the last period in each fiscal year), a compliance certificate of NEW SOUTHERN FOOD DISTRIBUTORS, INC., signed by an authorized financial officer and setting forth (i) the information and computations (in sufficient detail) to establish compliance with all financial covenants at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement applicable to the party submitting the information and, if any such default exists, specifying the nature thereof and the action the party is taking and proposes to take with respect thereto.

( ) Within 120 days of the end of each fiscal year, a compliance certificate of NEW SOUTHERN FOOD DISTRIBUTORS, INC., signed by an authorized financial officer and setting forth (i) the information and computations (in sufficient detail) to establish compliance with all financial covenants at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement' applicable to the party submitting the information and, if any such default exists, specifying the nature thereof and the action the party is taking and proposes to take with respect thereto.

A summary aging by vendor of accounts payable within 30 days after the end of each month.

An inventory listing within 30 days after the end of each month. The listing must include a description of the inventory, its location and cost, and such other information as the Bank may require.

- (h) A borrowing base certificate setting forth the amount of Acceptable Receivables and Acceptable Inventory as of the last day of each month within 30 days after the period end and, upon the Bank's request, copies of the invoices or the record of invoices from the Borrower's sales journal for such Acceptable Receivables, copies of the delivery receipts, purchase orders, shipping instructions, bills of lading and other documentation pertaining to such Acceptable Receivables, and copies of the cash receipts journal pertaining to the borrowing base certificate.
  - (i) If the Bank requires the Borrower to deliver the proceeds of accounts receivable to the Bank upon collection by the Borrower, a schedule of the amounts so collected and delivered to the Bank.
  - (j) Promptly upon the Bank's request, such other books, records, statements, lists of property and accounts, budgets, forecasts or reports as to the Borrower and as to each other Obligor as the Bank may request.
- 7.3 Financial Information - Individuals. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time. The Bank reserves the right, upon written notice to the Borrower, to require the Borrower to deliver financial information and statements to the Bank more frequently than otherwise provided below, and to use such additional information and statements to measure any applicable financial covenants in this Agreement.
- (a) Within 120 days of each calendar year-end, the annual financial statements of Zhou M. Ni. These financial statements may be prepared by the party covered by the financial statements.
  - (b) Such additional financial information regarding the Borrower or any other Obligor with respect to the loan as the Bank shall request.

The financial statements required above shall include a properly completed signed and dated personal financial statement on the Bank's form with all questions fully answered and all schedules completed in their entirety, including all requested income/expense information, contingent liabilities disclosure; provided that, if the Borrower or other party uses his/her own automated financial statement, they may supplement the statement with supporting schedules, certifications or other details so that all information requested on the Bank's financial statement form is provided in lieu of using such form.

- 7.4 Funded Debt to EBITDA Ratio. To maintain on a consolidated basis a ratio of Funded Debt to EBITDA not exceeding the ratios indicated for each period specified below:

Period	Ratios
From February 26, 2018 through December 30, 2019	4.25:1.0
From December 31, 2019 through December 30, 2020	4.00:1.0
From December 31, 2020 and thereafter	3.75:1.0

"Funded Debt" means all outstanding liabilities for borrowed money and other interest-bearing liabilities, including current and long term debt, less the non-current portion of Subordinated Liabilities.

"EBITDA" means net income, less income or plus loss from discontinued operations and extraordinary items, plus income taxes, plus interest expense, plus depreciation, depletion, and amortization. This ratio will be calculated at the end of each reporting period for which the Bank requires financial statements, using the results of the twelve-month period ending with that reporting period.

"Subordinated Liabilities" means liabilities subordinated to the Borrower's obligations to the Bank in a manner acceptable to the Bank in its sole discretion.

- 7.5 Basic Fixed Charge Coverage Ratio. To maintain on a consolidated basis a Basic Fixed Charge Coverage Ratio of at least 1.25:1.0. To be tested on a quarterly and annual basis.

"Fixed Charge Coverage Ratio" means the ratio (a) the sum of EBITDA plus lease expense and rent expense, minus income tax, minus dividends, withdrawals, and other distributions, to (b) the sum of interest expense, lease expense, rent expense, the current portion of long term debt and the current portion of capitalized lease obligations.

"EBITDA" means net income, less income or plus loss from discontinued operations and extraordinary items, plus income taxes, plus interest expense, plus depreciation, depletion, and amortization.

This ratio will be calculated at the end of each reporting period for which the Bank requires financial statements, using the results of the twelve-month period ending with that reporting period. The current portion of long-term liabilities will be measured as the date twelve (12) months prior to the current financial statement.

- 7.6 Bank as Principal Depository. To maintain the Bank or one of its affiliates as its principal depository bank, including for the maintenance of business, cash management, operating and administrative deposit accounts.
- 7.7 Environmental Remediation. The Bank shall have received with respect to the property located at 601 Southwest 33rd Avenue, Ocala, FL written documentation and photographic evidence satisfactory to the Bank relating to the following actions, i) remediation of any and all oil stained areas on the property, ii) improved management of above ground storage tanks to include protection from elements and secondary containment, iii) disposal of excess used oil drums, containers, inactive above ground storage tanks, derelict vehicles and parts. Borrower shall have one year from closing to provide the documentation requested above.
- 7.8 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank or to any affiliate of the Bank), or become liable for the liabilities of others, without the Bank's written consent. This does not prohibit:
- (a) Acquiring goods, supplies, or merchandise on normal trade credit.
  - (b) Liabilities, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.
- 7.9 Other Liens. Not to create, assume, or allow any security interest or lien (including judicial liens) on property the Borrower now or later owns without the Bank's written consent. This does not prohibit:
- (a) Liens and security interests in favor of the Bank or any affiliate of the Bank.
  - (b) Liens for taxes not yet due.
  - (c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.
- 7.10 Maintenance of Assets.
- (a) Not to sell, assign, lease, transfer or otherwise dispose of any part of the Borrower's business or the Borrower's assets except inventory sold in the ordinary course of the Borrower's business.
  - (b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.
  - (c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.
  - (d) To maintain and preserve all rights, privileges, and franchises the Borrower now has.
  - (e) To make any repairs, renewals, or replacements to keep the Borrower's properties in good working condition.

- (f) To execute and deliver such documents as the Bank deems necessary to create, perfect and continue the security interests contemplated by this Agreement.
- 7.11 Investments. Not to have any existing, or make any new, investments in any individual or entity, or make any capital contributions or other transfers of assets to any individual or entity, except for:
- (a) Existing investments disclosed to the Bank in writing prior to the date of this Agreement.
- (b) Investments in any of the following:
- (i) certificates of deposit;
- (ii) U.S. treasury bills and other obligations of the federal government;
- (iii) readily marketable securities (including commercial paper, but excluding restricted stock and stock subject to the provisions of Rule 144 of the Securities and Exchange Commission).
- 7.12 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:
- (a) Existing extensions of credit disclosed to the Bank in writing prior to the date of this Agreement.
- (b) Extensions of credit to the Borrower's current subsidiaries or affiliates.
- (c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business to non-affiliated entities.
- 7.13 Change of Management. Not to make any substantial change in the present executive or management personnel of the Borrower.
- 7.14 Change of Ownership. Not to cause, permit, or suffer any change in capital ownership such that there is a change of more than twenty-five percent (25%) in the direct or indirect capital ownership of the Borrower.
- 7.15 Additional Negative Covenants. Not to, without the Bank's written consent:
- (a) Enter into any consolidation, merger, or other combination, or become a partner in a partnership, a member of a joint venture, or a member of a limited liability company.
- (b) Acquire or purchase a business or its assets.
- (c) Engage in any business activities substantially different from the Borrower's present business.
- (d) Liquidate or dissolve any Obligor's business.
- (e) Voluntarily suspend its business for more than seven (7) days in any thirty (30) day period.
- 7.16 Notices to Bank. To promptly notify the Bank in writing of:
- (a) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.
- (b) Any change in any Obligor's name, legal structure, principal residence, or name on any driver's license or special identification card issued by any state (for an individual), state of registration (for a registered entity), place of business, or chief executive office if the Obligor has more than one place of business.

7.17 Insurance.

- (a) General Business Insurance. To maintain insurance satisfactory to the Bank as to amount, nature and carrier covering property damage (including loss of use and occupancy) to any of the Obligor's properties, business ' interruption insurance, public liability insurance including coverage for contractual liability, product liability and workers' compensation, and any other insurance which is usual for such Obligor's business. Each policy shall include a cancellation clause in favor of the Bank.
- (b) Insurance Covering Collateral. To maintain all risk property damage insurance policies (including without limitation windstorm coverage, flood coverage, and hurricane coverage as applicable) covering the tangible property comprising the collateral. Each insurance policy must be for the full replacement cost of the collateral' and include a replacement cost endorsement. The insurance must be issued by an insurance company acceptable to the Bank and must include a lender's loss payable endorsement in favor of the Bank in a form acceptable to the Bank.
- (c) Evidence of Insurance. Upon the request of the Bank, to deliver to the Bank a copy of each insurance policy, or, if permitted by the Bank, a certificate of insurance listing all insurance in force.

7.18 Compliance with Laws. To comply with the requirements of all laws and all orders, writs, injunctions and decrees applicable to it or to its business or property, except in such instances in which (a) such requirement of law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted; or (b) the failure to comply therewith could not reasonably be expected to cause a material adverse change in any Obligor's business condition (financial or otherwise), operations or properties, or ability to repay the credit, or, in the case of the Controlled Substances Act, result in the forfeiture of any material property of any Obligor.

7.19 Books and Records. To maintain adequate books and records, including complete and accurate records regarding all Collateral.

7.20 Audits. To allow the Bank and its agents to inspect the Borrower's properties and examine, audit, and make copies of books and records at any time. If any of the Borrower's properties, books or records are in the possession of a third party, the Borrower authorizes that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.

7.21 Perfection of Liens. To help the Bank perfect and protect its security interests and liens, and reimburse it for related costs it incurs to protect its security interests and liens.

7.22 Cooperation. To take any action reasonably requested by the Bank to carry out the intent of this Agreement.

7.23 No Consumer Purpose. Not to use this loan for personal, family, or household purposes. The Bank may provide the Borrower (or any other Obligor) with certain disclosures intended for loans made for personal, family, or household purposes. The fact that the Bank elects to make such disclosures shall not be deemed a determination by the Bank that the loan will be used for such purposes.

8. HAZARDOUS SUBSTANCES

8.1 Indemnity Regarding Hazardous Substances. The Borrower will indemnify and hold harmless the Bank from any loss or liability the Bank incurs in connection with or as a result of this Agreement, which directly or indirectly arises out of the use, generation, manufacture, production, storage, release, threatened release, discharge, disposal or presence of a hazardous substance. This indemnity will apply whether the hazardous substance is on, under or about the Borrower's property or operations or property leased to the Borrower. The indemnity includes but is not limited to attorneys' fees (including the reasonable estimate of the allocated cost of in-house counsel and staff). The indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys and assigns.

8.2 Compliance Regarding Hazardous Substances. The Borrower represents and warrants that the Borrower has complied with all current and future laws, regulations and ordinances or other requirements of any governmental authority relating to or imposing liability or standards of conduct concerning protection of health or the environment or hazardous substances.



- 8.3 Notices Regarding Hazardous Substances. Until full repayment of the loan, the Borrower will promptly notify the Bank in writing of any threatened or pending investigation of the Borrower or its operations by any governmental agency under any current or future law, regulation or ordinance pertaining to any hazardous substance.
- 8.4 Site Visits, Observations and Testing. The Bank and its agents and representatives will have the right at any reasonable time, after giving reasonable notice to the Borrower, to enter and visit any locations where the collateral securing this Agreement (the "Collateral") is located for the purposes of observing the Collateral, taking and removing environmental samples, and conducting tests. The Borrower shall reimburse the Bank on demand for the costs of any such environmental investigation and testing. The Bank will make reasonable efforts during any site visit, observation or testing conducted pursuant to this paragraph to avoid interfering with the Borrower's use of the Collateral. The Bank is under no duty to observe the Collateral or to conduct tests, and any such acts by the Bank will be solely for the purposes of protecting the Bank's security and preserving the Bank's rights under this Agreement. No site visit, observation or testing or any report or findings made as a result thereof ("Environmental Report") (i) will result in a waiver of any default of the Borrower; (ii) impose any liability on the Bank; or (iii) be a representation or warranty of any kind regarding the Collateral (including its condition or value or compliance with any laws) or the Environmental Report (including its accuracy or completeness). In the event the Bank has a duty or obligation under applicable laws, regulations or Other ; requirements to disclose an Environmental Report to the Borrower or any other party, the Borrower authorizes the Bank to make such a disclosure. The Bank may also disclose an Environmental Report to any regulatory authority, and to any other parties as necessary or appropriate in the Bank's judgment. The Borrower further understands and agrees that any Environmental Report or other information regarding a site visit, observation or testing that is disclosed to the Borrower by the Bank or its agents and representatives is to be evaluated (including any reporting or other disclosure obligations of the Borrower) by the Borrower without advice or assistance from the Bank.
- 8.5 Definition of Hazardous Substances. "Hazardous substances" means any substance, material or waste that is or becomes designated or regulated as "toxic," "hazardous," "pollutant," or "contaminant" or a similar designation or regulation under any current or future federal, state or local law (whether under common law, statute, regulation or otherwise) or judicial or administrative interpretation of such, including without limitation petroleum or natural gas.
- 8.6 Continuing Obligation. The Borrower's obligations to the Bank under this Article, except the obligation to give notices to the Bank, shall survive termination of this Agreement and repayment of the Borrower's obligations to the Bank under this Agreement.

## 9. DEFAULT AND REMEDIES

If any of the following events of default occurs, the Bank may do one or more of the following without prior notice except as required by law or expressly agreed in writing by Bank: declare the Borrower in default, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately. If an event which, with notice or the passage of time, will constitute an event of default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under this Agreement. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an event of default occurs under the paragraph entitled "Bankruptcy/Receivers," below with respect to any Obligor, then the entire debt outstanding under this Agreement will automatically be due immediately.

- 9.1 Failure to Pay. The Borrower fails to make a payment under this Agreement and/or the Note when due.
- 9.2 Other Bank Agreements. Any default occurs under any Note, guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any Obligor purports to revoke or disavow the guaranty or other collateral agreement; or any representation or warranty made by any Obligor is false when made or deemed to be made; or any default occurs under any other agreement any Obligor or any of the Borrower's related entities or affiliates has with the Bank or any affiliate of the Bank.

- 9.3 Cross-default. Any default occurs under any agreement in connection with any credit any Obligor has obtained from anyone else or which any Obligor has guaranteed.
- 9.4 False Information. The Borrower or any other Obligor has given the Bank false or misleading information or representations.
- 9.5 Bankruptcy/Receivers. Any Obligor or any general partner of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or any Obligor, or any general partner of any Obligor makes a general assignment for the benefit of creditors; or a receiver or similar official is appointed for a substantial portion of any Obligor's business; or the business is terminated, or such Obligor is liquidated or dissolved.
- 9.6 Lien Priority. The Bank fails to have an enforceable first lien (except for any prior liens to which the Bank has consented in writing) on or security interest in any property given as security for this Agreement (or any guaranty).
- 9.7 Judgments. Any judgments or arbitration awards are entered against any Obligor in an aggregate amount of Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000.00) or more. Materiality will be determined in the Bank's sole discretion.
- 9.8 Death. If any Obligor is a natural person, such Obligor dies or becomes legally incompetent; if any Obligor is a trust, a trustor dies or becomes legally incompetent; if any Obligor is a partnership, any general partner dies or becomes legally incompetent.
- 9.9 Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in any Obligor's business condition (financial or otherwise), operations or properties, or ability to repay its obligations as contemplated hereunder or under any document executed in connection with this Agreement.
- 9.10 Government Action. Any government authority takes action that the Bank believes materially adversely affects any Obligor's financial condition or ability to repay.
- 9.11 ERISA Plans. A reportable event occurs under Section 4043(c) of ERISA, or any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan under Section 4041 or 4042 of ERISA occurs; provided such event or events could reasonably be expected, in the judgment of the Bank, to have a material adverse effect.
- 9.12 Covenants. Any default in the performance of or compliance with any obligation, agreement or other provision contained in this Agreement (other than those specifically described as an event of default in this Article).
- 9.13 Forfeiture. A judicial or nonjudicial forfeiture or seizure proceeding is commenced by a government authority and remains pending with respect to any property of Borrower or any part thereof, on the grounds that the property or any part thereof had been used to commit or facilitate the commission of a criminal offense by any person, including any tenant, pursuant to any law, including under the Controlled Substances Act or the Civil Asset Forfeiture Reform Act, regardless of whether or not the property shall become subject to forfeiture or seizure in connection therewith.
10. ENFORCING THIS AGREEMENT; MISCELLANEOUS
- 10.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied; provided, however, leases shall continue to be classified and accounted for on a basis consistent with that reflected in the financial statements of the Borrower for the most recently ended fiscal year prior to the date of this Agreement for all purposes of this Agreement, notwithstanding any change in GAAP relating thereto, unless the parties hereto shall enter into a mutually acceptable amendment addressing such changes.
- 10.2 Governing Law. Except to the extent that any law of the United States may apply, this Agreement shall be governed and interpreted according to the laws of Florida (the "Governing Law State"), without regard to any choice of law, rules or principles to the contrary. Nothing in this paragraph shall be construed to limit or otherwise affect any rights or remedies of the Bank under federal law.

- 10.3 Venue and Jurisdiction. The Borrower agrees that any action or suit against the Bank arising out of or relating to this Agreement shall be filed in federal court or state court located in the Governing Law State. The Borrower agrees that the Bank shall not be deemed to have waived its rights to enforce this section by filing an action or suit against the Borrower or any Obligor in a venue outside of the Governing Law State. If the Bank does commence an action or suit arising out of or relating to this Agreement, the Borrower agrees that the case may be filed in federal court or state court in the Governing Law State. The Bank reserves the right to commence an action or suit in any other jurisdiction where any Borrower, any other Obligor, or any Collateral has any presence or is located. The Borrower consents to personal jurisdiction and venue in such forum selected by the Bank and waives any right to contest jurisdiction and venue and the convenience of any such forum. The provisions of this section are material inducements to the Bank's acceptance of this Agreement.
- 10.4 Successors and Assigns. This Agreement is binding on the Borrower's and the Bank's successors and assignees. The Borrower agrees that it may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan and the related loan documents, and may exchange information about the Borrower and any other Obligor (including, without limitation, any information regarding any hazardous substances) with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrower.
- 10.5 Waiver of Jury Trial. **EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION HEREWITH OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (b) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER DOCUMENTS CONTEMPLATED HEREBY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION AND (c) CERTIFIES THAT THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE.**
- 10.6 Waiver of Class Actions. The terms "Claim" or "Claims" refer to any disputes, controversies, claims, counterclaims, allegations of liability, theories of damage, or defenses between Bank of America, N.A., its subsidiaries and affiliates, on the one hand, and the other parties to this Agreement, on the other hand (all of the foregoing each being referred to as a "Party" and collectively as the "Parties"). Whether in state court, federal court, or any other venue, jurisdiction, or before any tribunal, the Parties agree that all aspects of litigation and trial of any Claim will take place without resort to any form of class or representative action. Thus the Parties may only bring Claims against each other in an individual capacity and waive any right they may have to do so as a class representative or a class member in a class or representative action. **THIS CLASS ACTION WAIVER PRECLUDES ANY PARTY FROM PARTICIPATING IN OR BEING REPRESENTED IN ANY CLASS OR REPRESENTATIVE ACTION REGARDING A CLAIM.**
- 10.7 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.
- 10.8 Expenses.
- (a) The Borrower shall pay to the Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees, expended or incurred by the Bank in connection with (i) the negotiation and preparation of this Agreement and any related agreements, the Bank's continued administration of this Agreement and such related agreements, and the preparation of any amendments and waivers related to this Agreement or such related agreements, (ii) filing, recording and Search fees, appraisal fees, field examination fees, title report fees, and documentation fees with respect to any collateral and books and records of the Borrower or any other Obligor, (iii) the Bank's costs or losses arising from any changes in law which are allocated to this Agreement or any credit outstanding under this Agreement, and (iv) costs or expenses required to be paid by the Borrower or any other Obligor that are paid, incurred or advanced by the Bank. Unless the Borrower is in default, field examinations will be conducted no more frequently than at banks request and appraisals will be conducted not more frequently than at Banks request.

- (b) The Borrower will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (i) this Agreement, the Note or any document required hereunder, (ii) any credit extended or committed by the Bank to the Borrower hereunder and under the Note, (iii) any claim, whether well-founded or otherwise, that there has been a failure to comply with any law regulating the Borrower's sales or leases to or performance of services for debtors obligated upon the Borrower's accounts receivable and disclosures in connection therewith, and (iv) any litigation or proceeding related to or arising out of this Agreement, the Note, any such document, any such credit, or any such claim, including, without limitation, any act resulting from the Bank complying with instructions the Bank reasonably believes are made by any Authorized Individual. This paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.
- (c) The Borrower shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with (a) the enforcement or preservation of the Bank's rights and remedies and/or the collection of any obligations of the Borrower which become due to the Bank and in connection with any "workout" or restructuring, and (b) the prosecution or defense of any action in any way related to this Agreement including but not limited to the Note, the credit provided hereunder or any related agreements, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by the Bank or any other person) relating to the Borrower or any other person or entity.

10.9 Individual Liability. If the Borrower is a natural person, the Bank may proceed against the Borrower's business and non-business property in enforcing this Agreement, the Note and other agreements relating to this loan. If the Borrower is a partnership, the Bank may proceed against the business and non-business property of each general partner of the Borrower in enforcing this Agreement, the Note and other agreements relating to this loan.

10.10 Set-Off. Upon and after the occurrence of an event of default under this Agreement, (a) the Borrower hereby authorizes the Bank at any time without notice and whether or not the Bank shall have declared any amount owing by the Borrower to be due and payable, to set off against, and to apply to the payment of, the Borrower's indebtedness and obligations to the Bank under this Agreement and all related agreements, whether matured or unmatured, fixed or contingent, liquidated or unliquidated, any and all amounts owing by the Bank to the Borrower, and in the case of deposits, whether general or special (except trust and escrow accounts), time or demand and however evidenced, and (b) pending any such action, to hold such amounts as collateral to secure such indebtedness and obligations of the Borrower to the Bank and to return as unpaid for insufficient funds any and all checks and other items drawn against any deposits so held as the Bank, in its sole discretion, may elect. The Borrower hereby grants to the Bank a security interest in all deposits and accounts maintained with the Bank to secure the payment of all such indebtedness and obligations of the Borrower to the Bank.

10.11 One Agreement. This Agreement, the Note and any related security or other agreements required by this Agreement constitute the entire agreement between the Borrower and the Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail.

10.12 Notices. Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrower, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax number(s) listed on the signature page, or to such other addresses as the Bank and the Borrower may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when transmitted, or (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered.

- 10.13 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.
- 10.14 Counterparts. This Agreement may be executed in any number of counterparts, each of which, when so executed, shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement. Delivery of an executed counterpart of this Agreement (or of any agreement or document required by this Agreement and any amendment to this Agreement) by telecopy or other electronic imaging means shall be as effective as delivery of a manually executed counterpart of this Agreement; provided, however, that the telecopy or other electronic image shall be promptly followed by an original if required by the Bank.
- 10.15 Borrower/Obligor Information; Reporting to Credit Bureaus. The Borrower authorizes the Bank at any time to verify or check any information given by the Borrower to the Bank, check the Borrower's credit references, verify employment, and obtain credit reports and other credit bureau, information from time to time in connection with the administration, servicing and collection of the loans under this Agreement. The Borrower agrees that the Bank shall have the right at all times to disclose and report to credit reporting agencies and credit rating agencies such information pertaining to the Borrower and all other Obligor as is consistent with the Bank's policies and practices from time to time in effect.
- 10.16 Customary Advertising Material. The Borrower consents to the publication by the Bank of customary advertising material relating to the transactions contemplated hereby using the name, product photographs, logo or trademark of the Borrower.
- 10.17 Amendment and Restatement of Prior Agreement. This Agreement is an amendment and restatement, in its entirety, of the Loan Agreement entered into as of November 14, 2012, between the Bank and the Borrower, and any indebtedness outstanding thereunder shall be deemed to be outstanding under this Agreement. Nothing in this Agreement shall be deemed to be a repayment or novation of the indebtedness, or to release or otherwise adversely affect any lien, mortgage or security interest securing such indebtedness or any rights of the Bank against any guarantor, surety or other party primarily or secondarily liable for such indebtedness.
- 10.18 Amendments. This Agreement may be amended or modified only in writing signed by each party hereto.
- 10.19 Disposition of Schedules and Reports. The Bank will not be obligated to return any schedules, invoices, statements, budgets, forecasts, reports or other papers delivered by the Borrower. The Bank will destroy or otherwise dispose of such materials at such time as the Bank, in its discretion, deems appropriate.
- 10.20 Returned Merchandise. Until the Bank exercises its rights to collect the accounts receivable as provided under any security agreement required under this Agreement, the Borrower may continue its present policies for returned merchandise and adjustments. Credit adjustments with respect to returned merchandise shall be made immediately upon receipt of the merchandise by the Borrower or upon such other disposition of the merchandise by the debtor in accordance with the Borrower's instructions. If a credit adjustment is made with respect to any Acceptable Receivable, the amount of such adjustment shall no longer be included in the amount of such Acceptable Receivable in computing the Borrowing Base.
- 10.21 Verification of Receivables. The Bank may at any time, either orally or in writing, request confirmation from any debtor of the current amount and status of the accounts receivable upon which such debtor is obligated.
- 10.22 Waiver of Confidentiality. The Borrower authorizes the Bank to discuss the Borrower's financial affairs and business operations with any accountants, auditors, business consultants, or other professional advisors employed by the Borrower, and authorizes such parties to disclose to the Bank such financial and business information or reports (including management letters) concerning the Borrower as the Bank may request.
- 10.23 Limitation of Interest and Other Charges. Notwithstanding any other provision contained in this Agreement, the Bank does not intend to charge and the Borrower shall not be required to pay any amount of interest or other fees or charges that is in excess of the maximum permitted by applicable law. Any payment in excess of such maximum shall be refunded to the Borrower or credited against principal, at the option of the Bank. It is the express intent hereof that the Borrower not pay and the Bank not receive, directly or indirectly, interest in excess of that which may be lawfully paid under applicable law including the usury laws in force in the state of Florida.

This Agreement is executed as of the date stated at the top of the first page.

Borrower:

Bank of America, N.A.A.

By: /s/ Jacqueline Carr

Authorized Signer, Officer

Jacqueline Carr. AVP

**THIS INSTRUMENT WAS MADE, EXECUTED AND DELIVERED  
OUTSIDE THE STATE OF FLORIDA, AND NO FLORIDA  
DOCUMENTARY STAMP TAX IS DUE HEREON IN ACCORDANCE  
WITH FAC. 1294.063**

NEW SOUTHERN FOOD DISTRIBUTORS, INC.

By: /s/ Zhou Min Ni

Address where notices to NEW SOUTHERN FOOD  
DISTRIBUTORS, INC. are to be sent:

601 SW 33rd Ave  
Ocala, FL 34474-1919

Address where notices to the Bank are to be sent:

Doc Retention Center  
NC1-001-05-13  
One Independence Center  
101 North Tryon St  
Charlotte, NC 28255-0001

***Federal law requires Bank of America, N.A. (the "Bank") to provide the following notice. The notice is not part of the foregoing agreement or instrument and may not be altered. Please read the notice carefully.***

(1) **USA PATRIOT ACT NOTICE**

Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account or obtains a loan. The Bank will ask for the Borrower's legal name, address, tax ID number or social security number and other identifying information. The Bank may also ask for additional information or documentation or take other actions reasonably necessary to verify the identity of the Borrower, guarantors or other related persons.

**WAREHOUSE LEASE AGREEMENT**

THIS LEASE AGREEMENT ("Lease," "Agreement" and/or "Lease Agreement") IS MADE AND ENTERED INTO this 7th day of January, 2019 by and between Yoan Chang Trading (hereinafter referred to as "Lessor") and Kirnland Food Service (hereinafter referred to as "Lessee").

**SECTION ONE**  
**TERM OF LEASE**

By the present contact, the Owner agrees to rent to the Kirnland Food Service exclusive use of the warehouse facility, comprising\_\_ sqm, and its surrounding grounds,\_\_ sqm in total, located at 36 Enterprise Blvd. SW, Atlanta, GA 30336. The warehouse and adjoining compound shall be rented empty and clean. The Kirnland Food Service has the right, should a need occur, to erect temporary warehouse facilities (tents or containers) on the warehouse premises next to the rented warehouse without incurring any additional charges. The Owner guarantees access to the warehouse 24 hours per day, 7 days per week.

Lessee hereby agrees to pay, without demand, to Lessor as rent for the premises, monthly lease payments in the amount of TEN THOUSAND DOLLARS (\$10,000.00) per month. The first monthly lease payment shall be due no later than Feburary 1, 2019. Subsequent payments shall be due no later than the 15th day of each successive month through and including the final month (or partial month) for which rent is due. All lease payments shall be personally delivered by Lessee to Lessor or, alternatively, mailed to Lessor's notice address (as hereinafter set forth) or at such other place as Lessor from time to time may designate in writing.

The term of this Lease shall be for a period of Twelve (12) months, commencing on the 1st day of January, 2019 (the "effective date"), and ending on the 31 day of December, 2019, both dates inclusive.

**SECTION TWO**  
**UTILITIES**

Lessee shall pay all charges for gas, electricity, water, light, heat, power, telephone or other communication service, and any other utility service used, rendered or supplied upon or in connection with the subject property during the term of the Lease and/or while occupied by Lessee, and shall indemnify the Lessor against any liability or damages on such account. If Lessee fails to make timely payment for any such services, Lessor reserves the right to add any payment or payments made by Lessor to satisfy such charges to the monthly lease payment due on the month next following the date of such payment/s by Lessor, which shall then constitute rent due by Lessee.

---

SECTION THREE  
**USE OF PREMISES**

Lessee shall use and occupy the leased premises for commercial business purposes in accordance with the zoning laws and regulations applicable to the subject property and for no other object or purpose. Lessee shall comply with all the sanitary laws, ordinances, rules, and orders of appropriate governmental authorities affecting the cleanliness, occupancy and preservation of the premises, including the sidewalks, driveway and any common areas on or connected to the premises, during the term of this Lease. The premises shall not be used for any unlawful purpose.

SECTION FOUR  
**ANIMALS**

Lessee shall neither keep nor allow any live domestic or other animals on or about the premises without the prior, express, and written consent of Lessor. Lessee agrees to be solely responsible, and indemnify Lessor, for any and all damage done to the premises by any animal owned, kept or allowed on the premises by Lessee.

SECTION FIVE  
**CONDITION OF PREMISES**

Lessee stipulates that Lessee has examined the premises, including the grounds and all buildings and improvements, and that they are, at the time of this lease, in good order and repair, safe, clean, and in habitable condition.

SECTION SIX  
**MAINTENANCE AND REPAIR**

Lessee will, at Lessee's sole expense, keep and maintain the premises and appurtenances in good and sanitary condition and repair, reasonable wear and tear excepted, and shall avoid causing any damage to same, during the term of the Lease and any renewal thereof. Lessee shall, at Lessee's sole expense, make all required repairs to the plumbing, heating apparatus, electric and gas fixtures, and any other part or portion of the premises, whenever damage to such items shall have resulted from Lessee's misuse, waste or neglect or that of Lessee's employee, agent, guest or other visitor. Major maintenance and repair of the premises involving anticipated or actual costs in excess of \$1,000.00 per incident not due to Lessee's misuse, waste or neglect or that of Lessee's employee, agent or visitor, shall be the responsibility of Lessor or Lessor's assigns. On the failure of Lessee to make repairs, as provided in this Section, Lessor may make the necessary repairs and add the amount of the cost of the repairs to the rent due on the month next following the date of repairs, or at any time thereafter, and the cost of repairs shall be and constitute rent together with the monthly lease payments due from Lessee as provided for above.

SECTION SEVEN  
**TAXES**

During the term of this Lease, Lessee shall be required to pay all taxes and assessments imposed on the demised premises by any lawful authority. In the event that Lessor pays such taxes and assessments at any time during the Lease, Lessee shall, in addition to the monthly lease payments herein specified, promptly repay to Lessor the amount of taxes and/or assessments so paid by Lessor.



**SECTION EIGHT**  
**DAMAGE TO PREMISES BY FIRE OR CASUALTY**

If, during the term of this Lease Agreement, the premises shall be destroyed by fire, the elements, or any other cause, except that cause resulting from the negligence or other wrongdoing of Lessee, this Lease Agreement shall be terminated as of the date of the damage or destruction and Lessee shall immediately surrender the premises to Lessor and shall pay rent only to the time of such surrender, unless the parties agree otherwise in writing. However, if the premises shall be damaged by fire or other cause so as to be capable of being repaired within sixty (60) days, Lessor shall have the option to repair the same and, during the time that repairs are being made, Lessor shall remit to Lessee a just and fair portion of rent according to the nature of the damage sustained and according to the extent that Lessee is deprived of use of the premises. Per SECTION SEVEN of this Lease, Lessee shall be responsible to Lessor for any damage to the premises caused by Lessee or Lessee's employee, agent, guest or other visitor.

**SECTION NINE**  
**INSPECTION, EXHIBITION OF PREMISES**

Lessor, and Lessor's agents and employees, shall have free access to the premises, including any building or structure that may at any time be on the premises, at all reasonable times for the purpose of examining or inspecting the condition of the premises, in order to exercise any right or power reserved to Lessor under the terms and provisions of this Lease Agreement, or to ensure or enforce Lessee's compliance with the terms of the Lease. Additionally, Lessee shall permit Lessor, or Lessor's agents or employees, to display "For Sale" or "For Rent" or "Vacancy" or similar signs on the leased premises and to show the premises to prospective purchasers or Lessees at all reasonable times.

Lessee arising out of this Lease, Lessee shall pay Lessor's reasonable attorney fees and all court costs.

**WITNESS THE SIGNATURES OF THE ABOVE-NAMED PARTIES.**

**LESSOR:**

Yoan Chang Trading Corp.

By: /s/\_\_\_\_\_

Date: 1-7-2019

**LESSEE:**

Kirmland Food Service

By: /s/\_\_\_\_\_

Date: 1-7-2019

## HF FOODS GROUP INC.

## Subsidiaries

	<b>Entity Name</b>	<b>Country of Incorporation</b>
1.	Han Feng, Inc.	North Carolina, USA
2.	Truse Trucking, Inc.	North Carolina, USA
3.	Morning First Delivery, Inc.	North Carolina, USA
4.	R&N Holdings, LLC	North Carolina, USA
5.	R&N Lexington, LLC	North Carolina, USA
6.	Kirnsway Manufacturing Inc.	North Carolina, USA
7.	Chinesetg, Inc.	North Carolina, USA
8.	New Southern Food Distributors, Inc.	Florida, USA
9.	B&B Trucking Services, Inc.	Florida, USA
10.	Kirnland Food Distribution, Inc.	Georgia, USA
11.	HG Realty LLC	Georgia, USA

**Certification of Chief Executive Officer**

I, Zhou Min Ni, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: April 1, 2019

By: /s/ Zhou Min Ni  
Zhou Min Ni  
Chief Executive Officer

**Certification of Chief Financial Officer**

I, Jian (“Jonathan”) Ming Ni, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: April 1, 2019

By: /s/ Jian (“Jonathan”) Ming Ni  
Jian (“Jonathan”) Ming Ni  
Chief Financial Officer

**Section 1350 Certification of Chief Executive Officer**

In connection with the Annual Report on Form 10-K of HF Foods Group Inc. (the "Company") for the annual period ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Zhou Min Ni, Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

*/s/ Zhou Min Ni*

---

Zhou Min Ni

Chief Executive Officer

April 1, 2019

**Section 1350 Certification of Chief Financial Officer**

In connection with the Annual Report on Form 10-K of HF Foods Group Inc. (the "Company") for the annual period ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jian ("Jonathan") Ming Ni, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

*/s/ Jian ("Jonathan") Ming Ni*

---

Jian ("Jonathan") Ming Ni

Chief Financial Officer

April 1, 2019