

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

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 number 001-37762

Yum China Holdings, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

**101 East Park Boulevard, Suite 805
Plano, Texas 75074
United States of America**

81-2421743

(I.R.S. Employer
Identification No.)

**Yum China Building
20 Tian Yao Qiao Road
Shanghai 200030
People's Republic of China**

(Address, Including Zip Code, of Principal Executive Offices)

(469) 980-2898

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	YUMC	New York Stock Exchange
	9987	The Stock Exchange of Hong Kong Limited

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

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of May 3, 2023 was 417,832,993 shares.

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Item 1. Financial Statements

Condensed Consolidated Statements of Income (Unaudited)

Yum China Holdings, Inc.

(in US\$ millions, except per share data)

	Quarter Ended	
	3/31/2023	3/31/2022
Revenues		
Company sales	\$ 2,772	\$ 2,548
Franchise fees and income	25	24
Revenues from transactions with franchisees	93	77
Other revenues	27	19
Total revenues	<u>2,917</u>	<u>2,668</u>
Costs and Expenses, Net		
Company restaurants		
Food and paper	835	792
Payroll and employee benefits	683	667
Occupancy and other operating expenses	691	738
Company restaurant expenses	<u>2,209</u>	<u>2,197</u>
General and administrative expenses	163	151
Franchise expenses	10	10
Expenses for transactions with franchisees	91	75
Other operating costs and expenses	24	17
Closures and impairment expenses, net	3	2
Other expenses, net	1	25
Total costs and expenses, net	<u>2,501</u>	<u>2,477</u>
Operating Profit	416	191
Interest income, net	38	12
Investment loss	(17)	(37)
Income Before Income Taxes and Equity in		
Net Earnings (Losses) from Equity Method Investments	437	166
Income tax provision	(125)	(55)
Equity in net earnings (losses) from equity method investments	1	(1)
Net income – including noncontrolling interests	<u>313</u>	<u>110</u>
Net income – noncontrolling interests	24	10
Net Income – Yum China Holdings, Inc.	<u>\$ 289</u>	<u>\$ 100</u>
Weighted-average common shares outstanding (in millions):		
Basic	418	426
Diluted	423	430
Basic Earnings Per Common Share	<u>\$ 0.69</u>	<u>\$ 0.23</u>
Diluted Earnings Per Common Share	<u>\$ 0.68</u>	<u>\$ 0.23</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Yum China Holdings, Inc.

(in US\$ millions)

	Quarter Ended	
	3/31/2023	3/31/2022
Net income – including noncontrolling interests	\$ 313	\$ 110
Other comprehensive income, net of tax of nil:		
Foreign currency translation adjustments	14	13
Comprehensive income – including noncontrolling interests	327	123
Comprehensive income – noncontrolling interests	26	12
Comprehensive Income – Yum China Holdings, Inc.	\$ 301	\$ 111

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)

Yum China Holdings, Inc.

(in US\$ millions)

	Quarter Ended	
	3/31/2023	3/31/2022
Cash Flows – Operating Activities		
Net income – including noncontrolling interests	\$ 313	\$ 110
Depreciation and amortization	116	164
Non-cash operating lease cost	102	120
Closures and impairment expenses	3	2
Investment loss	17	37
Equity in net (earnings) losses from equity method investments	(1)	1
Distributions of income received from equity method investments	4	—
Deferred income taxes	7	1
Share-based compensation expense	13	11
Changes in accounts receivable	5	(2)
Changes in inventories	40	88
Changes in prepaid expenses, other current assets and VAT assets	12	38
Changes in accounts payable and other current liabilities	(93)	(322)
Changes in income taxes payable	75	26
Changes in non-current operating lease liabilities	(94)	(106)
Other, net	(12)	3
Net Cash Provided by Operating Activities	<u>507</u>	<u>171</u>
Cash Flows – Investing Activities		
Capital spending	(179)	(205)
Purchases of short-term investments, long-term bank deposits and notes	(1,378)	(1,041)
Maturities of short-term investments, long-term bank deposits and notes	1,126	1,281
Acquisition of business, net of cash acquired	—	(23)
Other, net	2	1
Net Cash (Used in) Provided by Investing Activities	<u>(429)</u>	<u>13</u>
Cash Flows – Financing Activities		
Repurchase of shares of common stock	(60)	(224)
Cash dividends paid on common stock	(54)	(51)
Dividends paid to noncontrolling interests	(15)	(17)
Contributions from noncontrolling interests	35	18
Other, net	(5)	—
Net Cash Used in Financing Activities	<u>(99)</u>	<u>(274)</u>
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	<u>2</u>	<u>1</u>
Net Decrease in Cash, Cash Equivalents and Restricted Cash	<u>(19)</u>	<u>(89)</u>
Cash, Cash Equivalents and Restricted Cash – Beginning of Period	<u>1,130</u>	<u>1,136</u>
Cash, Cash Equivalents and Restricted Cash – End of Period	<u>\$ 1,111</u>	<u>\$ 1,047</u>
Supplemental Cash Flow Data		
Cash paid for income tax	39	23
Non-cash Investing and Financing Activities		
Capital expenditures included in accounts payable and other current liabilities	139	182

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Balance Sheets

Yum China Holdings, Inc.

(in US\$ millions)

	<u>3/31/2023</u>	<u>12/31/2022</u>
	(Unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,111	\$ 1,130
Short-term investments	1,870	2,022
Accounts receivable, net	59	64
Inventories, net	378	417
Prepaid expenses and other current assets	296	307
Total Current Assets	<u>3,714</u>	<u>3,940</u>
Property, plant and equipment, net	2,114	2,118
Operating lease right-of-use assets	2,172	2,219
Goodwill	1,995	1,988
Intangible assets, net	157	159
Long-term bank deposits and notes	1,094	680
Equity investments	346	361
Deferred income tax assets	93	113
Other assets	278	248
Total Assets	<u>11,963</u>	<u>11,826</u>
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	1,957	2,098
Income taxes payable	143	68
Total Current Liabilities	<u>2,100</u>	<u>2,166</u>
Non-current operating lease liabilities	1,864	1,906
Non-current finance lease liabilities	41	42
Deferred income tax liabilities	378	390
Other liabilities	164	162
Total Liabilities	<u>4,547</u>	<u>4,666</u>
Redeemable Noncontrolling Interest	12	12
Equity		
Common stock, \$0.01 par value; 1,000 million shares authorized; 418 million shares and 419 million shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively;	4	4
Additional paid-in capital	4,391	4,390
Retained earnings	2,374	2,191
Accumulated other comprehensive loss	(91)	(103)
Total Yum China Holdings, Inc. Stockholders' Equity	<u>6,678</u>	<u>6,482</u>
Noncontrolling interests	726	666
Total Equity	<u>7,404</u>	<u>7,148</u>
Total Liabilities, Redeemable Noncontrolling Interest and Equity	<u>\$ 11,963</u>	<u>\$ 11,826</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Tabular amounts in US\$ millions, except as otherwise noted)

Note 1 – Description of Business

Yum China Holdings, Inc. (“Yum China” and, together with its subsidiaries, the “Company,” “we,” “us” and “our”) was incorporated in Delaware on April 1, 2016.

The Company owns, franchises or has ownership in entities that own and operate restaurants (also referred to as “stores” or “units”) under the KFC, Pizza Hut, Taco Bell, Lavazza, Little Sheep and Huang Ji Huang concepts (collectively, the “concepts”). In connection with the separation of the Company in 2016 from its former parent company, Yum! Brands, Inc. (“YUM”), a master license agreement was entered into between Yum Restaurants Consulting (Shanghai) Company Limited (“YCCL”), a wholly-owned indirect subsidiary of the Company and YUM, through YRI China Franchising LLC, a subsidiary of YUM, effective from January 1, 2020 and previously through Yum! Restaurants Asia Pte. Ltd., another subsidiary of YUM, from October 31, 2016 to December 31, 2019, for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its subsidiaries for the development and operation of the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones amended in April 2022, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the People’s Republic of China (the “PRC” or “China”), excluding Hong Kong, Macau and Taiwan. The term of the license is 50 years from October 31, 2016 for the KFC and Pizza Hut brands and, subject to achieving certain agreed-upon milestones, 50 years from April 15, 2022 for the Taco Bell brand, with automatic renewals for additional consecutive renewal terms of 50 years each, subject only to us being in “good standing” and unless we give notice of our intent not to renew. In exchange, we pay a license fee to YUM equal to 3% of net system sales from both our Company and franchise restaurants. We own the intellectual property of Little Sheep and Huang Ji Huang and pay no license fee related to these concepts.

In 1987, KFC was the first major global restaurant brand to enter China. As of March 31, 2023, there were over 9,200 KFC stores in China. We maintain a controlling interest of 58%, 70%, 83%, 92% and approximately 60% in the entities that own and operate the KFCs in and around Shanghai, Beijing, Wuxi, Suzhou and Hangzhou, respectively.

The first Pizza Hut in China opened in 1990. As of March 31, 2023, there were over 2,900 Pizza Hut restaurants in China.

In the second quarter of 2020, the Company partnered with Luigi Lavazza S.p.A. (“Lavazza Group”), the world renowned family-owned Italian coffee company, and entered into a joint venture to explore and develop the Lavazza coffee concept in China. In September 2021, the Company and Lavazza Group entered into agreements for the previously formed joint venture (“Lavazza joint venture”) to accelerate the expansion of Lavazza coffee shops in China. Upon execution of these agreements, the Company controls and consolidates the joint venture with its 65% equity interest. The acquisition was considered immaterial.

In 2017, the Company acquired a controlling interest in the holding company of DAOJIA.com.cn (“Daojia”), an online food delivery service provider in China. This business was extended to also include a team managing the delivery services for restaurants, including restaurants in our system, with their results reported under our delivery operating segment.

As part of our strategy to drive growth from off-premise occasions, we also developed our own retail brand operations, Shaofaner, which sells packaged foods through online and offline channels. The operating results of Shaofaner are included in our e-commerce business operating segment.

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, our delivery operating segment and our e-commerce business, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. For 2022, All Other Segments also included COFFii & JOY and East Dawning. The Company decided to wind down the operations of the East Dawning brand in 2021, and closed all stores by March 2022. In addition, the Company decided to wind down the operations of COFFii & JOY and closed all stores in 2022. Additional details on our segment reporting are included in Note 14.

The Company’s common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “YUMC”. On September 10, 2020, the Company completed a secondary listing of its common stock on the Main Board of the Hong Kong Stock Exchange (“HKEX”) under the stock code “9987,” in connection with a global offering of 41,910,700 shares of its common stock. Net proceeds raised by the Company from the global offering after deducting underwriting fees and the offering expenses amounted to \$2.2 billion. On October 24, 2022, the Company’s voluntary conversion of its secondary listing status to a primary listing status on the HKEX became effective (“Primary Conversion”) and the Company became a dual primary listed company on the NYSE and HKEX. On the same day, the Company’s shares of common stock traded on the HKEX were included in the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. The Company’s common stock listed on the NYSE and HKEX continue to be fully fungible.

Note 2 – Basis of Presentation

Our preparation of the accompanying Condensed Consolidated Financial Statements in conformity with Generally Accepted Accounting Principles in the United States of America (“GAAP”) requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

We have prepared the Condensed Consolidated Financial Statements in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Condensed Consolidated Financial Statements include all normal and recurring adjustments considered necessary to present fairly our financial position as of March 31, 2023, and our results of operations, comprehensive income and cash flows for the quarters ended March 31, 2023 and 2022. Our results of operations, comprehensive income and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K as filed with the SEC on March 1, 2023.

Through the acquisition of Daojia, the Company also acquired a variable interest entity (“VIE”) and subsidiaries of the VIE effectively controlled by Daojia. There exists a parent-subsidiary relationship between Daojia and its VIE as a result of certain exclusive agreements that require Daojia to consolidate its VIE and subsidiaries of the VIE because Daojia is the primary beneficiary that possesses the power to direct the activities of the VIE that most significantly impact its economic performance, and is entitled to substantially all of the profits and has the obligation to absorb all of the expected losses of the VIE. The acquired VIE and its subsidiaries were considered immaterial, both individually and in the aggregate. The results of Daojia’s operations have been included in the Company’s Condensed Consolidated Financial Statements since the acquisition date.

Certain comparative items in the Condensed Consolidated Financial Statements have been reclassified to conform to the current period’s presentation to facilitate comparison.

Recently Adopted Accounting Pronouncements

In October 2021, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2021-08 *Business Combinations (Topic 805) — Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* (“ASU 2021-08”). It requires issuers to apply ASC 606 *Revenue from Contracts with Customers* to recognize and measure contract assets and contract liabilities from contracts with customers acquired in a business combination. We adopted this standard on January 1, 2023, and such adoption did not have a material impact on our financial statements.

In March 2022, the FASB issued ASU 2022-01 *Fair Value Hedging—Portfolio Layer Method* (“ASU 2022-01”), which allows entities to expand their use of the portfolio layer method for fair value hedges of interest rate risk. Under the guidance, entities can hedge all financial assets under the portfolio layer method and designate multiple hedged layers within a single closed portfolio. The guidance also clarifies the accounting for fair value hedge basis adjustments in portfolio layer hedges and how these adjustments should be disclosed. We adopted this standard on January 1, 2023, and such adoption did not have a material impact on our financial statements.

In March 2022, the FASB issued ASU 2022-02 *Financial Instrument—Credit Losses* (“ASU 2022-02”), amending ASC 310 to eliminate the recognition and measurement guidance for a troubled debt restructuring for creditors that have adopted ASC 326 and requiring them to make enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. The guidance also requires entities to present gross write-offs by year of origination in their vintage disclosures. We adopted this standard on January 1, 2023, and such adoption did not have a material impact on our financial statements.

In June 2022, the FASB issued ASU 2022-03 *Fair Value Measurement—Fair Value Measurement of Equity Securities Subject to Contractual Sale Restriction* (“ASU 2022-03”), clarifying that a contractual restriction on sales of an equity security is not considered part of the unit of account of the equity security, and therefore, is not considered when measuring fair value. The guidance also clarifies that a contractual sales restriction should not be recognized as a separate unit of account. We adopted this standard on January 1, 2023, and such adoption did not have a material impact on our financial statements.

In September 2022, the FASB issued ASU 2022-04 *Liabilities—Disclosure of Supplier Finance Program Obligations* (“ASU 2022-04”), requiring entities that use supplier finance programs in connection with the purchase of goods and services to disclose the key terms of the programs and information about their obligations outstanding at the end of the reporting period. We adopted this standard on January 1, 2023, and such adoption did not have a material impact on our financial statements.

Note 3 – Business Acquisitions and Equity Investments

Consolidation of Hangzhou KFC and Equity Investment in Hangzhou Catering

In the fourth quarter of 2021, the Company completed its investment in a 28% equity interest in Hangzhou Catering for cash consideration of \$255 million. Hangzhou Catering holds a 45% equity interest in Hangzhou KFC, of which the Company previously held a 47% equity interest. Along with the investment, the Company also obtained two additional seats on the board of directors of Hangzhou KFC. Upon completion of the transaction, the Company directly and indirectly holds an approximately 60% equity interest in Hangzhou KFC and has majority representation on the board, and thus obtained control over Hangzhou KFC and started to consolidate its results from the acquisition date.

As a result of the acquisition of Hangzhou KFC, \$66 million of the purchase price was allocated to the reacquired franchise right, which is amortized over the remaining franchise contract period of 1 year.

In addition to its equity interest in Hangzhou KFC, Hangzhou Catering operates approximately 60 Chinese dining restaurants under four time-honored brands and a food processing business. The Company applies the equity method of accounting to the 28% equity interest in Hangzhou Catering excluding the Hangzhou KFC business and classified this investment in Equity investments based on its then fair value. The Company elected to report its share of Hangzhou Catering's financial results with a one-quarter lag because its results are not available in time for the Company to record them in the concurrent period. The Company's equity losses from Hangzhou Catering, net of taxes, were immaterial for both the quarters ended March 31, 2023 and 2022, and included in Equity in net earnings (losses) from equity method investments in our Condensed Consolidated Statement of Income. As of March 31, 2023 and December 31, 2022, the carrying amount of the Company's equity method investment in Hangzhou Catering was \$36 million and \$37 million, respectively, exceeding the Company's interest in Hangzhou Catering's underlying net assets by \$26 million and \$26 million, respectively. Substantially all of this difference was attributable to its self-owned properties and impact of related deferred tax liabilities determined upon acquisition, which is being depreciated over a weighted-average remaining useful life of 20 years.

Consolidation of Suzhou KFC

In the third quarter of 2020, the Company completed the acquisition of an additional 25% equity interest in Suzhou KFC for cash consideration of \$149 million, increasing its equity interest to 72%, and thus the Company obtained control over Suzhou KFC and started to consolidate its results from the acquisition date.

As a result of the acquisition of Suzhou KFC, \$61 million of the purchase price was allocated to the reacquired franchise right, which is amortized over the remaining franchise contract period of 2.4 years.

In December 2022, the Company acquired an additional 20% equity interest in Suzhou KFC for cash consideration of \$115 million, bringing its total ownership to 92%. As the Company has previously obtained control of Suzhou KFC, this transaction was accounted for as an equity transaction. Upon completion of the transaction, the excess of purchase consideration over the carrying amount of the non-controlling interests was \$15 million, which was recorded in Additional paid-in capital.

As a result of the acquisitions of all former unconsolidated affiliates that operate our concepts by December 2021, the Company consolidated their results since their respective acquisition dates, and therefore we no longer have franchise fees and expenses and revenues and expenses from transactions with unconsolidated affiliates for the quarters ended March 31, 2023 and 2022.

Fujian Sunner Development Co., Ltd. (“Sunner”) Investment

In the first quarter of 2021, the Company acquired a 5% equity interest in Sunner, a Shenzhen Stock Exchange-listed company, for a total consideration of approximately \$261 million. Sunner is China's largest white-feathered chicken producer and the Company's largest poultry supplier. The Company then accounted for the equity securities at fair value based on their closing market price on each measurement date.

In May 2021, a senior executive of the Company was nominated and appointed to Sunner's board of directors upon Sunner's shareholder approval. Through this representation, the Company participates in Sunner's policy making process. The representation on the board, along with the Company being one of Sunner's significant shareholders, provides the Company with the ability to exercise significant influence over the operating and financial policies of Sunner. As a result, the Company started to apply the equity method of accounting to the investment in May 2021 based on its then fair value. The Company elected to report its share of Sunner's financial results with a one-quarter lag because Sunner's results are not available in time for the Company to record them in the concurrent period. In the quarters ended March 31, 2023 and 2022, the Company's equity income from Sunner, net of taxes, was immaterial, which was included in Equity in net earnings (losses) from equity method investments in our Condensed Consolidated Statement of Income.

The Company purchased inventories of \$119 million and \$92 million from Sunner for the quarters ended March 31, 2023 and 2022, respectively. The Company's accounts payable and other current liabilities due to Sunner were \$49 million and \$53 million as of March 31, 2023 and December 31, 2022, respectively.

As of March 31, 2023 and December 31, 2022, the Company's investment in Sunner was classified in Equity investments and the carrying amounts were \$230 million and \$227 million, respectively, exceeding the Company's interest in Sunner's underlying net assets by \$158 million and \$157 million, respectively. As of March 31, 2023 and December 31, 2022, \$17 million and \$18 million of these basis differences were related to finite-lived intangible assets determined upon acquisition, respectively, which are being amortized over the estimated useful life of 20 years. The remaining differences were related to goodwill and indefinite-lived intangible assets, which are not subject to amortization, as well as deferred tax liabilities impact. As of March 31, 2023 and December 31, 2022, the market value of the Company's investment in Sunner was \$223 million and \$214 million based on its quoted closing price, respectively.

Meituan Dianping ("Meituan") Investment

In the third quarter of 2018, the Company subscribed for 8.4 million, or less than 1%, of the ordinary shares of Meituan, an e-commerce platform for services in China, for a total consideration of approximately \$74 million, when it launched its initial public offering on the HKEX in September 2018. In the second quarter of 2020, the Company sold 4.2 million of the ordinary shares of Meituan.

The Company accounts for the equity securities at fair value with subsequent fair value changes recorded in our Condensed Consolidated Statements of Income. The fair value of the investment in Meituan is determined based on the closing market price for the shares at the end of each reporting period. The fair value change, to the extent the closing market price of shares of Meituan as of the end of reporting period is higher than our cost, is subject to U.S. tax.

In the quarters ended March 31, 2023 and 2022, the related pre-tax losses of \$17 million and \$38 million on investment in equity securities of Meituan were included in Investment loss in our Condensed Consolidated Statements of Income.

Note 4 – Revenue Recognition

The Company's revenues primarily include Company sales, Franchise fees and income and Revenues from transactions with franchisees.

Company Sales

Revenues from Company-owned restaurants are recognized when a customer takes possession of the food and tenders payment, which is when our obligation to perform is satisfied. The Company presents sales net of sales-related taxes. We also offer our customers delivery through both our own mobile applications and third-party aggregators' platforms, and we primarily use our dedicated riders to deliver orders. When orders are fulfilled by our dedicated riders, we control and determine the price for the delivery service and generally recognize revenue, including delivery fees, when a customer takes possession of the food. When orders are fulfilled by the delivery staff of third-party aggregators, who control and determine the price for the delivery service, we recognize revenue, excluding delivery fees, when control of the food is transferred to the third-party aggregators' delivery staff. The payment terms with respect to these sales are short-term in nature.

We recognize revenues from prepaid stored-value products, including gift cards and product vouchers, when they are redeemed by the customer. Prepaid gift cards sold at any given point generally expire over the next 36 months, and product vouchers generally expire over a period of up to 12 months. We recognize breakage revenue, which is the amount of prepaid stored-value products that is not expected to be redeemed, either (1) proportionally in earnings as redemptions occur, in situations where the Company expects to be entitled to a breakage amount, or (2) when the likelihood of redemption is remote, in situations where the Company does not expect to be entitled to breakage, provided that there is no requirement for remitting balances to government agencies under unclaimed property laws. The Company reviews its breakage estimates at least annually based upon the latest available information regarding redemption and expiration patterns.

Our privilege membership programs offer privilege members rights to multiple benefits, such as free delivery and discounts on certain products. For certain privilege membership programs offering a pre-defined amount of benefits that can be redeemed ratably over the membership period, revenue is ratably recognized over the period based on the elapse of time. With respect to privilege membership programs offering members a mix of distinct benefits, including a welcome gift and assorted discount coupons with pre-defined quantities, consideration collected is allocated to the benefits provided based on their relative standalone selling price and revenue is recognized when food or services are delivered or the benefits expire. In determining the relative standalone selling price of the benefits, the Company considers likelihood of future redemption based on historical redemption pattern and reviews such estimates periodically based upon the latest available information regarding redemption and expiration patterns.

Franchise Fees and Income

Franchise fees and income primarily include upfront franchise fees, such as initial fees and renewal fees, and continuing fees. We have determined that the services we provide in exchange for upfront franchise fees and continuing fees are highly interrelated with the franchise right. We recognize upfront franchise fees received from a franchisee as revenue over the term of the franchise agreement or the renewal agreement because the franchise rights are accounted for as rights to access our symbolic intellectual property. The franchise agreement term is generally 10 years for KFC and Pizza Hut, generally five years for Little Sheep and three to 10 years for Huang Ji Huang. We recognize continuing fees, which are based upon a percentage of franchisee sales, as those sales occur.

Revenues from Transactions with Franchisees

Revenues from transactions with franchisees consist primarily of sales of food and paper products, advertising services, delivery services and other services provided to franchisees.

The Company centrally purchases substantially all food and paper products from suppliers for substantially all of our restaurants, including franchisees, and then sells and delivers them to the restaurants. In addition, the Company owns seasoning facilities for its Chinese dining business unit, which manufacture and sell seasoning products to Huang Ji Huang and Little Sheep franchisees. The Company also provides delivery services to franchisees. The performance obligation arising from such transactions is considered distinct from the franchise agreement as it is not highly dependent on the franchise agreement and the customer can benefit from such services on its own. We consider ourselves the principal in this arrangement as we have the ability to control a promised good or service before transferring that good or service to the franchisees. Revenue is recognized upon transfer of control over ordered items or services, generally upon delivery to the franchisees.

For advertising services, the Company often engages third parties to provide services and acts as a principal in the transaction based on our responsibilities of defining the nature of the services and administering and directing all marketing and advertising programs in accordance with the provisions of our franchise agreements. The Company collects advertising contributions, which are generally based on certain percentage of sales from substantially all of our restaurants, including franchisees. Other services provided to franchisees consist primarily of customer and technology support services. Advertising services and other services provided are highly interrelated to franchise right, and are not considered individually distinct. We recognize revenue when the related sales occur.

Other Revenues

Other revenues primarily include i) sales of products to customers through e-commerce channels and the sale of our seasoning products to distributors, and ii) revenues from logistics and warehousing services provided to third parties through our supply chain network. Our segment disclosures also include revenues relating to delivery services that were provided to our Company-owned restaurants and, therefore, were eliminated for consolidation purposes.

Other revenues are recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services.

Loyalty Programs

Each of the Company's KFC and Pizza Hut reportable segments operates a loyalty program that allows registered members to earn points for each qualifying purchase. Points, which generally expire 18 months after being earned, may be redeemed for future purchases of KFC or Pizza Hut branded products or other products for free or at a discounted price. Points cannot be redeemed or exchanged for cash. The estimated value of points earned by the loyalty program members is recorded as a reduction of revenue at the time the points are earned, based on the percentage of points that are projected to be redeemed, with a corresponding deferred revenue liability included in Accounts payable and other current liabilities on the Condensed Consolidated Balance Sheets and subsequently recognized into revenue when the points are redeemed or expire. The Company estimates the value of the future redemption obligations based on the estimated value of the product for which points are expected to be redeemed and historical redemption patterns and reviews such estimates periodically based upon the latest available information regarding redemption and expiration patterns.

Disaggregation of Revenue

The following tables present revenue disaggregated by types of arrangements and segments:

Revenues	Quarter Ended 3/31/2023						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	\$ 2,166	\$ 591	\$ 15	\$ —	\$ 2,772	\$ —	\$ 2,772
Franchise fees and income	17	2	6	—	25	—	25
Revenues from transactions with franchisees	10	1	19	63	93	—	93
Other revenues	5	3	162	10	180	(153)	27
Total revenues	<u>\$ 2,198</u>	<u>\$ 597</u>	<u>\$ 202</u>	<u>\$ 73</u>	<u>\$ 3,070</u>	<u>\$ (153)</u>	<u>\$ 2,917</u>

Revenues	Quarter Ended 3/31/2022						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	\$ 1,991	\$ 542	\$ 15	\$ —	\$ 2,548	\$ —	\$ 2,548
Franchise fees and income	16	2	6	—	24	—	24
Revenues from transactions with franchisees	8	1	11	57	77	—	77
Other revenues	2	2	131	10	145	(126)	19
Total revenues	<u>\$ 2,017</u>	<u>\$ 547</u>	<u>\$ 163</u>	<u>\$ 67</u>	<u>\$ 2,794</u>	<u>\$ (126)</u>	<u>\$ 2,668</u>

Accounts Receivable

Accounts receivable primarily consist of trade receivables and royalties from franchisees, and are generally due within 30 days of the period in which the corresponding sales occur. Our provision of credit losses for accounts receivable is based upon the current expected credit losses (“CECL”) model. The CECL model requires an estimate of the credit losses expected over the life of accounts receivable since initial recognition, and accounts receivable with similar risk characteristics are grouped together when estimating CECL. In assessing the CECL, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical credit loss experience, adjusted for relevant factors impacting collectability and forward-looking information indicative of external market conditions. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Accounts receivable that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. As of March 31, 2023 and December 31, 2022, the ending balances of provision for accounts receivable were both \$2 million, and amounts of accounts receivable past due were immaterial.

Costs to Obtain Contracts

Costs to obtain contracts consist of upfront franchise fees that we paid to YUM prior to the separation in relation to initial fees or renewal fees we received from franchisees, as well as license fees that are payable to YUM in relation to our deferred revenue of prepaid stored-value products, privilege membership programs and customer loyalty programs. They meet the requirements to be capitalized as they are incremental costs of obtaining contracts with customers and the Company expects to generate future economic benefits from such costs incurred. Such costs to obtain contracts are included in Other assets on the Condensed Consolidated Balance Sheets and are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. Subsequent to the separation, we are no longer required to pay YUM initial or renewal fees that we receive from franchisees. The Company did not incur any impairment losses related to costs to obtain contracts during any of the periods presented. Costs to obtain contracts were \$7 million and \$6 million at March 31, 2023 and December 31, 2022, respectively.

Contract Liabilities

Contract liabilities at March 31, 2023 and December 31, 2022 were as follows:

Contract liabilities	3/31/2023	12/31/2022
– Deferred revenue related to prepaid stored-value products	\$ 157	\$ 139
– Deferred revenue related to upfront franchise fees	33	32
– Deferred revenue related to customer loyalty programs	24	23
– Deferred revenue related to privilege membership programs	17	16
Total	\$ 231	\$ 210

Contract liabilities primarily consist of deferred revenue related to prepaid stored-value products, privilege membership programs, customer loyalty programs and upfront franchise fees. Deferred revenue related to prepaid stored-value products, privilege membership programs and customer loyalty programs is included in Accounts payable and other current liabilities in the Condensed Consolidated Balance Sheets. Deferred revenue related to upfront franchise fees that we expect to recognize as revenue in the next 12 months is included in Accounts payable and other current liabilities, and the remaining balance is included in Other liabilities in the Condensed Consolidated Balance Sheets. Revenue recognized that was included in the contract liability balance at the beginning of each period amounted to \$58 million and \$62 million for the quarters ended March 31, 2023 and 2022, respectively. Changes in contract liability balances were not materially impacted by business acquisition, change in estimate of transaction price or any other factors during any of the periods presented.

The Company has elected, as a practical expedient, not to disclose the value of remaining performance obligations associated with sales-based royalty promised to franchisees in exchange for franchise right and other related services. The remaining duration of the performance obligation is the remaining contractual term of each franchise agreement. We recognize continuing franchisee fees and revenues from advertising services and other services provided to franchisees based on a certain percentage of sales, as those sales occur.

Note 5 – Earnings Per Common Share (“EPS”)

The following table summarizes the components of basic and diluted EPS (in millions, except per share data):

	Quarter Ended	
	3/31/2023	3/31/2022
Net Income – Yum China Holdings, Inc.	\$ 289	\$ 100
Weighted-average common shares outstanding (for basic calculation) ^(a)	418	426
Effect of dilutive share-based awards ^(a)	5	4
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation) ^(a)	423	430
Basic Earnings Per Common Share	\$ 0.69	\$ 0.23
Diluted Earnings Per Common Share	\$ 0.68	\$ 0.23
Share-based awards excluded from the diluted EPS computation ^(b)	2	3

(a) As a result of the separation, shares of Yum China common stock were distributed to YUM’s shareholders of record as of October 19, 2016 and were included in the calculated weighted-average common shares outstanding. Holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards of either YUM or Yum China in their entirety. Any subsequent exercise of these awards, whether held by the Company’s employees or YUM’s employees, would increase the number of common shares outstanding. The incremental shares arising from outstanding equity awards are included in the computation of diluted EPS, if there is dilutive effect. In September 2020, 41,910,700 common shares were issued as a result of the Company’s global offering and secondary listing on the HKEX and they were included in the calculated weighted-average common shares outstanding.

(b) These outstanding stock appreciation rights (“SARs”), restricted stock units (“RSUs”) and performance stock units (“PSUs”) were excluded from the computation of diluted EPS because to do so would have been antidilutive for the quarters presented, or because certain PSUs are contingently issuable based on the achievement of performance and market conditions, which have not been met as of March 31, 2023 and 2022.

Note 6 – Equity

Changes in Equity and Redeemable Noncontrolling Interest (in millions)

	Yum China Holdings, Inc.									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock		Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interest
	Shares*	Amount	Capital	Earnings	(Loss) Income	Shares	Amount	Interests	Equity	Interest
Balance at December 31, 2022	419	\$ 4	\$ 4,390	\$ 2,191	\$ (103)	—	\$ —	\$ 666	\$ 7,148	\$ 12
Net Income				289				24	313	—
Foreign currency translation adjustments					12			2	14	—
Comprehensive income									327	—
Cash dividends declared (\$0.13 per common share)				(54)					(54)	
Contributions from/ dividends declared to noncontrolling interests								34	34	
Repurchase and retirement of shares	(1)	—	(10)	(52)					(62)	
Exercise and vesting of share-based awards	1	—	(2)						(2)	
Share-based compensation			13					—	13	
Balance at March 31, 2023	418	\$ 4	\$ 4,391	\$ 2,374	\$ (91)	—	\$ —	\$ 726	\$ 7,404	\$ 12
Balance at December 31, 2021	449	\$ 4	\$ 4,695	\$ 2,892	\$ 268	(21)	\$ (803)	\$ 852	\$ 7,908	\$ 14
Net Income				100				10	110	—
Foreign currency translation adjustments					11			2	13	—
Comprehensive income									123	—
Cash dividends declared (\$0.12 per common share)				(51)					(51)	
Dividends declared								(81)	(81)	
Contributions from noncontrolling interests								18	18	
Repurchase of shares of common stock						(5)	(232)		(232)	
Exercise and vesting of share-based awards	—	—	(2)						(2)	
Share-based compensation			11						11	
Balance at March 31, 2022	449	\$ 4	\$ 4,704	\$ 2,941	\$ 279	(26)	\$ (1,035)	\$ 801	\$ 7,694	\$ 14

*: Shares may not add due to rounding.

Share Repurchase and Retirement

Our Board of Directors has authorized an aggregate of \$2.4 billion for our share repurchase program. The Company repurchased 1 million and 5 million shares of Yum China common stock at a total cost of \$62 million and \$232 million during the quarters ended March 31, 2023 and 2022, respectively. The total repurchase cost included \$2 million and \$8 million settled subsequent to March 31, 2023 and 2022, for shares repurchased with trade dates on and prior to March 31, 2023 and 2022, respectively. As of March 31, 2023, approximately \$1.1 billion remained available for future share repurchases under the authorization.

The Inflation Reduction Act of 2022 (“IRA”), which is discussed further in Note 13, imposes an excise tax of 1% on net share repurchases that occur after December 31, 2022. Excise tax incurred on net share repurchases was recognized as part of the cost of the shares repurchased and the financial impact was not material during the first quarter of 2023.

Note 7 – Items Affecting Comparability of Net Income

Impact of COVID-19 Pandemic

Starting in the first quarter of 2020, the COVID-19 pandemic significantly impacted the Company’s operations and caused significant volatility in our operations. During the first quarter of 2023, sales rebounded significantly year-over-year and sequentially. The Company’s strong sales growth was driven by tremendous efforts in seizing opportunities as the country pivoted from strict COVID-19 measures. Margins also improved substantially, benefiting from sales leveraging, cost structure rebasing, and temporary relief from the government and landlords, which contributed to the year-over-year operating profit growth. Operating profit for the quarters ended March 31, 2023 and 2022 was \$416 million and \$191 million, respectively.

Fair Value Changes for Investment in Equity Securities

In September 2018, we invested in the equity securities of Meituan, the fair value of which is determined based on the closing market price for the shares at the end of each reporting period, with subsequent fair value changes recorded as Investment loss in our Condensed Consolidated Statements of Income. We recorded related pre-tax unrealized investment loss of \$17 million and \$38 million for the quarters ended March 31, 2023 and 2022, respectively.

See Note 3 for additional information on our investment in Meituan.

Note 8 – Other Expenses, net

	Quarter Ended	
	<u>3/31/2023</u>	<u>3/31/2022</u>
Amortization of reacquired franchise rights ^(a)	\$ 2	\$ 26
Foreign exchange impact and others	(1)	(1)
Other expenses, net	<u>\$ 1</u>	<u>\$ 25</u>

(a) As a result of the acquisition of Hangzhou KFC, Suzhou KFC and Wuxi KFC, \$66 million, \$61 million and \$61 million of the purchase price were allocated to intangible assets related to reacquired franchise rights, respectively, which are being amortized over the remaining franchise contract period of 1 year, 2.4 years and 5 years. The above reacquired franchise rights were substantially amortized as of December 31, 2022 and resulted in the decrease of amortization expenses in the quarter ended March 31, 2023.

Note 9 – Supplemental Balance Sheet Information

<u>Accounts Receivable, net</u>	<u>3/31/2023</u>	<u>12/31/2022</u>
Accounts receivable, gross	\$ 61	\$ 66
Allowance for doubtful accounts	(2)	(2)
Accounts receivable, net	<u>\$ 59</u>	<u>\$ 64</u>

<u>Prepaid Expenses and Other Current Assets</u>	<u>3/31/2023</u>	<u>12/31/2022</u>
VAT assets	\$ 95	\$ 88
Interest receivables	38	31
Receivables from payment processors and aggregators	37	53
Dividends receivable from equity method investees	2	6
Other prepaid expenses and current assets	124	129
Prepaid expenses and other current assets	<u>\$ 296</u>	<u>\$ 307</u>

<u>Property, Plant and Equipment (“PP&E”)</u>	<u>3/31/2023</u>	<u>12/31/2022</u>
Buildings and improvements, and construction in progress	\$ 2,937	\$ 2,912
Finance leases, primarily buildings	62	62
Machinery and equipment	1,645	1,612
PP&E, gross	4,644	4,586
Accumulated depreciation	(2,530)	(2,468)
PP&E, net	<u>\$ 2,114</u>	<u>\$ 2,118</u>

<u>Equity Investments</u>	<u>3/31/2023</u>	<u>12/31/2022</u>
Investment in equity method investees	\$ 268	\$ 266
Investment in equity securities	78	95
Equity investments	<u>\$ 346</u>	<u>\$ 361</u>

<u>Other Assets</u>	<u>3/31/2023</u>	<u>12/31/2022</u>
Land use right	\$ 122	\$ 123
Long-term deposits, primarily lease deposits	90	90
Prepayment for acquisition of PP&E ^(a)	36	6
Costs to obtain contracts	7	6
VAT assets	5	5
Others	18	18
Other assets	<u>\$ 278</u>	<u>\$ 248</u>

(a) The increase was primarily due to a prepayment made in relation to the acquisition of a building located in Shanghai to house the Company’s headquarters and flagship stores, which is currently expected to be delivered to the Company around 2026.

<u>Accounts Payable and Other Current Liabilities</u>	<u>3/31/2023</u>	<u>12/31/2022</u>
Accounts payable	\$ 674	\$ 727
Operating lease liabilities	437	448
Accrued compensation and benefits	263	285
Contract liabilities	203	182
Accrued capital expenditures	139	181
Accrued marketing expenses	69	72
Other current liabilities	172	203
Accounts payable and other current liabilities	<u>\$ 1,957</u>	<u>\$ 2,098</u>

<u>Other Liabilities</u>	<u>3/31/2023</u>	<u>12/31/2022</u>
Accrued income tax payable	\$ 55	\$ 52
Contract liabilities	28	28
Other non-current liabilities	81	82
Other liabilities	<u>\$ 164</u>	<u>\$ 162</u>

Note 10 – Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are as follows:

	<u>Total Company</u>	<u>KFC</u>	<u>Pizza Hut</u>	<u>All Other Segments</u>
Balance as of December 31, 2022				
Goodwill, gross	\$ 2,379	\$ 1,893	\$ 19	\$ 467
Accumulated impairment losses ^(a)	(391)	—	—	(391)
Goodwill, net	1,988	1,893	19	76
Effect of currency translation adjustments	7	7	—	—
Balance as of March 31, 2023				
Goodwill, gross	2,386	1,900	19	467
Accumulated impairment losses ^(a)	(391)	—	—	(391)
Goodwill, net	<u>\$ 1,995</u>	<u>\$ 1,900</u>	<u>\$ 19</u>	<u>\$ 76</u>

(a) Accumulated impairment losses represent goodwill impairment attributable to the reporting units of Little Sheep and Daojia.

Intangible assets, net as of March 31, 2023 and December 31, 2022 are as follows:

	<u>3/31/2023</u>				<u>12/31/2022</u>			
	<u>Gross Carrying Amount^(a)</u>	<u>Accumulated Amortization^(a)</u>	<u>Accumulated Impairment Losses^(b)</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Accumulated Impairment Losses^(b)</u>	<u>Net Carrying Amount</u>
Finite-lived intangible assets								
Reacquired franchise rights	\$ 277	\$ (273)	\$ —	\$ 4	\$ 276	\$ (271)	\$ —	\$ 5
Huang Ji Huang franchise related assets	22	(3)	—	19	22	(3)	—	19
Daojia platform	16	(4)	(12)	—	16	(4)	(12)	—
Customer-related assets	12	(10)	(2)	—	12	(9)	(2)	1
Others	9	(5)	—	4	9	(5)	—	4
	<u>\$ 336</u>	<u>\$ (295)</u>	<u>\$ (14)</u>	<u>\$ 27</u>	<u>\$ 335</u>	<u>\$ (292)</u>	<u>\$ (14)</u>	<u>\$ 29</u>
Indefinite-lived intangible assets								
Little Sheep trademark	\$ 52	\$ —	\$ —	\$ 52	\$ 52	\$ —	\$ —	\$ 52
Huang Ji Huang trademark	78	—	—	78	78	—	—	78
	<u>\$ 130</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 130</u>	<u>\$ 130</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 130</u>
Total intangible assets	<u>\$ 466</u>	<u>\$ (295)</u>	<u>\$ (14)</u>	<u>\$ 157</u>	<u>\$ 465</u>	<u>\$ (292)</u>	<u>\$ (14)</u>	<u>\$ 159</u>

(a) Changes in gross carrying amount and accumulated amortization include the effect of currency translation adjustments.

(b) Accumulated impairment losses represent impairment charges on intangible assets acquired from Daojia primarily attributable to the Daojia platform.

Amortization expense for finite-lived intangible assets was \$2 million and \$26 million for the quarters ended March 31, 2023 and 2022, respectively. The decrease in amortized expense for finite-lived intangible assets in 2023 was primarily due to certain reacquired franchise rights being substantially amortized as of December 31, 2022 (See Note 8 for details). As of March 31, 2023, expected amortization expense for the unamortized finite-lived intangible assets is approximately \$2 million for the remainder of 2023, and \$2 million in each of 2024, 2025, 2026 and 2027.

Note 11 – Leases

As of March 31, 2023, we leased over 13,000 properties in China for our Company-owned restaurants. We generally enter into lease agreements for our restaurants with initial terms of 10 to 20 years. Most of our lease agreements contain termination options that permit us to terminate the lease agreement early if the restaurant's unit contribution is negative for a specified period of time. We generally do not have renewal options for our leases. Such options are accounted for only when it is reasonably certain that we will exercise the options. The rent under the majority of our current restaurant lease agreements is generally payable in one of three ways: (i) fixed rent; (ii) the higher of a fixed base rent or a percentage of the restaurant's sales; or (iii) a percentage of the restaurant's sales. Most leases require us to pay common area maintenance fees for the leased property. In addition to restaurants leases, we also lease office spaces, logistics centers and equipment. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In limited cases, we sub-lease certain restaurants to franchisees in connection with franchising transactions or lease our properties to other third parties. The lease payments under these leases are generally based on the higher of a fixed base rent or a percentage of the restaurant's annual sales. Income from sub-lease agreements with franchisees or lease agreements with other third parties are included in Franchise fees and income and Other revenues, respectively, within our Condensed Consolidated Statements of Income.

Supplemental Balance Sheet

	3/31/2023	12/31/2022	Account Classification
Assets			
Operating lease right-of-use assets	\$ 2,172	\$ 2,219	Operating lease right-of-use assets
Finance lease right-of-use assets	38	38	PP&E, net
Total leased assets	\$ 2,210	\$ 2,257	
Liabilities			
Current			
Operating lease liabilities	\$ 437	\$ 448	Accounts payable and other current liabilities
Finance lease liabilities	5	5	Accounts payable and other current liabilities
Non-current			
Operating lease liabilities	1,864	1,906	Non-current operating lease liabilities
Finance lease liabilities	41	42	Non-current finance lease liabilities
Total lease liabilities	\$ 2,347	\$ 2,401	
Summary of Lease Cost			
	Quarter Ended		Account Classification
	3/31/2023	3/31/2022	
Operating lease cost	\$ 132	\$ 157	Occupancy and other operating expenses, G&A or Franchise expenses
Finance lease cost			
Amortization of leased assets	1	1	Occupancy and other operating expenses
Interest on lease liabilities	1	—	Interest income, net
Variable lease cost ^(a)	106	96	Occupancy and other operating expenses or Franchise expenses
Short-term lease cost	4	3	Occupancy and other operating expenses or G&A
Sub-lease income	(5)	(6)	Franchise fees and income or Other revenues
Total lease cost	\$ 239	\$ 251	

- (a) The Company was granted \$8 million and \$3 million in lease concessions from landlords related to the effects of the COVID-19 pandemic during the quarters ended March 31, 2023 and 2022, respectively. The lease concessions were primarily in the form of rent reduction over the period of time when the Company's restaurant business was adversely impacted. The Company applied the interpretive guidance in a FASB staff question-and-answer document issued in April 2020 and elected: (1) not to evaluate whether a concession received in response to the COVID-19 pandemic is a lease modification and (2) to assume such concession was contemplated as part of the existing lease contract with no contract modification. Such concession was recognized as negative variable lease cost in the period the concession was granted.

Supplemental Cash Flow Information

	Quarter Ended	
	3/31/2023	3/31/2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 137	\$ 155
Operating cash flows from finance leases	1	1
Financing cash flows from finance leases	1	1
Right-of-use assets obtained in exchange for lease liabilities ^(b) :		
Operating leases	\$ 46	\$ 28
Finance leases	—	3

- (b) This supplemental non-cash disclosure for right-of-use ("ROU") assets obtained in exchange for lease liabilities includes an increase in lease liabilities associated with obtaining new ROU assets of \$65 million and \$63 million for the quarters ended March 31, 2023 and 2022, respectively, as well as adjustments to lease liabilities or ROU assets due to modification or other reassessment events, which resulted in a \$19 million and \$32 million decrease in lease liabilities for the quarters ended March 31, 2023 and 2022, respectively.

Lease Term and Discount Rate

	3/31/2023	3/31/2022
Weighted-average remaining lease term (years)		
Operating leases	7.1	7.1
Finance leases	11.0	11.4
Weighted-average discount rate		
Operating leases	5.1%	5.4%
Finance leases	5.1%	5.4%

Summary of Future Lease Payments and Lease Liabilities

Maturities of lease liabilities as of March 31, 2023 were as follows:

	Amount of Operating Leases	Amount of Finance Leases	Total
Remainder of 2023	\$ 417	\$ 5	\$ 422
2024	456	6	462
2025	395	6	401
2026	346	6	352
2027	289	5	294
Thereafter	843	32	875
Total undiscounted lease payment	2,746	60	2,806
Less: imputed interest ^(c)	445	14	459
Present value of lease liabilities	\$ 2,301	\$ 46	\$ 2,347

- (c) As the rate implicit in the lease cannot be readily determined, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the imputed interest and present value of lease payments. We used the incremental borrowing rate on January 1, 2019 for operating leases that commenced prior to that date.

As of March 31, 2023, we have additional lease agreements that have been signed but not yet commenced, with total undiscounted minimum lease payments of \$126 million. These leases will commence between the second quarter of 2023 and 2026 with lease terms of 1 year to 20 years.

Note 12 – Fair Value Measurements and Disclosures

The Company's financial assets and liabilities primarily consist of cash and cash equivalents, short-term investments, long-term bank deposits and notes, accounts receivable, accounts payable and lease liabilities, and the carrying values of these assets and liabilities approximate their fair value in general.

The Company's financial assets also include its investment in the equity securities of Meituan, which is measured at fair value based on the closing market price for the shares at the end of each reporting period, with subsequent fair value changes recorded in our Condensed Consolidated Statements of Income.

The following table is a summary of our financial assets measured on a recurring basis or disclosed at fair value and the level within the fair value hierarchy in which the measurement falls. The Company classifies its cash equivalents, short-term investments, long-term bank deposits and notes, and investment in equity securities within Level 1 or Level 2 in the fair value hierarchy because it uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value, respectively. No transfers among the levels within the fair value hierarchy occurred during the quarters ended March 31, 2023 and 2022.

	Balance at March 31, 2023	Fair Value Measurement or Disclosure at March 31, 2023		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	\$ 250		\$ 250	
Fixed income debt securities ^(a)	100		100	
Money market funds	8	8		
Total cash equivalents	358	8	350	—
Short-term investments:				
Time deposits	1,195		1,195	
Fixed income debt securities ^(a)	550		550	
Structured deposits	125		125	
Total short-term investments	1,870	—	1,870	—
Long-term bank deposits and notes:				
Time deposits ^(b)	943		943	
Fixed income bank notes ^(a)	151		151	
Total long-term bank deposits and notes	1,094	—	1,094	—
Equity investments:				
Investment in equity securities	78	78		
Total	\$ 3,400	\$ 86	\$ 3,314	\$ —

	Balance at December 31, 2022	Fair Value Measurement or Disclosure at December 31, 2022		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	\$ 355		\$ 355	
Fixed income debt securities ^(a)	129	29	100	
Money market funds	59	59		
Total cash equivalents	543	88	455	—
Short-term investments:				
Time deposits	1,434		1,434	
Fixed income debt securities ^(a)	500		500	
Structured deposits	88		88	
Total short-term investments	2,022	—	2,022	—
Long-term bank deposits and notes:				
Time deposits ^(b)	680		680	
Equity investments:				
Investment in equity securities	95	95		
Total	\$ 3,340	\$ 183	\$ 3,157	\$ —

(a) Classified as held-to-maturity investments and measured at amortized cost.

(b) As of March 31, 2023 and December 31, 2022, the long-term bank deposits and notes balance included \$81 million of time deposits, which is restricted for use in order to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements.

Non-Recurring Fair Value Measurements

In addition, certain of the Company's restaurant-level assets (including operating lease ROU assets and PP&E), goodwill and intangible assets, are measured at fair value based on unobservable inputs (Level 3) on a non-recurring basis, if determined to be impaired.

We review long-lived assets of restaurants semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We recorded restaurant-level impairment of nil for both quarters ended March 31, 2023 and 2022, excluding fair value measurements made for restaurants that were subsequently closed or refranchised prior to those respective quarter-end dates.

Note 13 – Income Taxes

	Quarter Ended	
	3/31/2023	3/31/2022
Income tax provision	\$ 125	\$ 55
Effective tax rate	28.5%	33.1%

The lower effective tax rate for the quarter ended March 31, 2023 was primarily due to a true-up of foreign withholding tax in the quarter ended March 31, 2022, a reduction in valuation allowance for certain subsidiaries, and less impact from our investment in Meituan.

In December 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Tax Act"), which included a broad range of tax reforms. The Tax Act requires a U.S. shareholder to be subject to tax on Global Intangible Low Taxed Income ("GILTI") earned by certain foreign subsidiaries. We have elected the option to account for current year GILTI tax as a period cost as incurred, and therefore included it in estimating the annual effective tax rate.

In August 2022, the IRA was signed into law in the U.S., which contains certain tax measures, including a Corporate Alternative Minimum Tax (“CAMT”) of 15% on certain large corporations. On December 27, 2022, the U.S. Treasury Department and the Internal Revenue Services (the “IRS”) released Notice 2023-7, announcing their intention to issue proposed regulations addressing the application of the new CAMT. Notice 2023-7 also provides interim guidance regarding certain CAMT issues, and states that the U.S. Treasury Department and the IRS plan to issue additional interim guidance addressing other issues before publishing proposed regulations. The Company will monitor the regulatory developments and continue to evaluate the impact on our financial statements, if any.

In December 2022, a refined Foreign Sourced Income Exemption (“FSIE”) regime was published in Hong Kong and took effect from January 1, 2023. Under the new FSIE regime, certain foreign sourced income would be deemed as being sourced from Hong Kong and chargeable to Hong Kong Profits Tax, if the recipient entity fails to meet the prescribed exception requirements. Certain dividends, interests and disposal gains, if any, received by us and our Hong Kong subsidiaries will be subject to the new tax regime. Based on our preliminary analysis, we do not believe this legislation will have a material impact on our financial statements. The Company will monitor the regulatory developments and continue to evaluate the impact, if any.

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS and other tax authorities with respect to income and non-income based taxes. Since 2016, we have been under a national audit on transfer pricing by the Chinese State Taxation Administration (the “STA”) in China regarding our related party transactions for the period from 2006 to 2015. The information and views currently exchanged with the tax authorities focus on our franchise arrangement with YUM. We continue to provide information requested by the tax authorities to the extent it is available to the Company. It is reasonably possible that there could be significant developments, including expert review and assessment by the STA, within the next 12 months. The ultimate assessment and decision of the STA will depend upon further review of the information provided, as well as ongoing technical and other discussions with the STA and in-charge local tax authorities, and therefore, it is not possible to reasonably estimate the potential impact at this time. We will continue to defend our transfer pricing position. However, if the STA prevails in the assessment of additional tax due based on its ruling, the assessed tax, interest and penalties, if any, could have a material adverse impact on our financial position, results of operations and cash flows.

Note 14 –Segment Reporting

We have two reportable segments: KFC and Pizza Hut. Our remaining non-reportable operating segments, including the operations of Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, our delivery operating segment and our e-commerce business, and for 2022, also including COFFii & JOY and East Dawning, are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in aggregate.

	Quarter Ended 3/31/2023						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated ^(a)	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	\$ 2,198	\$ 597	\$ 49	\$ 73	\$ 2,917	\$ —	\$ 2,917
Inter-segment revenue	—	—	153	—	153	(153)	—
Total	<u>\$ 2,198</u>	<u>\$ 597</u>	<u>\$ 202</u>	<u>\$ 73</u>	<u>\$ 3,070</u>	<u>\$ (153)</u>	<u>\$ 2,917</u>

	Quarter Ended 3/31/2022						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated ^(a)	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	\$ 2,017	\$ 547	\$ 41	\$ 63	\$ 2,668	\$ —	\$ 2,668
Inter-segment revenue	—	—	122	4	126	(126)	—
Total	<u>\$ 2,017</u>	<u>\$ 547</u>	<u>\$ 163</u>	<u>\$ 67</u>	<u>\$ 2,794</u>	<u>\$ (126)</u>	<u>\$ 2,668</u>

Operating Profit (Loss)	Quarter Ended	
	3/31/2023	3/31/2022
KFC	\$ 420	\$ 220
Pizza Hut	55	30
All Other Segments	(6)	(17)
Unallocated revenues from transactions with franchisees ^(b)	63	57
Unallocated other revenues	10	10
Unallocated expenses for transactions with franchisees ^(b)	(63)	(57)
Unallocated other operating costs and expenses	(8)	(9)

Unallocated and corporate G&A expenses	(56)	(44)
Unallocated other income, net	1	1
Operating Profit	\$ 416	\$ 191
Interest income, net ^(a)	38	12
Investment loss ^(a)	(17)	(37)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	\$ 437	\$ 166

Impairment Charges

	Quarter Ended	
	3/31/2023	3/31/2022
KFC ^(c)	\$ 3	\$ 5
Pizza Hut ^(c)	1	1
All Other Segments ^(c)	—	2
	\$ 4	\$ 8

KFC
Pizza Hut
All Other Segments
Corporate and Unallocated^(d)

	Total Assets	
	3/31/2023	12/31/2022
	\$ 5,238	\$ 5,296
	879	880
	378	381
	5,468	5,269
	\$ 11,963	\$ 11,826

- (a) Amounts have not been allocated to any segment for performance reporting purposes.
- (b) Primarily includes revenues and associated expenses of transactions with franchisees derived from the Company's central procurement model whereby the Company centrally purchases substantially all food and paper products from suppliers then sells and delivers to KFC and Pizza Hut restaurants, including franchisees. Amounts have not been allocated to any segment for purposes of making operating decisions or assessing financial performance as the transactions are deemed corporate revenues and expenses in nature.
- (c) Primarily includes store closure impairment charges.
- (d) Primarily includes cash and cash equivalents, short-term investments, long-term bank deposits and notes, equity investments, inventories that are centrally managed and PP&E that are not specifically identifiable within each segment.

Note 15 – Contingencies

Indemnification of China Tax on Indirect Transfers of Assets

In February 2015, the STA issued Bulletin 7 on Income arising from Indirect Transfers of Assets by Non-Resident Enterprises. Pursuant to Bulletin 7, an "indirect transfer" of Chinese taxable assets, including equity interests in a Chinese resident enterprise, by a non-resident enterprise, may be recharacterized and treated as a direct transfer of Chinese taxable assets, if such arrangement does not have reasonable commercial purpose and the transferor has avoided payment of Chinese enterprise income tax. As a result, gains derived from such an indirect transfer may be subject to Chinese enterprise income tax at a rate of 10%.

YUM concluded, and we concurred, that it is more likely than not that YUM will not be subject to this tax with respect to the pro rata distribution of all outstanding shares of Yum China common stock to shareholders of YUM in connection with the separation (the "distribution"). However, there are significant uncertainties regarding what constitutes a reasonable commercial purpose, how the safe harbor provisions for group restructurings are to be interpreted, and how the taxing authorities will ultimately view the distribution. As a result, YUM's position could be challenged by Chinese tax authorities resulting in a 10% tax assessed on the difference between the fair market value and the tax basis of the separated China business. As YUM's tax basis in the China business is minimal, the amount of such a tax could be significant.

Any tax liability arising from the application of Bulletin 7 to the distribution is expected to be settled in accordance with the tax matters agreement between the Company and YUM. Pursuant to the tax matters agreement, to the extent any Chinese indirect transfer tax pursuant to Bulletin 7 is imposed, such tax and related losses will be allocated between YUM and the Company in proportion to their respective share of the combined market capitalization of YUM and the Company during the 30 trading days after the separation. Such a settlement could be significant and have a material adverse effect on our results of operations and our financial condition. At the inception of the tax indemnity being provided to YUM, the fair value of the non-contingent obligation to stand ready to perform was insignificant and the liability for the contingent obligation to make payment was not probable or estimable.

Guarantees for Franchisees

From time to time, we have guaranteed certain lines of credit and loans of franchisees. As of March 31, 2023, no guarantees were outstanding for franchisees.

Legal Proceedings

The Company is subject to various lawsuits covering a variety of allegations from time to time. The Company believes that the ultimate liability, if any, in excess of amounts already provided for these matters in the Condensed Consolidated Financial Statements, is not likely to have a material adverse effect on the Company's results of operations, financial condition or cash flows. Matters faced by the Company from time to time include, but are not limited to, claims from landlords, employees, customers and others related to operational, contractual or employment issues.

Note 16 – Subsequent Events

Cash Dividend

On May 2, 2023, the Company announced that the Board of Directors declared a cash dividend of \$0.13 per share on Yum China's common stock, payable as of the close of business on June 20, 2023, to stockholders of record as of the close of business on May 30, 2023. Total estimated cash dividend payable is approximately \$54 million.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

References to the Company throughout this Management’s Discussion and Analysis of Financial Condition and Results of Operations (this “MD&A”) are made using the first person notations of “we,” “us” or “our.” This MD&A contains forward-looking statements, including statements with respect to the ongoing transfer pricing audit, the retail tax structure reform, impacts of COVID-19, our growth plans, future capital resources to fund our operations and anticipated capital expenditures, share repurchases and dividends, and the impact of new accounting pronouncements not yet adopted. See “Cautionary Note Regarding Forward-Looking Statements” at the end of this Item 2 for information regarding forward-looking statements.

Introduction

Yum China Holdings, Inc. is the largest restaurant company in China in terms of 2022 system sales, with over 13,000 restaurants covering over 1,800 cities primarily in China as of March 31, 2023. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Taco Bell, Lavazza, Little Sheep and Huang Ji Huang. We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones amended in April 2022, Taco Bell brands in China (excluding Hong Kong, Macau and Taiwan), and own the intellectual property of the Little Sheep and Huang Ji Huang concepts outright. We also established a joint venture with Lavazza Group, the world-renowned family-owned Italian coffee company, to explore and develop the Lavazza coffee concept in China. KFC was the first major global restaurant brand to enter China in 1987. With more than 35 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of system sales. We believe that there are significant opportunities to further expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.

KFC is the leading and the largest quick-service restaurant (“QSR”) brand in China in terms of system sales. As of March 31, 2023, KFC operated over 9,200 restaurants in over 1,800 cities across China.

Pizza Hut is the leading and the largest casual dining restaurant (“CDR”) brand in China in terms of system sales and number of restaurants. As of March 31, 2023, Pizza Hut operated over 2,900 restaurants in over 650 cities.

Overview

We intend for this MD&A to provide the reader with information that will assist in understanding our results of operations, including metrics that management uses to assess the Company's performance. Throughout this MD&A, we discuss the following performance metrics:

- The Company provides certain percentage changes excluding the impact of foreign currency translation ("F/X"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the F/X impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.
- System sales growth reflects the results of all restaurants regardless of ownership, including Company-owned and franchise restaurants that operate our concepts, except for sales from non-Company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise restaurants typically generate ongoing franchise fees for the Company at an average rate of approximately 6% of system sales. Franchise restaurant sales are not included in Company sales in the Condensed Consolidated Statements of Income; however, the franchise fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.
- Effective January 1, 2018, the Company revised its definition of same-store sales growth to represent the estimated percentage change in sales of food of all restaurants in the Company system that have been open prior to the first day of our prior fiscal year, excluding the period during which stores are temporarily closed. We refer to these as our "base" stores. Previously, same-store sales growth represented the estimated percentage change in sales of all restaurants in the Company system that have been open for one year or more, including stores temporarily closed, and the base stores changed on a rolling basis from month to month. This revision was made to align with how management measures performance internally and focuses on trends of a more stable base of stores.
- Company sales represent revenues from Company-owned restaurants. Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales, including cost of food and paper, restaurant-level payroll and employee benefits, rent, depreciation and amortization of restaurant-level assets, advertising expenses, and other operating expenses. Company restaurant margin percentage is defined as Restaurant profit divided by Company sales. Within the Company sales and Restaurant profit analysis, Store Portfolio Actions represent the net impact of new-unit openings, acquisitions, refranchising and store closures, and Other primarily represents the impact of same-store sales as well as the impact of changes in restaurant operating costs such as inflation/deflation.

All Note references in this MD&A refer to the Notes to the Condensed Consolidated Financial Statements. Tabular amounts are displayed in millions of U.S. dollars except percentages and per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding. References to quarters are references to the Company's fiscal quarters.

Quarters Ended March 31, 2023 and 2022

Results of Operations

Summary

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, our delivery operating segment and our e-commerce business, and for 2022, also including COFFii & JOY and East Dawning, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. Additional details on our reportable operating segments are included in Note 14.

	% Change				
	System Sales ^(a)	Same-Store Sales ^(a)	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	+17	+8	+9	+91	+105
Pizza Hut	+17	+7	+11	+85	+98
All Other Segments ^(b)	+4	+7	(4)	+62	+59
Total	+17	+8	+9	+118	+134

(a) System sales and same-store sales percentages as shown in the table exclude the impact of F/X. Effective January 1, 2018, temporary store closures are normalized in the same-store sales calculation by excluding the period during which stores are temporarily closed.

(b) Sales from non-Company-owned restaurants, for which we do not receive a sales-based royalty, are excluded from system sales and same-store sales.

During the first quarter of 2023, sales rebounded significantly year over year and sequentially. Our strong sales growth was driven by tremendous efforts in seizing opportunities as the country pivoted from strict COVID-19 measures. As compared to the first quarter of 2022, Company sales in the first quarter of 2023 increased 9%, or 17% excluding the impact of F/X. The increase in Company sales for the quarter, excluding the impact of F/X, was driven by same-store sales growth of 8%, net unit growth of 10% in Company-owned stores, and significantly reduced temporary store closures.

The increase in Operating profit for the quarter, excluding the impact of F/X, was primarily driven by the increase in Company sales, higher labor productivity, operational efficiency, the increase in temporary relief from the government and landlords and lower rental expenses from store portfolio optimization, partially offset by increased value promotions, higher performance-based compensation and wage inflation in the low single digits.

The Consolidated Results of Operations for the quarters ended March 31, 2023 and 2022 are presented below:

	Quarter Ended		% B/(W) ^(a)	
	3/31/2023	3/31/2022	Reported	Ex F/X
Company sales	\$ 2,772	\$ 2,548	9	17
Franchise fees and income	25	24	1	9
Revenues from transactions with franchisees	93	77	21	30
Other revenues	27	19	43	54
Total revenues	\$ 2,917	\$ 2,668	9	18
Company restaurant expenses	\$ 2,209	\$ 2,197	(1)	(8)
Operating Profit	\$ 416	\$ 191	118	134
Interest income, net	38	12	224	232
Investment loss	(17)	(37)	54	54
Income tax provision	(125)	(55)	(127)	(141)
Equity in net earnings (losses) from equity method investments	1	(1)	NM	NM
Net Income – including noncontrolling interests	313	110	184	206
Net Income – noncontrolling interests	24	10	(136)	(155)
Net Income – Yum China Holdings, Inc.	\$ 289	\$ 100	189	212
Diluted Earnings Per Common Share	\$ 0.68	\$ 0.23	196	222
Effective tax rate	28.5%	33.1%		
Supplementary information				
– Non-GAAP Measures ^(b)				
Restaurant profit	\$ 563	\$ 351	61	73
Restaurant margin %	20.3%	13.8%	6.5 ppts.	6.5 ppts.
Adjusted Operating Profit	\$ 419	\$ 193		
Adjusted Net Income – Yum China Holdings, Inc.	\$ 292	\$ 102		
Adjusted Diluted Earnings Per Common Share	\$ 0.69	\$ 0.24		
Adjusted Effective Tax Rate	28.4%	32.7%		
Adjusted EBITDA	\$ 539	\$ 365		

NM refers to not meaningful.

(a) Represents the period-over-period change in percentage.

(b) See “Non-GAAP Measures” below for definitions and reconciliations of the most directly comparable GAAP financial measures to the non-GAAP measures.

Performance Metrics

	Quarter Ended		
	3/31/2023		
	% change		
System Sales Growth			8%
System Sales Growth, excluding F/X			17%
Same-Store Sales Growth			8%
Unit Count	3/31/2023	3/31/2022	% Increase
Company-owned	11,374	10,385	10
Franchisees	1,806	1,732	4
	13,180	12,117	9

Non-GAAP Measures

In addition to the results provided in accordance with GAAP throughout this MD&A, the Company provides non-GAAP measures adjusted for Special Items, which include Adjusted Operating Profit, Adjusted Net Income, Adjusted Earnings Per Common Share (“EPS”), Adjusted Effective Tax Rate and Adjusted EBITDA, which we define as net income including noncontrolling interests adjusted for equity in net earnings (losses) from equity method investments, income tax, interest income, net, investment gain or loss, certain non-cash expenses, consisting of depreciation and amortization as well as store impairment charges, and Special Items. We also use Restaurant profit and Restaurant margin (as defined in the Overview section within MD&A above) for the purpose of internally evaluating the performance of our Company-owned restaurants and we believe Restaurant profit and Restaurant margin provide useful information to investors as to the profitability of our Company-owned restaurants.

The following table sets forth the reconciliations of the most directly comparable GAAP financial measures to the non-GAAP adjusted financial measures.

Non-GAAP Reconciliations

Reconciliation of GAAP Operating Profit to Restaurant Profit

	Quarter Ended 3/31/2023					
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Elimination	Total
GAAP Operating Profit (Loss)	\$ 420	\$ 55	\$ (6)	\$ (53)	\$ —	\$ 416
Less:						
Franchise fees and income	17	2	6	—	—	25
Revenues from transactions with franchisees	10	1	19	63	—	93
Other revenues	5	3	162	10	(153)	27
Add:						
General and administrative expenses	68	29	10	56	—	163
Franchise expenses	9	1	—	—	—	10
Expenses for transactions with franchisees	9	1	18	63	—	91
Other operating costs and expenses	4	3	161	8	(152)	24
Closures and impairment expenses, net	1	1	1	—	—	3
Other expenses (income), net	2	—	—	(1)	—	1
Restaurant profit (loss)	\$ 481	\$ 84	\$ (3)	\$ —	\$ 1	\$ 563
Company sales	2,166	591	15	—	—	2,772
Restaurant margin %	22.2%	14.2%	(21.2)%	N/A	N/A	20.3%

Quarter Ended 3/31/2022

	Corporate and Unallocated						Total
	KFC	Pizza Hut	All Other Segments	Unallocated	Elimination		
GAAP Operating Profit (Loss)	\$ 220	\$ 30	\$ (17)	\$ (42)	\$ —	\$ 191	
Less:							
Franchise fees and income	16	2	6	—	—	24	
Revenues from transactions with franchisees	8	1	11	57	—	77	
Other revenues	2	2	131	10	(126)	19	
Add:							
General and administrative expenses	65	29	13	44	—	151	
Franchise expenses	9	1	—	—	—	10	
Expenses for transactions with franchisees	8	1	9	57	—	75	
Other operating costs and expenses	1	1	134	9	(128)	17	
Closures and impairment (income) expenses, net	(1)	1	2	—	—	2	
Other expenses (income), net	26	—	—	(1)	—	25	
Restaurant profit (loss)	<u>\$ 302</u>	<u>\$ 58</u>	<u>\$ (7)</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ 351</u>	
Company sales	1,991	542	15	—	—	2,548	
Restaurant margin %	15.2%	10.7%	(50.9)%	N/A	N/A	13.8%	

	Quarter Ended	
	<u>3/31/2023</u>	<u>3/31/2022</u>
Reconciliation of Reported GAAP Results to Non-GAAP Adjusted Measures		
Reconciliation of Operating Profit to Adjusted Operating Profit		
Operating Profit	\$ 416	\$ 191
Special Items, Operating Profit	(3)	(2)
Adjusted Operating Profit	<u>\$ 419</u>	<u>\$ 193</u>
Reconciliation of Net Income to Adjusted Net Income		
Net Income – Yum China Holdings, Inc.	\$ 289	\$ 100
Special Items, Net Income – Yum China Holdings, Inc.	(3)	(2)
Adjusted Net Income – Yum China Holdings, Inc.	<u>\$ 292</u>	<u>\$ 102</u>
Reconciliation of EPS to Adjusted EPS		
Basic Earnings Per Common Share	\$ 0.69	\$ 0.23
Special Items, Basic Earnings Per Common Share	(0.01)	(0.01)
Adjusted Basic Earnings Per Common Share	<u>\$ 0.70</u>	<u>\$ 0.24</u>
Diluted Earnings Per Common Share	\$ 0.68	\$ 0.23
Special Items, Diluted Earnings Per Common Share	(0.01)	(0.01)
Adjusted Diluted Earnings Per Common Share	<u>\$ 0.69</u>	<u>\$ 0.24</u>
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate		
Effective tax rate (See Note 13)	28.5%	33.1%
Impact on effective tax rate as a result of Special Items	0.1%	0.4%
Adjusted effective tax rate	<u>28.4%</u>	<u>32.7%</u>

Net income, along with the reconciliation to Adjusted EBITDA, is presented below.

	Quarter Ended	
	3/31/2023	3/31/2022
Reconciliation of Net Income to Adjusted EBITDA		
Net Income – Yum China Holdings, Inc.	\$ 289	\$ 100
Net Income – noncontrolling interests	24	10
Equity in net (earnings) losses from equity method investments	(1)	1
Income tax provision	125	55
Interest income, net	(38)	(12)
Investment loss	17	37
Operating Profit	416	191
Special Items, Operating Profit	3	2
Adjusted Operating Profit	419	193
Depreciation and amortization	116	164
Store impairment charges	4	8
Adjusted EBITDA	\$ 539	\$ 365

Details of Special Items are presented below:

	Quarter Ended	
	3/31/2023	3/31/2022
Details of Special Items		
Share-based compensation expense for Partner PSU Awards ⁽¹⁾	\$ (3)	\$ (2)
Special Items, Operating Profit	(3)	(2)
Tax effect on Special Items ⁽²⁾	—	—
Special Items, net income – including noncontrolling interests	(3)	(2)
Special Items, net income – noncontrolling interests	—	—
Special Items, Net Income – Yum China Holdings, Inc.	\$ (3)	\$ (2)
Weighted-average diluted shares outstanding (in millions)	423	430
Special Items, Diluted Earnings Per Common Share	\$ (0.01)	\$ (0.01)

(1) In February 2020, the Company granted Partner PSU Awards to select employees who were deemed critical to the Company's execution of its strategic operating plan. These PSU awards will only vest if threshold performance goals are achieved over a four-year performance period, with the payout ranging from 0% to 200% of the target number of shares subject to the PSU awards. Partner PSU Awards were granted to address increased competition for executive talent, motivate transformational performance and encourage management retention. Given the unique nature of these grants, the Compensation Committee does not intend to grant similar special grants to the same employees during the performance period. The impact from these special awards is excluded from metrics that management uses to assess the Company's performance.

(2) Tax effect was determined based upon the nature, as well as the jurisdiction, of each Special Item at the applicable tax rate.

The Company excludes impact from Special Items for the purpose of evaluating performance internally. Special Items are not included in any of our segment results. In addition, the Company provides Adjusted EBITDA because we believe that investors and analysts may find it useful in measuring operating performance without regard to items such as equity in net earnings (losses) from equity method investments, income tax, interest income, net, investment gain or loss, depreciation and amortization, store impairment charges and Special Items. Store impairment charges included as an adjustment item in Adjusted EBITDA primarily resulted from our semi-annual impairment evaluation of long-lived assets of individual restaurants, and additional impairment evaluation whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If these restaurant-level assets were not impaired, depreciation of the assets would have been recorded and included in EBITDA. Therefore, store impairment charges were a non-cash item similar to depreciation and amortization of our long-lived assets of restaurants. The Company believes that investors and analysts may find it useful in measuring operating performance without regard to such non-cash item.

These adjusted measures are not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of these adjusted measures provides additional information to investors to facilitate the comparison of past and present results, excluding those items that the Company does not believe are indicative of our ongoing operations due to their nature.

Segment Results

KFC

	Quarter Ended			
			% B/(W)	
	3/31/2023	3/31/2022	Reported	Ex F/X
Company sales	\$ 2,166	\$ 1,991	9	17
Franchise fees and income	17	16	5	13
Revenues from transactions with franchisees	10	8	29	39
Other revenues	5	2	195	218
Total revenues	\$ 2,198	\$ 2,017	9	17
Company restaurant expenses	\$ 1,685	\$ 1,689	—	(7)
G&A expenses	\$ 68	\$ 65	(4)	(12)
Franchise expenses	\$ 9	\$ 9	4	(3)
Expenses for transactions with franchisees	\$ 9	\$ 8	(25)	(34)
Other operating costs and expenses	\$ 4	\$ 1	(295)	(325)
Closures and impairment expenses (income), net	\$ 1	\$ (1)	NM	NM
Other expenses, net	\$ 2	\$ 26	92	92
Operating Profit	\$ 420	\$ 220	91	105
Restaurant profit	\$ 481	\$ 302	60	72
Restaurant margin %	22.2 %	15.2 %	7.0 ppts.	7.0 ppts.

	Quarter Ended 3/31/2023	
	% change	
System Sales Growth		9%
System Sales Growth, excluding F/X		17%
Same-Store Sales Growth		8%

<u>Unit Count</u>	3/31/2023	3/31/2022	% Increase
Company-owned	8,335	7,668	9
Franchisees	904	773	17
	9,239	8,441	9

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

<u>Income (Expense)</u>	Quarter Ended				3/31/2023
	3/31/2022	Store Portfolio Actions	Other	F/X	
Company sales	\$ 1,991	\$ 175	\$ 165	\$ (165)	\$ 2,166
Cost of sales	(621)	(56)	(18)	49	(646)
Cost of labor	(501)	(35)	(15)	39	(512)
Occupancy and other operating expenses	(567)	(23)	23	40	(527)
Restaurant profit	\$ 302	\$ 61	\$ 155	\$ (37)	\$ 481

The increase in Company sales for the quarter, excluding the impact of F/X, was primarily driven by same-store sales growth, net unit growth and significantly reduced temporary store closures. The increase in Restaurant profit for the quarter, excluding the impact of F/X, was primarily driven by the increase in Company sales, higher labor productivity, operational efficiency, the increase in temporary relief from the government and landlords and lower rental expenses from store portfolio optimization, partially offset by higher performance-based compensation, wage inflation in the low single digits and increased value promotions.

Franchise Fees and Income/Revenues from Transactions with Franchisees

The increase in Franchise fees and income and Revenues from transactions with franchisees for the quarter, excluding the impact of F/X, was primarily driven by net unit growth and same-store sales growth.

G&A Expenses

The increase in G&A expenses for the quarter, excluding the impact of F/X, was primarily driven by higher performance-based compensation and merit increases.

Other Expenses, net

The decrease in Other expenses, net for the quarter, excluding the impact of F/X, was primarily due to intangible assets related to reacquired franchise rights of Hangzhou KFC, Suzhou KFC and Wuxi KFC being substantially amortized as of December 31, 2022. See Note 8 for detail.

Operating Profit

The increase in Operating profit for the quarter, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit, and decrease in Other expenses, net, partially offset by higher G&A expenses.

Pizza Hut

	Quarter Ended			
			% B/(W)	
	3/31/2023	3/31/2022	Reported	Ex F/X
Company sales	\$ 591	\$ 542	9	17
Franchise fees and income	2	2	2	10
Revenues from transactions with franchisees	1	1	7	15
Other revenues	3	2	88	103
Total revenues	<u>\$ 597</u>	<u>\$ 547</u>	9	18
Company restaurant expenses	\$ 507	\$ 484	(5)	(13)
G&A expenses	\$ 29	\$ 29	(1)	(9)
Franchise expenses	\$ 1	\$ 1	(1)	(9)
Expenses for transactions with franchisees	\$ 1	\$ 1	(5)	(13)
Other operating costs and expenses	\$ 3	\$ 1	(75)	(88)
Closures and impairment expenses, net	\$ 1	\$ 1	(82)	(96)
Operating Profit	\$ 55	\$ 30	85	98
Restaurant profit	\$ 84	\$ 58	44	55
Restaurant margin %	14.2%	10.7%	3.5 ppts.	3.5 ppts.
			Quarter Ended 3/31/2023	
			% change	
System Sales Growth				9%
System Sales Growth, excluding F/X				17%
Same-Store Sales Growth				7%
Unit Count				
Company-owned		3/31/2023	3/31/2022	% Increase
		2,838	2,543	12
Franchisees		145	136	7
		<u>2,983</u>	<u>2,679</u>	11

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

Income (Expense)	Quarter Ended				3/31/2023
	3/31/2022	Store Portfolio Actions	Other	F/X	
Company sales	\$ 542	\$ 60	\$ 35	\$ (46)	\$ 591
Cost of sales	(166)	(19)	(14)	15	(184)
Cost of labor	(157)	(14)	(9)	13	(167)
Occupancy and other operating expenses	(161)	(12)	5	12	(156)
Restaurant profit	\$ 58	\$ 15	\$ 17	\$ (6)	\$ 84

The increase in Company sales for the quarter, excluding the impact of F/X, was primarily driven by same-store sales growth, net unit growth and significantly reduced temporary store closures. The increase in Restaurant profit for the quarter, excluding the impact of F/X, was primarily driven by the increase in Company sales, higher labor productivity, operational efficiency, the increase in temporary relief from the government and landlords and lower rental expenses from store portfolio optimization, partially offset by increased value promotions, higher performance-based compensation and wage inflation in the low single digits.

G&A Expenses

The increase in G&A expenses for the quarter, excluding the impact of F/X, was primarily driven by higher performance-based compensation and merit increases.

Operating Profit

The increase in Operating profit for the quarter, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit, partially offset by higher G&A expenses.

All Other Segments

All Other Segments reflects the results of Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, our delivery operating segment and our e-commerce business, and for 2022, also includes COFFii & JOY and East Dawning.

	Quarter Ended			
	3/31/2023	3/31/2022	% B/(W)	
			Reported	Ex F/X
Company sales	\$ 15	\$ 15	3	12
Franchise fees and income	6	6	(8)	(1)
Revenues from transactions with franchisees	19	11	73	86
Other revenues	162	131	23	33
Total revenues	\$ 202	\$ 163	24	33
Company restaurant expenses	\$ 18	\$ 22	17	10
G&A expenses	\$ 10	\$ 13	18	12
Expenses for transactions with franchisees	\$ 18	\$ 9	(89)	(104)
Other operating costs and expenses	\$ 161	\$ 134	(21)	(30)
Closures and impairment expenses, net	\$ 1	\$ 2	87	86
Operating Loss	\$ (6)	\$ (17)	62	59
Restaurant loss	\$ (3)	\$ (7)	57	54
Restaurant margin %	(21.2)%	(50.9)%	29.7 ppts.	29.7 ppts.

	Quarter Ended 3/31/2023
	% change
Same-Store Sales Growth	7%

Total Revenues

The increase in Total revenues of all other segments for the quarter, excluding the impact of F/X, was primarily driven by inter-segment revenue generated by our delivery team for services provided to KFC and Pizza Hut restaurants as a result of rising delivery sales.

Operating Loss

The decrease in Operating loss for the quarter, excluding the impact of F/X, was primarily driven by the decrease in Operating loss from certain emerging brands.

Corporate and Unallocated

	Quarter Ended			
			% B/(W)	
	3/31/2023	3/31/2022	Reported	Ex F/X
Revenues from transactions with franchisees	\$ 63	\$ 57	11	19
Other revenues	\$ 10	\$ 10	(1)	7
Expenses for transactions with franchisees	\$ 63	\$ 57	(10)	(18)
Other operating costs and expenses	\$ 8	\$ 9	5	(2)
Corporate G&A expenses	\$ 56	\$ 44	(26)	(33)
Other unallocated income, net	\$ (1)	\$ (1)	60	72
Interest income, net	\$ 38	\$ 12	224	232
Investment loss	\$ (17)	\$ (37)	54	54
Income tax provision (See Note 13)	\$ (125)	\$ (55)	(127)	(141)
Equity in net earnings (losses) from equity method investments	\$ 1	\$ (1)	NM	NM
Effective tax rate (See Note 13)	28.5%	33.1%	4.6%	4.6%

Revenues from Transactions with Franchisees

Revenues from transactions with franchisees primarily include revenues derived from the Company's central procurement model, whereby food and paper products are centrally purchased and then mainly sold to KFC and Pizza Hut franchisees. The increase for the quarter, excluding the impact of F/X, was mainly due to the increase in system sales for franchisees.

G&A Expenses

The increase in Corporate G&A expenses for the quarter, excluding the impact of F/X, was primarily due to higher performance-based compensation and merit increases.

Interest Income, Net

The increase in interest income, net for the quarter was primarily driven by higher interest rates and higher investment balance.

Investment Loss

The decrease in investment loss for the quarter mainly relates to the more moderate decline in the fair value of our investment in Meituan compared to the prior year period. See Note 3 for additional information.

Income Tax Provision

Our income tax provision primarily includes tax on our earnings at the Chinese statutory tax rate of 25%, withholding tax on planned or actual repatriation of earnings outside of China, Hong Kong profits tax, and U.S. corporate income tax, if any. The lower effective tax rate for the quarter ended March 31, 2023 was primarily due to a true-up of foreign withholding tax in the quarter ended March 31, 2022, a reduction in valuation allowance for certain subsidiaries, and less impact from our investment in Meituan.

Significant Known Events, Trends or Uncertainties Expected to Impact Future Results

Impact of COVID-19 Pandemic

Starting in late January 2020, the COVID-19 pandemic has significantly impacted the Company's operations and financial results and caused significant volatility in our operations. During the first quarter of 2023, sales rebounded significantly year-over-year and sequentially. Our strong sales growth was driven by tremendous efforts in seizing opportunities as the country pivoted from strict COVID-19 measures. Margins also improved substantially, benefiting from sales leveraging, cost structure rebasing, and temporary relief from the government and landlords.

However, we are still in the early stages of recovery. Sales during the Chinese New Year holiday trading period were buoyed by pent-up travel demand, yet same-store sales post Chinese New Year holiday in the first quarter have remained at teens level below 2019. During the Labor Day holiday period, trading was vibrant and grew on a year-over-year basis, yet same-store sales were still approximately in the mid-single digits range below the 2019 level on a pro-forma basis. We also expect inflationary pressures to be gradually built up and the benefit from temporary relief to be phased out over the coming quarters. The pace and the trajectory of the recovery remain uncertain, given the challenging macroeconomic conditions and the lingering effects of the pandemic. As such, we are staying alert with vigorous scenario planning, more flexible cost structures and operational agility to capture growth opportunities and mitigate risks when needed.

Tax Examination on Transfer Pricing

We are subject to reviews, examinations and audits by Chinese tax authorities, the Internal Revenue Service and other tax authorities with respect to income and non-income based taxes. Since 2016, we have been under a national audit on transfer pricing by the STA in China regarding our related party transactions for the period from 2006 to 2015. The information and views currently exchanged with the tax authorities focus on our franchise arrangement with YUM. We continue to provide information requested by the tax authorities to the extent it is available to the Company. It is reasonably possible that there could be significant developments, including expert review and assessment by the STA, within the next 12 months. The ultimate assessment and decision of the STA will depend upon further review of the information provided, as well as ongoing technical and other discussions with the STA and in-charge local tax authorities, and therefore it is not possible to reasonably estimate the potential impact at this time. We will continue to defend our transfer pricing position. However, if the STA prevails in the assessment of additional tax due based on its ruling, the assessed tax, interest and penalties, if any, could have a material adverse impact on our financial position, results of operations and cash flows.

PRC Value-Added Tax ("VAT")

Effective May 1, 2016, a 6% output VAT replaced the 5% business tax ("BT") previously applied to certain restaurant sales. Input VAT would be creditable to the aforementioned 6% output VAT. Our new retail business is generally subject to VAT rates at 9% or 13%. The latest VAT rates imposed on our purchase of materials and services included 13%, 9% and 6%, which were gradually changed from 17%, 13%, 11% and 6% since 2017. These rate changes impact our input VAT on all materials and certain services, mainly including construction, transportation and leasing. However, the impact on our operating results is not expected to be significant.

Entities that are general VAT taxpayers are permitted to offset qualified input VAT paid to suppliers against their output VAT upon receipt of appropriate supplier VAT invoices on an entity-by-entity basis. When the output VAT exceeds the input VAT, the difference is remitted to tax authorities, usually on a monthly basis; whereas when the input VAT exceeds the output VAT, the difference is treated as a VAT asset which can be carried forward indefinitely to offset future net VAT payables. VAT related to purchases and sales which have not been settled at the balance sheet date is disclosed separately as an asset and liability, respectively, on the Condensed Consolidated Balance Sheets. At each balance sheet date, the Company reviews the outstanding balance of any VAT asset for recoverability, giving consideration to the indefinite life of VAT assets as well as its forecasted operating results and capital spending, which inherently includes significant assumptions that are subject to change. As of March 31, 2023, the Company has not made an allowance for the recoverability of VAT assets, as the balance is expected to be utilized to offset against VAT payables or be refunded in the future.

On June 7, 2022, the Chinese Ministry of Finance ("MOF") and the STA jointly issued Circular [2022] No. 21, to extend full VAT credit refunds to more sectors and increase the frequency for accepting taxpayers' applications with an aim to support business recovery. Beginning on July 1, 2022, entities engaged in providing catering services in China are allowed to apply for a lump sum refund of VAT

assets accumulated prior to March 31, 2019. In addition, VAT assets accumulated after March 31, 2019 can be refunded on a monthly basis.

As the benefits of certain VAT assets are expected to be realized within one year pursuant to Circular [2022] No. 21, \$303 million of VAT assets as of June 30, 2022 were reclassified from Other assets to Prepaid expenses and other current assets. As of March 31, 2023, VAT assets of \$95 million, VAT assets of \$5 million and net VAT payable of \$6 million were recorded in Prepaid expenses and other current assets, Other assets and Accounts payable and other current liabilities, respectively, on the Condensed Consolidated Balance Sheets.

The Company will continue to review the classification of VAT assets at each balance sheet date, giving consideration to different local implementation practices of refunding VAT assets and the outcome of potential administrative reviews.

Pursuant to Circular [2019] No. 39, Circular [2019] No. 87 and Circular [2022] No. 11 jointly issued by relevant government authorities, including the MOF and the STA, from April 1, 2019 to December 31, 2022, general VAT taxpayers in certain industries that meet certain criteria are allowed to claim an additional 10% or 15% input VAT, which will be used to offset their output VAT and, therefore, reduce their VAT payables. Pursuant to Circular [2023] No. 1 jointly issued by the MOF and the STA in January 2023, such VAT policy was further extended to December 31, 2023 but the additional deduction was reduced to 5% or 10% respectively. It is uncertain whether such preferential policy will continue to be applicable upon expiration. Subsequent to the lump sum refund of VAT assets beginning on July 1, 2022 pursuant to Circular [2022] No. 21, the number of subsidiaries meeting required criteria for additional VAT deductions increased. Accordingly, we recognized such VAT deductions of \$8 million in each of the third and fourth quarters of 2022, and \$19 million in the first quarter of 2023. The VAT deductions were recorded as a reduction to the related expense item, primarily in Company restaurant expenses included in the Condensed Consolidated Statements of Income.

We have been benefiting from the retail tax structure reform since it was implemented on May 1, 2016. However, the amount of our expected benefit from this VAT regime depends on a number of factors, some of which are outside of our control. The interpretation and application of the new VAT regime are not settled at some local governmental levels. In addition, China is in the process of enacting the prevailing VAT regulations into a national VAT law. However, the timetable for enacting the national VAT law is not clear. As a result, for the foreseeable future, the benefit of this significant and complex VAT reform has the potential to fluctuate from quarter to quarter.

Foreign Currency Exchange Rate

The reporting currency of the Company is the US\$. Most of the revenues, costs, assets and liabilities of the Company are denominated in Chinese Renminbi (“RMB”). Any significant change in the exchange rate between US\$ and RMB may materially affect the Company’s business, results of operations, cash flows and financial condition, depending on the weakening or strengthening of RMB against the US\$. See “Item 3. Quantitative and Qualitative Disclosures About Market Risk” for further discussion.

Condensed Consolidated Cash Flows

Our cash flows for the quarters ended March 31, 2023 and 2022 were as follows:

Net cash provided by operating activities was \$507 million in 2023 as compared to \$171 million in 2022. The increase was primarily driven by the increase in net income along with working capital changes.

Net cash used in investing activities was \$429 million in 2023 as compared to net cash provided by investing activities of \$13 million in 2022. The change was mainly due to net impact on cash flow resulting from purchases and maturities of short-term investments, long-term bank deposits and notes.

Net cash used in financing activities was \$99 million in 2023 as compared to \$274 million in 2022. The decrease was primarily driven by the decrease in share repurchases.

Liquidity and Capital Resources

Historically we have funded our operations through cash generated from the operation of our Company-owned stores, our franchise operations and dividend payments from our former unconsolidated affiliates. Our global offering in September 2020 provided us with \$2.2 billion in net proceeds.

Our ability to fund our future operations and capital needs will primarily depend on our ongoing ability to generate cash from operations. We believe our principal uses of cash in the future will be primarily to fund our operations and capital expenditures for accelerating store network expansion and store remodeling, to step up investments in digitalization, automation and logistics infrastructure, to provide returns to our stockholders, as well as to explore opportunities for acquisitions or investments that build and support our ecosystem. We believe that our future cash from operations, together with our funds on hand and access to the capital markets, will provide adequate resources to fund these uses of cash, and that our existing cash, net cash from operations and credit facilities will be sufficient to fund our operations and anticipated capital expenditures for the next 12 months.

If our cash flows from operations are less than we require, we may need to access the capital markets to obtain financing. Our access to, and the availability of, financing on acceptable terms and conditions in the future or at all will be impacted by many factors, including, but not limited to:

- our financial performance;
- our credit ratings;
- the liquidity of the overall capital markets and our access to the U.S. capital markets; and
- the state of the Chinese, U.S. and global economies, as well as relations between the Chinese and U.S. governments.

There can be no assurance that we will have access to the capital markets on terms acceptable to us or at all.

Generally our income is subject to the Chinese statutory tax rate of 25%. However, to the extent our cash flows from operations exceed our China cash requirements, the excess cash may be subject to an additional 10% withholding tax levied by the Chinese tax authority, subject to any reduction or exemption set forth in relevant tax treaties or tax arrangements.

Share Repurchases and Dividends

On March 17, 2022, our Board of Directors increased the share repurchase authorization by \$1 billion to an aggregate of \$2.4 billion. Yum China may repurchase shares under this program from time to time in the open market or, subject to applicable regulatory requirements, through privately negotiated transactions, block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. During the quarters ended March 31, 2023 and 2022, the Company repurchased \$62 million or 1.0 million shares and \$232 million or 5.0 million shares of common stock, respectively, under the repurchase program.

For the quarters ended March 31, 2023 and 2022, the Company paid cash dividends of approximately \$54 million and \$51 million, respectively, to stockholders through a quarterly dividend payment of \$0.13 and \$0.12 per share, respectively.

On May 2, 2023, the Board of Directors declared a cash dividend of \$0.13 per share, payable on June 20, 2023, to stockholders of record as of the close of business on May 30, 2023. The total estimated cash dividend payable is approximately \$54 million.

Our ability to declare and pay any dividends on our stock may be restricted by our earnings available for distribution under applicable Chinese laws. The laws, rules and regulations applicable to our Chinese subsidiaries permit payments of dividends only out of their accumulated profits, if any, determined in accordance with applicable Chinese accounting standards and regulations. Under Chinese law, an enterprise incorporated in China is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. As a result, our Chinese subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. At the discretion of the Board of Directors, as an enterprise incorporated in China, each of our Chinese subsidiaries may allocate a portion of its after-tax profits based on Chinese accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Borrowing Capacity

As of March 31, 2023, the Company had credit facilities of RMB4,512 million (approximately \$656 million), comprised of onshore credit facilities of RMB3,000 million (approximately \$436 million) in aggregate and offshore credit facilities of \$220 million in aggregate.

The credit facilities had remaining terms ranging from less than one year to two years as of March 31, 2023. Each credit facility bears interest based on the Loan Prime Rate (“LPR”) published by the National Interbank Funding Centre of the PRC, London Interbank Offered Rate (“LIBOR”) administered by the ICE Benchmark Administration, or Secured Overnight Financing Rate (“SOFR”) published by the Federal Reserve Bank of New York. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Some of the credit facilities contain covenants limiting, among other things, certain additional indebtedness and liens, and certain other transactions specified in the respective agreement. Interest on any outstanding borrowings is due at least monthly. Some of the onshore credit facilities contain sub-limits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of March 31, 2023, we had outstanding bank guarantees of RMB199 million (approximately \$29 million) mainly to secure our lease payments to landlords for certain Company-owned restaurants. The credit facilities were therefore reduced by the same amount. There was a \$2-million bank borrowing outstanding as of March 31, 2023, which was secured by a \$1-million short-term investment. The bank borrowing will be due within one year and was included in Accounts payable and other current liabilities.

Off-Balance Sheet Arrangements

See the Guarantees section of Note 15 for discussion of our off-balance sheet arrangements.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

See Note 2 for details of recently adopted accounting pronouncements.

New Accounting Pronouncements Not Yet Adopted

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842) — Common Control Arrangements* (“ASU 2023-01”). It requires all lessees, including public business entities, to amortize leasehold improvements associated with common control leases over their useful life to the common control group and account for them as a transfer of assets between entities under common control through an adjustment to equity when the lessee no longer controls the use of the underlying asset. ASU 2023-01 is effective for the Company from January 1, 2024, with early adoption permitted. We are currently evaluating the impact the adoption of this standard may have on our financial statements.

Cautionary Note Regarding Forward-Looking Statements

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as “may,” “will,” “estimate,” “intend,” “seek,” “expect,” “project,” “anticipate,” “believe,” “plan,” “could,” “target,” “aim,” “commit,” “predict,” “likely,” “should,” “forecast,” “outlook,” “model,” “continue,” “ongoing” or other similar terminology. Forward-looking statements are based on our expectations, estimates, assumptions or projections concerning future results or events as of the date of the filing of this Form 10-Q. Forward-looking statements are neither predictions nor guarantees of future events, circumstances or performance and are inherently subject to known and unknown risks, uncertainties and assumptions that could cause our actual results and events to differ materially from those indicated by those statements. We cannot assure you that any of our assumptions are correct or any of our expectations, estimates or projections will be achieved. Numerous factors could cause our actual results to differ materially from those expressed or implied by forward-looking statements, including, without limitation, the following:

- Risks related to our business and industry, such as (a) food safety and foodborne illness concerns, (b) significant failure to maintain effective quality assurance systems for our restaurants, (c) significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering, (d) health concerns arising from outbreaks of viruses or other illnesses, including the COVID-19 pandemic, (e) the fact that the operation of our restaurants is subject to the terms of the master license agreement with YUM, (f) the fact that substantially all of our revenue is derived from our operations in China, (g) the fact that our success is tied to the success of YUM’s brand strength, marketing campaigns and product innovation, (h) shortages or interruptions in the availability and delivery of food products and other supplies, (i) fluctuation of raw materials prices, (j) our inability to attain our target development goals, the potential cannibalization of existing sales by aggressive

development and the possibility that new restaurants will not be profitable, (k) risks associated with leasing real estate, (l) inability to obtain desirable restaurant locations on commercially reasonable terms, (m) labor shortages or increases in labor costs, (n) the fact that our success depends substantially on our corporate reputation and on the value and perception of our brands, (o) the occurrence of security breaches and cyber-attacks, (p) failure to protect the integrity and security of our customer or employee personal, financial or other data or our proprietary or confidential information that is stored in our information systems or by third parties on our behalf, (q) failures or interruptions of service or security breaches in our information technology systems, (r) the fact that our business depends on the performance of, and our long-term relationships with, third-party mobile payment processors, internet infrastructure operators, internet service providers and delivery aggregators, (s) failure to provide timely and reliable delivery services by our restaurants, (t) our growth strategy with respect to Lavazza may not be successful, (u) the anticipated benefits of our acquisitions may not be realized in a timely manner or at all, (v) challenges and risks related to our new retail and e-commerce businesses, (w) our inability or failure to recognize, respond to and effectively manage the impact of social media, (x) failure to comply with anti-bribery or anti-corruption laws, (y) U.S. federal income taxes, changes in tax rates, disagreements with tax authorities and imposition of new taxes, (z) changes in consumer discretionary spending and general economic conditions, (aa) the fact that the restaurant industry in which we operate is highly competitive, (bb) loss of or failure to obtain or renew any or all of the approvals, licenses and permits to operate our business, (cc) our inability to adequately protect the intellectual property we own or have the right to use, (dd) our licensor's failure to protect its intellectual property, (ee) seasonality and certain major events in China, (ff) our failure to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties, (gg) the fact that our success depends on the continuing efforts of our key management and experienced and capable personnel as well as our ability to recruit new talent, (hh) our strategic investments or acquisitions may be unsuccessful; (ii) our investment in technology and innovation may not generate the expected level of returns, and (jj) fair value changes for our investment in equity securities and lower yields of our short-term investments may adversely affect our financial condition and results of operations;

- Risks related to doing business in China, such as (a) changes in Chinese political policies and economic and social policies or conditions, (b) uncertainties with respect to the interpretation and enforcement of Chinese laws, rules and regulations, which may be subject to change from time to time with little advance notice, and the risk that the PRC government may intervene or influence our operations at any time, which could result in a material change in our operations and/or the value of our securities to decline, (c) audit reports included in our annual reports prepared by auditors who are located in China, and in the event the PCAOB is unable to inspect our auditors, our common stock will be subject to potential delisting from the New York Stock Exchange, (d) changes in political, business, economic and trade relations between the United States and China, (e) fluctuation in the value of the Chinese Renminbi, (f) the fact that we face increasing focus on environmental sustainability issues, (g) limitation on our ability to utilize our cash balances effectively, including making funds held by our China-based subsidiaries unavailable for use outside of mainland China, due to interventions in or the imposition of restrictions and limitations by the PRC government on currency conversion and payments of foreign currency and RMB out of mainland China, (h) changes in the laws and regulations of China or noncompliance with applicable laws and regulations, (i) reliance on dividends and other distributions on equity paid by our principal subsidiaries in China to fund offshore cash requirements, (j) potential unfavorable tax consequences resulting from our classification as a China resident enterprise for Chinese enterprise income tax purposes, (k) uncertainty regarding indirect transfers of equity interests in China resident enterprises and enhanced scrutiny by Chinese tax authorities, (l) difficulties in effecting service of legal process, conducting investigations, collecting evidence, enforcing foreign judgments or bringing original actions in China against us, (m) the Chinese government may determine that the variable interest entity structure of Daojia does not comply with Chinese laws on foreign investment in restricted industries, (n) inability to use properties due to defects caused by non-registration of lease agreements related to certain properties, (o) risk in relation to unexpected land acquisitions, building closures or demolitions, (p) potential fines and other legal or administrative sanctions for failure to comply with Chinese regulations regarding our employee equity incentive plans and various employee benefit plans, (q) proceedings instituted by the SEC against certain China-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act, (r) restrictions on our ability to make loans or additional capital contributions to our Chinese subsidiaries due to Chinese regulation of loans to, and direct investment in, Chinese entities by offshore holding companies and governmental control of currency conversion, (s) difficulties in pursuing growth through acquisitions due to regulations regarding acquisitions, and (t) the PRC government has significant oversight and discretion to exert control over offerings of securities conducted outside of China and over foreign investment in China-based issuers, and may limit or completely hinder our ability to offer securities to investors, or cause the value of our securities to significantly decline;
- Risks related to the separation and related transactions, such as (a) incurring significant tax liabilities if the distribution does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes and the Company could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement, (b) being obligated to indemnify YUM for material taxes and related amounts pursuant to indemnification obligations under the tax matters agreement if YUM is subject to Chinese indirect transfer tax with respect to the distribution, (c) potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement, (d) the indemnity

provided by YUM to us with respect to certain liabilities in connection with the separation may be insufficient to insure us against the full amount of such liabilities, (e) the possibility that a court would require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement, and (f) potential liabilities due to fraudulent transfer considerations; and

- General risks, such as (a) potential legal proceedings, (b) changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters, (c) failure of our insurance policies to provide adequate coverage for claims associated with our business operations, (d) unforeseeable business interruptions, and (e) failure by us to maintain effective disclosure controls and procedures and internal control over financial reporting in accordance with the rules of the SEC.

In addition, other risks and uncertainties not presently known to us or that we currently believe to be immaterial could affect the accuracy of any such forward-looking statements. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. You should consult our filings with the SEC (including the information set forth under the captions “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022) for additional information regarding factors that could affect our financial and other results. You should not place undue reliance on forward-looking statements, which speak only as of the date of the filing of this Form 10-Q. We are not undertaking to update any of these statements, except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rate Risk

Changes in foreign currency exchange rates impact the translation of our reported foreign currency denominated earnings, cash flows and net investments in foreign operations, virtually all of which are denominated in RMB. While substantially all of our supply purchases are denominated in RMB, from time to time, we enter into agreements at predetermined exchange rates with third parties to purchase certain amount of goods and services sourced overseas and make payments in the corresponding local currencies when practical, to minimize the related foreign currency exposure with immaterial impact on our financial statements.

As substantially all of the Company’s assets are located in China, the Company is exposed to movements in the RMB foreign currency exchange rate. For the quarter ended March 31, 2023, the Company’s Operating profit would have decreased by approximately \$39 million if the RMB weakened 10% relative to the US\$. This estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

Commodity Price Risk

We are subject to volatility in food costs as a result of market risks associated with commodity prices. Our ability to recover increased costs through higher pricing is, at times, limited by the competitive environment in which we operate. We manage our exposure to this risk primarily through pricing agreements with our vendors.

Investment Risk

In September 2018, we invested \$74 million in 8.4 million of Meituan’s ordinary shares. The Company sold 4.2 million of its ordinary shares of Meituan in the second quarter of 2020 for proceeds of approximately \$54 million. Equity investment in Meituan is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. See Note 3 for further discussion on our investment in Meituan.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (the “CEO”) and the Chief Financial Officer (the “CFO”), the Company’s management, including the CEO and the CFO, concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There were no changes with respect to the Company's internal control over financial reporting during the quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II – Other Information

Item 1. Legal Proceedings

Information regarding legal proceedings is incorporated by reference from Note 15 to the Company’s Condensed Consolidated Financial Statements set forth in Part I of this report.

Item 1A. Risk Factors

We face a variety of risks that are inherent in our business and our industry, including operational, legal and regulatory risks. Such risks could cause our actual results to differ materially from our forward-looking statements, expectations and historical trends. There have been no material changes from the risk factors disclosed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on March 1, 2023.

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

Our Board of Directors authorized an aggregate of \$2.4 billion for our share repurchase program, including its most recent increase in authorization on March 17, 2022. The authorizations do not have an expiration date.

The following table provides information as of March 31, 2023 with respect to shares of Yum China common stock repurchased by the Company during the quarter then ended:

Period	Total Number of Shares Repurchased (thousands)	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs (thousands)	Approximate Dollar Value of Shares that May Yet Be Repurchased under the Plans or Programs (millions)
1/1/23-1/31/23	337	\$ 59.40	337	\$ 1,131
2/1/23-2/28/23	316	\$ 60.17	316	\$ 1,112
3/1/23-3/31/23	375	\$ 61.22	375	\$ 1,089
Total	<u>1,028</u>	\$ 60.30	<u>1,028</u>	\$ 1,089

Item 6. Exhibits

Exhibit Number	Description of Exhibits
10.1	Form of Yum China Holdings, Inc. 2022 Long Term Incentive Plan Restricted Stock Unit Agreement. *
10.2	Form of Yum China Holdings, Inc. 2022 Long Term Incentive Plan Stock Appreciation Rights Agreement. *
10.3	Form of Yum China Holdings, Inc. 2022 Long Term Incentive Plan Performance Unit Agreement. *
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document *
101.SCH	Inline XBRL Taxonomy Extension Schema Document *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document *
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document *

* Filed or furnished herewith.

** Portions of this exhibit have been redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

SIGNATURES

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

Yum China Holdings, Inc.

(Registrant)

Date: May 8, 2023

/s/ Xueling Lu

Controller and Principal Accounting Officer

YUM CHINA HOLDINGS, INC. 2022 LONG TERM INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

Grant Date: []
 Grantee: []
 Aggregate Number of Restricted Stock Units Subject to Award: []
 Vesting Schedule: []

This RESTRICTED STOCK UNIT AGREEMENT (“Agreement”) is made as of the Grant Date set forth above between YUM CHINA HOLDINGS, INC., a Delaware corporation (the “Company”), and [insert] (“Participant”).

1. **Award.**

(a) **Restricted Stock Units.** Pursuant to the Yum China Holdings, Inc. 2022 Long Term Incentive Plan (the “Plan”), Participant is hereby awarded, as of the Grant Date, on the terms and conditions set forth in this Restricted Stock Unit Agreement, including any country-specific terms set forth in the attached addendum (the “Addendum” and, together with the Restricted Stock Unit Agreement, the “Agreement”) and the Plan, the aggregate number of restricted stock units set forth above evidencing the right to receive an equivalent number of shares of Stock (“Restricted Stock Units”).

(b) **Plan Incorporated.** Participant acknowledges receipt of a copy of the prospectus for the Plan, and agrees that this award of Restricted Stock Units shall be subject to all of the terms and conditions set forth in the Plan and the prospectus, including future amendments thereto, if any, and which Plan and prospectus are incorporated herein by reference as a part of this Agreement. Participant may make a written request for a copy of the Plan at any time. Except as defined herein, capitalized terms shall have the same meanings ascribed to them under the Plan.

2. **Terms of Restricted Stock Units.** Participant hereby accepts the Restricted Stock Units and agrees with respect thereto as follows:

(a) **Assignment of Restricted Stock Units Prohibited.** The Restricted Stock Units may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of, except by will or the laws of descent and distribution, in each case, to the extent permitted by applicable law, and any such purported transfer or assignment shall be null and void.

(b) **Vesting.** Except as otherwise provided herein, as long as a separation from service from the Company and its Subsidiaries (collectively, the “Company Group”) does not occur prior to the relevant vesting date specified under the Vesting Schedule above (each a “Vesting Date”), then Participant shall become vested in the number of Restricted Stock Units credited to Participant under this Agreement on such Vesting Date and the shares of Stock subject to the vested Restricted Stock Units shall be issued to him or her as described in subparagraph (g) below. The period between the Grant Date and the next subsequent Vesting Date or between Vesting Dates, as applicable, is referred to as a “Vesting Period.”

(c) **Termination of Service.** In the event Participant’s service with the Company Group is terminated either (i) voluntarily by Participant (other than in connection with a Change in Control as described below or as a result of death or Retirement, as defined in Section 20), or (ii) involuntarily by a member of the Company Group for Cause (as defined in Section 20), Participant shall, for no consideration, forfeit all Restricted Stock Units to the extent they are not fully vested at the time of separation from service. Except as described below, in the event of termination of Participant’s service with the Company Group prior to a Vesting Date for any other reason, including

but not limited to, death, Retirement, or involuntary termination by a member of the Company Group other than for Cause, including without limitation, as a result of (i) a disposition (or similar transaction) with respect to an identifiable Company business or segment (“Business”), and in accordance with the terms of the transaction, Participant and a substantial portion of the other employees of the Business continue in employment with such Business or commence employment with its acquiror, (ii) the elimination of Participant’s position within the Company Group, or (iii) the selection of Participant for work force reduction (whether selection is voluntary or involuntary), then the Restricted Stock Units will, subject to Participant’s execution and non-revocation of the Company’s customary general release of claims in favor of the Company (the “Release”) within 60 days after the date of such termination, pro rata vest on a monthly basis for the Vesting Period in which the termination occurs such that a portion of Participant’s otherwise unvested Restricted Stock Units for the Vesting Period in which the termination occurs will vest based on the time Participant was employed during such Vesting Period up to the last day of employment (as determined in accordance with Section 8 of this Agreement) and all Restricted Stock Units that remain unvested will be forfeited and the date of termination shall be treated as a Vesting Date for purposes of this Agreement.

(d) **Change in Control.**

(i) In the event of a Change in Control prior to the last Vesting Date pursuant to which the Restricted Stock Units are not effectively assumed or continued by the surviving or acquiring corporation in such Change in Control (with appropriate adjustments to the number and kind of shares, in each case, that preserve the material terms and conditions of the outstanding Restricted Stock Units as in effect immediately prior to the Change in Control), the Restricted Stock Units shall be 100% vested immediately prior to such Change in Control and the Participant shall receive in full settlement for such Restricted Stock Units shares of Stock or other property with a Fair Market Value equal to the value of such Stock and the date of the Change in Control shall be treated as the Vesting Date for purposes of this Agreement.

(ii) In the event of a Change in Control prior to the last Vesting Date pursuant to which the Restricted Stock Units are effectively assumed or continued by the surviving or acquiring corporation in such Change in Control (with appropriate adjustments to the number and kind of shares, in each case, that preserve the material terms and conditions of the outstanding Restricted Stock Units as in effect immediately prior to the Change in Control) and (i) the Company Group involuntarily terminates Participant’s employment without Cause or (ii) the Participant terminates his or her employment with the Company Group due to Good Reason (as defined in Section 20 of this Agreement), in each case, within 24 months following such Change in Control and the Participant executes and does not revoke the Release within 60 days after the date of such termination, the Restricted Stock Units shall be 100% vested as of such termination of employment and the date of termination shall be treated as the Vesting Date for purposes of this Agreement.

(e) **Dividend Equivalent Units.** Participant will be credited with additional units (“Dividend Equivalent Units”) equal to the amount of dividends that would have been paid on the Restricted Stock Units if Participant actually owned the same number of shares of Stock during the period between the Grant Date and the applicable Vesting Date. Dividend Equivalent Units shall vest at the same time that the Restricted Stock Units vest; provided, however, that in the event the Restricted Stock Units are forfeited then any accumulated Dividend Equivalent Units will also be forfeited.

(f) **No Rights as Stockholder.** Except as provided for in Section 2(e) of this Agreement, Participant shall not be a shareholder of record and therefore shall have no voting or other shareholder rights prior to the issuance of shares of Stock at vesting.

(g) **Settlement and Delivery of Stock.** Subject to Section 19 of this Agreement, payment of vested Restricted Stock Units shall be made as soon as administratively practicable after the applicable Vesting Date but in no event later than 2-1/2 months following the year in which the Vesting Date occurs. Settlement will be made by payment in shares of Stock.

Notwithstanding the foregoing or any other provision of the Plan or this Agreement, unless there is an exemption from any registration, qualification or other legal requirement applicable to the shares of Stock, the Company shall not be required to deliver any shares issuable upon settlement of the Restricted Stock Units prior to the completion of any registration or qualification of the shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the U.S. Securities and Exchange Commission (“SEC”), the NYSE or HKEx or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval the Company shall, in its absolute discretion, deem necessary or advisable. The Company is under no obligation to register or qualify the shares of Stock with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the shares. Further, the Company shall have unilateral authority to amend the Agreement without Participant’s consent to the extent necessary to comply with securities or other laws applicable to issuance of shares of Stock.

Furthermore, Participant understands that the laws of the country in which he or she is working at the time of grant or vesting of the Restricted Stock Units or at the subsequent sale of Stock granted to Participant under this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor or other matters) may subject Participant to additional procedural or regulatory requirements he or she is solely responsible for and will have to independently fulfill in relation to ownership or sale of such Stock.

3. **Withholding of Tax.**

(a) Participant acknowledges that regardless of any action taken by the Company or, if different, Participant’s employer (the “Employer”), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items arising out of Participant’s participation in the Plan and legally applicable to Participant (“Tax-Related Items”), is and remains Participant’s responsibility and may exceed the amount, if any, actually withheld by the Company and/or the Employer. Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including but not limited to, the grant, vesting or settlement of the Restricted Stock Units, the subsequent sale of Stock acquired under the Plan pursuant to such settlement and the receipt of any dividends or Dividend Equivalent Units; and (ii) do not commit and are under no obligation to structure the terms of the grant or any aspect of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Participant’s liability for Tax-Related Items or achieve any particular tax result. Furthermore, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant taxable, tax and/or social security contribution withholding event, as applicable, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy their withholding obligations with respect to Tax-Related Items by one or a combination of the following (i) withholding from Participant’s wages or other cash compensation paid to Participant by the Company, the Employer, or any Subsidiary; (ii) cash payment by the Participant, (iii) net settlement by authorizing the Company to withhold whole shares of Stock which would otherwise be delivered having an aggregate Fair Market Value, determined as of the date of settlement, equal to the amount necessary to satisfy the Tax-Related Items; (iv) the Participant irrevocably authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon settlement of the Award and remit to the Company a sufficient portion of the sale proceeds to pay the Tax-Related Items, or (v) any other means approved by the Committee and permitted under applicable law; provided, however, that if Participant is a Section 16 officer of the Company under the Exchange Act, then Participant may elect the form of withholding from the alternatives above in advance of any taxable or tax withholding event, as applicable, and in the absence of Participant’s timely election, the Company will withhold from proceeds of the sale of Stock upon the relevant taxable or tax withholding event, as applicable, or the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) may determine that a particular method be used to satisfy any obligations for Tax-Related Items in advance of any taxable or tax withholding event, as applicable.

(c) Depending on the withholding method, the Company or the Employer may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates,

including maximum applicable rates, in which case Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the Stock equivalent. If the obligation for the Tax-Related Items is satisfied by withholding in Stock, for tax purposes, Participant is deemed to have been issued the full number of shares of Stock subject to the vested Restricted Stock Units, notwithstanding that a number of shares of Stock are held back solely for the purpose of paying the Tax-Related Items.

(d) Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Participant's participation in the Plan that cannot be satisfied by the means previously described in this Section 3. The Company may refuse to issue or deliver the Stock or the proceeds from the sale of Stock, if Participant fails to comply with his or her obligations in connection with the Tax-Related Items.

4. **Nature of Award.** In accepting the Restricted Stock Units, Participant acknowledges, understands and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

(b) this award of Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;

(c) the award of Restricted Stock Units and the shares of Stock subject to the Restricted Stock Units, and the income and value of same, are not part of normal or expected compensation or salary for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(d) all decisions with respect to future grants of Restricted Stock Units or other awards, if any, will be at the sole discretion of the Company;

(e) Participant's participation in the Plan is voluntary;

(f) this award of Restricted Stock Units and any Stock acquired under the Plan, and the income and value of same, are not intended to replace any pension rights or compensation;

(g) the future value of the Stock underlying the Restricted Stock Units is unknown, indeterminable and cannot be predicted with certainty;

(h) no claim or entitlement to compensation or damages shall arise from termination of this award of Restricted Stock Units or diminution in value of the Stock acquired upon settlement resulting from Participant's separation from service (regardless of the reason for the termination and whether or not the termination is later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any);

(i) unless otherwise provided in the Plan or by the Company in its discretion, the Restricted Stock Units and the benefits evidenced by this Agreement do not create any entitlement to have the Restricted Stock Units or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of Stock; and

(j) the following provisions apply only if Participant is providing services outside the United States:

(i) the Restricted Stock Units and the shares of Stock subject to the Restricted Stock Units, and the income and value of same, are not part of normal or expected compensation or salary for any purpose; and

(ii) neither the Company, the Employer nor any other Subsidiary shall be liable for any foreign exchange rate fluctuation between his or her local currency and the United States Dollar that may affect the value of the Restricted Stock Units or of any amounts due to Participant pursuant to the settlement of the Restricted Stock Units or the subsequent sale of any shares of Stock acquired upon settlement.

5. **Compensation Recovery Policy**

(a) The Participant acknowledges and agrees that the Restricted Stock Units granted to the Participant under this Agreement shall be subject to any compensation recovery or recoupment policy established or adopted from time to time by the Company, including those established or adopted after the Grant Date to comply with applicable law (“Compensation Recovery Policy”).

(b) This Agreement is a voluntary agreement, and each Participant who has accepted the Agreement has chosen to do so voluntarily. Participant understands that the Restricted Stock Units provided under the Agreement and all amounts paid to the individual under the Agreement are provided as an advance that is contingent on the Company’s financial statements not being subject to a material restatement. As a condition of the Agreement, Participant specifically agrees that the Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict the Restricted Stock Units for any individual party to such an agreement due to a material restatement of the Company’s financial statements, as provided in the Company’s Compensation Recovery Policy. In the event that amounts have been paid to Participant pursuant to the Agreement and the Committee determines that Participant must repay an amount to the Company as a result of the Committee’s cancellation, rescission, suspension, withholding or other limitation or restriction of rights, Participant agrees, as a condition of being awarded such rights, to make such repayments.

6. **No Advice Regarding Grant.** The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant’s participation in the Plan, or his or her acquisition or the sale of the underlying shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding Participant’s participation in the Plan before taking any action related to the Plan.

7. **Adjustment for Change in Stock.** As set forth in Section 4.2 of the Plan, in the event of a capitalization issue, rights issue, subdivision or consolidation of shares or reduction of capital, the terms of this award of Restricted Stock Units (including the number and class of securities subject to the award), shall be appropriately adjusted by the Committee, such adjustments to be made in accordance with Section 409A of the Code and Rule 17.03(13) of the HKEx Listing Rules to the extent applicable. Only where approval, waiver, confirmation or otherwise as applicable from the HKEx is obtained, in the event of any other equity restructuring event as defined under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation or any successor or replacement accounting standard, or any other change in corporate capitalization, including a merger, consolidation, reorganization, or partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to the extent necessary to prevent dilution or enlargement of rights of participants. In case of an adjustment pursuant to Section 4.2 of the Plan, the decision of the Committee regarding any such adjustment shall be final, binding and conclusive.

8. **Employment Relationship.** For purposes of this Agreement, Participant shall be considered to be in the employment of the Company Group as long as Participant remains an employee of the Company or any of its Subsidiaries or any successor companies assuming or substituting a new award for this award of Restricted Stock Units.

For purposes of the Restricted Stock Units, Participant’s employment or service relationship will be considered terminated as of the date Participant is no longer actively providing services to the Company or one of its Subsidiaries (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of

Participant's employment agreement, if any) and will not be extended by any notice period (e.g., Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any).

Any question as to whether and when there has been a termination of such employment (including whether Participant may still be considered to be providing services while on a leave of absence), and the cause of such termination, shall be determined by the Committee, or its delegate, as appropriate, and its determination shall be final. Nothing contained in this Agreement is intended to constitute or create a contract of service or employment, nor shall it constitute or create the right to remain associated with or in the service or employ of the Company, the Employer or any other Subsidiary or related company for any particular period of time. This Agreement shall not interfere in any way with the right of the Company, the Employer or any other Subsidiary or related company, as applicable, to terminate Participant's service or employment at any time. Furthermore, this Agreement, the Plan, and any other Plan documents are not part of Participant's employment contract, if any, and do not guarantee either Participant's right to receive any future grants of awards or benefits in lieu thereof under this Agreement or the Plan.

9. ***Data Privacy.*** ***Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data as described in this Agreement and any other award materials by and among, as applicable, the Employer, the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.***

Participant understands that the Company and the Employer may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any Stock or directorships held in the Company, details of all awards of Restricted Stock Units or any other entitlement to Stock or equivalent benefits awarded, canceled, purchased, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.

Participant understands that Data will be transferred to Merrill Lynch, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections from Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of Data by contacting his or her local human resources representative. Participant authorizes the Company, Merrill Lynch and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer Data, in electronic or other form, for the sole purpose of implementing, administering and managing his or her participation in the Plan. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker, escrow agent or other third party with whom any shares of Stock acquired under the Plan may be deposited. Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing his or her consent is that the Company would not be able to grant Participant Restricted Stock Units or other awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

10. **Mode of Communications.** Participant agrees, to the fullest extent permitted by law, in lieu of receiving documents in paper format, to accept electronic delivery of any documents that the Company or related company may deliver in connection with this grant and any other grants offered by the Company, including prospectuses, grant notifications, account statements, annual or quarterly reports, and other communications. Electronic delivery of a document may be made via the Company's email system or by reference to a location on the Company's intranet or website or website of the Company's agent administering the Plan.

To the extent Participant has been provided with a copy of this Agreement, the Plan, or any other documents relating to this Award in a language other than English, the English language documents will prevail in case of any ambiguities or divergences as a result of translation.

11. **Committee's Powers.** No provision contained in this Agreement shall in any way terminate, modify or alter, or be construed or interpreted as terminating, modifying or altering any of the powers, rights or authority vested in the Committee or, to the extent delegated, in its delegate pursuant to the terms of the Plan or resolutions adopted in furtherance of the Plan, including, without limitation, the right to make certain determinations and elections with respect to the Restricted Stock Units.

12. **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

13. **Binding Effect.**

(a) This Agreement shall be binding upon and inure to the benefit of any assignee or successor in interest to the Company, whether by merger, consolidation or the sale of all or substantially all of the Company's assets. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(b) This Agreement shall be binding upon and inure to the benefit of the Participant or his or her legal representative and any person to whom a Restricted Stock Unit may be transferred by will, the applicable laws of descent and distribution or, to the extent permitted by applicable law (including, without limitation, the HKEx Listing Rules), the consent of the Committee.

14. **Insider Trading Restrictions/Market Abuse Laws.** Participant acknowledges that Participant may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including the United States, Hong Kong, and the Participant's country, if different, which may affect Participant's ability to acquire or sell shares of Stock or rights to shares of Stock (*e.g.*, Restricted Stock Units) under the Plan during such times as Participant is considered to have "inside information" regarding the Company (as defined by the laws in the applicable jurisdiction). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. Participant acknowledges that it is Participant's responsibility to comply with any applicable restrictions, and Participant is advised to speak to his or her personal advisor on this matter.

15. **Governing Law and Forum.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof. In the event any term of this Agreement shall be inconsistent with or not in compliance with the applicable rules of the NYSE or the HKEx, the applicable rules of the NYSE or the HKEx shall prevail. For purposes of resolving any dispute that may arise directly or indirectly from this Agreement, the parties hereby agree that any such dispute that cannot be resolved by the parties shall be submitted the Committee for resolution, and any decision by the Committee shall be final.
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For purposes of litigating any dispute that arises under this grant, Participant's participation in the Plan or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Delaware and agree that such litigation shall be conducted in the courts of Delaware, or the federal courts for the United States for the District of Delaware, where this grant is made and/or to be performed.

16. **Addendum.** Notwithstanding any provisions in this Agreement, the Award of Restricted Stock Units shall be subject to any special terms and conditions set forth in any Addendum to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Addendum, the special terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Addendum constitutes part of this Agreement.
17. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Restricted Stock Units and on any Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.
18. **Waiver.** Participant acknowledges that a waiver by the company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant.
19. **Section 409A Provisions.** Notwithstanding anything in this Agreement (or the Plan) to the contrary, if the Participant is subject to U.S. tax laws:

(a) It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), and all regulations, guidance and other interpretive authority issued thereunder ("Code Section 409A") so as not to subject Participant to payment of any additional tax, penalty or interest imposed under Code Section 409A, and each settlement hereunder shall be considered a separate payment. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to Participant. Notwithstanding the foregoing or any other provision of this Agreement, neither the Company nor any Subsidiary guarantees the tax treatment of the award evidenced by this Agreement (or other awards under the Plan).

(b) If any payment hereunder (whether separately or together with any other payments) is subject to Code Section 409A, and if such payment or benefit is to be paid or provided on account of Participant's termination of employment (or other separation from service or termination of employment) (i) and if Participant is a specified employee (within the meaning of Code Section 409A) and if any such payment is required to be made or provided prior to the first day of the seventh month following Participant's separation from service or termination of employment, such payment shall be delayed until the first day of the seventh month following Participant's separation from service or termination of employment (or, if earlier, Participant's death), (ii) the determination as to whether Participant has had a termination of employment (or separation from service) shall be made in accordance with the provisions of Code Section 409A without application of any alternative levels of reductions of bona fide services permitted thereunder, and (iii) to the extent any such payment is conditioned upon the Participant's execution of a release and such payment is to be paid or provided during a designated period that begins in one taxable year and ends in a second taxable year, such payment shall be paid or provided in the later of the two taxable years.

(c) If any payment hereunder (whether separately or together with any other payments) is subject to Code Section 409A, then in the event the Participant becomes entitled to shares under Section 2(d)(i), such shares shall be paid upon such Change in Control only if the Change in Control is a "change in control event" within the meaning of Section 409A of the Code and the settlement of such Stock would be permissible under Code Section 409A and, if the foregoing conditions are not satisfied, then the Stock shall be settled at the time set forth in Section 2(b) or 2(c), as applicable.

20. **Definition.** As used in this Agreement, the following terms shall have the meanings set forth below:

(a) “Cause” shall have the meaning set forth in any then applicable employment or other similar written agreement (including such similar term or concept, as determined by the Committee) between Participant and a member of the Company Group, subject to the relevant provisions of applicable law in the People’s Republic of China to the extent mandatorily and preemptively applicable. If there is no such written agreement or if such agreement does not define “Cause,” the term “Cause” shall mean (i) the willful failure by Participant to perform Participant’s duties with the Company or its affiliates (other than any such failure resulting from Participant’s incapacity due to physical or mental illness), (ii) Participant’s willful misconduct that is demonstrably and materially injurious to the Company or its affiliates, monetarily or otherwise, (iii) Participant’s commission of acts of dishonesty, fraud, misrepresentation or other acts of moral turpitude, (iv) Participant’s conviction or plea of no contest to a felony (or equivalent crime in the People’s Republic of China) or a crime of moral turpitude, or (v) any terminable events under the Company’s Code of Conduct, subject to the relevant provisions of applicable law in the People’s Republic of China to the extent mandatorily and preemptively applicable.

(b) “Good Reason” shall have the meaning set forth in any then applicable employment or other similar written agreement (including such similar term or concept, as determined by the Committee) between Participant and the Company or an Affiliate, subject to the relevant provisions of applicable law in the People’s Republic of China to the extent mandatorily and preemptively applicable. If there is no such written agreement or if such agreement does not define “Good Reason,” then “Good Reason” shall be deemed to exist if, and only if, without Participant’s written consent there is: (i) a substantial adverse alteration in the nature or status of the Participant’s responsibilities from those in effect immediately prior to the Change in Control; (ii) a material reduction by the Company in the Participant’s annual base salary or target annual incentive award opportunity as in effect on the date hereof or as the same may be increased from time to time; provided, however, that Participant’s annual base salary or target annual incentive award opportunity may be decreased as part of an across-the-board reduction in base salaries and target annual incentive award opportunities of all Company executive officers so long as the percentage reduction in Participant’s annual base salary or target annual incentive award opportunity is not greater than the percentage reduction applicable to other executive officers, for the same period as the reduction in other executive officer’s reduction in annual base salary or target annual incentive award opportunity and, in the event such reduction is later mitigated for other executive officers, Participant’s annual base salary or target annual incentive award opportunity is then increased by the same percentage applicable to other executive officers; or (iii) the relocation of the Participant’s principal place of employment to a location more than 50 miles from the Participant’s principal place of employment immediately prior to the Change in Control or the Company requiring the Participant to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company’s or its affiliates’ business to an extent substantially consistent with the Participant’s business travel obligations immediately prior to the Change in Control, subject to the relevant provisions of applicable law in the People’s Republic of China to the extent mandatorily and preemptively applicable. In order to terminate due to Good Reason, (A) Participant must notify the Company in writing of the occurrence of the Good Reason condition within thirty (30) days of Participant having actual or constructive knowledge of the occurrence of such condition, (B) Participant cooperates in good faith with the Company’s efforts at no cost to the Participant, for a period not less than thirty (30) days following such notice (the “Cure Period”), to remedy the condition, (C) notwithstanding such efforts, the Good Reason condition continues to exist after the expiration of the Cure Period, and (D) Participant terminates Participant’s employment within thirty (30) days after the expiration of the Cure Period. For the avoidance of doubt, if the Company cures the Good Reason condition during the Cure Period, Good Reason shall be deemed not to have occurred.

(c) “Retirement” shall mean termination of employment by Participant on or after Participant’s attainment of age 55 and ten years of service or age 65 and five years of service (and not for any other reason). Notwithstanding the definition of Retirement set forth immediately above, if the Company receives an opinion of counsel that there has been a legal judgment and/or legal development in Participant’s jurisdiction that would likely result in the favorable Retirement treatment that applies to this grant under the Plan being deemed unlawful and/or discriminatory, then the Committee will not apply the favorable Retirement treatment at the time of Participant’s termination of employment and the Restricted Stock Units shall be governed by the remaining provisions related to termination of Participant’s employment.

By electronically accepting the grant of the Restricted Stock Units and participating in the Plan, the Participant agrees to be bound by the terms and conditions in the Plan and this Agreement.

Yum China Holdings, Inc.

By: _____

Its: _____

ADDENDUM TO

YUM CHINA HOLDINGS, INC. 2022 LONG TERM INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

Certain capitalized terms used but not defined in this Addendum have the meanings set forth in the Restricted Stock Unit Agreement and the Plan.

Terms and Conditions

This Addendum includes additional terms and conditions that govern the Award of Restricted Stock Units granted to Participant under the Yum China Holdings, Inc. 2022 Long Term Incentive Plan if Participant works and/or resides in one of the countries listed below.

If Participant is a citizen or resident of a country other than the one in which he or she is currently residing and/or working or transfers residency after the Grant Date, the Company shall determine to which extent the additional terms and conditions shall be applicable to Participant.

Notifications

This Addendum also includes information regarding exchange controls and certain other issues of which Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of September 2022. Such laws are often complex and change frequently. As a result, the Company strongly recommends that Participant not rely on the information in this Addendum as the only source of information relating to the consequences of Participant's participation in the Plan because the information may be out of date at the time that Restricted Stock Units vest or Participant sells Stock acquired at vesting of the Restricted Stock Units under the Plan.

In addition, the information contained herein is general in nature and may not apply to Participant's particular situation, and the Company is not in a position to assure Participant of a particular result. Accordingly, Participant is advised to seek appropriate professional advice as to how the relevant laws in Participant's country may apply to his or her situation.

Finally, if Participant is a citizen or resident of a country other than the one in which he or she is currently residing and/or working or transfers residency after the Grant Date, the information contained herein may not be applicable to Participant in the same manner.

CHINA

Terms and Conditions

The following provisions apply only to the Participant if based/residing in the Mainland of the People's Republic of China (the "PRC") or otherwise maintaining employment or service relationship with any PRC-based branch or subsidiary of Yum China Holdings, Inc., unless otherwise determined by the Company or required by the State Administration of Foreign Exchange of the PRC ("SAFE"):

Settlement and Delivery of Stock. This provision supplements Paragraph 2(f) of the Restricted Stock Unit Agreement:

The implementation of the Plan or settlement of the Restricted Stock Units is conditioned on the Company's completion of the initial registration of the Plan with SAFE and the continued effectiveness of such registration based on necessary follow-up filings with SAFE (the "SAFE Registration"). If the Company is unable to complete or maintain the SAFE Registration for any reason, no shares of Stock subject to the Restricted Stock Units shall be issued.

Furthermore, notwithstanding anything in the Restricted Stock Unit Agreement, if Participant's employment or service relationship with the Company Group is terminated at a time when the SAFE Registration is not in effect, all Restricted Stock Units shall not vest or shall be forfeited if vested.

Mandatory Sale of Shares Upon Termination of Service. To ensure compliance with SAFE regulations, and notwithstanding any provision in the Agreement, Participant agrees that any Stock issued upon settlement of the RSUs and held by Participant at the time of his or her termination of service must be sold immediately upon such termination of service. Any Stock that is not sold by Participant will be sold on his or her behalf as soon as practicable after Participant's termination of service and in no event more than six months after his or her termination of service, pursuant to this authorization (i) to the Company to instruct its designated broker to sell such Stock and (ii) to the designated broker to assist with the sale of such Stock. Participant acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Stock at any particular price. Upon the sale of the Stock, the Company agrees to pay Participant the cash proceeds from the sale of the Stock, less any brokerage fees or commissions and subject to any obligation on the Company or the Employer to satisfy any Tax-Related Items.

Broker Account. Any Stock issued to Participant upon settlement of the RSUs must be maintained in an account with Merrill Lynch or such other broker as may be designated by the Company until the Stock is sold through that broker.

Repatriation. Pursuant to SAFE regulations, when the Stock acquired at settlement of the RSUs are sold, whether immediately or thereafter, including on Participant's behalf after termination of his or her service, Participant will be required to immediately repatriate, or cause the Company or any Subsidiary or the Employer to repatriate, the cash proceeds from the sale of the Stock and any cash dividends paid on such Stock to the PRC within six months from receipt of such cash proceeds. Participant further understands that, under local law, such repatriation of his or her cash proceeds will need to be effectuated through a special exchange control account established in the PRC by the Company or any Subsidiary or the Employer, and Participant hereby consents and agrees that any of such cash proceeds will be transferred to such special account prior to being paid to the personal accounts of Participant. Unless the Company in its sole discretion decides otherwise, the proceeds will be paid to Participant in local currency. The Company is under no obligation to secure any exchange conversion rate, and the Company may face delays in converting the proceeds to local currency due to exchange control restrictions in the PRC. Participant agrees to bear any currency fluctuation risk between the time the cash proceeds in foreign currency are payable to the Participant (from the sale of the Stock or otherwise) and the time the cash proceeds in local currency are distributed through such special exchange control account.

Other. Participant further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with SAFE or other PRC regulatory requirements and to sign any agreements, forms and/or consents that may be reasonably requested by the Company or its designated broker to effectuate any of the remittances, transfers, conversions or other processes affecting the proceeds.

Notifications

Foreign Asset and Account Reporting. Participant may be required to report to SAFE all details of their foreign financial assets and liabilities, as well as details of any economic transactions conducted with non-PRC residents. Participant should consult with his or her personal advisor in order to ensure compliance with applicable reporting requirements.

YUM CHINA HOLDINGS, INC. 2022 LONG TERM INCENTIVE PLAN

STOCK APPRECIATION RIGHTS AGREEMENT

Grant Date: [_____]
Grantee: Name
Aggregate Number of Stock Appreciation Rights Subject to Award: xxx
Exercise Price: [_____]
Vesting Schedule: 1/4 on each of the first, second, third and four year anniversaries of the Grant Date

This STOCK APPRECIATION RIGHTS AGREEMENT (“Agreement”) is made as of the Grant Date set forth above between YUM CHINA HOLDINGS, INC., a Delaware corporation (the “Company”), and [insert] (“Participant”).

1. **Award.**

(a) **Stock Appreciation Rights.** Pursuant to the Yum China Holdings, Inc. 2022 Long Term Incentive Plan (the “Plan”), Participant is hereby awarded, as of the Grant Date, on the terms and conditions set forth in this Stock Appreciation Rights Agreement, including any country-specific terms set forth in the attached addendum (the “Addendum” and, together with the Stock Appreciation Rights Agreement, the “Agreement”) and the Plan, Stock Appreciation Rights with respect to the aggregate number of shares of Stock set forth above (the “Covered Shares”), with an Exercise Price equal to the price set forth above, which was the higher of (i) the Fair Market Value of a share of Stock on the Grant Date and (ii) the average Fair Market Value of a share of Stock for the five NYSE trading days immediately preceding the Grant Date (or, if greater, the par value of a share of Stock on such date(s)).

(b) **Plan Incorporated.** Participant acknowledges receipt of a copy of the prospectus for the Plan, and agrees that this award of Stock Appreciation Rights shall be subject to all of the terms and conditions set forth in the Plan and the prospectus, including future amendments thereto, if any, and which Plan and prospectus are incorporated herein by reference as a part of this Agreement. Participant may make a written request for a copy of the Plan at any time. Except as defined herein, capitalized terms shall have the same meanings ascribed to them under the Plan.

2. **Terms of Stock Appreciation Rights.** Participant hereby accepts the Stock Appreciation Rights and agrees with respect thereto as follows:

- (a) **Vesting.** Except as otherwise provided herein, as long as a separation from service from the Company and its Subsidiaries (collectively, the “Company Group”) does not occur prior to the relevant vesting date specified under the Vesting Schedule above (each a “Vesting Date”), then the Stock Appreciations Rights shall vest and become exercisable on such Vesting Dates (the period between the Grant Date and the next subsequent Vesting Date or between Vesting Dates, as applicable, is referred to as a “Vesting Period”).
- (b) **Term.** Exercisable Stock Appreciation Rights must be exercised no later than 4PM Eastern Standard Time (“EST”) on the ten-year anniversary of the Grant Date (the “Expiration Date”). The time during which Stock Appreciation Rights are exercisable is referred to as the “Stock Appreciation Right Term.” If the Expiration Date falls on a NYSE market holiday or weekend, 4PM EST will mean the business day prior to the Expiration Date.

2. Exercise Procedures.

- (a) **General.** Once exercisable and until the end of the Stock Appreciation Term or such earlier date of the termination of the Stock Appreciation Rights as set forth in Section 3 of this Agreement, all or a portion of the exercisable Stock Appreciation Rights may be exercised from time to time and at any time under procedures that the Committee shall establish from time to time, including, without limitation, procedures regarding the frequency of exercise and the minimum number of Stock Appreciation Rights which may be exercised at any time. Fractional Stock Appreciation Rights may not be exercised and no fractional shares shall be deliverable hereunder. No omission to exercise a Stock Appreciation Right shall result in the lapse of any other Stock Appreciation Right granted hereunder until the forfeiture, expiration or termination of such Stock Appreciation Right. Subject to the terms and conditions set forth herein, Stock Appreciation Rights may be exercised by giving notice of exercise to Merrill Lynch, the stock plan administrator (or any other stock plan administrator or vendor designated by the Company) in the manner specified from time to time by the Company or the stock plan administrator. Upon the exercise of a Stock Appreciation Right with respect to a share of Stock, Participant shall receive an amount from the Company which is equal to the excess of the Fair Market Value of a share of Stock at the time of exercise over the Exercise Price of one share of Stock. Such amount will be paid to Participant in shares of Stock (based on the market price of such shares at the date of exercise), and in cash with respect to any fractional shares, subject to satisfaction of all Tax-Related Items (as defined in Section 4 below).
- (b) **Automatic Exercise.** Notwithstanding the foregoing and to the extent permitted by applicable law, if the Fair Market Value of a share of Stock on the Expiration Date (or, if earlier, the expiration of the Stock Appreciation Right following the termination of Participant's employment), exceeds the Exercise Price, then to the extent the Stock Appreciation Rights are vested and have not theretofore been exercised, expired or otherwise terminated, the Company shall cause the Stock Appreciation Rights to be automatically exercised immediately prior to its expiration on the Expiration Date (or, if earlier, the expiration of the Stock Appreciation Right following the termination of Participant's employment), and to provide for the Tax-Related Items to be satisfied by the withholding of shares to be issued upon exercise of the Stock Appreciation Rights in an amount sufficient to cover the Tax-Related Items.

3. Termination of Service or Change in Control.

- (a) **General.** Participant shall have a period of 90 days following Participant's termination of employment with the Company Group (as determined in accordance with Section 10 of this Agreement) to exercise Stock Appreciation Rights that are vested and exercisable as of Participant's last day of employment, but such exercise period shall not extend beyond the Expiration Date. Except as otherwise provided in this Section 3 or as otherwise provided by the Committee, the Stock Appreciation Rights shall automatically expire, and no Stock Appreciation Right may be exercised after, the expiration of such 90-day period (or, if earlier, the Expiration Date).
- (b) **Without Cause.** In the event Participant's employment with the Company Group is involuntarily terminated by a member of the Company Group other than for Cause (as defined in Section 23 of this Agreement), including, without limitation, as a result of (i) a disposition (or similar transaction) with respect to an identifiable Company business or segment ("Business"), and in accordance with the terms of the transaction, Participant and a substantial portion of the other employees of the Business continue in employment with such Business or commence employment with its acquiror, (ii) the elimination of Participant's position within the Company Group, or (iii) the selection of Participant for work force reduction (whether voluntary or involuntary), the Stock Appreciation Rights will, subject to Participant's execution and non-revocation of the Company's customary general release of claims in favor of the Company (the "Release") within 60 days after the date of such termination, pro rata vest on a monthly basis for the Vesting Period in which the termination occurs such that a portion of Participant's otherwise unvested Stock Appreciation
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Rights for the Vesting Period in which the termination occurs will vest based on the time Participant was employed during such Vesting Period up to the last day of employment (as determined in accordance with Section 10 of this Agreement) and all Stock Appreciation Rights that remain unvested will be forfeited. In the event Participant's employment with the Company Group is terminated for Cause, Participant's outstanding Stock Appreciation Rights, whether vested or unvested, will be forfeited and become unexercisable upon such termination unless otherwise provided by the Committee.

(c) **Retirement or Death.** In the event Participant's employment with the Company Group is terminated by reason of death or Retirement (as defined in Section 23), the Stock Appreciation Rights will pro rata vest on a monthly basis for the Vesting Period in which the termination occurs such that a portion of Participant's otherwise unvested Stock Appreciation Rights for the Vesting Period in which the termination occurs will vest based on the time Participant was employed during the Vesting Period up to the last day of employment (as determined in accordance with Section 10 of this Agreement) and all Stock Appreciation Rights that remain unvested will be forfeited. Participant's vested Stock Appreciation Rights may be exercised during the Stock Appreciation Right Term in accordance with this Agreement.

(d) **Change in Control.**

(i) In the event of a Change in Control prior to the last Vesting Date pursuant to which the Stock Appreciation Rights are not effectively assumed or continued by the surviving or acquiring corporation in such Change in Control (as determined by the Board or Committee, with appropriate adjustments to the number and kind of shares of Stock, in each case, that preserve the intrinsic value and other material terms and conditions of the outstanding Stock Appreciation Rights as in effect immediately prior to the Change in Control), the Stock Appreciation Rights shall be 100% vested immediately prior to such Change in Control and Participant shall receive in full settlement for such Stock Appreciation Rights shares of Stock or other property with a Fair Market Value equal to the aggregate number of shares of Stock then subject to the Stock Appreciation Rights multiplied by the excess, if any, of the Fair Market Value of a share of Stock as of the date of the Change in Control, over the Exercise Price.

(ii) In the event of a Change in Control prior to the last Vesting Date pursuant to which the Stock Appreciation Rights are effectively assumed or continued by the surviving or acquiring corporation in such Change in Control (as determined by the Board or Committee, with appropriate adjustments to the number and kind of shares of Stock, in each case, that preserve the intrinsic value and other material terms and conditions of the outstanding Stock Appreciation Rights as in effect immediately prior to the Change in Control) and (A) the Company Group involuntarily terminates Participant's employment without Cause or (B) Participant terminates his or her employment with the Company Group due to Good Reason (as defined in Section 23 of this Agreement), in each case, within 24 months following such Change in Control and Participant executes and does not revoke the Release within 60 days after the date of such termination, the Stock Appreciation Rights shall be 100% vested upon such termination of employment, and the Stock Appreciation Rights may thereafter be exercised by Participant until and including the date which is three years after the date of termination of employment (or, if earlier, the Expiration Date).

4. **Withholding of Tax.**

(a) Participant acknowledges that regardless of any action taken by the Company or, if different, Participant's employer (the "Employer"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefit tax, payment on account or other tax-related items arising out of Participant's participation in the Plan and legally applicable to Participant ("Tax-Related Items"), is and remains Participant's responsibility and may exceed the amount, if any, actually withheld by the Company and/or the Employer. Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of any Stock Appreciation Rights, including but not limited to, the grant, vesting or exercise of the Stock Appreciation Rights, the subsequent sale of Stock acquired under the Plan and the receipt of any dividends; and (ii) do not commit and are

under no obligation to structure the terms of the grant or any aspect of a Stock Appreciation Rights to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Further, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

- (b) Prior to any relevant taxable, tax and/or social security contribution withholding event, as applicable, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy their withholding obligations with respect to Tax-Related Items by one or a combination of the following: (i) withholding from Participant's wages or other cash compensation paid to Participant by the Company, the Employer, or any Subsidiary; (ii) cash payment by the Participant, (iii) net settlement by authorizing the Company to withhold whole shares of Stock which would otherwise be delivered having an aggregate Fair Market Value, determined as of the date of exercise, equal to the amount necessary to satisfy the Tax-Related Items; (iv) the Participant irrevocably authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Award and remit to the Company a sufficient portion of the sale proceeds to pay the Tax-Related Items, or (v) any other means approved by the Committee and permitted under applicable law; provided, however, that if Participant is a Section 16 officer of the Company under the Exchange Act, then Participant may elect the form of withholding from the alternatives above in advance of any taxable or tax withholding event, as applicable, and in the absence of Participant's timely election, the Company will withhold from proceeds of the sale of Stock upon the relevant taxable or tax withholding event, as applicable, or the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) may determine that a particular method be used to satisfy any obligations for Tax-Related Items in advance of any taxable or tax withholding event, as applicable.
- (c) Depending on the withholding method, the Company or the Employer may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the Stock equivalent. If the obligation for Tax-Related Items is satisfied by withholding in Stock, for tax purposes, Participant is deemed to have been issued the full number of shares of Stock subject to the exercised Stock Appreciation Rights, notwithstanding that a number of shares are held back solely for the purpose of paying the Tax-Related Items.
- (d) Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Participant's participation in the Plan that cannot be satisfied by the means described in this Section 4. The Company may refuse to honor the exercise and refuse to issue or deliver the Stock or the proceeds of the sale of Stock if Participant fails to comply with Participant's obligations in connection with the Tax-Related Items.

5. **Nature of Award.** In accepting the Stock Appreciation Rights, Participant acknowledges, understands and agrees that:

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
 - (b) this award of Stock Appreciation Rights is voluntary and occasional and does not create any contractual or other right to receive future grants of Stock Appreciation Rights, or benefits in lieu of Stock Appreciation Rights, even if Stock Appreciation Rights have been awarded in the past;
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- (c) the award of Stock Appreciation Rights and the shares of Stock subject to the Stock Appreciation Rights, and the income and value of same, are not part of normal or expected compensation or salary for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;
- (d) all decisions with respect to future grants of Stock Appreciation Rights or other awards, if any, will be at the sole discretion of the Company;
- (e) Participant's participation in the Plan is voluntary;
- (f) the award of Stock Appreciation Rights and any Stock acquired under the Plan, and the income and value of same, are not intended to replace any pension rights or compensation;
- (g) the future value of the Stock underlying the Stock Appreciation Rights is unknown, indeterminable and cannot be predicted with certainty;
- (h) if the underlying shares do not increase in value, the Stock Appreciation Rights will have no value;
- (i) no claim or entitlement to compensation or damages shall arise from termination of this award of Stock Appreciation Rights or diminution in value of the Stock acquired upon exercise resulting from Participant's separation from service (regardless of the reason for the termination and whether or not the termination is later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any);
- (j) unless otherwise provided in the Plan or by the Company in its discretion, the Stock Appreciation Rights and the benefits evidenced by this Agreement do not create any entitlement to have the Stock Appreciation Rights or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of Stock; and
- (k) the following provisions apply only if Participant is providing services outside the United States:
 - (i) the Stock Appreciation Rights and the shares of Stock subject to the Stock Appreciation Rights, and the income and value of same, are not part of normal or expected compensation or salary for any purpose; and
 - (ii) neither the Company, the Employer nor any other Subsidiary shall be liable for any foreign exchange rate fluctuation between his or her local currency and the United States Dollar that may affect the value of the Stock Appreciation Rights or of any amounts due to Participant pursuant to the exercise of the Stock Appreciation Rights or the subsequent sale of any shares of Stock acquired upon exercise.

6. **Compensation Recovery Policy.**

- (a) Participant acknowledges and agrees that the Stock Appreciation Rights granted to Participant under this Agreement shall be subject to any compensation recovery or recoupment policy established or adopted from time to time by the Company, including those established or adopted after the Grant Date to comply with applicable law ("Compensation Recovery Policy").
 - (b) This Agreement is a voluntary agreement, and each Participant who has accepted the Agreement has chosen to do so voluntarily. Participant understands that all Stock Appreciation Rights
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provided under the Agreement and all amounts paid to the individual under the Agreement are provided as an advance that is contingent on the Company's financial statements not being subject to a material restatement. As a condition of the Agreement, Participant specifically agrees that the Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict the Stock Appreciation Rights for any individual party to such an agreement due to a material restatement of the Company's financial statements, as provided in the Compensation Recovery Policy. In the event that amounts have been paid to Participant pursuant to the Agreement and the Committee determines that Participant must repay an amount to the Company as a result of the Committee's cancellation, rescission, suspension, withholding or other limitation or restriction of rights, Participant agrees, as a condition of being awarded such rights, to make such repayments.

7. **No Advice Regarding Grant.** The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or his or her acquisition or sale of the underlying shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.
8. **Adjustment for Change in Stock.** As set forth in Section 4.2 of the Plan, in the event of a capitalization issue, rights issue, subdivision or consolidation of shares or reduction of capital, the terms of this award of Stock Appreciation Rights (including the number and class of securities subject to the award and the Exercise Price), shall be appropriately adjusted by the Committee, such adjustments to be made in accordance with Section 409A of the Code and Rule 17.03(13) of the HKEx Listing Rules to the extent applicable. Only where approval, waiver, confirmation or otherwise as applicable from the HKEx is obtained, in the event of any other equity restructuring event as defined under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation or any successor or replacement accounting standard, or any other change in corporate capitalization, including a merger, consolidation, reorganization, or partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to the extent necessary to prevent dilution or enlargement of rights of participants. In case of an adjustment pursuant to Section 4.2 of the Plan, the decision of the Committee regarding any such adjustment shall be final, binding and conclusive.
9. **Nontransferability.** These Stock Appreciation Rights are personal to Participant and, during his or her lifetime, may be exercised only by Participant. The Stock Appreciation Rights shall not be transferable or assignable, other than by will or the laws of descent and distribution, in each case, to the extent permitted by applicable law, and any such purported transfer or assignment shall be null and void. In the event of Participant's death, the Stock Appreciation Rights may be exercised by Participant's designated beneficiary (or, if none, his or her legal representative).
10. **Employment Relationship.** For purposes of this Agreement, Participant shall be considered to be in the employment of the Company Group as long as Participant remains an employee of the Company or any of its Subsidiaries or any successor companies assuming or substituting a new award for this award of Stock Appreciation Rights.

For purposes of the Stock Appreciation Rights, Participant's employment or service relationship will be considered terminated as of the date Participant is no longer actively providing services to the Company or one of its Subsidiaries (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any) and will not be extended by any notice period (*e.g.*, Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any).

Any question as to whether and when there has been a termination of such employment (including whether Participant may still be considered to be providing services while on a leave of absence), and the cause of such termination, shall be determined by the Committee, or its delegate, as appropriate, and its

determination shall be final. Nothing contained in this Agreement is intended to constitute or create a contract of service or employment, nor shall it constitute or create the right to remain associated with or in the service or employ of the Company, the Employer or any other Subsidiary or related company for any particular period of time. This Agreement shall not interfere in any way with the right of the Company, the Employer or any other Subsidiary or related company, as applicable, to terminate Participant's service or employment at any time. Furthermore, this Agreement, the Plan, and any other Plan documents are not part of Participant's employment contract, if any, and do not guarantee either Participant's right to receive any future grants of awards or benefits in lieu thereof under this Agreement or the Plan.

11. **Data Privacy.** *Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data as described in this Agreement and any other award materials, by and among, as applicable, the Employer, the Company and its Subsidiaries, for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

Participant understands that the Company and the Employer may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any Stock or directorships held in the Company, details of all awards of Stock Appreciation Rights or any other entitlement to Stock or equivalent benefits awarded, canceled, purchased, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.

Participant understands that Data will be transferred to Merrill Lynch, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections from Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of Data by contacting his or her local human resources representative. Participant authorizes the Company, Merrill Lynch and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer Data, in electronic or other form, for the sole purpose of implementing, administering and managing his or her participation in the Plan. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker, escrow agent or other third party with whom any shares of Stock acquired under the Plan may be deposited. Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her employment status or service and career with the Employer will not be affected; the only consequence of refusing or withdrawing his or her consent is that the Company would not be able to grant Participant Stock Appreciation Rights or other awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

12. **No Rights as Shareholder.** Participant shall not be a shareholder of record and therefore shall have no voting, dividend or other shareholder rights until a Stock Appreciation Right is exercised and shares of Stock subject thereto have been issued to Participant.
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13. **Mode of Communications.** Participant agrees, to the fullest extent permitted by law, in lieu of receiving documents in paper format, to accept electronic delivery of any documents that the Company or related company may deliver in connection with this grant and any other grants offered by the Company, including prospectuses, grant notifications, account statements, annual or quarterly reports, and other communications. Electronic delivery of a document may be made via the Company's email system or by reference to a location on the Company's intranet or website or website of the Company's agent administering the Plan.

To the extent Participant has been provided with a copy of this Agreement, the Plan, or any other documents relating to this Award in a language other than English, the English language documents will prevail in case of any ambiguities or divergences as a result of translation.

14. **Committee's Powers.** No provision contained in this Agreement shall in any way terminate, modify or alter, or be construed or interpreted as terminating, modifying or altering any of the powers, rights or authority vested in the Committee or, to the extent delegated, in its delegate pursuant to the terms of the Plan or resolutions adopted in furtherance of the Plan, including, without limitation, the right to make certain determinations and elections with respect to the Stock Appreciation Rights.

15. **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

16. **Binding Effect.**

- (a) This Agreement shall be binding upon and inure to the benefit of any assignee or successor in interest to the Company, whether by merger, consolidation or the sale of all or substantially all of the Company's assets. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.
- (b) This Agreement shall be binding upon and inure to the benefit of Participant or his or her legal representative and any person to whom a Stock Appreciation Right may be transferred by will, the applicable laws of descent and distribution or, to the extent permitted by applicable law (including, without limitation, the HKEx Listing Rules), the consent of the Committee.

17. **Compliance with Law.** Notwithstanding any other provision of the Plan or this Agreement, unless there is an available exemption from any registration, qualification or other legal requirement applicable to the shares of Stock, the Company shall not be required to deliver any shares issuable upon exercise of the Stock Appreciation Rights prior to the completion of any registration or qualification of the shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the United States Securities and Exchange Commission ("SEC"), the NYSE or HKEx or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval the Company shall, in its absolute discretion, deem necessary or advisable. The Company is under no obligation to register or qualify the shares with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the shares. The Company shall have unilateral authority to amend the Plan and the Agreement without Participant's consent to the extent necessary to comply with securities or other laws applicable to issuance of shares.

Furthermore, Participant understands that the laws of the country in which he or she is working at the time of grant or exercise of the Stock Appreciation Rights or at the subsequent sale of Stock acquired by Participant pursuant to this Agreement (including any rules or regulations governing securities, foreign

exchange, tax, labor or other matters) may subject Participant to additional procedural or regulatory requirements he or she is solely responsible for and will have to independently fulfill in relation to ownership or sale of such Stock.

18. **Insider Trading Restrictions/Market Abuse Laws.** Participant acknowledges that Participant may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including the United States, Hong Kong, and Participant's country, if different, which may affect Participant's ability to acquire or sell shares of Stock or rights to shares of Stock (e.g., Stock Appreciation Rights) under the Plan during such times as Participant is considered to have "inside information" regarding the Company (as defined by the laws in the applicable jurisdiction). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. Participant acknowledges that it is Participant's responsibility to comply with any applicable restrictions, and Participant is advised to speak to his or her personal advisor on this matter.
19. **Governing Law & Venue.** Participant's participation in the Plan and this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof. In the event any term of this Agreement shall be inconsistent with or not in compliance with the applicable rules of the NYSE or the HKEx, the applicable rules of the NYSE or the HKEx shall prevail.

For purposes of litigating any dispute that arises in connection with this grant, Participant's participation in the Plan or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Delaware and agree that such litigation shall be conducted in the courts of Delaware, or the federal courts for the United States for the District of Delaware, where this grant is made and/or to be performed.
20. **Addendum.** Notwithstanding any provisions herein, Participant's participation in the Plan shall be subject to any special terms and conditions set forth in the Addendum to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Addendum, the special terms and conditions for such country will apply to Participant, to the extent Committee determines in its sole discretion that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Addendum constitutes part of this Agreement.
21. **Imposition of Other Requirements.** The Committee reserves the right to impose other requirements on Participant's participation in the Plan and on any Stock acquired under the Plan, to the extent the Committee determines it is necessary or advisable for legal or administrative reasons, and to require Participant to accept the terms of any additional agreements or undertakings that may be necessary to accomplish the foregoing.
22. **Waiver.** Participant acknowledges that a waiver by the company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant
23. **Definitions.** As used in this Agreement, the following terms shall have the meanings set forth below:

- (a) **"Cause"** shall have the meaning set forth in any then applicable employment or other similar written agreement (including such similar term or concept, as determined by the Committee) between Participant and a member of the Company Group, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable. If there is no such written agreement or if such agreement does not define "Cause," the term "Cause" shall mean (i) the willful failure by Participant to perform Participant's duties with the Company or its affiliates (other than any such failure resulting from Participant's incapacity due to physical or mental illness), (ii) Participant's willful misconduct that is demonstrably and materially injurious to the Company or its affiliates, monetarily or otherwise, (iii) Participant's commission of acts of dishonesty, fraud, misrepresentation or other acts of moral turpitude, (iv) Participant's conviction or plea of no contest to a felony (or equivalent crime in the People's Republic of China) or a crime of moral turpitude, or (v) any terminable events under the
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Company's Code of Conduct, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable.

- (b) **“Good Reason”** shall have the meaning set forth in any then applicable employment or other similar written agreement (including such similar term or concept, as determined by the Committee) between Participant and the Company or an affiliate, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable. If there is no such written agreement or if such agreement does not define **“Good Reason,”** then **“Good Reason”** shall be deemed to exist if, and only if, without Participant's written consent there is: (i) a substantial adverse alteration in the nature or status of Participant's responsibilities from those in effect immediately prior to the Change in Control; (ii) a material reduction by the Company in Participant's annual base salary or target annual incentive award opportunity as in effect on the date hereof or as the same may be increased from time to time; provided, however, that Participant's annual base salary or target annual incentive award opportunity may be decreased as part of an across-the-board reduction in base salaries and target annual incentive award opportunities of all Company executive officers so long as the percentage reduction in Participant's annual base salary or target annual incentive award opportunity is not greater than the percentage reduction applicable to other executive officers, for the same period as the reduction in other executive officer's reduction in annual base salary or target annual incentive award opportunity and, in the event such reduction is later mitigated for other executive officers, Participant's annual base salary or target annual incentive award opportunity is then increased by the same percentage applicable to other executive officers; or (iii) the relocation of Participant's principal place of employment to a location more than 50 miles from Participant's principal place of employment immediately prior to the Change in Control or the Company requiring Participant to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's or its affiliates' business to an extent substantially consistent with Participant's business travel obligations immediately prior to the Change in Control, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable. In order to terminate due to Good Reason, (A) Participant must notify the Company in writing of the occurrence of the Good Reason condition within thirty (30) days of Participant having actual or constructive knowledge of the occurrence of such condition, (B) Participant cooperates in good faith with the Company's efforts at no cost to Participant, for a period not less than thirty (30) days following such notice (the **“Cure Period”**), to remedy the condition, (C) notwithstanding such efforts, the Good Reason condition continues to exist after the expiration of the Cure Period, and (D) Participant terminates Participant's employment within thirty (30) days after the expiration of the Cure Period. For the avoidance of doubt, if the Company cures the Good Reason condition during the Cure Period, Good Reason shall be deemed not to have occurred.
- (c) **“Retirement”** shall mean termination of employment by Participant on or after Participant's attainment of age 55 and ten years of service or age 65 and five years of service (and not for any other reason). Notwithstanding the definition of Retirement set forth immediately above, if the Company receives an opinion of counsel that there has been a legal judgment and/or legal development in Participant's jurisdiction that would likely result in the favorable Retirement treatment that applies to this grant under the Plan being deemed unlawful and/or discriminatory, then the Committee will not apply the favorable Retirement treatment at the time of Participant's termination of employment and the Stock Appreciation Rights shall be governed by the remaining provisions related to termination of Participant's employment.

By electronically accepting the grant of the Stock Appreciation Rights and participating in the Plan, Participant agrees to be bound by the terms and conditions in the Plan and this Agreement.

Yum China Holdings, Inc.

By: _____

Its: _____

ADDENDUM TO
YUM CHINA HOLDINGS, INC.
2022 LONG TERM INCENTIVE PLAN

STOCK APPRECIATION RIGHTS AGREEMENT

Certain capitalized terms used but not defined in this Addendum have the meanings set forth in the Stock Appreciation Rights Agreement and the Plan.

Terms and Conditions

This Appendix includes additional terms and conditions that govern the Stock Appreciation Rights granted to the Participant under the Yum China Holdings, Inc. 2022 Long Term Incentive Plan if the Participant works and/or resides in one of the countries listed below.

If the Participant is a citizen or resident of a country other than the one in which he or she is currently residing and/or working or transfers residency and/or employment after the Grant Date, the Company shall determine to which extent the additional terms and conditions shall be applicable to the Participant.

Notifications

This Appendix also includes information regarding exchange controls and certain other issues of which the Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of September 2022. Such laws are often complex and change frequently. As a result, the Company strongly recommends that the Participant not rely on the information in this Appendix as the only source of information relating to the consequences of the Participant's participation in the Plan because the information may be out of date at the time that Stock Appreciation Rights vest or the Participant sells Stock acquired at vesting of the Stock Appreciation Rights under the Plan.

In addition, the information contained herein is general in nature and may not apply to the Participant's particular situation, and the Company is not in a position to assure the Participant of a particular result. Accordingly, the Participant is advised to seek appropriate professional advice as to how the relevant laws in the Participant's country may apply to his or her situation.

Finally, if the Participant is a citizen or resident of a country other than the one in which he or she is currently residing and/or working or transfers residency after the Grant Date, the information contained herein may not be applicable to the Participant in the same manner.

CHINA

Terms and Conditions

The following provisions apply only to the Participant if based/residing in the Mainland of the People's Republic of China (the "PRC") or otherwise maintaining employment or service relationship with any PRC-based branch or subsidiary of Yum China Holdings, Inc., unless otherwise determined by the Company or required by the State Administration of Foreign Exchange of the PRC ("SAFE"):

Exercisability and Exercise Procedure. This provision supplements Sections 2 and 3 of the Stock Appreciation Rights Agreement:

The implementation of the Plan or exercisability and settlement of the Stock Appreciation Rights is conditioned on the Company's completion of the initial registration of the Plan with SAFE and the continued effectiveness of such registration based on necessary follow-up filings with SAFE (the "SAFE Registration"). If the Company is unable to complete or maintain the SAFE Registration for any reason, the Participant shall not be permitted to exercise the Stock Appreciation Right.

Further, notwithstanding anything in the Agreement (including Section 4 of the Stock Appreciation Rights Agreement), if the Participant's employment or service relationship with the Company Group is terminated at a time when the SAFE Registration is not in effect, all Stock Appreciation Rights shall not vest or shall be forfeited if vested.

Mandatory Exercise and Sale of Shares Upon Termination of Service. To ensure compliance with SAFE regulations, and notwithstanding any provision in the Agreement (including Section 4 of the Stock Appreciation Rights Agreement), the Participant agrees that any vested and exercisable Stock Appreciation Rights must be exercised immediately upon, and in no event later than six months after, the Participant's termination of service, or within any such other period as may be required by SAFE. The Participant understands and acknowledges that, notwithstanding Section 4 of the Stock Appreciation Rights Agreement, any vesting of the Stock Appreciation Rights will cease in no event later than six months after the Participant's termination of service, or within such other period as may be required by SAFE. In addition, the Participant acknowledges and agrees that any vested and exercisable Stock Appreciation Rights not exercised immediately upon the Participant's termination, or within such other period as may be required by SAFE, will be forfeited or may be exercised by the Company on behalf of the Participant (pursuant to this authorization).

Further, the Participant agrees that any Stock issued upon exercise of the Stock Appreciation Rights and held by the Participant at the time of his or her termination of service must be sold immediately upon, and in no event later than six months after, the Participant's termination of service, or within any such other period as may be required by SAFE. Any Stock that is not sold by the Participant upon his her termination, or within such other period as may be required by SAFE, will be sold on his or her behalf as soon as practicable after the Participant's termination of service and in no event more than six months after his or her termination of service or after such other period as required by SAFE. The Participant authorizes (i) the Company to instruct its designated broker to sell such Stock and (ii) the designated broker to assist with the sale of such Stock. The Participant acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Stock at any particular price. Upon the sale of the Stock, the Company agrees to pay the Participant the cash proceeds from the sale of the Stock, less any brokerage fees or commissions and subject to any obligation on the Company or the Employer to satisfy any Tax-Related Items.

Broker Account. Any Stock issued to the Participant upon exercise of the Stock Appreciation Rights must be maintained in an account with Merrill Lynch or such other broker as may be designated by the Company until the Stock is sold through that broker.

Repatriation. Pursuant to SAFE regulations in China, when the Stock acquired at exercise of the Stock Appreciation Rights is sold, whether immediately or thereafter, including on the Participant's behalf after termination of his or her service, or when any cash is paid to the Participant upon his/her exercise of the Stock Appreciation Rights, the Participant will be required to immediately repatriate, or cause the Company or any Subsidiary or the Employer to repatriate, the cash proceeds from the sale of the Stock and any cash dividends paid on such Stock, as well as any cash proceeds from the exercise of the Stock Appreciation Rights, to the PRC within six months from receipt of such cash proceeds. The Participant further understands that, under local law, such repatriation of his or her cash proceeds will need to be effectuated through a special exchange control account established in the PRC by the Company or any Subsidiary or the Employer, and the Participant hereby consents and agrees that any of such cash proceeds will be transferred to such special account prior to being paid to the personal accounts of Participant. Unless the Company in its sole discretion decides otherwise, the proceeds will be paid to the Participant in local currency. The Company is under no obligation to secure any exchange conversion rate, and the Company may face delays in converting the proceeds to local currency due to exchange control restrictions in the PRC. The Participant agrees to bear any currency fluctuation risk between the time the cash proceeds in foreign currency are payable to the Participant (from the sale of the Stock, exercise of the Stock Appreciation Rights or otherwise) and the time the cash proceeds in local currency are distributed through such special exchange control account.

Other. The Participant further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with SAFE or other PRC regulatory requirements and to sign any

agreements, forms and/or consents that may be reasonably requested by the Company or its designated broker to effectuate any of the remittances, transfers, conversions or other processes affecting the proceeds.

Notifications

Foreign Asset and Account Reporting. The Participant may be required to report to SAFE all details of their foreign financial assets and liabilities, as well as details of any economic transactions conducted with non-PRC residents. The Participant should consult with his or her personal advisor in order to ensure compliance with applicable reporting requirements.

YUM CHINA HOLDINGS, INC. 2022 LONG TERM INCENTIVE PLAN

PERFORMANCE UNIT AGREEMENT

This **PERFORMANCE UNIT AGREEMENT** (“Agreement”) is made as of the Grant Date set forth in the Award Notice between **YUM CHINA HOLDINGS, INC.**, a Delaware corporation (the “Company”), and the individual named in the Award Notice (“Participant”).

1. **Award.**

- (a) **Performance Units.** Pursuant to the Yum China Holdings, Inc. 2022 Long Term Incentive Plan (the “Plan”), Participant is hereby awarded, as of the Grant Date, on the terms and conditions set forth in this Performance Unit Agreement, including any country-specific terms set forth in the attached addendum (the “Addendum” and, together with the Performance Unit Agreement, the “Agreement”) and the Plan, the target number of performance units set forth in the Award Notice and which evidences the right to receive an equivalent number of shares of Stock (“Performance Units”), with the number of Performance Units determined based on the achievement of the performance goals set forth in the Award Notice.
- (b) **Plan Incorporated.** Participant acknowledges receipt of a copy of the prospectus for the Plan, and agrees that this award of Performance Units shall be subject to all of the terms and conditions set forth in the Plan and the prospectus, including future amendments thereto, if any, and which Plan and prospectus are incorporated herein by reference as a part of this Agreement. Participant may make a written request for a copy of the Plan at any time. Except as defined herein, capitalized terms shall have the same meanings ascribed to them under the Plan.

2. **Terms of Performance Units.** Participant hereby accepts the Performance Units and agrees with respect thereto as follows:

- (a) **Assignment of Performance Units Prohibited.** The Performance Units may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of, except by will or the laws of descent and distribution, in each case, to the extent permitted by applicable law, and any such purported transfer or assignment shall be null and void.
- (b) **Vesting.** Subject to the remainder of this Section 2, the Stock shall vest pursuant to the terms of this Agreement and the Plan based on the achievement of the performance goals set forth in the Award Notice over the performance period set forth in the Award Notice (the “Performance Period”), provided that Participant remains in continuous employment with the Company and its Subsidiaries (collectively, the “Company Group”) through the end of the Performance Period. Attainment of the performance goals shall be determined and certified by the Committee in writing prior to the settlement of the Performance Units.
- (c) **Termination of Employment during Performance Period.** If a Participant’s termination of employment occurs prior to the last day of the Performance Period, the Participant shall forfeit all Performance Units (including any additional Performance Units or dividend equivalents attributable to dividends allocated to the Participant) granted with respect to the Performance Period; provided, however, that if a Participant’s termination of employment occurs by reason of the Participant’s death, Retirement (as defined in Section 20) or involuntary termination by a member of the Company Group other than for Cause (as defined in Section 20), including without limitation, as a result of (i) a disposition (or similar transaction) with respect to an identifiable Company business or segment (“Business”), and in accordance with the terms of the transaction, Participant and a substantial portion of the other employees of the Business continue in
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employment with such Business or commence employment with its acquiror, (ii) the elimination of Participant's position within the Company Group, or (iii) the selection of Participant for work force reduction (whether selection is voluntary or involuntary), in each case, prior to the end of the Performance Period, the Participant (or in the event of his death, his estate) shall receive, subject to Participant's execution and non-revocation of the Company's customary general release of claims in favor of the Company (the "Release"), the number of shares of Stock with respect to that Performance Period that the Participant would have received if such termination of employment did not occur during the Performance Period (and based on the actual performance for the entire Performance Period), but subject to a pro rata reduction to reflect the number of days remaining in the Performance Period after the date of such termination of employment. Distribution of shares of Stock under this Section 2(c) shall be made at the same time distribution would have been made with respect to the Performance Period determined as though the termination of employment had not occurred.

- (d) **Change in Control during Performance Period.** Notwithstanding the foregoing provisions of this Section 2, if Participant resigns from the Company Group due to Good Reason (as defined in Section 20) or Participant is involuntarily terminated other than for Cause upon or within two (2) years following a Change in Control and during the Performance Period, then performance shall be measured based on the greater of (i) actual performance for the Performance Period through the date of termination of employment and (ii) target performance, and, subject to the Participant's execution and non-revocation of the Release, shares of Stock with respect to such vested Performance Units shall be distributed within 60 days following the Participant's termination of employment; provided, however, in the event the Change in Control and termination of employment occurs during the first year of the Performance Period, performance for purposes of determining the number of Performance Units that vest shall be determined based on the target performance level. In the event of a Change in Control during the Performance Period pursuant to which the Performance Units are not effectively assumed or continued by the surviving or acquiring corporation in such Change in Control (with appropriate adjustments to the number and kind of shares, in each case, that preserve the material terms and conditions of the outstanding Performance Units as in effect immediately prior to the Change in Control), the Performance Units shall vest at the greater of (i) actual performance for the Performance Period through the Change in Control and (ii) target performance, and the Participant shall receive shares of Stock or other property with a value equal to the aggregate number of Performance Units that vest pursuant to this sentence multiplied by the Fair Market Value of a share of Stock as of the date of the Change in Control and such shares of Stock or property shall be distributed to the Participant within 60 days following such Change in Control; provided, however, in the event the Change in Control occurs during the first year of the Performance Period, performance for purposes of determining the number of Performance Units that vest shall be determined based on the target performance level.
- (e) **Dividend Equivalent Units.** Participant will be credited with additional units ("Dividend Equivalent Units") equal to the amount of dividends that would have been paid on the Performance Units if Participant actually owned the same number of shares of Stock during the Performance Period. Dividend Equivalent Units shall vest at the same time that the Performance Units vest; provided, however, that in the event the Performance Units are forfeited then any accumulated Dividend Equivalent Units shall also be forfeited.
- (f) **No Rights as Stockholder.** Except as provided for in Section 2(e) of this Agreement, Participant shall not be a shareholder of record and therefore shall have no voting or other shareholder rights prior to the issuance of shares of Stock at vesting.
- (g) **Settlement and Delivery of Stock.** Except as otherwise provided for in this Agreement and subject to Section 19 of this Agreement, payment of vested Performance Units shall be made as soon as administratively practicable after the end of the Performance Period but in no event later than 2-1/2 months following the end of the Performance Period. Settlement will be made by payment in shares of Stock. For a Chinese National, in the event of retirement, death, or
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involuntary termination under the terms stated in this Agreement during the Performance Period, with respect to the pro-rated Performance Units distributable upon vesting, if any (when the employment has already been terminated), the Company (including the appointed broker) is authorized to sell such Stock at the market price (for the avoidance of doubt, the broker is under no obligation to arrange for the sale of stock at any particular price). Upon the sale of such Stock, the Company agrees to pay Participant the cash proceeds, less brokerage fees/commissions and tax-withholding, relating to such sale of Stock.

Notwithstanding the foregoing or any other provision of the Plan or this Agreement, unless there is an exemption from any registration, qualification or other legal requirement applicable to the shares of Stock, the Company shall not be required to deliver any shares issuable upon settlement of the Performance Units prior to the completion of any registration or qualification of the shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the U.S. Securities and Exchange Commission ("SEC"), NYSE or HKEx or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval the Company shall, in its absolute discretion, deem necessary or advisable. The Company is under no obligation to register or qualify the shares of Stock with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the shares. Further, the Company shall have unilateral authority to amend the Agreement without Participant's consent to the extent necessary to comply with securities or other laws applicable to issuance of shares of Stock.

Furthermore, Participant understands that the laws of the country in which he or she is working at the time of grant or vesting of the Performance Units or at the subsequent sale of Stock granted to Participant under this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor or other matters) may subject Participant to additional procedural or regulatory requirements he or she is solely responsible for and will have to independently fulfill in relation to ownership or sale of such Stock.

3. **Withholding of Tax.**

- (a) Participant acknowledges that regardless of any action taken by the Company or, if different, Participant's employer (the "Employer"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items arising out of Participant's participation in the Plan and legally applicable to Participant ("Tax-Related Items"), is and remains Participant's responsibility and may exceed the amount, if any, actually withheld by the Company and/or the Employer. Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance Units, including but not limited to, the grant, vesting or settlement of the Performance Units, the subsequent sale of Stock acquired under the Plan pursuant to such settlement and the receipt of any dividends or Dividend Equivalent Units; and (ii) do not commit and are under no obligation to structure the terms of the grant or any aspect of the grant or any aspect of the Performance Units to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Furthermore, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.
 - (b) Prior to any relevant taxable, tax and/or social security contribution withholding event, as applicable, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy their withholding obligations with respect to Tax-Related Items by one or a combination of the following (i) withholding from Participant's wages or other cash compensation paid to Participant by the Company, the Employer, or any Subsidiary; (ii) cash payment by the Participant, (iii) net settlement by authorizing the Company to withhold whole shares of Stock which would otherwise be delivered having an aggregate Fair Market Value, determined as of the date of settlement, equal to the amount necessary to satisfy the Tax-Related Items; (iv) the Participant irrevocably
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authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon settlement of the Award and remit to the Company a sufficient portion of the sale proceeds to pay the Tax-Related Items, or (v) any other means approved by the Committee and permitted under applicable law; provided, however, that if Participant is a Section 16 officer of the Company under the Exchange Act, then Participant may elect the form of withholding from the alternatives above in advance of any taxable or tax withholding event, as applicable, and in the absence of Participant's timely election, the Company will withhold from proceeds of the sale of Stock upon the relevant taxable or tax withholding event, as applicable, or the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) may determine that a particular method be used to satisfy any obligations for Tax-Related Items in advance of any taxable or tax withholding event, as applicable.

- (c) Depending on the withholding method, the Company or the Employer may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the Stock equivalent. If the obligation for the Tax-Related Items is satisfied by withholding in Stock, for tax purposes, Participant is deemed to have been issued the full number of shares of Stock subject to the vested Performance Units, notwithstanding that a number of shares of Stock are held back solely for the purpose of paying the Tax-Related Items.
- (d) Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Participant's participation in the Plan that cannot be satisfied by the means previously described in this Section 3. The Company may refuse to issue or deliver the Stock or the proceeds from the sale of Stock, if Participant fails to comply with his or her obligations in connection with the Tax-Related Items.

4. **Nature of Award.** In accepting the Performance Units, Participant acknowledges, understands and agrees that:

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
 - (b) this award of Performance Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Performance Units, or benefits in lieu of Performance Units, even if Performance Units have been granted in the past;
 - (c) this award of Performance Units and the shares of Stock subject to the Performance Units, and the income and value of same, are not part of normal or expected compensation or salary for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;
 - (d) all decisions with respect to future grants of Performance Units or other awards, if any, will be at the sole discretion of the Company;
 - (e) Participant's participation in the Plan is voluntary;
 - (f) this award of Performance Units and any Stock acquired under the Plan, and the income and value of same, are not intended to replace any pension rights or compensation;
 - (g) the future value of the Stock underlying the Performance Units is unknown, indeterminable and cannot be predicted with certainty;
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- (h) no claim or entitlement to compensation or damages shall arise from termination of this award of Performance Units or diminution in value of the Stock acquired upon settlement resulting from Participant's separation from service (regardless of the reason for the termination and whether or not the termination is later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any);
- (i) unless otherwise provided in the Plan or by the Company in its discretion, the Performance Units and the benefits evidenced by this Agreement do not create any entitlement to have the Performance Units or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of Stock; and
- (j) the following provisions apply only if Participant is providing services outside the United States:
 - (i) the Performance Units and the shares of Stock subject to the Performance Units, and the income and value of same, are not part of normal or expected compensation or salary for any purpose; and
 - (ii) neither the Company, the Employer nor any other Subsidiary shall be liable for any foreign exchange rate fluctuation between his or her local currency and the United States Dollar that may affect the value of the Performance Units or of any amounts due to Participant pursuant to the settlement of the Performance Units or the subsequent sale of any shares of Stock acquired upon settlement.

5. **Compensation Recovery Policy**

- (a) The Participant acknowledges and agrees that the Performance Units granted to the Participant under this Agreement shall be subject to any compensation recovery or recoupment policy established or adopted from time to time by the Company, including those established or adopted after the Grant Date to comply with applicable law ("Compensation Recovery Policy").
- (b) This Agreement is a voluntary agreement, and each Participant who has accepted the Agreement has chosen to do so voluntarily. Participant understands that the Performance Units provided under the Agreement and all amounts paid to the individual under the Agreement are provided as an advance that is contingent on the Company's financial statements not being subject to a material restatement. As a condition of the Agreement, Participant specifically agrees that the Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict the Performance Units for any individual party to such an agreement due to a material restatement of the Company's financial statements, as provided in the Company's Compensation Recovery Policy. In the event that amounts have been paid to Participant pursuant to the Agreement and the Committee determines that Participant must repay an amount to the Company as a result of the Committee's cancellation, rescission, suspension, withholding or other limitation or restriction of rights, Participant agrees, as a condition of being awarded such rights, to make such repayments.

6. **No Advice Regarding Grant.** The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or his or her acquisition or the sale of the underlying shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

7. **Adjustment for Change in Stock.** As set forth in Section 4.2 of the Plan, in the event of a capitalization issue, rights issue, subdivision or consolidation of shares or reduction of capital, the terms of this award of Performance Units (including the number and class of securities subject to the award and the applicable performance goals), shall be appropriately adjusted by the Committee, such adjustments to be made in accordance with Section 409A of the Code and Rule 17.03(13) of the HKEx Listing Rules to the extent

applicable. Only where approval, waiver, confirmation or otherwise as applicable from the HKEx is obtained, in the event of any other equity restructuring event as defined under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation or any successor or replacement accounting standard, or any other change in corporate capitalization, including a merger, consolidation, reorganization, or partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to the extent necessary to prevent dilution or enlargement of rights of participants. In case of an adjustment pursuant to Section 4.2 of the Plan, the decision of the Committee regarding any such adjustment shall be final, binding and conclusive.

8. **Employment Relationship.** For purposes of this Agreement, Participant shall be considered to be in the employment of the Company Group as long as Participant remains an employee of the Company or any of its Subsidiaries or any successor companies assuming or substituting a new award for this award of Performance Units.

For purposes of the Performance Units, Participant's employment or service relationship will be considered terminated as of the date Participant is no longer actively providing services to the Company or one of its Subsidiaries (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any) and will not be extended by any notice period (e.g., Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any).

Any question as to whether and when there has been a termination of such employment (including whether Participant may still be considered to be providing services while on a leave of absence), and the cause of such termination, shall be determined by the Committee, or its delegate, as appropriate, and its determination shall be final. Nothing contained in this Agreement is intended to constitute or create a contract of service or employment, nor shall it constitute or create the right to remain associated with or in the service or employ of the Company, the Employer or any other Subsidiary or related company for any particular period of time. This Agreement shall not interfere in any way with the right of the Company, the Employer or any other Subsidiary or related company, as applicable, to terminate Participant's service or employment at any time. Furthermore, this Agreement, the Plan, and any other Plan documents are not part of Participant's employment contract, if any, and do not guarantee either Participant's right to receive any future grants of awards or benefits in lieu thereof under this Agreement or the Plan.

9. **Data Privacy.** *Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data as described in this Agreement and any other award materials by and among, as applicable, the Employer, the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

Participant understands that the Company and the Employer may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any Stock or directorships held in the Company, details of all awards of Performance Units or any other entitlement to Stock or equivalent benefits awarded, canceled, purchased, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.

Participant understands that Data will be transferred to Merrill Lynch, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections from Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of Data by contacting his or her local human resources representative. Participant authorizes the Company, Merrill Lynch and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive,

possess, use, retain and transfer Data, in electronic or other form, for the sole purpose of implementing, administering and managing his or her participation in the Plan. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker, escrow agent or other third party with whom any shares of Stock acquired under the Plan may be deposited. Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing his or her consent is that the Company would not be able to grant Participant Performance Units or other awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

10. **Mode of Communications.** Participant agrees, to the fullest extent permitted by law, in lieu of receiving documents in paper format, to accept electronic delivery of any documents that the Company or related company may deliver in connection with this grant and any other grants offered by the Company, including prospectuses, grant notifications, account statements, annual or quarterly reports, and other communications. Electronic delivery of a document may be made via the Company's email system or by reference to a location on the Company's intranet or website or website of the Company's agent administering the Plan.

To the extent Participant has been provided with a copy of this Agreement, the Plan, or any other documents relating to this Award in a language other than English, the English language documents will prevail in case of any ambiguities or divergences as a result of translation.

11. **Committee's Powers.** No provision contained in this Agreement shall in any way terminate, modify or alter, or be construed or interpreted as terminating, modifying or altering any of the powers, rights or authority vested in the Committee or, to the extent delegated, in its delegate pursuant to the terms of the Plan or resolutions adopted in furtherance of the Plan, including, without limitation, the right to make certain determinations and elections with respect to the Performance Units.
12. **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.
13. **Binding Effect.**
- (a) This Agreement shall be binding upon and inure to the benefit of any assignee or successor in interest to the Company, whether by merger, consolidation or the sale of all or substantially all of the Company's assets. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.
 - (b) This Agreement shall be binding upon and inure to the benefit of the Participant or his or her legal representative and any person to whom a Performance Unit may be transferred by will, the applicable laws of descent and distribution or, to the extent permitted by applicable law (including, without limitation, the HKEx Listing Rules), the consent of the Committee.
14. **Insider Trading Restrictions/Market Abuse Laws.** Participant acknowledges that Participant may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including the
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United States, Hong Kong, and the Participant's country, if different, which may affect Participant's ability to acquire or sell shares of Stock or rights to shares of Stock (e.g., Performance Units) under the Plan during such times as Participant is considered to have "inside information" regarding the Company (as defined by the laws in the applicable jurisdiction). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. Participant acknowledges that it is Participant's responsibility to comply with any applicable restrictions, and Participant is advised to speak to his or her personal advisor on this matter.

15. **Governing Law and Forum.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof. In the event any term of this Agreement shall be inconsistent with or not in compliance with the applicable rules of the NYSE or the HKEx, the applicable rules of the NYSE or the HKEx shall prevail. For purposes of resolving any dispute that may arise directly or indirectly from this Agreement, the parties hereby agree that any such dispute that cannot be resolved by the parties shall be submitted to the Committee for resolution, and any decision by the Committee shall be final.

For purposes of litigating any dispute that arises under this grant, Participant's participation in the Plan or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Delaware and agree that such litigation shall be conducted in the courts of Delaware, or the federal courts for the United States for the District of Delaware, where this grant is made and/or to be performed.

16. **Addendum.** Notwithstanding any provisions in this Agreement, the Award of Performance Units shall be subject to any special terms and conditions set forth in any Addendum to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Addendum, the special terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Addendum constitutes part of this Agreement.
17. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Performance Units and on any Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.
18. **Waiver.** Participant acknowledges that a waiver by the company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant.
19. **Section 409A Provisions.** Notwithstanding anything in this Agreement (or the Plan) to the contrary, if the Participant is subject to U.S. tax laws:
- (a) It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), and all regulations, guidance and other interpretive authority issued thereunder ("Code Section 409A") so as not to subject Participant to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to Participant. Notwithstanding the foregoing or any other provision of this Agreement, neither the Company nor any Subsidiary guarantees the tax treatment of the award evidenced by this Agreement (or other awards under the Plan).
 - (b) If any payment hereunder (whether separately or together with any other payments) is subject to Code Section 409A, and if such payment or benefit is to be paid or provided on account of Participant's termination of employment (or other separation from service or termination of employment) (i) and if Participant is a specified employee (within the meaning of Code Section
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409A) and if any such payment is required to be made or provided prior to the first day of the seventh month following Participant's separation from service or termination of employment, such payment shall be delayed until the first day of the seventh month following Participant's separation from service or termination of employment (or, if earlier, Participant's death), (ii) the determination as to whether Participant has had a termination of employment (or separation from service) shall be made in accordance with the provisions of Code Section 409A without application of any alternative levels of reductions of bona fide services permitted thereunder, and (iii) to the extent any such payment is conditioned upon the Participant's execution of a release and such payment is to be paid or provided during a designated period that begins in one taxable year and ends in a second taxable year, such payment shall be paid or provided in the later of the two taxable years.

- (c) If any payment hereunder (whether separately or together with any other payments) is subject to Code Section 409A, then in the event the Participant becomes entitled to shares under Section 2(d) upon a Change in Control in which the Performance Units are not effectively assumed, then such shares shall be paid upon such Change in Control only if the Change in Control is a "change in control event" within the meaning of Section 409A of the Code and the settlement of such Stock would be permissible under Code Section 409A; provided, however, in the event the Participant becomes entitled to shares under Section 2(d) following Participant's termination of employment following a Change in Control, such shares shall be paid at the time set forth in Section 2(d) only if the Change in Control is a "change in control event" within the meaning of Section 409A of the Code and, if applicable, such termination of employment occurs within two years following such Change in Control or the distribution would otherwise be permitted under Section 409A of the Code and, if the foregoing conditions are not satisfied, any shares deliverable under Section 2(d) shall be delivered at the time set forth in Section 2(c) or 2(g), as applicable.

20. **Definition.** As used in this Agreement, the following terms shall have the meanings set forth below:

- (a) "Cause" shall have the meaning set forth in any then applicable employment or other similar written agreement (including such similar term or concept, as determined by the Committee) between Participant and a member of the Company Group, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable. If there is no such written agreement or if such agreement does not define "Cause," the term "Cause" shall mean (i) the willful failure by Participant to perform Participant's duties with the Company or its affiliates (other than any such failure resulting from Participant's incapacity due to physical or mental illness), (ii) Participant's willful misconduct that is demonstrably and materially injurious to the Company or its affiliates, monetarily or otherwise, (iii) Participant's commission of acts of dishonesty, fraud, misrepresentation or other acts of moral turpitude, (iv) Participant's conviction or plea of no contest to a felony (or equivalent crime in the People's Republic of China) or a crime of moral turpitude, or (v) any terminable events under the Company's Code of Conduct, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable.
- (b) "Good Reason" shall have the meaning set forth in any then applicable employment or other similar written agreement (including such similar term or concept, as determined by the Committee) between Participant and the Company or an Affiliate, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable. If there is no such written agreement or if such agreement does not define "Good Reason," then "Good Reason" shall be deemed to exist if, and only if, without Participant's written consent there is: (i) a substantial adverse alteration in the nature or status of the Participant's responsibilities from those in effect immediately prior to the Change in Control; (ii) a material reduction by the Company in the Participant's annual base salary or target annual incentive award opportunity as in effect on the date hereof or as the same may be increased from time to time; provided, however, that Participant's annual base salary or target annual incentive award opportunity may be decreased as part of an across-the-board reduction in base salaries and target annual incentive award opportunities of all Company executive officers so long as the
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percentage reduction in Participant's annual base salary or target annual incentive award opportunity is not greater than the percentage reduction applicable to other executive officers, for the same period as the reduction in other executive officer's reduction in annual base salary or target annual incentive award opportunity and, in the event such reduction is later mitigated for other executive officers, Participant's annual base salary or target annual incentive award opportunity is then increased by the same percentage applicable to other executive officers; or (iii) the relocation of the Participant's principal place of employment to a location more than 50 miles from the Participant's principal place of employment immediately prior to the Change in Control or the Company requiring the Participant to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's or its affiliates' business to an extent substantially consistent with the Participant's business travel obligations immediately prior to the Change in Control, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable. In order to terminate due to Good Reason, (A) Participant must notify the Company in writing of the occurrence of the Good Reason condition within thirty (30) days of Participant having actual or constructive knowledge of the occurrence of such condition, (B) Participant cooperates in good faith with the Company's efforts at no cost to the Participant, for a period not less than thirty (30) days following such notice (the "Cure Period"), to remedy the condition, (C) notwithstanding such efforts, the Good Reason condition continues to exist after the expiration of the Cure Period, and (D) Participant terminates Participant's employment within thirty (30) days after the expiration of the Cure Period. For the avoidance of doubt, if the Company cures the Good Reason condition during the Cure Period, Good Reason shall be deemed not to have occurred.

- (c) "Retirement" shall mean termination of employment by Participant on or after Participant's attainment of age 55 and ten years of service or age 65 and five years of service (and not for any other reason). Notwithstanding the definition of Retirement set forth immediately above, if the Company receives an opinion of counsel that there has been a legal judgment and/or legal development in Participant's jurisdiction that would likely result in the favorable Retirement treatment that applies to this grant under the Plan being deemed unlawful and/or discriminatory, then the Committee will not apply the favorable Retirement treatment at the time of Participant's termination of employment and the Performance Units shall be governed by the remaining provisions related to termination of Participant's employment.
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By accepting the grant of the Performance Units and participating in the Plan, the Participant agrees to be bound by the terms and conditions in the Plan and this Agreement. This grant of Performance Units must be accepted by signing in the space below no later than the 60th day following the Grant Date.

Yum China Holdings, Inc.

By: _____

Its: _____

Participant

By: _____

ADDENDUM TO
YUM CHINA HOLDINGS, INC. 2022 LONG TERM INCENTIVE PLAN
PERFORMANCE UNIT AGREEMENT

Certain capitalized terms used but not defined in this Addendum have the meanings set forth in the Performance Unit Agreement and the Plan.

Terms and Conditions

This Addendum includes additional terms and conditions that govern the Award of Performance Units granted to Participant under the Yum China Holdings, Inc. 2022 Long Term Incentive Plan if Participant works and/or resides in one of the countries listed below.

If Participant is a citizen or resident of a country other than the one in which he or she is currently residing and/or working or transfers residency after the Grant Date, the Company shall determine to which extent the additional terms and conditions shall be applicable to Participant.

Notifications

This Addendum also includes information regarding exchange controls and certain other issues of which Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of September 2022. Such laws are often complex and change frequently. As a result, the Company strongly recommends that Participant not rely on the information in this Addendum as the only source of information relating to the consequences of Participant's participation in the Plan because the information may be out of date at the time that Performance Units vest or Participant sells Stock acquired at vesting of the Performance Units under the Plan.

In addition, the information contained herein is general in nature and may not apply to Participant's particular situation, and the Company is not in a position to assure Participant of a particular result. Accordingly, Participant is advised to seek appropriate professional advice as to how the relevant laws in Participant's country may apply to his or her situation.

Finally, if Participant is a citizen or resident of a country other than the one in which he or she is currently residing and/or working or transfers residency after the Grant Date, the information contained herein may not be applicable to Participant in the same manner.

CHINA

Terms and Conditions

The following provisions apply only to the Participant if based/residing in the Mainland of the People's Republic of China (the "PRC") or otherwise maintaining employment or service relationship with any PRC-based branch or subsidiary of Yum China Holdings, Inc., unless otherwise determined by the Company or required by the State Administration of Foreign Exchange of the PRC ("SAFE"):

Settlement and Delivery of Stock. This provision supplements Paragraph 2(f) of the Performance Unit Agreement:

The implementation of the Plan or settlement of the Performance Units is conditioned on the Company's completion of the initial registration of the Plan with SAFE and the continued effectiveness of such registration based on necessary follow-up filings with SAFE (the "SAFE Registration"). If the Company is unable to complete or maintain the SAFE Registration for any reason, no shares of Stock subject to the Performance Units shall be issued.

Furthermore, notwithstanding anything in the Performance Unit Agreement, if Participant's employment or service relationship with the Company Group is terminated at a time when the SAFE Registration is not in effect, all Performance Units shall not vest or shall be forfeited if vested.

Mandatory Sale of Shares Upon Termination of Service. To ensure compliance with SAFE regulations, and notwithstanding any provision in the Agreement, Participant agrees that any Stock issued upon settlement of the Performance Units and held by Participant at the time of his or her termination of service must be sold immediately upon such termination of service. Any Stock that is not sold by Participant will be sold on his or her behalf as soon as practicable after Participant's termination of service and in no event more than six months after his or her termination of service, pursuant to this authorization (i) to the Company to instruct its designated broker to sell such Stock and (ii) to the designated broker to assist with the sale of such Stock. Participant acknowledges that the Company's designated broker is under no obligation to arrange for the sale of the Stock at any particular price. Upon the sale of the Stock, the Company agrees to pay Participant the cash proceeds from the sale of the Stock, less any brokerage fees or commissions and subject to any obligation on the Company or the Employer to satisfy any Tax-Related Items.

Broker Account. Any Stock issued to Participant upon settlement of the Performance Units must be maintained in an account with Merrill Lynch or such other broker as may be designated by the Company until the Stock is sold through that broker.

Repatriation. Pursuant to SAFE regulations, when the Stock acquired at settlement of the Performance Units are sold, whether immediately or thereafter, including on Participant's behalf after termination of his or her service, Participant will be required to immediately repatriate, or cause the Company or any Subsidiary or the Employer to repatriate, the cash proceeds from the sale of the Stock and any cash dividends paid on such Stock to the PRC within six months from receipt of such cash proceeds. Participant further understands that, under local law, such repatriation of his or her cash proceeds will need to be effectuated through a special exchange control account established in the PRC by the Company or any Subsidiary or the Employer, and Participant hereby consents and agrees that any of such cash proceeds will be transferred to such special account prior to being paid to the personal accounts of Participant. Unless the Company in its sole discretion decides otherwise, the proceeds will be paid to Participant in local currency. The Company is under no obligation to secure any exchange conversion rate, and the Company may face delays in converting the proceeds to local currency due to exchange control restrictions in the PRC. Participant agrees to bear any currency fluctuation risk between the time the cash proceeds in foreign currency are payable to the Participant (from the sale of the Stock or otherwise) and the time the cash proceeds in local currency are distributed through such special exchange control account.

Other. Participant further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with SAFE or other PRC regulatory requirements and to sign any agreements, forms and/or consents that may be reasonably requested by the Company or its designated broker to effectuate any of the remittances, transfers, conversions or other processes affecting the proceeds.

Notifications

Foreign Asset and Account Reporting. Participant may be required to report to SAFE all details of their foreign financial assets and liabilities, as well as details of any economic transactions conducted with non-PRC residents. Participant should consult with his or her personal advisor in order to ensure compliance with applicable reporting requirements.

CERTIFICATION

I, Joey Wat, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yum China Holdings, 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 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 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: May 8, 2023

/s/ Joey Wat

Joey Wat
Chief Executive Officer

CERTIFICATION

I, Andy Yeung, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yum China Holdings, 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 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 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: May 8, 2023

/s/ Andy Yeung

Andy Yeung
Chief Financial Officer

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

In connection with the Quarterly Report of Yum China Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Joey Wat, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 8, 2023

/s/ Joey Wat

Joey Wat

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Yum China Holdings, Inc. and will be retained by Yum China Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report of Yum China Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Andy Yeung, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 8, 2023

/s/ Andy Yeung

Andy Yeung

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Yum China Holdings, Inc. and will be retained by Yum China Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
