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

FORM 10-Q

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

For the quarterly period ended September 30, 2021

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	**81-2421743**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
7100 Corporate Drive **Plano, Texas 75024** **United States of America**	**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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

The number of shares outstanding of the registrant's common stock as of November 3, 2021 was 428,126,907 shares.

Yum China Holdings, Inc.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Statements of Income (Unaudited)
Yum China Holdings, Inc.
(in US$ millions, except per share data)

	Quarter Ended		Year to Date Ended	
Revenues	**9/30/2021**	**9/30/2020**	**9/30/2021**	**9/30/2020**
Company sales	$ 2,310	$ 2,118	$ 6,874	$ 5,358
Franchise fees and income	40	40	120	112
Revenues from transactions with franchisees and unconsolidated affiliates	184	170	519	488
Other revenues	20	20	49	46
Total revenues	2,554	2,348	7,562	6,004
Costs and Expenses, Net				
Company restaurants				
Food and paper	743	660	2,133	1,711
Payroll and employee benefits	591	458	1,675	1,236
Occupancy and other operating expenses	694	606	1,995	1,621
Company restaurant expenses	2,028	1,724	5,803	4,568
General and administrative expenses	142	127	408	339
Franchise expenses	17	17	50	50
Expenses for transactions with franchisees and unconsolidated affiliates	180	164	509	480
Other operating costs and expenses	17	15	41	38
Closures and impairment expenses, net	2	1	13	30
Other income, net	(10)	(256)	(15)	(282)
Total costs and expenses, net	2,376	1,792	6,809	5,223
Operating Profit	178	556	753	781
Interest income, net	16	11	47	28
Investment (loss) gain	(39)	38	(43)	75
Income Before Income Taxes	155	605	757	884
Income tax provision	(44)	(155)	(210)	(232)
Net income – including noncontrolling interests	111	450	547	652
Net income – noncontrolling interests	7	11	32	19
Net Income – Yum China Holdings, Inc.	$ 104	$ 439	$ 515	$ 633
Weighted-average common shares outstanding (in millions):				
Basic	422	387	421	380
Diluted	435	400	435	391
Basic Earnings Per Common Share	$ 0.25	$ 1.13	$ 1.23	$ 1.67
Diluted Earnings Per Common Share	$ 0.24	$ 1.10	$ 1.19	$ 1.62

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)
Yum China Holdings, Inc.
(in US$ millions)

	Quarter Ended		Year to Date Ended	
	9/30/2021	**9/30/2020**	**9/30/2021**	**9/30/2020**
Net income - including noncontrolling interests	$ 111	$ 450	$ 547	$ 652
Other comprehensive income, net of tax of nil:				
Foreign currency translation adjustments	10	123	50	88
Comprehensive income - including noncontrolling interests	121	573	597	740
Comprehensive income - noncontrolling interests	9	17	36	23
Comprehensive Income - Yum China Holdings, Inc.	$ 112	$ 556	$ 561	$ 717

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)
Yum China Holdings, Inc.
(in US$ millions)

	Year to Date Ended	
	9/30/2021	9/30/2020
Cash Flows – Operating Activities		
Net income – including noncontrolling interests	$ 547	$ 652
Depreciation and amortization	380	327
Non-cash operating lease cost	310	270
Closures and impairment expenses	13	30
Gain from re-measurement of previously held equity interest	(10)	(239)
Investment loss (gain)	43	(75)
Equity income from investments in unconsolidated affiliates	(38)	(51)
Distributions of income received from unconsolidated affiliates	21	25
Deferred income taxes	17	73
Share-based compensation expense	32	27
Changes in accounts receivable	2	(19)
Changes in inventories	13	52
Changes in prepaid expenses and other current assets	—	31
Changes in accounts payable and other current liabilities	82	56
Changes in income taxes payable	(5)	62
Changes in non-current operating lease liabilities	(309)	(292)
Other, net	(24)	(30)
Net Cash Provided by Operating Activities	1,074	899
Cash Flows – Investing Activities		
Capital spending	(482)	(284)
Purchases of short-term investments	(4,524)	(2,859)
Purchases of long-term time deposits	(25)	(57)
Maturities of short-term investments	4,544	1,066
Contribution to unconsolidated affiliates	—	(17)
Acquisition of business, net of cash acquired	—	(288)
Investment in equity securities	(261)	—
Disposal of equity securities	—	54
Other, net	5	52
Net Cash Used in Investing Activities	(743)	(2,333)
Cash Flows – Financing Activities		
Common stock issuance proceeds, net of issuance costs	—	2,203
Repurchase of shares of common stock	(32)	(8)
Cash dividends paid on common stock	(152)	(45)
Dividends paid to noncontrolling interests	(22)	(7)
Payment of acquisition related holdback	(8)	—
Other, net	(6)	1
Net Cash (Used in) Provided by Financing Activities	(220)	2,144
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	9	17
Net Increase in Cash, Cash Equivalents and Restricted Cash	120	727
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	1,158	1,055
Cash, Cash Equivalents and Restricted Cash - End of Period	$ 1,278	$ 1,782
Supplemental Cash Flow Data		
Cash paid for income tax	210	105
Non-cash Investing and Financing Activities		
Capital expenditures included in accounts payable and other current liabilities	208	148

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Balance Sheets
Yum China Holdings, Inc.
(in US$ millions)

	9/30/2021 (Unaudited)	12/31/2020
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,278	$ 1,158
Short-term investments	3,099	3,105
Accounts receivable, net	97	99
Inventories, net	390	398
Prepaid expenses and other current assets	218	176
Total Current Assets	5,082	4,936
Property, plant and equipment, net	1,910	1,765
Operating lease right-of-use assets	2,287	2,164
Goodwill	858	832
Intangible assets, net	218	246
Deferred income tax assets	68	98
Investments in unconsolidated affiliates	309	85
Other assets	774	749
Total Assets	$ 11,506	$ 10,875
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 2,126	$ 1,995
Income taxes payable	68	72
Total Current Liabilities	2,194	2,067
Non-current operating lease liabilities	2,014	1,915
Non-current finance lease liabilities	34	28
Deferred income tax liabilities	217	227
Other liabilities	170	167
Total Liabilities	4,629	4,404
Redeemable Noncontrolling Interest	12	12
Equity		
Common stock, $0.01 par value; 1,000 million shares authorized; 444 million shares and 440 million shares issued at September 30, 2021 and December 31, 2020, respectively; 424 million shares and 420 million shares outstanding at September 30, 2021 and December 31, 2020, respectively	4	4
Treasury stock	(762)	(728)
Additional paid-in capital	4,685	4,658
Retained earnings	2,468	2,105
Accumulated other comprehensive income	213	167
Total Yum China Holdings, Inc. Stockholders' Equity	6,608	6,206
Noncontrolling interests	257	253
Total Equity	6,865	6,459
Total Liabilities, Redeemable Noncontrolling Interest and Equity	$ 11,506	$ 10,875

See accompanying Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Tabular amounts in US$ millions, except for number of shares and per share data)

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, Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza 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. Pursuant to the master license agreement, we are the exclusive licensee of the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, 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 with automatic renewals for additional consecutive renewal terms of 50 years each, subject only to YCCL being in "good standing" and unless YCCL gives notice of its 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, Huang Ji Huang, COFFii & JOY and East Dawning, and pay no license fee related to these concepts.

The Company also owns a controlling interest in the holding company of DAOJIA.com.cn ("Daojia"), an established online food delivery service provider in China.

In 2017, the Company started an e-commerce business offering a wide selection of products including electronics, home and kitchen accessories, fresh groceries, and other general merchandise to customers directly through the Company's e-commerce platform.

In April 2020, the Company completed the acquisition of a 93.3% interest in the Huang Ji Huang group ("Huang Ji Huang"), a leading Chinese-style casual dining franchise business, for cash consideration of $185 million. Upon acquisition, Huang Ji Huang became an operating segment of the Company. The acquisition was considered immaterial. Following the acquisition, we established a Chinese dining business unit comprising our three Chinese dining brands, namely Little Sheep, Huang Ji Huang and East Dawning.

Also in April 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 shop 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 August 2020, the Company completed the acquisition of an additional 25% equity interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China ("Suzhou KFC"), for cash consideration of $149 million. Upon closing of the acquisition, the Company increased its equity interest to 72%, allowing the Company to consolidate Suzhou KFC. The acquisition was considered immaterial.

In September 2021, the Company entered into a definitive agreement to acquire a 28% equity interest in Hangzhou Catering Service Group ("Hangzhou Catering") for cash consideration of approximately $250 million. Hangzhou Catering holds a 45% equity interest in the Hangzhou KFC joint venture ("Hangzhou KFC"), of which the Company currently holds a 47% equity interest. We expect to complete the acquisition in the fourth quarter of 2021, subject to the satisfaction of customary closing conditions and regulatory approvals. Upon closing, the Company will control and consolidate Hangzhou KFC, which operates over 700 KFC stores in and around Hangzhou, with an approximately 60% equity interest, directly and indirectly.

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Lavazza, Daojia 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. Additional details on our reportable operating segments are included in Note 13.

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 US$2.2 billion.

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 September 30, 2021, results of our operations and comprehensive income for the quarters and years to date ended September 30, 2021 and 2020, and cash flows for the years to date ended September 30, 2021 and 2020. 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 defined and included in the Company's Annual Report on Form 10-K as filed with the SEC on February 26, 2021.

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.

The operating results of Huang Ji Huang, Suzhou KFC and the Lavazza joint venture have been included in the Company's Condensed Consolidated Financial Statements since the acquisition dates of April 8, 2020, August 3, 2020 and September 18, 2021, respectively.

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 December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Income Tax (Topic 740), Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. We adopted the standard on January 1, 2021 and such adoption did not have a material impact on our financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments—Equity Securities (Topic 321)*, *Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815*) ("ASU 2020-01"), which clarifies the interaction between equity securities under Topic 321 and investments accounted for under the equity method in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. We adopted the standard on January 1, 2021 and such adoption did not have a material impact on our financial statements.

In October 2020, the FASB issued ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs* ("ASU 2020-08"), which clarifies that an entity should reevaluate for each reporting period whether a callable debt security is within the scope of certain guidance in ASC 310-20 that was issued in ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. We adopted the standard on January 1, 2021 and such adoption did not have a material impact on our financial statements.

Note 3 – Revenue Recognition

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

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. For delivery orders placed through our mobile applications, we use our dedicated riders, while for orders placed through third-party aggregators' platforms, we either used our dedicated riders or third-party aggregators' delivery staff in the past. Starting in 2019, we use our own dedicated riders to deliver orders placed through aggregators' platforms to customers of KFC and Pizza Hut stores. With respect to delivery orders delivered 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 KFC and Pizza Hut 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 the KFC and Pizza Hut family privilege membership program 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 in accordance with ASC 606. The franchise agreement term is generally 10 years for KFC and Pizza Hut, five or 10 years for Little Sheep and three or 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 and Unconsolidated Affiliates

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

The Company centrally purchases substantially all food and paper products from suppliers for substantially all of our restaurants, including franchisees and unconsolidated affiliates, 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 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 the procurement service 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 and unconsolidated affiliates. Revenue is recognized upon transfer of control over ordered items, generally upon delivery to the franchisees and unconsolidated affiliates.

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 and unconsolidated affiliates. Other services provided to franchisees and unconsolidated affiliates 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.

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 table presents revenue disaggregated by types of arrangements and segments:

	Quarter Ended 9/30/2021						
Revenues	**KFC**	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated**	**Combined**	**Elimination**	**Consolidated**
Company sales	$ 1,750	$ 546	$ 14	$ —	$ 2,310	$ —	$ 2,310
Franchise fees and income	32	2	6	—	40	—	40
Revenues from transactions with franchisees and unconsolidated affiliates	17	2	26	139	184	—	184
Other revenues	2	1	88	7	98	(78)	20
Total revenues	$ 1,801	$ 551	$ 134	$ 146	$ 2,632	$ (78)	$ 2,554

	Quarter Ended 9/30/2020						
Revenues	**KFC**	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated**	**Combined**	**Elimination**	**Consolidated**
Company sales	$ 1,597	$ 508	$ 13	$ —	$ 2,118	$ —	$ 2,118
Franchise fees and income	32	2	6	—	40	—	40
Revenues from transactions with franchisees and unconsolidated affiliates	16	1	18	135	170	—	170
Other revenues	1	—	36	2	39	(19)	20
Total revenues	$ 1,646	$ 511	$ 73	$ 137	$ 2,367	$ (19)	$ 2,348

Revenues	Year to Date Ended 9/30/2021 KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	$ 5,220	$ 1,617	$ 37	$ —	$ 6,874	$ —	$ 6,874
Franchise fees and income	95	6	19	—	120	—	120
Revenues from transactions with franchisees and unconsolidated affiliates	46	5	75	393	519	—	519
Other revenues	6	2	187	11	206	(157)	49
Total revenues	$ 5,367	$ 1,630	$ 318	$ 404	$ 7,719	$ (157)	$ 7,562

Revenues	Year to Date Ended 9/30/2020 KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	$ 4,077	$ 1,252	$ 29	$ —	$ 5,358	$ —	$ 5,358
Franchise fees and income	97	4	11	—	112	—	112
Revenues from transactions with franchisees and unconsolidated affiliates	47	3	34	404	488	—	488
Other revenues	1	—	77	4	82	(36)	46
Total revenues	$ 4,222	$ 1,259	$ 151	$ 408	$ 6,040	$ (36)	$ 6,004

Accounts Receivable

Accounts receivable primarily consist of trade receivables and royalties from franchisees and unconsolidated affiliates, and are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts receivable on the Condensed Consolidated Balance Sheets. 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 September 30, 2021 and December 31, 2020, the ending balances of provision for accounts receivable were $2 million and $1 million, respectively, and amounts of accounts receivable past due were immaterial. Receivables due from unconsolidated affiliates, including accounts receivable and dividend receivables, were $82 million and $50 million as of September 30, 2021 and December 31, 2020, respectively.

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 and unconsolidated affiliates, 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 and unconsolidated affiliates. 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 $9 million at September 30, 2021 and December 31, 2020, respectively.

Contract Liabilities

Contract liabilities at September 30, 2021 and December 31, 2020 were as follows:

Contract liabilities	**9/30/2021**	**12/31/2020**
- Deferred revenue related to prepaid stored-value products	$ 117	$ 117
- Deferred revenue related to upfront franchise fees	45	38
- Deferred revenue related to customer loyalty programs	26	23
- Deferred revenue related to privilege membership programs	14	27
- Others	1	1
Total	$ 203	$ 206

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 $68 million and $61 million for the quarters ended September 30, 2021 and 2020, respectively, and $115 million and $82 million for the years to date ended September 30, 2021 and 2020, 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 the 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 and unconsolidated affiliates based on a certain percentage of sales, as those sales occur.

Note 4 – Earnings Per Common Share (“EPS”)

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

	Quarter Ended		Year to Date Ended	
	9/30/2021	9/30/2020	9/30/2021	9/30/2020
Net Income – Yum China Holdings, Inc.	$ 104	$ 439	$ 515	$ 633
Weighted-average common shares outstanding (for basic calculation)(a)	422	387	421	380
Effect of dilutive share-based awards(a)	6	7	6	6
Effect of dilutive warrants(b)	7	6	8	5
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)(a)	435	400	435	391
Basic Earnings Per Common Share	$ 0.25	$ 1.13	$ 1.23	$ 1.67
Diluted Earnings Per Common Share	$ 0.24	$ 1.10	$ 1.19	$ 1.62
Share-based awards excluded from the diluted EPS computation(c)	2	3	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 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) Pursuant to the investment agreements dated September 1, 2016, Yum China issued to strategic investors two tranches of warrants on January 9, 2017, with each tranche initially providing the right to purchase 8,200,405 shares of Yum China common stock, at an initial exercise price of $31.40 and $39.25 per share, respectively, subject to customary anti-dilution adjustments. The warrants may be exercised at any time through October 31, 2021. The incremental shares arising from outstanding warrants are included in the computation of diluted EPS, if there is dilutive effect when the average market price of Yum China common stock for the periods exceeds the applicable exercise price of the warrants. During the quarter ended September 30, 2021, 3,465,973 common shares were issued as a result of the cashless exercise of 7,483,193 warrants, which upon exercise were excluded from the calculation of dilutive warrants and included in the weighted-average common shares outstanding. The remaining 9,579,560 warrants were subsequently exercised in October 2021 on a cashless basis in exchange for 4,068,343 common shares issued.

(c) 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 September 30, 2021 and 2020.

Note 5 – 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 Income (Loss)	Treasury Stock		Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interest
	Shares*	Amount				Shares*	Amount			
Balance at June 30, 2021	**440**	**$ 4**	**$ 4,679**	**$ 2,415**	**$ 205**	**(20)**	**$ (728)**	**$ 241**	**$ 6,816**	**$ 12**
Net Income				104				7	111	—
Foreign currency translation adjustments					8			2	10	—
Comprehensive income									121	—
Acquisition of business								7	7	
Cash dividends declared ($0.12 per common share)				(51)					(51)	
Repurchase of shares of common stock						(1)	(34)		(34)	
Exercise and vesting of share-based awards	1	—	—						—	
Exercise of the warrants	3	—	—						—	
Share-based compensation			6						6	
Balance at September 30, 2021	**444**	**$ 4**	**$ 4,685**	**$ 2,468**	**$ 213**	**(20)**	**$ (762)**	**$ 257**	**$ 6,865**	**$ 12**
Balance at June 30, 2020	**397**	**$ 4**	**$ 2,444**	**$ 1,565**	**$ (82)**	**(20)**	**$ (728)**	**$ 72**	**$ 3,275**	**$ 12**
Net Income				439				11	450	—
Foreign currency translation adjustments					117			6	123	—
Comprehensive income									573	—
Acquisition of business								144	144	
Issuance of common stock, net of issuance costs	42	—	2,193						2,193	
Exercise and vesting of share-based awards	—	—	—						—	
Share-based compensation			10						10	
Balance at September 30, 2020	**439**	**$ 4**	**$ 4,647**	**$ 2,004**	**$ 35**	**(20)**	**$ (728)**	**$ 233**	**$ 6,195**	**$ 12**

	Yum China Holdings, Inc.									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interest
	Shares	Amount				Shares*	Amount			
Balance at December 31, 2020	**440**	**$ 4**	**$ 4,658**	**$ 2,105**	**$ 167**	**(20)**	**$ (728)**	**$ 253**	**$ 6,459**	**$ 12**
Net Income				515				32	547	—
Foreign currency translation adjustments					46			4	50	—
Comprehensive income									597	—
Acquisition of business								7	7	
Cash dividends declared ($0.36 per common share)				(152)					(152)	
Dividends declared								(39)	(39)	
Repurchase of shares of common stock						(1)	(34)		(34)	
Exercise and vesting of share-based awards	1	—	(5)						(5)	
Exercise of the warrants	3	—	—						—	
Share-based compensation			32						32	
Balance at September 30, 2021	**444**	**$ 4**	**$ 4,685**	**$ 2,468**	**$ 213**	**(20)**	**$ (762)**	**$ 257**	**$ 6,865**	**$ 12**
Balance at December 31, 2019	**395**	**$ 4**	**$ 2,427**	**$ 1,416**	**$ (49)**	**(19)**	**$ (721)**	**$ 98**	**$ 3,175**	**$ —**
Net Income				633				19	652	—
Foreign currency translation adjustments					84			4	88	—
Comprehensive income									740	—
Acquisition of business								144	144	12
Cash dividends declared ($0.12 per common share)				(45)					(45)	
Dividends declared								(32)	(32)	
Issuance of common stock, net of issuance costs	42	—	2,193						2,193	
Repurchase of shares of common stock						—	(7)		(7)	
Exercise and vesting of share-based awards	2	—	—						—	
Share-based compensation			27						27	
Balance at September 30, 2020	**439**	**$ 4**	**$ 4,647**	**$ 2,004**	**$ 35**	**(20)**	**$ (728)**	**$ 233**	**$ 6,195**	**$ 12**

*: Shares may not add due to rounding.

Share Repurchase Program

Our Board of Directors has authorized an aggregate of $1.4 billion for our share repurchase program. The Company repurchased 0.6 million and 0.2 million shares of Yum China common stock at a total cost of $34 million and $7 million during the years to date ended September 30, 2021 and 2020, respectively. The total repurchase cost included $2 million settled subsequent to September 30, 2021, for shares repurchased with trade dates prior to September 30, 2021. As of September 30, 2021, $658 million remained available for future share repurchases under the authorization.

Note 6 – 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, resulting in a significant decline in Operating profit mainly driven by same-store sales declines and temporary store closures. The results of the third quarter of 2021 were significantly impacted by the Delta variant outbreak that started in late July. This regional outbreak was the most widely spread wave since the first quarter of 2020. Operating profit was $178 million and $556 million for the quarters ended September 30, 2021 and 2020, respectively, and $753 million and $781 million for the years to date ended September 30, 2021 and 2020, respectively. The decrease in Operating profit for the quarter ended September 30, 2021 was mainly due to sales deleveraging as well as lapping the impact of a $239 million gain from the re-measurement of our previously held equity interest in Suzhou KFC in the third quarter of 2020 upon the acquisition, which is further described below. The decrease in Operating profit for the year to date ended September 30, 2021 was mainly due to lapping the re-measurement gain related to Suzhou KFC, offset by same-store sales growth.

Consolidation of Former Unconsolidated Affiliates

In April 2020, the Company and Lavazza Group established the Lavazza joint venture to explore and develop the Lavazza coffee shop concept in China, with ownership of a 65% and 35% equity interest, respectively. The Company accounted for the Lavazza joint venture under the equity method of accounting because Lavazza Group held substantive participating rights on certain significant financial and operating decisions. In September 2021, the Company and Lavazza Group entered into agreements for the joint venture, whereby substantive participating rights previously held by Lavazza Group were removed, and thus the Company obtained control over the joint venture and started to consolidate its results from the acquisition date.

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 our equity interest to 72%, and thus the Company obtained control over the joint venture and started to consolidate Suzhou KFC from the acquisition date.

As a result of the consolidation of the Lavazza joint venture and Suzhou KFC, the Company also recognized a gain of $10 million and $239 million, respectively, in the third quarter of 2021 and 2020, respectively, from the re-measurement of our previously held equity interest at fair value using a discounted cash flow valuation approach and incorporating assumptions and estimates that are Level 3 inputs. Key assumptions used in estimating future cash flows included projected revenue growth and costs and expenses, which were based on internal projections, store expansion plans, historical performance of stores of the brand, and the business environment, as well as the selection of an appropriate discount rate based on the weighted-average cost of capital which includes company-specific risk premium. The gain was recorded in Other income, net and not allocated to any segment for performance reporting purposes.

Additionally, as a result of the acquisition of Suzhou KFC, $61 million of the purchase price was allocated to intangible assets related to reacquired franchise rights, which are being amortized over the remaining franchise contract period of 2.4 years.

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 accounted for the equity securities at fair value based on their closing market price on each measurement date, with subsequent fair value changes recorded in our Condensed Consolidated Statements of Income.

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 Sunner's second largest shareholder, 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 and reclassified this investment from Other assets to Investment in unconsolidated affiliates 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 third quarter of 2021, the Company's equity income from Sunner was immaterial. The unrealized loss of $22 million was included in Investment gain or loss in our Condensed Consolidated Statements of Income for the year to date ended September 30, 2021, representing changes in fair value before the equity method of accounting was applied.

Since Sunner became the Company's unconsolidated affiliate in May 2021, the Company purchased inventories of $125 million and $198 million from Sunner during the quarter and year to date ended September 30, 2021, respectively, and the Company's accounts payable and other current liabilities due to Sunner were $57 million as of September 30, 2021.

As of September 30, 2021, the Company's investment in Sunner was stated at the carrying amount of $244 million, which was $168 million higher than the Company's interest in Sunner's underlying net assets. Of this basis difference, $20 million was related to finite-lived intangible assets which are being amortized over 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 September 30, 2021, the market value of the Company's investment in Sunner was $209 million based on its quoted closing price.

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 for proceeds of approximately $54 million, and realized a $17 million pre-tax gain which was recognized during the holding period.

The Company accounted 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.

A summary of pre-tax gains or losses on investment in equity securities of Meituan recognized, which was included in Investment gain or loss in our Condensed Consolidated Statements of Income, is as follows:

	Quarter Ended		Year to Date Ended	
	9/30/2021	9/30/2020	9/30/2021	9/30/2020
Unrealized (losses) gains recorded on equity securities still held as of the end of the period	$ (41)	$ 38	$ (27)	$ 76
Losses recorded on equity securities sold during the period	—	—	—	(1)
(Losses) gains recorded on equity securities	$ (41)	$ 38	$ (27)	$ 75

Store Impairment Charges

We recorded store impairment charges of $4 million and $23 million for the quarter and year to date ended September 30, 2021, respectively, and $3 million and $39 million for the quarter and year to date ended September 30, 2020, respectively. The decrease in store impairment charges for the year to date ended September 30, 2021 is due to additional impairment evaluation in the first quarter of 2020. See Note 11 for additional information.

Note 7 – Other Income, net

	Quarter Ended		Year to Date Ended	
	9/30/2021	9/30/2020	9/30/2021	9/30/2020
Equity income from investments in unconsolidated affiliates	$ 10	$ 17	$ 37	$ 51
Gain from re-measurement of previously held equity interest(a)	10	239	10	239
Amortization of reacquired franchise rights(b)	(10)	(7)	(29)	(13)
Derecognition of indemnification assets related to Daojia(c)	—	—	—	(3)
Foreign exchange impact and other	—	7	(3)	8
Other income, net	$ 10	$ 256	$ 15	$ 282

(a) As a result of the consolidation of the Lavazza joint venture and Suzhou KFC as disclosed in Note 6, the Company recognized a gain of $10 million and $239 million for the quarters and years to date ended September 30, 2021 and 2020, respectively, from the re-measurement of our previously held equity interest at fair value, which was not allocated to any segment for performance reporting purposes.

(b) Increase in amortization of reacquired franchise rights resulted from the acquisition of Suzhou KFC as disclosed in Note 6, with $61 million of the purchase price allocated to intangible assets related to reacquired franchise rights, which is being amortized over the remaining franchise contract period.

(c) In the quarter ended June 30, 2020, the Company derecognized a $3 million indemnification asset previously recorded for the Daojia acquisition as the indemnification right pursuant to the purchase agreement expired. The expense was included in Other income, net, but was not allocated to any segment for performance reporting purposes.

Note 8 – Supplemental Balance Sheet Information

Accounts Receivable, net	9/30/2021	12/31/2020
Accounts receivable, gross	$ 99	$ 100
Allowance for doubtful accounts	(2)	(1)
Accounts receivable, net	$ 97	$ 99

Prepaid Expenses and Other Current Assets	9/30/2021	12/31/2020
Receivables from payment processors and aggregators	$ 35	$ 47
Dividends receivable from unconsolidated affiliates	44	10
Other prepaid expenses and current assets	139	119
Prepaid expenses and other current assets	$ 218	$ 176

Property, Plant and Equipment	9/30/2021	12/31/2020
Buildings and improvements	$ 2,518	$ 2,367
Finance leases, primarily buildings	44	36
Machinery and equipment, and construction in progress	1,651	1,490
Property, plant and equipment, gross	4,213	3,893
Accumulated depreciation	(2,303)	(2,128)
Property, plant and equipment, net	$ 1,910	$ 1,765

Other Assets	9/30/2021	12/31/2020
VAT assets	$ 281	$ 270
Land use right	138	140
Investment in equity securities	133	160
Long-term deposits	93	83
Investment in long-term time deposits(a)	88	61
Costs to obtain contracts	7	9
Others	34	26
Other Assets	$ 774	$ 749

Accounts Payable and Other Current Liabilities	9/30/2021	12/31/2020
Accounts payable	$ 756	$ 708
Operating lease liabilities	455	448
Accrued compensation and benefits	257	238
Contract liabilities	166	175
Accrued capital expenditures	208	203
Accrued marketing expenses	100	73
Other current liabilities	184	150
Accounts payable and other current liabilities	$ 2,126	$ 1,995

Other Liabilities	9/30/2021	12/31/2020
Accrued income tax payable	$ 54	$ 66
Contract liabilities	37	31
Other non-current liabilities	79	70
Other liabilities	$ 170	$ 167

(a) As of September 30, 2021 and December 31, 2020, the Company had $88 million and $61 million invested in long-term time deposits, bearing a fixed interest rate with original maturity of three years. The asset is restricted for use in order to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements.

Note 9 – Goodwill and Intangible Assets

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

	Total Company	KFC	Pizza Hut	All Other Segments
Balance as of December 31, 2020				
Goodwill, gross	$ 1,223	$ 748	$ 20	$ 455
Accumulated impairment losses(a)	(391)	—	—	(391)
Goodwill, net	832	748	20	64
Goodwill acquired(b)	15	—	—	15
Effect of currency translation adjustment	11	10	—	1
Balance as of September 30, 2021				
Goodwill, gross	1,249	758	20	471
Accumulated impairment losses(a)	(391)	—	—	(391)
Goodwill, net	$ 858	$ 758	$ 20	$ 80

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

(b) Goodwill resulted from the consolidation of the Lavazza joint venture.

Intangible assets, net as of September 30, 2021 and December 31, 2020 are as follows:

	9/30/2021				12/31/2020			
	Gross Carrying Amount(a)	Accumulated Amortization	Accumulated Impairment Losses(b)	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Losses(b)	Net Carrying Amount
Finite-lived intangible assets								
Reacquired franchise rights	$ 225	$ (173)	$ —	$ 52	$ 223	$ (144)	$ —	$ 79
Huang Ji Huang franchise related assets	23	(2)	—	21	23	(1)	—	22
Daojia platform	16	(4)	(12)	—	16	(4)	(12)	—
Customer-related assets	12	(9)	(2)	1	12	(8)	(2)	2
Others	9	(4)	—	5	9	(4)	—	5
	$ 285	$ (192)	$ (14)	$ 79	$ 283	$ (161)	$ (14)	$ 108
Indefinite-lived intangible assets								
Little Sheep trademark	$ 56	$ —	$ —	$ 56	$ 56	$ —	$ —	$ 56
Huang Ji Huang trademark	83	—	—	83	82	—	—	82
	$ 139	$ —	$ —	$ 139	$ 138	$ —	$ —	$ 138
Total intangible assets	$ 424	$ (192)	$ (14)	$ 218	$ 421	$ (161)	$ (14)	$ 246

(a) Changes in gross carrying amount include 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 of finite-lived intangible assets was $10 million and $8 million for the quarters ended September 30, 2021 and 2020, respectively, and $31 million and $14 million for the years to date ended September 30, 2021 and 2020, respectively. As of September 30, 2021, expected amortization expense for the unamortized finite-lived intangible assets is approximately $10 million for the remainder of 2021, $41 million in 2022, $4 million in 2023, $2 million in 2024 and $2 million in 2025.

Note 10 – Leases

As of September 30, 2021, we operated over 8,900 Company-owned restaurants, leasing the underlying land and/or building. 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 refranchising 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 revenue, respectively, within our Condensed Consolidated Statements of Income.

Supplemental Balance Sheet

	9/30/2021	12/31/2020	Account Classification
Assets			
Operating lease right-of-use assets	$ 2,287	$ 2,164	Operating lease right-of-use assets
Finance lease right-of-use assets	26	20	Property, plant and equipment, net
Total leased assets	$ 2,313	$ 2,184	
Liabilities			
Current			
Operating lease liabilities	$ 455	$ 448	Accounts payable and other current liabilities
Finance lease liabilities	3	2	Accounts payable and other current liabilities
Non-current			
Operating lease liabilities	2,014	1,915	Non-current operating lease liabilities
Finance lease liabilities	34	28	Non-current finance lease liabilities
Total lease liabilities	$ 2,506	$ 2,393	

Summary of Lease Cost	**Quarter Ended**		**Year to Date Ended**		
	9/30/2021	**9/30/2020**	**9/30/2021**	**9/30/2020**	**Account Classification**
Operating lease cost	$ 140	$ 124	$ 414	$ 365	Occupancy and other operating expenses, G&A or Franchise expenses
Finance lease cost					
Amortization of leased assets	1	—	2	1	Occupancy and other operating expenses
Interest on lease liabilities	—	—	1	1	Interest expense, net
Variable lease cost (a)	91	84	273	188	Occupancy and other operating expenses or Franchise expenses
Short-term lease cost	3	3	8	8	Occupancy and other operating expenses or G&A
Sub-lease income	(6)	(6)	(20)	(18)	Franchise fees and income or Other revenues
Total lease cost	$ 229	$ 205	$ 678	$ 545	

(a) The Company was granted $2 million and $6 million in lease concessions from landlords related to the effects of the COVID-19 pandemic during the quarters ended September 30, 2021 and 2020, respectively, and $9 million and $31 million during the years to date ended September 30, 2021 and 2020, 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 Q&A 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	**Year to Date Ended**	
	9/30/2021	**9/30/2020**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 423	$ 353
Operating cash flows from finance leases	1	1
Financing cash flows from finance leases	2	1
Right-of-use assets obtained in exchange for new lease liabilities(b):		
Operating leases	$ 394	$ 193
Finance leases	7	—

(b) This supplemental non-cash disclosure for right-of-use ("ROU") assets obtained in exchange for new lease liabilities also includes non-cash transactions resulting in adjustments to the lease liability or ROU asset due to modification or other reassessment events.

Lease Term and Discount Rate	**9/30/2021**	**9/30/2020**
Weighted-average remaining lease term (years)		
Operating leases	7.0	6.9
Finance leases	11.2	10.9
Weighted-average discount rate		
Operating leases	5.7%	5.9%
Finance leases	5.6%	5.8%

Summary of Future Lease Payments and Lease Liabilities

Maturities of lease liabilities as of September 30, 2021 were as follows:

	Amount of Operating Leases	Amount of Finance Leases	Total
Remainder of 2021	$ 174	$ 1	$ 175
2022	537	5	542
2023	476	5	481
2024	407	5	412
2025	342	4	346
Thereafter	1,071	30	1,101
Total undiscounted lease payment	3,007	50	3,057
Less: imputed interest(c)	538	13	551
Present value of lease liabilities	$ 2,469	$ 37	$ 2,506

(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 September 30, 2021, we have additional lease agreements that have been signed but not yet commenced, with total undiscounted minimum lease payments of $192 million. These leases will commence between the fourth quarter of 2021 and 2023 with lease terms of 1 year to 20 years.

Note 11 – Fair Value Measurements and Disclosures

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

The Company accounts for its investment in equity securities at fair value, which is determined based on the respective closing market price for the securities 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 time deposits 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 and years to date ended September 30, 2021 and 2020.

	Balance at September 30, 2021	Fair Value Measurement or Disclosure at September 30, 2021 Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	$ 386		$ 386	
Money market funds	28	28		
Fixed income debt securities[a]	178	78	100	
Total cash equivalents	592	106	486	—
Short-term investments:				
Time deposits	2,087		2,087	
Fixed income debt securities[a]	806		806	
Structured deposits[b]	78		78	
Variable return investments	128	128		
Total short-term investments	3,099	128	2,971	—
Other assets:				
Investment in equity securities	133	133		
Long-term time deposits	88		88	
Total	$ 3,912	$ 367	$ 3,545	$ —

	Balance at December 31, 2020	Fair Value Measurement or Disclosure at December 31, 2020 Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	$ 601		$ 601	
Fixed income debt securities[a]	207	207		
Total cash equivalents	808	207	601	—
Short-term investments:				
Time deposits	2,165		2,165	
Fixed income debt securities[a]	784	104	680	
Variable return investments	156	156		
Total short-term investments	3,105	260	2,845	—
Other assets:				
Investment in equity securities	160	160		
Long-term time deposits	61		61	
Total	$ 4,134	$ 627	$ 3,507	$ —

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

(b) Represented certain structured deposits invested in 2021. These investments are principal-protected and provide returns in the form of both fixed and variable interests. Such variable interest rates indexed to gold prices or foreign exchange rates are considered embedded derivatives and bifurcated from host contracts, and measured at fair value on a recurring basis. The fair value change of the embedded derivatives is recorded in Investment gain or loss in our Condensed Consolidated Statements of Income. The remaining host contracts to receive guaranteed principal and fixed interest are measured at amortized cost, with accretion of interest recorded in Interest income in our Condensed Consolidated Statements of Income. As of September 30, 2021, the fair value of embedded derivatives included in Short-term investments was immaterial.

Non-Recurring Fair Value Measurements

In addition, certain of the Company's restaurant-level assets (including operating lease ROU assets, property, plant and equipment), 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.

In determining the fair value of restaurant-level assets, the Company considered the highest and best use of the assets from market participants' perspective, which is represented by the higher of the forecasted discounted cash flows from operating restaurants and the price market participants would pay to sub-lease the ROU assets and acquire remaining restaurants assets, even if that use differs from the current use by the Company. The after-tax cash flows incorporate reasonable assumptions we believe a franchisee would make, such as sales growth, and include a deduction for royalties we would receive under a franchise agreement with terms substantially at market. The discount rate used in the fair value calculation is our estimate of the required rate-of-return that a franchisee would expect to receive when purchasing a similar restaurant and the related long-lived assets. In situations where the highest and best use of restaurant-level assets are represented by sub-leasing the operating lease ROU assets and acquiring remaining restaurant assets, the Company continues to use these assets in operating its restaurant business, which is consistent with its long-term strategy of growing revenue through operating restaurant concepts.

As of each relevant measurement date, the fair value of restaurant-level assets, if determined to be impaired, are primarily represented by the price market participant would pay to sub-lease the operating lease ROU assets and acquire remaining restaurants assets, which reflects the highest and best use of the assets. Significant unobservable inputs used in the fair value measurement include market rental prices, which were determined with the assistance of an independent valuation specialist. The direct comparison approach is used as the valuation technique by assuming sub-lease of each of these properties in its existing state with vacant possession. By making reference to lease transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as location and property size.

The following table presents amounts recognized from all non-recurring fair value measurements based on unobservable inputs (Level 3) during the quarters and years to date ended September 30, 2021 and 2020. These amounts exclude fair value measurements made for restaurants that were subsequently closed or refranchised prior to those respective period-end dates.

	Quarter Ended		Year to Date Ended		
	9/30/2021	**9/30/2020**	**9/30/2021**	**9/30/2020**	**Account Classification**
Restaurant-level impairment[(a)]	$ —	$ —	$ 13	$ 30	Closure and impairment expenses, net
Total	$ —	$ —	$ 13	$ 30	

(a) Restaurant-level impairment charges are recorded in Closures and impairment expenses, net and resulted primarily from our semi-annual impairment evaluation of long-lived assets of individual restaurants that were being operated at the time of impairment and had not been offered for refranchising. We performed an additional impairment evaluation in the first quarter of 2020, considering the adverse effects of the COVID-19 pandemic as an impairment indicator. After considering the impairment charges recorded during the corresponding periods, the fair value of assets as of the relevant measurement date was $50 million and $76 million for year to date ended September 30, 2021 and 2020, respectively.

Note 12 – Income Taxes

	Quarter Ended		Year to Date Ended	
	9/30/2021	9/30/2020	9/30/2021	9/30/2020
Income tax provision	$ 44	$ 155	$ 210	$ 232
Effective tax rate	28.3%	25.6%	27.7%	26.3%

The higher effective tax rate for the quarter ended September 30, 2021 was primarily due to the impact from our investment in equity securities of Meituan, higher planned repatriation of earnings outside of China subject to foreign withholding tax, and increased valuation allowance for certain underperforming subsidiaries.

The higher effective tax rate for the year to date ended September 30, 2021 was primarily due to higher planned repatriation of earnings outside of China subject to foreign withholding tax, increased valuation allowance for certain underperforming subsidiaries and less tax benefit on equity income from investments in unconsolidated affiliates, partially offset by lower residual U.S. tax.

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.

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 Chinese State Taxation Administration ("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 13 –Segment Reporting

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

	Quarter Ended 9/30/2021						
Revenues	**KFC**	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated**(a)	**Combined**	**Elimination**	**Consolidated**
Revenue from external customers	$ 1,801	$ 551	$ 59	$ 143	$ 2,554	$ —	$ 2,554
Inter-segment revenue	—	—	75	3	78	(78)	—
Total	$ 1,801	$ 551	$ 134	$ 146	$ 2,632	$ (78)	$ 2,554

Revenues	Quarter Ended 9/30/2020 KFC	Pizza Hut	All Other Segments	Corporate and Unallocated[a]	Combined	Elimination	Consolidated
Revenue from external customers	$ 1,646	$ 511	$ 54	$ 137	$ 2,348	$ —	$ 2,348
Inter-segment revenue	—	—	19	—	19	(19)	—
Total	$ 1,646	$ 511	$ 73	$ 137	$ 2,367	$ (19)	$ 2,348

Revenues	Year to Date Ended 9/30/2021 KFC	Pizza Hut	All Other Segments	Corporate and Unallocated[a]	Combined	Elimination	Consolidated
Revenue from external customers	$ 5,367	$ 1,630	$ 164	$ 401	$ 7,562	$ —	$ 7,562
Inter-segment revenue	—	—	154	3	157	(157)	—
Total	$ 5,367	$ 1,630	$ 318	$ 404	$ 7,719	$ (157)	$ 7,562

Revenues	Year to Date Ended 9/30/2020 KFC	Pizza Hut	All Other Segments	Corporate and Unallocated[a]	Combined	Elimination	Consolidated
Revenue from external customers	$ 4,222	$ 1,259	$ 115	$ 408	$ 6,004	$ —	$ 6,004
Inter-segment revenue	—	—	36	—	36	(36)	—
Total	$ 4,222	$ 1,259	$ 151	$ 408	$ 6,040	$ (36)	$ 6,004

	Quarter Ended		Year to Date Ended	
Operating Profit (Loss)	9/30/2021	9/30/2020	9/30/2021	9/30/2020
KFC[b]	$ 196	$ 286	$ 763	$ 598
Pizza Hut	18	61	117	48
All Other Segments	(6)	2	(15)	(10)
Unallocated revenues from transactions with franchisees and unconsolidated affiliates[c]	139	135	393	404
Unallocated Other revenues	7	2	11	4
Unallocated expenses from transactions with franchisees and unconsolidated affiliates[c]	(138)	(134)	(390)	(404)
Unallocated Other operating costs and expenses	(5)	(1)	(10)	(3)
Unallocated and corporate G&A expenses	(42)	(42)	(123)	(100)
Unallocated Other income, net[d]	9	247	7	244
Operating Profit	$ 178	$ 556	$ 753	$ 781
Interest income, net[a]	16	11	47	28
Investment (loss) gain[a]	(39)	38	(43)	75
Income Before Income Taxes	$ 155	$ 605	$ 757	$ 884

	Quarter Ended		Year to Date Ended	
Impairment Charges	9/30/2021	9/30/2020	9/30/2021	9/30/2020
KFC[e]	$ 3	$ 1	$ 14	$ 17
Pizza Hut[e]	1	1	8	18
All Other Segments[e]	—	1	1	4
	$ 4	$ 3	$ 23	$ 39

	Total Assets	
	9/30/2021	12/31/2020
KFC[f]	$ 4,314	$ 4,084
Pizza Hut	920	906
All Other Segments	427	378
Corporate and Unallocated[g]	5,845	5,507
	$ 11,506	$ 10,875

(a) Amounts have not been allocated to any segment for performance reporting purposes.

(b) Includes equity income from investments in unconsolidated affiliates of $13 million and $17 million for the quarters ended September 30, 2021 and 2020, respectively, and $45 million and $51 million for the years to date ended September 30, 2021 and 2020, respectively.

(c) Primarily includes revenues and associated expenses of transactions with franchisees and unconsolidated affiliates derived from the Company's central procurement model whereby the Company centrally purchases substantially all food and paper products from suppliers and then sells and delivers them to KFC and Pizza Hut restaurants, including franchisees and unconsolidated affiliates. 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.

(d) Primarily includes a gain from the re-measurement of our previously held equity interest in connection with the acquisition of the Lavazza joint venture and Suzhou KFC for the quarters and years to date ended September 30, 2021 and 2020, respectively. As the re-measurement at fair value resulted from the acquisition, it was not allocated to any segment for performance reporting purposes. See Note 6.

(e) Primarily includes store closure impairment charges, restaurant-level impairment charges resulting from our semi-annual impairment evaluation as well as our additional impairment evaluation performed in the first quarter of 2020 in response to adverse impact from the COVID-19 pandemic. See Note 11.

(f) Includes investments in unconsolidated affiliates.

(g) Primarily includes cash and cash equivalents, short-term investments, investments in Meituan and Sunner, long-term time deposits and inventories that are centrally managed.

Note 14 – 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 and Unconsolidated Affiliates

From time to time, we have guaranteed certain lines of credit and loans of franchisees and unconsolidated affiliates. As of September 30, 2021, no guarantees were outstanding for unconsolidated affiliates and 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 15 – Subsequent Events

Cash Dividend

On October 27, 2021, the Company announced that the Board of Directors declared a cash dividend of $0.12 per share on Yum China's common stock, payable as of the close of business on December 16, 2021, to stockholders of record as of the close of business on November 24, 2021. Total estimated cash dividend payable is approximately $51 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 system sales, with over 11,000 restaurants covering over 1,600 cities primarily in China as of September 30, 2021. Our growing restaurant base consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza. We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Macau and Taiwan, and own the intellectual property of the Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning concepts outright. We also established a joint venture with Luigi Lavazza S.p.A. (“Lavazza Group”), the world-renowned family-owned Italian coffee company, to explore and develop the Lavazza coffee shop concept in China. KFC was the first major global restaurant brand to enter China as early as 1987. With more than 30 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 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 September 30, 2021, KFC operated over 7,900 restaurants in over 1,600 cities across China. During the quarter ended September 30, 2020, the Company completed the acquisition of an additional 25% interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China (“Suzhou KFC”), increasing our equity interest to 72% and allowing the Company to consolidate the entity.

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 September 30, 2021, Pizza Hut operated over 2,500 restaurants in over 500 cities.

The Company’s common stock is listed on the NYSE under the symbol “YUMC”. On September 10, 2020, the Company completed its secondary listing on the Main Board of the 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 US$2.2 billion.

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, franchise and unconsolidated affiliate 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 and unconsolidated affiliate restaurants typically generate ongoing franchise fees for the Company at an average rate of approximately 6% of system sales. Franchise and unconsolidated affiliate 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. 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 and Years to Date Ended September 30, 2021 and 2020

Results of Operations

Summary

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Lavazza, Daojia 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. Additional details on our reportable operating segments are included in Note 13.

Quarterly highlights:

	% Change				
	System Sales[(a)]	Same-Store Sales[(a)]	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	+1	(8)	+14	(31)	(36)
Pizza Hut	+1	(5)	+10	(69)	(71)
All Other Segments[(b)]	(5)	(9)	+6	NM	NM
Total	+1	(7)	+12	(68)	(70)

Year to date highlights:

	% Change				
	System Sales[(a)]	Same-Store Sales[(a)]	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	+12	-	+14	+27	+18
Pizza Hut	+20	+11	+10	+141	+124
All Other Segments[(b)]	+51	+3	+6	(45)	(32)
Total	+15	+2	+12	(4)	(11)

NM refers to not meaningful.

(a) System sales and same-store sales percentages as shown in tables 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.

As of September 30, 2021, the Company operated 11,415 units, predominately KFC and Pizza Hut restaurants, which are the leading and largest QSR and CDR brands, respectively, in mainland China in terms of system sales. We believe that there are significant opportunities to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.

The Company's third quarter results were significantly impacted by the Delta variant outbreak that started in late July. This regional outbreak was the most widely spread wave since the first quarter of 2020. Strict public health measures were implemented across the country, including closures of many tourist locations. These actions led to fewer social activities, substantially lower travel volume, and cancelled holiday trips. However, we sustained Company sales growth in the third quarter, with new unit openings more than offsetting same-store sales declines.

As compared to the third quarter of 2020, Company sales in the third quarter of 2021 increased 9%, or 2% excluding the impact of F/X. Company sales for the year to date ended September 30, 2021 increased 28%, or 19% excluding the impact of F/X. The increase in Company sales for the quarter, excluding the impact of F/X, was attributable to net unit growth including the acquisition of Suzhou KFC, partially offset by same-store sales decline. The year to date increase in Company sales, excluding the impact of F/X, was attributable to net unit growth including the acquisition of Suzhou KFC, fewer temporary store closures and same-store sales growth.

The decrease in Operating profit for the quarter, excluding the impact of F/X, was primarily driven by lapping the non-cash gain recognized from the re-measurement of our previously held equity interest in Suzhou KFC at fair value upon acquisition in the third quarter of 2020, same-store sales decline, higher promotion costs, wage inflation, increased rider cost associated with the rise in delivery volume, higher packaging costs and lower temporary relief provided by landlords and government agencies, partially offset by favorable commodity prices.

The year to date decrease in Operating profit, excluding the impact of F/X, was primarily driven by lapping the non-cash gain recognized from the re-measurement of our previously held equity interest in Suzhou KFC at fair value upon acquisition in the third quarter of 2020, lower temporary relief provided by landlords and government agencies, higher promotion costs, wage inflation and higher compensation costs, partially offset by the increase in Company sales, favorable commodity prices and lower store impairment charges.

The Consolidated Results of Operations for the quarters and years to date ended September 30, 2021 and 2020 are presented below:

	Quarter Ended		% B/(W) (a)		Year to Date Ended		% B/(W) (a)	
	9/30/2021	9/30/2020	Reported	Ex F/X	9/30/2021	9/30/2020	Reported	Ex F/X
Company sales	$ 2,310	$ 2,118	9	2	$ 6,874	$ 5,358	28	19
Franchise fees and income	40	40	-	(7)	120	112	7	(1)
Revenues from transactions with franchisees and unconsolidated affiliates	184	170	8	1	519	488	7	(1)
Other revenues	20	20	2	(4)	49	46	7	(1)
Total revenues	$ 2,554	$ 2,348	9	2	$ 7,562	$ 6,004	26	17
Restaurant profit	$ 282	$ 394	(29)	(33)	$ 1,071	$ 790	36	26
Restaurant Margin %	12.2%	18.6%	(6.4) ppts.	(6.4) ppts.	15.6%	14.7%	0.9 ppts.	0.9 ppts.
Operating Profit	$ 178	$ 556	(68)	(70)	$ 753	$ 781	(4)	(11)
Interest income, net	16	11	58	51	47	28	69	61
Investment (loss) gain	(39)	38	NM	NM	(43)	75	NM	NM
Income tax provision	(44)	(155)	72	73	(210)	(232)	10	15
Net Income - including noncontrolling interests	111	450	(75)	(78)	547	652	(16)	(23)
Net Income - noncontrolling interests	7	11	31	36	32	19	(73)	(61)
Net Income - Yum China Holdings, Inc.	$ 104	$ 439	(76)	(79)	$ 515	$ 633	(19)	(26)
Diluted Earnings Per Common Share	$ 0.24	$ 1.10	(78)	(81)	$ 1.19	$ 1.62	(27)	(33)
Effective tax rate	28.3%	25.6%			27.7%	26.3%		
Supplementary information - Non-GAAP Measures(b)								
Adjusted Operating Profit	$ 168	$ 320			$ 750	$ 550		
Adjusted Net Income - Yum China Holdings, Inc.	$ 96	$ 263			$ 514	$ 462		
Adjusted Diluted Earnings Per Common Share	$ 0.22	$ 0.66			$ 1.18	$ 1.18		
Adjusted Effective Tax Rate	28.8%	25.7%			27.6%	26.4%		
Adjusted EBITDA	$ 300	$ 436			$ 1,153	$ 916		

(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		Year to Date Ended	
	9/30/2021	**9/30/2020**	**9/30/2021**	**9/30/2020**
System Sales Growth (Decline)	8%	3%	24%	(9)%
System Sales Growth (Decline), excluding F/X	1%	1%	15%	(8)%
Same-Store Sales (Decline) Growth	(7)%	(6)%	2%	(11)%

Unit Count	**9/30/2021**	**9/30/2020**	**% Increase**
Company-owned	8,938	7,922	13
Unconsolidated affiliates	762	666	14
Franchisees	1,715	1,562	10
	11,415	10,150	12

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 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.

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

	Quarter Ended		Year to Date Ended	
	9/30/2021	9/30/2020	9/30/2021	9/30/2020
Non-GAAP Reconciliations				
Reconciliation of Operating Profit to Adjusted Operating Profit				
Operating Profit	$ 178	$ 556	$ 753	$ 781
Special Items, Operating Profit	10	236	3	231
Adjusted Operating Profit	$ 168	$ 320	$ 750	$ 550
Reconciliation of Net Income to Adjusted Net Income				
Net Income - Yum China Holdings, Inc.	$ 104	$ 439	$ 515	$ 633
Special Items, Net Income – Yum China Holdings, Inc.	8	176	1	171
Adjusted Net Income - Yum China Holdings, Inc.	$ 96	$ 263	$ 514	$ 462
Reconciliation of EPS to Adjusted EPS				
Basic Earnings Per Common Share	$ 0.25	$ 1.13	$ 1.23	$ 1.67
Special Items, Basic Earnings Per Common Share	0.02	0.45	0.01	0.46
Adjusted Basic Earnings Per Common Share	$ 0.23	$ 0.68	$ 1.22	$ 1.21
Diluted Earnings Per Common Share	$ 0.24	$ 1.10	$ 1.19	$ 1.62
Special Items, Diluted Earnings Per Common Share	0.02	0.44	0.01	0.44
Adjusted Diluted Earnings Per Common Share	$ 0.22	$ 0.66	$ 1.18	$ 1.18
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate				
Effective tax rate (See Note 12)	28.3%	25.6%	27.7%	26.3%
Impact on effective tax rate as a result of Special Items	(0.5)%	(0.1)%	0.1%	(0.1)%
Adjusted effective tax rate	28.8%	25.7%	27.6%	26.4%

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

	Quarter Ended		Year to Date Ended	
Reconciliation of Net Income to Adjusted EBITDA	9/30/2021	9/30/2020	9/30/2021	9/30/2020
Net Income — Yum China Holdings, Inc.	$ 104	$ 439	$ 515	$ 633
Net Income — noncontrolling interests	7	11	32	19
Income tax provision	44	155	210	232
Interest income, net	(16)	(11)	(47)	(28)
Investment loss (gain)	39	(38)	43	(75)
Operating Profit	178	556	753	781
Special Items, Operating Profit	(10)	(236)	(3)	(231)
Adjusted Operating Profit	168	320	750	550
Depreciation and amortization	128	113	380	327
Store impairment charges	4	3	23	39
Adjusted EBITDA	$ 300	$ 436	$ 1,153	$ 916

Details of Special Items are presented below:

Details of Special Items	Quarter Ended 9/30/2021	Quarter Ended 9/30/2020	Year to Date Ended 9/30/2021	Year to Date Ended 9/30/2020
Gain from re-measurement of previously held equity interest(1)	$ 10	$ 239	$ 10	$ 239
Share-based compensation expense for Partner PSU Awards(2)	—	(3)	(7)	(5)
Derecognition of indemnification assets related to Daojia(3)	—	—	—	(3)
Special Items, Operating Profit	10	236	3	231
Tax Expenses on Special Items(4)	(2)	(60)	(2)	(60)
Special items, net income – including noncontrolling interests	8	176	1	171
Special items, net income – noncontrolling interests	—	—	—	—
Special Items, Net income – Yum China Holdings, Inc.	$ 8	$ 176	$ 1	$ 171
Weighted-average diluted shares outstanding (in millions)	435	400	435	391
Special Items, Diluted Earnings Per Common Share	$ 0.02	$ 0.44	$ 0.01	$ 0.44

(1) In the quarters and years to date ended September 30, 2021 and 2020, as a result of the consolidation of the Lavazza joint venture and Suzhou KFC, the Company recognized a gain of $10 million and $239 million, respectively, from the re-measurement of our previously held equity interest at fair value, which were not allocated to any segment for performance reporting purposes.

(2) 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. The Company recognized share-based compensation cost of nil and $7 million associated with the Partner PSU Awards for the quarter and year to date ended September 30, 2021, respectively, and $3 million and $5 million for the quarter and year to date ended September 30, 2020, respectively.

(3) In the quarter ended June 30, 2020, the Company derecognized a $3 million indemnification asset previously recorded for the Daojia acquisition as the indemnification right pursuant to the purchase agreement expired. The expense was included in Other income, net, but was not allocated to any segment for performance reporting purposes.

(4) The tax expense 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 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 analyst 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				Year to Date Ended			
			% B/(W)				% B/(W)	
	9/30/2021	9/30/2020	Reported	Ex F/X	9/30/2021	9/30/2020	Reported	Ex F/X
Company sales	$ 1,750	$ 1,597	10	3	$ 5,220	$ 4,077	28	19
Franchise fees and income	32	32	-	(7)	95	97	(2)	(9)
Revenues from transactions with franchisees and unconsolidated affiliates	17	16	1	(6)	46	47	(3)	(11)
Other revenues	2	1	NM	NM	6	1	NM	NM
Total revenues	$ 1,801	$ 1,646	9	2	$ 5,367	$ 4,222	27	18
Restaurant profit	$ 238	$ 310	(23)	(28)	$ 877	$ 659	33	23
Restaurant margin %	13.6%	19.4%	(5.8) ppts.	(5.8) ppts.	16.8%	16.2%	0.6 ppts.	0.6 ppts.
G&A expenses	$ 62	$ 50	(25)	(17)	$ 175	$ 138	(27)	(18)
Franchise expenses	$ 16	$ 16	2	8	$ 47	$ 48	2	10
Expenses for transactions with franchisees and unconsolidated affiliates	$ 16	$ 16	1	7	$ 45	$ 47	5	12
Other operating costs and expenses	$ 2	—	NM	NM	$ 3	—	NM	NM
Closures and impairment expenses, net	$ 1	$ 1	NM	NM	$ 7	$ 12	33	39
Other income, net	$ (4)	$ (10)	(65)	(68)	$ (16)	$ (39)	(60)	(63)
Operating Profit	$ 196	$ 286	(31)	(36)	$ 763	$ 598	27	18

	Quarter Ended		Year to Date Ended	
	9/30/2021	9/30/2020	9/30/2021	9/30/2020
System Sales Growth (Decline)	8%	1%	21%	(9)%
System Sales Growth (Decline), excluding F/X	1%	(1)%	12%	(7)%
Same-Store Sales Decline	(8)%	(6)%	-	(9)%

Unit Count	9/30/2021	9/30/2020	% Increase
Company-owned	6,450	5,672	14
Unconsolidated affiliates	762	663	15
Franchisees	696	590	18
	7,908	6,925	14

Company Sales and Restaurant Profit

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

	Quarter Ended				
Income (Expense)	9/30/2020	Store Portfolio Actions	Other	F/X	9/30/2021
Company sales	$ 1,597	$ 171	$ (127)	$ 109	$ 1,750
Cost of sales	(504)	(55)	28	(36)	(567)
Cost of labor	(330)	(47)	(21)	(27)	(425)
Occupancy and other operating expenses	(453)	(48)	15	(34)	(520)
Restaurant profit	$ 310	$ 21	$ (105)	$ 12	$ 238

	Year to Date Ended				
Income (Expense)	9/30/2020	Store Portfolio Actions	Other	F/X	9/30/2021
Company sales	$ 4,077	$ 752	$ 4	$ 387	$ 5,220
Cost of sales	(1,315)	(239)	46	(121)	(1,629)
Cost of labor	(888)	(165)	(71)	(90)	(1,214)
Occupancy and other operating expenses	(1,215)	(179)	6	(112)	(1,500)
Restaurant profit	$ 659	$ 169	$ (15)	$ 64	$ 877

The increase in Company sales for the quarter, excluding the impact of F/X, was attributable to net unit growth including the acquisition of Suzhou KFC, partially offset by same-store sales decline. The decrease in Restaurant profit for the quarter, excluding the impact of F/X, was primarily driven by same-store sales decline, higher promotion costs, wage inflation of 5%, higher packaging costs, increased rider cost associated with the rise in delivery volume and lower temporary relief provided by landlords and government agencies, partially offset by net unit growth including the acquisition of Suzhou KFC and favorable commodity prices.

The year to date increase in Company sales and Restaurant profit, excluding the impact of F/X, was primarily driven by net unit growth including the acquisition of Suzhou KFC, favorable commodity prices, same-store sales growth and fewer temporary store closures, partially offset by lower temporary relief provided by landlords and government agencies, higher promotion costs, wage inflation of 4%, increased rider cost associated with the rise in delivery volume and higher packaging costs.

Franchise Fees and Income

The decrease in Franchise fees and income for the quarter, excluding the impact of F/X, was primarily driven by the acquisition of Suzhou KFC and same-store sales decline, partially offset by the net unit growth.

The year to date decrease in Franchise fees and income, excluding the impact of F/X, was primarily driven by the acquisition of Suzhou KFC, partially offset by the net unit growth and fewer temporary store closures.

G&A Expenses

The increase in G&A expenses for the quarter, excluding the impact of F/X, was primarily driven by higher compensation costs.

The year to date increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs, the acquisition of Suzhou KFC and lapping one-time reductions in social security contributions in 2020.

Operating Profit

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

The year to date increase in Operating profit, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit and lower store impairment charges, partially offset by higher G&A expenses.

Pizza Hut

	Quarter Ended				Year to Date Ended			
			% B/(W)				% B/(W)	
	9/30/2021	9/30/2020	Reported	Ex F/X	9/30/2021	9/30/2020	Reported	Ex F/X
Company sales	$ 546	$ 508	7	-	$ 1,617	$ 1,252	29	19
Franchise fees and income	2	2	20	12	6	4	41	31
Revenues from transactions with franchisees and unconsolidated affiliates	2	1	55	44	5	3	72	59
Other revenues	1	—	NM	NM	2	—	NM	NM
Total revenues	$ 551	$ 511	8	1	$ 1,630	$ 1,259	29	20
Restaurant profit	$ 44	$ 84	(47)	(51)	$ 196	$ 132	48	37
Restaurant margin %	8.2%	16.7%	(8.5) ppts.	(8.5) ppts.	12.2%	10.6%	1.6 ppts.	1.6 ppts.
G&A expenses	$ 27	$ 24	(14)	(6)	$ 80	$ 71	(13)	(4)
Franchise expenses	$ 1	$ 1	(29)	(20)	$ 3	$ 2	(33)	(23)
Expenses for transactions with franchisees and unconsolidated affiliates	$ 2	$ 1	(46)	(36)	$ 5	$ 3	(63)	(51)
Other operating costs and expenses	$ 1	$ —	NM	NM	$ 1	$ —	(12)	(3)
Closures and impairment expenses, net	$ —	$ —	NM	NM	$ 3	$ 15	81	83
Operating Profit	$ 18	$ 61	(69)	(71)	$ 117	$ 48	141	124

	Quarter Ended		Year to Date Ended	
	9/30/2021	9/30/2020	9/30/2021	9/30/2020
System Sales Growth (Decline)	8%	(5)%	30%	(20)%
System Sales Growth (Decline), excluding F/X	1%	(6)%	20%	(19)%
Same-Store Sales (Decline) Growth	(5)%	(7)%	11%	(16)%

Unit Count	9/30/2021	9/30/2020	% Increase
Company-owned	2,369	2,155	10
Franchisees	134	122	10
	2,503	2,277	10

Company Sales and Restaurant Profit

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

	Quarter Ended				
Income (Expense)	**9/30/2020**	**Store Portfolio Actions**	**Other**	**F/X**	**9/30/2021**
Company sales	$ 508	$ 29	$ (25)	$ 34	$ 546
Cost of sales	(152)	(9)	-	(12)	(173)
Cost of labor	(124)	(9)	(17)	(11)	(161)
Occupancy and other operating expenses	(148)	(9)	(1)	(10)	(168)
Restaurant profit	$ 84	$ 2	$ (43)	$ 1	$ 44

	Year to Date Ended				
Income (Expense)	**9/30/2020**	**Store Portfolio Actions**	**Other**	**F/X**	**9/30/2021**
Company sales	$ 1,252	$ 103	$ 141	$ 121	$ 1,617
Cost of sales	(388)	(31)	(37)	(37)	(493)
Cost of labor	(339)	(25)	(52)	(34)	(450)
Occupancy and other operating expenses	(393)	(25)	(24)	(36)	(478)
Restaurant profit	$ 132	$ 22	$ 28	$ 14	$ 196

The slight increase in Company sales for the quarter, excluding the impact of F/X, was attributable to net unit growth, partially offset by same-store sales decline. The decrease in Restaurant profit for the quarter, excluding the impact of F/X, was primarily driven by same-store sales decline, wage inflation of 8%, increased rider cost associated with the rise in delivery volume, higher promotion costs, lower temporary relief provided by landlords and government agencies and higher packaging costs, partially offset by favorable commodity prices.

The year to date increase in Company sales and Restaurant profit, excluding the impact of F/X, was primarily driven by same-store sales growth, favorable commodity prices and fewer temporary store closures, partially offset by lower temporary relief provided by landlords and government agencies, wage inflation of 5% and higher promotion costs.

G&A Expenses

The increase in G&A expenses for the quarter, excluding the impact of F/X, was primarily driven by higher compensation costs.

The year to date increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs and lapping one-time reductions in social security contributions in 2020.

Operating Profit

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

The year to date increase in Operating profit, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit and lower store impairment charges, partially offset by higher G&A expenses.

All Other Segments

All Other Segments reflects the results of Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Lavazza, Daojia and our e-commerce business.

	Quarter Ended				Year to Date Ended			
			% B/(W)				% B/(W)	
	9/30/2021	9/30/2020	Reported	Ex F/X	9/30/2021	9/30/2020	Reported	Ex F/X
Company sales	$ 14	$ 13	7	1	$ 37	$ 29	27	18
Franchise fees and income	6	6	(3)	(9)	19	11	71	58
Revenues from transactions with franchisees and unconsolidated affiliates	26	18	47	38	75	34	NM	NM
Other revenues	88	36	NM	NM	187	77	NM	NM
Total revenues	$ 134	$ 73	84	73	$ 318	$ 151	NM	NM
Restaurant loss	$ —	$ —	NM	NM	$ (3)	$ (3)	(35)	(25)
Restaurant margin %	(9.5)%	(0.4)%	(9.1) ppts.	(9.1) ppts.	(10.0)%	(9.4)%	(0.6) ppts.	(0.6) ppts.
G&A expenses	$ 11	$ 11	2	8	$ 30	$ 30	-	7
Expenses for transactions with franchisees and unconsolidated affiliates	$ 24	$ 13	(79)	(69)	$ 69	$ 26	NM	NM
Other operating costs and expenses	$ 87	$ 33	NM	NM	$ 183	$ 69	NM	NM
Closures and impairment expenses, net	$ 1	$ —	(81)	(68)	$ 3	$ 3	40	45
Other expenses, net	$ 3	$ 1	NM	NM	$ 8	$ 1	NM	NM
Operating (Loss) Profit	$ (6)	$ 2	NM	NM	$ (15)	$ (10)	(45)	(32)

	Quarter Ended		Year to Date Ended	
	9/30/2021	9/30/2020	9/30/2021	9/30/2020
Same-Store Sales (Decline) Growth	(9)%	(16)%	3%	(24)%

Total Revenues

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

The year to date increase in Total revenues of all other segments, excluding the impact of F/X, was primarily driven by the revenue generated by our delivery team for services provided to KFC and Pizza Hut restaurants and the consolidation of Huang Ji Huang.

Operating (Loss) Profit

The Operating loss for the quarter, excluding the impact of F/X, was primarily driven by the increase of Operating loss from certain emerging brands, partially offset by Operating profit generated by Huang Ji Huang.

The year to date increase in Operating loss, excluding the impact of F/X, was primarily driven by the increase of Operating loss from certain emerging brands, partially offset by Operating profit generated by Huang Ji Huang consolidated since April 2020.

Corporate and Unallocated

	Quarter Ended				Year to Date Ended			
			% B/(W)				% B/(W)	
	9/30/2021	9/30/2020	Reported	Ex F/X	9/30/2021	9/30/2020	Reported	Ex F/X
Revenues from transactions with franchisees and unconsolidated affiliates	$ 139	$ 135	3	(4)	$ 393	$ 404	(3)	(10)
Other revenue	$ 7	$ 2	NM	NM	$ 11	$ 4	NM	NM
Expenses for transactions with franchisees and unconsolidated affiliates	$ 138	$ 134	(3)	4	$ 390	$ 404	3	11
Other operating costs and expenses	$ 5	$ 1	NM	NM	$ 10	$ 3	NM	NM
Corporate G&A expenses	$ 42	$ 42	(1)	3	$ 123	$ 100	(23)	(17)
Other unallocated income, net	$ (9)	$ (247)	(96)	(96)	$ (7)	$ (244)	(97)	(97)
Interest income, net	$ 16	$ 11	58	51	$ 47	$ 28	69	61
Investment (loss) gain	$ (39)	$ 38	NM	NM	$ (43)	$ 75	NM	NM
Income tax provision (See Note 12)	$ (44)	$ (155)	72	73	$ (210)	$ (232)	10	15
Effective tax rate (See Note 12)	28.3%	25.6%	(2.7)%	(2.7)%	27.7%	26.3%	(1.4)%	(1.4)%

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

Revenues from transactions with franchisees and unconsolidated affiliates 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 and unconsolidated affiliates. The quarter and year to date decrease, excluding the impact of F/X, was mainly due to the acquisition of Suzhou KFC, partially offset by increase in revenue driven by system sales growth of franchisees and unconsolidated affiliates.

G&A Expenses

The decrease in Corporate G&A expenses for the quarter, excluding the impact of F/X, was primarily due to the decrease of share-based compensation expense for Partner PSU awards, partially offset by merit increases.

The year to date increase in Corporate G&A expenses, excluding the impact of F/X, was primarily due to higher compensation costs and lapping one-time reductions in social security contributions in 2020.

Other Unallocated Income, net

The quarters and years to date Other unallocated income in 2021 and 2020 mainly included the gain recorded from the re-measurement of our previously held equity interest in connection with the consolidation of the Lavazza joint venture and Suzhou KFC, respectively. See Note 6 for additional information.

Investment (Loss) Gain

The Investment (loss) gain mainly relates to the change in the fair value of our investment in Meituan, as well as our unrealized investment loss in Sunner. See Note 6 for additional information.

Income Tax Provision

Our income tax provision includes tax on our earnings at the Chinese statutory tax rate of 25%, withholding tax on repatriation of earnings outside of China and U.S. corporate income tax, if any. The higher effective tax rate for the quarter ended September 30, 2021 was primarily due to the impact from our investment in equity securities of Meituan, higher planned repatriation of earnings outside of China subject to foreign withholding tax and increased valuation allowance for certain underperforming subsidiaries. The higher effective tax rate for the year to date ended September 30, 2021 was primarily due to higher planned repatriation of earnings outside of China subject to foreign withholding tax, increased valuation allowance for certain underperforming subsidiaries and less tax benefit from equity income from investments in unconsolidated affiliates, partially offset by lower residual U.S. tax.

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 significantly impacted the Company's operations and financial results. The results of third quarter of 2021 were significantly impacted by the Delta variant outbreak that started in late July. This regional outbreak was the most widely spread wave since the first quarter of 2020. Strict public health measures were implemented across the country, including closures of many tourist locations. These actions led to fewer social activities, substantially lower travel volume, and cancelled holiday trips.

Going into the fourth quarter, strict public health measures remain in effect nationwide. Continuing effects of COVID-19 persist, such as fewer social activities, cautious consumer spending and subdued travel volume. With the latest regional outbreaks resurging across approximately 20 provinces and rigorous preventative health measures remaining in force across the country, the Company continues to expect the recovery of same-store sales to take time, with a nonlinear and uneven path. Same-store sales are gradually recovering but remain below the prior year and pre-COVID-19 levels, since overall dine-in volume as well as traffic at transportation hubs are still significantly impacted. Management at this time cannot ascertain the extent to which our operations will continue to be impacted by the COVID-19 pandemic, which depends largely on future developments that are uncertain, including resurgences and the actions by government authorities to contain the impact, changes in consumer behavior, the economic recovery within China and globally and other related factors.

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.

Evolving Regulatory Landscape in China

Our business is subject to a complex and rapidly evolving set of laws and regulations in the U.S., China and elsewhere. In recent months, new laws, regulations and decisions have passed, and active proposals are being considered in China, in a variety of areas, including, for example, data security, privacy and cybersecurity, indicating heightened scrutiny and tightened regulation by the authorities in these areas which can have a material impact on our business.

The PRC Data Security Law, which took effect on September 1, 2021, imposes data security and privacy obligations on entities and individuals carrying out data activities (including activities outside of the PRC), requires a national security review of data activities that may affect national security, and imposes restrictions on data transmissions. In addition, many specific requirements of the PRC Personal Information Protection Law, which took effect on November 1, 2021, and sets out the regulatory framework for handling and protection of personal information and transmission of personal information, remain to be clarified by the Cyberspace Administration of China and other regulatory authorities.

The Company expects that data security, privacy and cybersecurity will continue to be a focus of the regulators in China, and that the regulatory requirements will continue to evolve. Complying with any additional or new regulatory requirements may impose significant burdens and costs on our operations, or require us to alter certain aspects of our business practices, and could adversely affect our business operations and financial results.

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. 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 VAT general 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 an input VAT credit 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 Consolidated Balance Sheets. At each balance sheet date, the Company reviews the outstanding balance of any input VAT credit asset for recoverability, giving consideration to the indefinite life of the input VAT credit assets as well as its forecasted operating results and capital spending, which inherently includes significant assumptions that are subject to change.

As of September 30, 2021, an input VAT credit asset of $281 million and payable of $6 million were recorded in Other assets and Accounts payable and other current liabilities, respectively, on the Consolidated Balance Sheets. The Company has not made an allowance for the recoverability of the input VAT credit asset, as the balance is expected to be utilized to offset against VAT payables more than one year from September 30, 2021. Any input VAT credit asset would be classified as Prepaid expenses and other current assets if the credit expected to be used within one year can be reasonably determined.

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, the timetable for enacting the prevailing VAT regulations into national VAT law, including ultimate enacted VAT rates, 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.

Consolidated Cash Flows

Our cash flows for the years to date ended September 30, 2021 and 2020 were as follows:

Net cash provided by operating activities was $1,074 million in 2021 as compared to $899 million in 2020. The increase was primarily driven by the increase in net income, excluding the non-cash gain of $239 million recognized from the re-measurement of our previously held equity interest in Suzhou KFC at fair value upon acquisition in 2020, along with working capital changes.

Net cash used in investing activities was $743 million in 2021 as compared to $2,333 million in 2020. The decrease was mainly due to the net impact on cash flow resulting from purchases and maturities of short-term investments and less spending on acquisition of businesses, partially offset by the investment in Sunner and the increase in capital spending.

Net cash used in financing activities was $220 million in 2021 as compared to net cash provided by financing activities of $2,144 million in 2020. The change was primarily due to lapping the impact of $2.2 billion in proceeds raised from issuance of common stock in connection with our global offering and secondary listing on the Main Board of HKEX in September 2020, the increase in dividends paid on common stock and to noncontrolling interests and the increase in share repurchases in the year to date ended September 30, 2021.

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 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
- 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

Our Board of Directors has authorized an aggregate of $1.4 billion for our share repurchase program. Yum China may repurchase shares under this program from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. Starting in the second quarter of 2020 through July 2021, our share repurchases were suspended due to the impacts of the COVID-19 pandemic. During the years to date ended September 30, 2021 and 2020, the Company repurchased $34 million or 0.6 million shares and $7 million or 0.2 million shares of common stock, respectively, under the repurchase program.

For the quarter ended September 30, 2021, the Company paid cash dividends of approximately $51 million to stockholders through a quarterly dividend payment of $0.12 per share.

On October 27, 2021, the Board of Directors declared a cash dividend of $0.12 per share, payable on December 16, 2021, to stockholders of record as of the close of business on November 24, 2021. The total estimated cash dividend payable is approximately $51 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 September 30, 2021, the Company had credit facilities of RMB3,589 million (approximately $557 million), comprised of onshore credit facilities of RMB2,300 million (approximately $357 million) in aggregate and offshore credit facilities of $200 million in aggregate.

The credit facilities had remaining terms ranging from less than one year to three years as of September 30, 2021. Each credit facility bears interest based on the Loan Prime Rate ("LPR") published by the National Interbank Funding Centre of the PRC or London Interbank Offered Rate ("LIBOR") administered by the ICE Benchmark Administration. 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. Some of the onshore credit facilities contain sublimits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of September 30, 2021, we had outstanding bank guarantees of RMB 142 million (approximately $22 million) mainly to secure our lease payment to landlords for certain Company-owned restaurants. The credit facilities were therefore reduced by the same amount, while there were no bank borrowings outstanding as of September 30, 2021.

Off-Balance Sheet Arrangements

See the Guarantees section of Note 14 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 August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)* ("ASU 2020-06"), which eliminates two of the three models in ASC 470-20 that require separate accounting for embedded conversion features and eliminates some of the conditions for equity classification in ASC 815-40 for contracts in an entity's own equity. The guidance also requires entities to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and generally requires them to include the effect of share settlement for instruments that may be settled in cash or shares. ASU 2020-06 is effective for the Company from January 1, 2022, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In May 2021, the FASB issued ASU 2021-04, *Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options* ("ASU 2021-04"). It requires issuers to account for a modification or exchange of freestanding equity-classified written call options that remain equity classified after the modification or exchange based on the economic substance of the modification or exchange. ASU 2021-04 is effective for the Company from January 1, 2022, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In July 2021, the FASB issued ASU 2021-05, *Lessors—Certain Leases with Variable Lease* ("ASU 2021-05"). It requires lessors to classify leases as operating leases if they have variable lease payments that do not depend on an index or rate and would have selling losses if they were classified as sales-type or direct financing leases. ASU 2021-05 is effective for the Company from January 1, 2022, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will 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," "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 COFFii & JOY and 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 e-commerce business, (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, (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, and (kk) our operating results may be adversely affected by our investment in unconsolidated affiliates;

- 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, (c) changes in political, business, economic and trade relations between the United States and China, (d) our audit reports are prepared by auditors who are not currently inspected by the Public Company Accounting Oversight Board and, as such, our stockholders are deprived of the benefits of such inspection and our common stock is subject to the risk of delisting from the New York Stock Exchange in the future, (e) fluctuation in the value of the Chinese Renminbi, (f) the fact that we face increasing focus on environmental sustainability issues, (g) limitations on our ability to utilize our cash balances effectively due to governmental control of currency conversion and payments of foreign currency and the Chinese Renminbi 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, and (s) difficulties in pursuing growth through acquisitions due to regulations regarding acquisitions;

- 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;

- 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, 2020) 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 September 30, 2021, the Company's Operating profit would have decreased by approximately $17 million if the RMB weakened 10% relative to the US$. 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 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. In the first quarter of 2021, we invested $261 million to acquire a 5% equity interest in Sunner. Equity investment in Meituan is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. The investment in Sunner was recorded at fair value on a recurring basis before it became subject to equity method of accounting after the Company established significant influence over the operating and financial policies of Sunner in May 2021. See Note 6 for further discussion on our investments in Meituan and Sunner.

Item 4. Controls and Procedures

<u>Evaluation of Disclosure Controls and Procedures</u>

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.

<u>Changes in Internal Control Over Financial Reporting</u>

There were no changes with respect to the Company's internal control over financial reporting during the quarter ended September 30, 2021 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 14 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, 2020, which was filed with the SEC on February 26, 2021.

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

Our Board of Directors authorized an aggregate of $1.4 billion for our share repurchase program, including its most recent increase in authorization on October 31, 2018. The authorizations do not have an expiration date. As a result of the COVID-19 pandemic impact, we suspended the share repurchases starting in the second quarter of 2020. On July 28, 2021, the Board of Directors approved the resumption of share repurchases.

The following table provides information as of September 30, 2021 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)
7/1/21-7/31/21	—	NA	—	$ 692
8/1/21-8/31/21	186	$ 60.45	186	$ 680
9/1/21-9/30/21	388	$ 57.65	388	$ 658
Total	574	$ 58.56	574	$ 658

Item 6. Exhibits

Exhibit Number	Description of Exhibits
10.1	Senior Advisor Service Contract, dated July 15, 2021, by and between Yum China Holdings, Inc. and Christian L. Campbell.*
10.2	Yum China Holdings, Inc. Executive Severance Plan (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on September 27, 2021).
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.

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: November 8, 2021

/s/ Xueling Lu
Controller and Principal Accounting Officer

Exhibit 10.1

Mr. Chris Campbell
Christian L. Campbell Consulting, LLC
15 July, 2021
Strictly Private & Confidential

<u>Senior Advisor Service Contract</u>

Dear Chris,

We are pleased to offer you the subject Term Contract ("Contract") with Yum China Holdings, Inc. ("the Company" or "Yum China") under the following terms and conditions:

1. Contract Period

   This Contract covers a period of 11 months, effective **July 1, 2021 to May 31, 2022**. Contract period can be extended subject to mutual agreement.

2. Work Schedule & Work Location

   You are committed to provide, based out of US, on average **14 hours** of service **per month,** not exceeding **42 hours per quarter.**

3. Role & Responsibilities

   You will attend Board meetings, Compensation Committee meetings or any other meetings or private sessions as requested by the chairperson of the Board or Compensation Committee. You will provide governance and Board advisory services to the Board, including to the chairperson of the Board and Compensation Committee of Yum China.

4. Service Fee (retainer)

   You will be paid a monthly retainer of **USD 21,000** (i.e. US$ 252,000 per annum). Hours in excess of 42 hours per quarter will be paid at **US$1,500 per hour** supported by time sheet.

   Our US office will arrange the payment of service fee to you monthly in arrears. You are responsible for any US tax on the retainer /service fee, as an independent consultant.

5. Business Travel and International Call Reimbursement

   For approved business travel, expenses will be reimbursed in accordance with the Company's business travel policy. If personal phone use is required to do business in China, you will submit the related invoices to Yum China for reimbursement.

6. Code of Conduct

   In your role, the Company expects that you will obey the laws and regulations and respect the lawful customs of US and the People's Republic of China and any other countries /territories which you may visit in the areas of business duties. Naturally, we would expect that you would not engage in any employment or business activity which conflicts with the business interest of the Company and its affiliates.

7. Non Solicitation

   In signing this Term Contract, you agree that during the period of one (1) year following the termination of this contract, you shall not:

Solicit or endeavor to entice away from the Company and its affiliates any other employee or person engaged (whether or not such a person would commit any breach of contract by reason leaving the service of the Company), or any customer of Yum China and its affiliates.

8. Non-Disclosure

You agree at all times (notwithstanding the termination of this contract) not to use for your own advantage, or to disclose to any third party any information concerning the business or affairs of Yum China and its affiliates, comprising trade secrets and business matters or information which you know or ought reasonably to have known to be confidential. In addition, you also agree that you shall not use or rely upon any confidential information or non-public material information relating to Yum China and/or its affiliates as the basis to purchase, sell or otherwise acquire, dispose of or transfer shares of the Company.

9. Contract Termination

A one-month notice period is to be provided by either party if this Term Contract has to be terminated prior to May 31, 2022.

10. Indemnity

Yum China agrees to indemnify and hold Chris Campbell and Christian L. Campbell Consulting LLC (collectively "Consultant") harmless from liabilities, losses or damages resulting from the performance of this Contract, including any liabilities, losses or damages arising out of any action, proceeding or investigation brought by any person or entity which involves Consultant in any way. In addition, Yum China agrees to reimburse Consultant for reasonable legal expenses incurred by Consultant in connection with any such actions, proceedings or investigation.

If at any time any provision of this contract is or becomes illegal, invalid or unenforceable in any respect, the legality, validity and enforceability of the remaining provisions shall not be impaired or affected.

Kindly acknowledge your acceptance of the above terms by signing and returning the duplicate of this letter to the undersigned.

Yours sincerely,

Yum China Holdings, Inc.

By: /s/ Fred Hu
Dr. Fred Hu, Chairman of the Board of Directors, Yum China Holdings, Inc.

I, Chris Campbell, as Owner of Christian L. Campbell Consulting, LLC, a Florida limited liability company, confirm that I have read, understood and agreed to the terms of this Service Contract outlined in this letter.

Christian L. Campbell Consulting, LLC, a Florida limited liability company

By: /s/Chris Campbell
Chris Campbell, Owner

7/19/21
Date

Exhibit 31.1

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: November 8, 2021

/s/ Joey Wat
Joey Wat
Chief Executive Officer

Exhibit 31.2

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: November 8, 2021

/s/ Andy Yeung
Andy Yeung
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Yum China Holdings, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2021, 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: November 8, 2021

/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.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Yum China Holdings, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2021, 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: November 8, 2021

/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.