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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Amendment No. 4  
to

**Form 10**

**GENERAL FORM FOR REGISTRATION OF SECURITIES  
Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**

**Yum China Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**81-2421743**

(I.R.S. employer  
identification number)

**1441 Gardiner Lane**

**Louisville, Kentucky**

(Address of principal executive  
offices)

**40213**

(Zip code)

**(888) 298-6986**

(Registrant's telephone number, including area code)

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

**Title of each class to be so registered**

Common Stock, par value \$0.01 per share

**Name of each exchange on which each  
class is to be registered**

New York Stock Exchange

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a  
smaller reporting company)

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**YUM CHINA HOLDINGS, INC.**  
**INFORMATION REQUIRED IN REGISTRATION STATEMENT**  
**CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT**  
**AND ITEMS OF FORM 10**

This Registration Statement on Form 10 incorporates by reference information contained in the Information Statement filed herewith as Exhibit 99.1. The cross-reference sheet below identifies where the items required by Form 10 can be found in the Information Statement.

**Item 1. *Business.***

The information required by this item is contained under the sections of the Information Statement entitled "Information Statement Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," "Certain Relationships and Related Person Transactions," "The Separation and Distribution" and "Where You Can Find More Information" Those sections are incorporated herein by reference.

**Item 1A. *Risk Factors.***

The information required by this item is contained under the section of the Information Statement entitled "Risk Factors" That section is incorporated herein by reference.

**Item 2. *Financial Information.***

The information required by this item is contained under the sections of the Information Statement entitled "Unaudited Pro Forma Combined Financial Statements," "Selected Historical Combined Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Those sections are incorporated herein by reference.

**Item 3. *Properties.***

The information required by this item is contained under the section of the Information Statement entitled "Business—Properties." That section is incorporated herein by reference.

**Item 4. *Security Ownership of Certain Beneficial Owners and Management.***

The information required by this item is contained under the section of the Information Statement entitled "Security Ownership of Certain Beneficial Owners and Management." That section is incorporated herein by reference.

**Item 5. *Directors and Executive Officers.***

The information required by this item is contained under the section of the Information Statement entitled "Management of the Company." That section is incorporated herein by reference.

**Item 6. *Executive Compensation.***

The information required by this item is contained under the sections of the Information Statement entitled "Executive Compensation," "Compensation Discussion and Analysis" and "Management of the Company—Compensation Committee Interlocks and Insider Participation." Those sections are incorporated herein by reference.

**Item 7. *Certain Relationships and Related Transactions, and Director Independence.***

The information required by this item is contained under the sections of the Information Statement entitled "Management of the Company" and "Certain Relationships and Related Person Transactions." Those sections are incorporated herein by reference.

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**Item 8. *Legal Proceedings.***

The information required by this item is contained under the section of the Information Statement entitled "Business—Legal Proceedings." That section is incorporated herein by reference.

**Item 9. *Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters.***

The information required by this item is contained under the sections of the Information Statement entitled "Dividend Policy," "Capitalization," "Security Ownership of Certain Beneficial Owners and Management," "The Separation and Distribution—Market for the Company's Common Stock" and "Description of Capital Stock." Those sections are incorporated herein by reference.

**Item 10. *Recent Sales of Unregistered Securities.***

The information required by this item is contained under the section of the Information Statement entitled "Description of Capital Stock—Sale of Unregistered Securities." That section is incorporated herein by reference.

**Item 11. *Description of Registrant's Securities to Be Registered.***

The information required by this item is contained under the sections of the Information Statement entitled "Dividend Policy," "The Separation and Distribution" and "Description of Capital Stock." Those sections are incorporated herein by reference.

**Item 12. *Indemnification of Directors and Officers.***

The information required by this item is contained under the sections of the Information Statement entitled "Description of Capital Stock—Limitations on Liability, Indemnification of Officers and Directors and Insurance" and "Certain Relationships and Related Person Transactions—The Separation and Distribution Agreement—Indemnification." Those sections are incorporated herein by reference.

**Item 13. *Financial Statements and Supplementary Data.***

The information required by this item is contained under the section of the Information Statement entitled "Index to Financial Information" and the financial statements referenced therein. That section is incorporated herein by reference.

**Item 14. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

**Item 15. *Financial Statements and Exhibits.***

**(a) *Financial Statements***

The information required by this item is contained under the section of the Information Statement entitled "Index to Financial Information" and the financial statements referenced therein. That section is incorporated herein by reference.

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**(b) Exhibits**

See below.

The following documents are filed as exhibits hereto:

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1	Form of Separation and Distribution Agreement**
3.1	Form of Amended and Restated Certificate of Incorporation of Yum China Holdings, Inc.**
3.2	Form of Amended and Restated Bylaws of Yum China Holdings, Inc.**
4.1	Form of Rights Agreement between Yum China Holdings, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent*
4.2	Form of Certificate of Designations of Preferred Stock*
10.1	Form of Master License Agreement**
10.2	Form of Tax Matters Agreement**
10.3	Form of Employee Matters Agreement**
10.4	Form of Transition Services Agreement**
10.5	Form of Name License Agreement**
10.6	Form of Guaranty of Master License Agreement**
10.7‡	Form of Yum China Holdings, Inc. Long Term Incentive Plan*
21.1	Subsidiaries of Yum China Holdings, Inc.*
99.1	Information Statement of Yum China Holdings, Inc., preliminary and subject to completion, dated August 31, 2016**

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\* To be filed by amendment.

\*\* Filed herewith.

‡ Management contract or compensatory plan or arrangement.

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**SIGNATURES**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

YUM CHINA HOLDINGS, INC.

By: /s/ MICKY PANT

\_\_\_\_\_  
Name: Micky Pant  
Title: *Chief Executive Officer*

Date: August 31, 2016

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## SEPARATION AND DISTRIBUTION AGREEMENT

BY AND BETWEEN

YUM! BRANDS, INC.,

YUM RESTAURANTS CONSULTING (SHANGHAI) COMPANY LIMITED

AND

YUM CHINA HOLDINGS, INC.

DATED AS OF [·], 2016

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### SEPARATION AND DISTRIBUTION AGREEMENT

This SEPARATION AND DISTRIBUTION AGREEMENT (this “Agreement”), dated as of [·], 2016, is by and between Yum! Brands, Inc., a North Carolina corporation (“YUM”), Yum Restaurants Consulting (Shanghai) Company Limited (“YCCL”), a company organized under the Laws of the People’s Republic of China, and Yum China Holdings, Inc., a Delaware corporation (“SpinCo”, and, together with YCCL, the “SpinCo Parties”). Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in Article I.

#### R E C I T A L S

WHEREAS, the board of directors of YUM (the “YUM Board”) has determined that it is in the best interests of YUM and its shareholders to create a new publicly traded company that shall operate the SpinCo Business;

WHEREAS, in furtherance of the foregoing, the YUM Board has determined that it is appropriate and desirable to separate the SpinCo Business from the YUM Business (the “Separation”) and, following the Separation, make a distribution, on a pro rata basis and in accordance with a distribution ratio to be determined by the YUM Board, to holders of YUM Shares on the Record Date of all the outstanding SpinCo Shares owned by YUM (the “Distribution”);

WHEREAS, SpinCo has been incorporated solely for these purposes and has not engaged in activities except in preparation for the Separation and the Distribution;

WHEREAS, YCCL is an indirect wholly-owned subsidiary of SpinCo and the principal management company for the SpinCo Business;

WHEREAS, for U.S. federal income tax purposes, the Distribution is intended to qualify as a transaction that is generally tax-free under Sections 355 and 361 of the Code to YUM, its shareholders (except with respect to cash received in lieu of fractional shares) and SpinCo;

WHEREAS, SpinCo and YUM have prepared, and SpinCo has filed with the SEC, the Form 10, which includes the Information Statement, and which sets forth disclosure concerning SpinCo, the Separation and the Distribution;

WHEREAS, each of YUM and the SpinCo Parties has determined that it is appropriate and desirable to set forth the principal corporate transactions required to effect the Separation and the Distribution and certain other agreements that will govern certain matters relating to the Separation and the Distribution and the relationship of YUM, SpinCo and the members of their respective Groups following the Distribution; and

WHEREAS, the Parties acknowledge that this Agreement and the Ancillary Agreements represent the integrated agreement of YUM and the SpinCo Parties relating to the Separation and Distribution, are being entered into together, and would not have been entered into independently.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

#### ARTICLE I DEFINITIONS

For the purpose of this Agreement, the following terms shall have the following meanings:

“Action” shall mean any demand, action, claim, counterclaim, dispute, suit, countersuit, arbitration, hearing, inquiry, subpoena, proceeding, examination or investigation of any nature (whether criminal, civil, legislative, administrative, regulatory, prosecutorial, appellate or otherwise) by or before any federal, state, local, foreign or international Governmental Authority or any arbitration or mediation tribunal.

“Affiliate” shall mean, when used with respect to a specified Person, a Person that, directly or indirectly, through one (1) or more intermediaries, controls, is controlled by or is under common control with such specified Person. For the purpose of this definition, “control” (including with correlative meanings, “controlled by” and “under common control with”), when used with respect to any specified Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or other interests, by Contract, agreement, obligation, indenture, instrument, lease, promise, arrangement, release, warranty, commitment, undertaking or otherwise. It is expressly agreed that, prior to, at and after the Effective Time, for purposes of this Agreement, (a) no member of the SpinCo Group shall be deemed to be an Affiliate of any member of the YUM Group, and (b) no member of the YUM Group shall be deemed to be an Affiliate of any member of the SpinCo Group.

“Agent” shall mean the trust company or bank duly appointed to act as distribution agent, transfer agent and registrar for the SpinCo Shares in connection with the Distribution.

“Agreement” shall have the meaning set forth in the Preamble.

“Ancillary Agreements” shall mean all agreements (other than this Agreement) entered into by the Parties or members of their respective Groups (but as to which no Third Party is a party) in connection with the Separation, the Distribution or the other transactions contemplated by this Agreement, including the Master License Agreement, the Tax Matters Agreement, the Employee Matters Agreement, the Transition Services Agreement, the Name License Agreement, the Guaranty and the Transfer Documents.

“Approvals or Notifications” shall mean any consents, waivers, approvals, permits or authorizations to be obtained from, notices, registrations or reports to be submitted to, or other filings to be made with, any Third Party, including any Governmental Authority.

“Arbitration Request” shall have the meaning set forth in Section 7.3(a).

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“Assets” shall mean, with respect to any Person, the assets, properties, claims and rights (including goodwill) of such Person, wherever located (including in the possession of vendors or other Third Parties or elsewhere), of every kind, character and description, whether real, personal or mixed, tangible, intangible or contingent, in each case whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of such Person, including rights and benefits pursuant to any Contract, license, permit, indenture, note, bond, mortgage, agreement, concession, franchise, instrument, undertaking, commitment, understanding or other arrangement.

“Certification” shall have the meaning set forth in Section 2.12.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“China” shall mean the People’s Republic of China, excluding Hong Kong, Macau and Taiwan.

“China Division” shall mean YUM’s (and its Subsidiaries’) businesses and operations in China.

“Contract” shall mean any agreement, understanding, contract, obligation, indenture, instrument, lease, promise, arrangement, release, warranty, commitment or undertaking (whether written or oral and whether express or implied) that is legally binding.

“CPR” shall have the meaning set forth in Section 7.2.

“Delayed SpinCo Asset” shall have the meaning set forth in Section 2.4(c).

“Delayed SpinCo Liability” shall have the meaning set forth in Section 2.4(c).

“Delayed YUM Asset” shall have the meaning set forth in Section 2.4(h).

“Delayed YUM Liability” shall have the meaning set forth in Section 2.4(h).

“Disclosure Document” shall mean any registration statement (including the Form 10) filed with the SEC by or on behalf of YUM, SpinCo or any other member of their respective Groups, and any information statement (including the Information Statement), prospectus, offering memorandum, offering circular, periodic report or similar disclosure document, whether or not filed with the SEC or any other Governmental Authority, in each case which describes the Separation or the Distribution or the SpinCo Group or primarily relates to the transactions contemplated hereby.

“Dispute” shall have the meaning set forth in Section 7.1.

“Distribution” shall have the meaning set forth in the Recitals.

“Distribution Date” shall mean the date of the consummation of the Distribution, which shall be determined by the YUM Board in its sole and absolute discretion.

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“Effective Time” shall mean 11:59 p.m., New York City time, on the Distribution Date.

“Employee Matters Agreement” shall mean the Employee Matters Agreement to be entered into by and between YUM and SpinCo in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

thereunder. “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, together with the rules and regulations promulgated

“Force Majeure” shall mean, with respect to a Party, an event beyond the reasonable control of such Party (or any Person acting on its behalf), which event (a) does not arise or result from the fault or negligence of such Party (or any Person acting on its behalf) and (b) by its nature would not reasonably have been foreseen by such Party (or such Person), or, if it would reasonably have been foreseen, was unavoidable, and includes acts of God, acts of civil or military authority, embargoes, epidemics, pandemics, war, riots, insurrections, fires, explosions, earthquakes, floods, unusually severe weather conditions, labor problems or unavailability of parts, or, in the case of computer systems, any significant and prolonged failure in electrical or air conditioning equipment. Notwithstanding the foregoing, (1) the receipt by a Party of an unsolicited takeover offer or other acquisition proposal and such Party’s response thereto and (2) any change after the date of this Agreement in any Law applicable to YUM, SpinCo, or any member of their respective Groups, in either case even if unforeseen or unavoidable, shall not be deemed an event of Force Majeure.

“Form 10” shall mean the registration statement on Form 10 filed by SpinCo with the SEC to effect the registration of SpinCo Shares pursuant to Section 12(b) of the Exchange Act in connection with the Distribution, as such registration statement may be amended or supplemented from time to time prior to the Distribution.

“Governmental Approvals” shall mean any Approvals or Notifications to be made to, or obtained from, any Governmental Authority.

“Governmental Authority” shall mean any nation or government, any state, municipality or other political subdivision thereof, and any entity, body, agency, commission, department, board, bureau, court, tribunal or other instrumentality, whether federal, state, provincial, local, domestic, foreign, supranational or multinational, exercising executive, legislative, judicial, regulatory, administrative or other similar functions of, or pertaining to, a government and any executive official thereof.

“Group” shall mean either the SpinCo Group or the YUM Group, as the context requires. Reference to a Party’s respective Group means (a) the YUM Group, in the case of YUM and (b) the SpinCo Group, in the case of either SpinCo Party.

“Guaranty” shall mean the guaranty given by SpinCo in respect of the obligations of YCCL under the Master License Agreement.

“Indemnifying Party” shall have the meaning set forth in Section 4.4(a).

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“Indemnitee” shall have the meaning set forth in Section 4.4(a).

“Indemnity Payment” shall have the meaning set forth in Section 4.4(a).

“Information” shall mean information, whether in written, oral, electronic or other tangible or intangible forms, stored in any medium, including studies, reports, records, books, Contracts, instruments, surveys, designs, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts, data, marketing plans, customer names, communications by or to attorneys (including attorney-client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), and other technical, financial, employee or business information or data; provided that “Information” shall not include Intellectual Property, Software or Technology.

“Information Statement” shall mean the information statement to be made available to the holders of YUM Shares in connection with the Distribution, as such information statement may be amended or supplemented from time to time prior to the Distribution.

“Initial Notice” shall have the meaning set forth in Section 7.1.

“Insurance Proceeds” shall mean those monies:

- (a) received by an insured from an insurance carrier; or
- (b) paid by an insurance carrier on behalf of the insured;

in any such case net of any applicable premium adjustments (including reserves and retrospectively rated premium adjustments) and net of any costs or expenses incurred in the collection thereof; provided, that, with respect to a captive insurance arrangement, Insurance Proceeds shall only include amounts received by the captive insurer in respect of any reinsurance arrangement.

“Intellectual Property” shall mean all of the following whether arising under the Laws of the United States or of any foreign or multinational jurisdiction: (a) patents, patent applications (including patents issued thereon) and statutory invention registrations, including reissues, divisions, continuations, continuations in part, substitutions, renewals, extensions and reexaminations of any of the foregoing, and all rights in any of the foregoing provided by international treaties or conventions, (b) trademarks, service marks, trade names, service names, trade dress, logos and other source or business identifiers, including all goodwill associated with any of the foregoing, and any and all common law rights in and to any of the foregoing, registrations and applications for registration of any of the foregoing, all rights in and to any of the foregoing provided by international treaties or conventions, and all reissues, extensions and renewals of any of the foregoing, (c) Internet domain names, accounts with Facebook, LinkedIn, Twitter and similar social media platforms, registrations and related rights, (d) copyrightable works, copyrights, moral rights, mask work rights, database rights and design rights, in each case, other than Software, whether or not registered, and all registrations and applications for registration of any of the foregoing, and all rights in and to any of the foregoing provided by international treaties or conventions, (e) confidential and proprietary information, including trade secrets, invention disclosures, processes and know-how, in each case, other than Software, (f)

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intellectual property rights arising from or in respect of any Technology and (g) any other intellectual property rights, in each case, other than Software.

“IRS” shall mean the U.S. Internal Revenue Service.

“Law” shall mean any national, supranational, federal, state, provincial, local or similar law (including common law), statute, code, order, ordinance, rule, regulation, treaty (including any income tax treaty), license, permit, authorization, approval, consent, decree, injunction, binding judicial or administrative interpretation or other requirement, in each case, enacted, promulgated, issued or entered by a Governmental Authority.

“Liabilities” shall mean all debts, guarantees, assurances, commitments, liabilities, responsibilities, Losses, remediation, deficiencies, damages, fines, penalties, settlements, sanctions, costs, expenses, interest and obligations of any nature or kind, whether fixed, absolute or contingent, matured or unmatured, accrued or not accrued, asserted or unasserted, liquidated or unliquidated, foreseen or unforeseen, known or unknown, reserved or unreserved, or determined or determinable, including those arising under any Law, claim (including any Third-Party Claim), demand, Action, or order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority or arbitration tribunal, and those arising under any Contract, or any fines, damages or equitable relief that is imposed, in each case, including all costs and expenses relating thereto.

“Linked” shall have the meaning set forth in Section 2.9(a).

“Losses” shall mean actual losses (including any diminution in value), costs, damages, penalties and expenses (including legal and accounting fees and expenses and costs of investigation and litigation), whether or not involving a Third-Party Claim.

“Master License Agreement” shall mean the Master License Agreement to be entered into by and between YCCL and Yum! Restaurants Asia Pte. Ltd. in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Mediation Request” shall have the meaning set forth in Section 7.2.

“Mixed Actions” shall have the meaning set forth in Section 4.12(c).

“MLA IP” shall mean all Intellectual Property, Software and Technology at any time licensed to YCCL by Yum! Restaurants Asia Pte. Ltd. pursuant to the Master License Agreement.

“Name License Agreement” shall mean the Name License Agreement to be entered into by and between YUM and SpinCo in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“NYSE” shall mean the New York Stock Exchange.

“Other IP” shall mean all Intellectual Property, other than Registrable IP, that is owned by YUM, SpinCo or any other member of their respective Groups as of the Effective Time.

“Party” or “Parties” shall mean a party or the parties to this Agreement.

“Permits” shall mean permits, approvals, authorizations, consents, licenses or certificates issued by any Governmental Authority.

“Person” shall mean an individual, a general or limited partnership, a company, a corporation, a trust, a joint venture, an unincorporated organization, a limited liability entity, any other entity and any Governmental Authority.

“Plan of Reorganization” shall have the meaning set forth in Section 2.1(a).

“Prime Rate” shall mean the rate that Bloomberg displays as “Prime Rate by Country United States” at <http://www.bloomberg.com/quote/PRIME:IND> or on a Bloomberg terminal at PRIMBB Index or, in the absence of Bloomberg displaying such rate, such other rate as YUM may reasonably determine as the equivalent rate.

“Privileged Information” shall mean any information, in written, oral, electronic or other tangible or intangible forms, including any communications by or to attorneys (including attorney-client privileged communications), memoranda and other materials protected by the work product doctrine, as to which a Party or any other member of its Group would be entitled to assert or have asserted a privilege or other protection, including the attorney-client and work product privileges.

“Prohibited Jurisdiction” shall have the meaning set forth in Section 3.4(d).

“Protected Party” shall have the meaning set forth in Section 5.4.

“Real Property” shall mean land, and any and all buildings, structures, improvements and fixtures located thereon, together with all easements, rights and interests arising out of the ownership thereof.

“Real Property Leases” shall mean all leases to Real Property.

“Record Date” shall mean the close of business on the date to be determined by the YUM Board as the record date for determining holders of YUM Shares entitled to receive SpinCo Shares pursuant to the Distribution.

“Record Holders” shall mean the holders of record of YUM Shares as of the Record Date.

“Registrable IP” shall mean all patents, statutory invention registrations, registered trademarks, registered service marks, registered Internet domain names and copyright registrations, and all applications for any of the foregoing.

“SEC” shall mean the U.S. Securities and Exchange Commission.

“Security Interest” shall mean any mortgage, security interest, pledge, lien, charge, claim, option, right to acquire, voting or other restriction, right-of-way, covenant, condition, easement, encroachment, restriction on transfer, or other encumbrance of any nature whatsoever.

“Separation” shall have the meaning set forth in the Recitals.

“Shared Contract” shall have the meaning set forth in Section 2.8(a).

“Software” shall mean any and all (a) computer programs, including any and all software implementation of algorithms, models and methodologies, whether in source code, object code, human readable form or other form, (b) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, (c) descriptions, flow charts and other work products used to design, plan, organize and develop any of the foregoing, (d) screens, user interfaces, report formats, firmware, development tools, templates, menus, buttons and icons and (e) documentation, including user manuals and other training documentation, relating to any of the foregoing.

“Soliciting Party” shall have the meaning set forth in Section 5.4.

“SpinCo” shall have the meaning set forth in the Preamble.

“SpinCo Accounts” shall have the meaning set forth in Section 2.9(a).

“SpinCo Assets” shall have the meaning set forth in Section 2.2(a).

“SpinCo Balance Sheet” shall mean the pro forma consolidated balance sheet of the SpinCo Business, including any notes and subledgers thereto, as of [·], 2016, as presented in the Information Statement made available to the Record Holders.

“SpinCo Business” shall mean (a) the businesses, operations and activities of or relating to the China Division conducted at any time prior to the Effective Time by YUM, SpinCo or any of their respective current or former Subsidiaries, (b) the businesses, operations and activities of any member of the SpinCo Group conducted at or after the Effective Time, and (c) any terminated, divested or discontinued businesses, operations and activities that, at the time of termination, divestiture or discontinuation, primarily related to the business, operations or activities described in clause (a) or (b) as then conducted, including those set forth on Schedule 1.1.

“SpinCo Bylaws” shall mean the Amended and Restated Bylaws of SpinCo, substantially in the form of Exhibit B.

“SpinCo Certificate of Incorporation” shall mean the Amended and Restated Certificate of Incorporation of SpinCo, substantially in the form of Exhibit A.

“SpinCo Contracts” shall mean the following Contracts to which YUM, SpinCo or any other member of their respective Groups is a party or by which it or any other member of its

Group or any of their respective Assets is bound, whether or not in writing; provided that SpinCo Contracts shall not include any Contract that is contemplated to be retained by YUM or any member of the YUM Group from and after the Effective Time pursuant to any provision of this Agreement or any Ancillary Agreement:

(a) any vendor Contracts (other than SpinCo Licenses) with a Third Party pursuant to which such Third Party provides information technology services, human resources services or financial services to YUM, SpinCo or any other member of their respective Groups primarily used or primarily held for use in the SpinCo Business as of the Effective Time;

(b) other than any vendor Contracts addressed in clause (a) above, (i) any customer, distribution, supply or vendor Contract entered into prior to the Effective Time exclusively related to the SpinCo Business and (ii) with respect to any customer, distribution, supply or vendor Contract entered into prior to the Effective Time that relates to the SpinCo Business but is not exclusively related to the SpinCo Business, that portion of any such customer, distribution, supply or vendor Contract that exclusively relates to the SpinCo Business;

(c) any SpinCo License entered into prior to the Effective Time exclusively related to the SpinCo Business and, with respect to any SpinCo License entered into prior to the Effective Time that relates to the SpinCo Business but is not exclusively related to the SpinCo Business, that portion of any such SpinCo License that exclusively relates to the SpinCo Business;

(d) any Contract containing any guarantee, indemnity, representation, covenant, warranty or other Liability of YUM, SpinCo or any other member of their respective Groups to the extent relating to any other SpinCo Contract, any SpinCo Liability or the SpinCo Business;

(e) any employment, change of control, retention, consulting, indemnification, termination, severance or other similar agreements with any SpinCo Group employee or individual consultants of the SpinCo Group that are in effect as of the Effective Time;

(f) any Contract that is otherwise contemplated pursuant to this Agreement or any of the Ancillary Agreements to be assigned to, or be a Contract in the name of, SpinCo or another member of the SpinCo Group;

(g) any interest rate, currency, commodity or other swap, collar, cap or other hedging or similar Contracts entered into in the name of, or expressly on behalf of, any division, business unit or member of the SpinCo Group;

(h) any Contract entered into in the name of, or expressly on behalf of, any division, business unit or member of the SpinCo Group;

(i) any other Contract exclusively related to the SpinCo Business or the SpinCo Assets; and

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(j) any Contracts or settlements set forth on Schedule 1.2, including the right to recover any amounts under such Contracts or settlements.

“SpinCo Designees” shall mean any and all entities (including corporations, companies, general or limited partnerships, trusts, joint ventures, unincorporated organizations, limited liability entities or other entities) designated by SpinCo that will be members of the SpinCo Group as of immediately prior to the Effective Time.

“SpinCo Group” shall mean (a) prior to the Effective Time, SpinCo, YCCL, and each Person that will be a Subsidiary of SpinCo as of immediately after the Effective Time, including the Transferred Entities, even if, prior to the Effective Time, such Person is not a Subsidiary of SpinCo; and (b) at and after the Effective Time, SpinCo, YCCL, and each Person that is a Subsidiary of SpinCo.

“SpinCo Indemnitees” shall have the meaning set forth in Section 4.3.

“SpinCo Intellectual Property” shall mean (a) the Registrable IP set forth on Schedule 1.3(a), (b) all Other IP owned by YUM, SpinCo or another member of their respective Groups as of the Effective Time exclusively used or exclusively held for use in the SpinCo Business, but excluding any MLA IP and (c) any Other IP set forth on Schedule 1.3(c)(1).

“SpinCo IP/IT” shall have the meaning set forth in Section 2.2(a)(vi).

“SpinCo Liabilities” shall have the meaning set forth in Section 2.3(a).

“SpinCo License” shall mean any Contract pursuant to which a Third Party grants SpinCo or another member of the SpinCo Group a license or other right to use Intellectual Property, Software or Technology.

“SpinCo Parties” shall have the meaning set forth in the preamble.

“SpinCo Permits” shall mean all Permits owned or licensed by YUM, SpinCo or another member of their respective Groups primarily used or primarily held for use in the SpinCo Business as of the Effective Time.

“SpinCo Real Property” shall mean (a) all of the Real Property owned by SpinCo or another member of the SpinCo Group as of the Effective Time listed or described on Schedule 1.4(a), and (b) all the Real Property Leases related to the SpinCo Business or to which SpinCo or another member of the SpinCo Group is a party as of the Effective Time, except as set forth on Schedule 1.4(b).

“SpinCo Shares” shall mean the shares of common stock of SpinCo, \$0.01 par value per share.

“SpinCo Software” shall mean all Software owned by YUM, SpinCo or another member of their respective Groups exclusively used or exclusively held for use in the SpinCo Business as of the Effective Time, including Software set forth on Schedule 1.5, but excluding any MLA IP and Software set forth on Schedule 1.7.

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“SpinCo Specified Actions” shall mean those Actions set forth in Schedule 1.10.

“SpinCo Technology” shall mean all Technology owned by YUM, SpinCo or any other member of their respective Groups exclusively used or exclusively held for use in the SpinCo Business as of the Effective Time, including Technology set forth on Schedule 1.6, but excluding any MLA IP and Technology set forth on Schedule 1.8.

“Stub Period” shall have the meaning set forth in Section 2.12.

“Subsidiary” shall mean, with respect to any Person, any company, corporation, limited liability company, joint venture, partnership or other entity of which such Person (a) beneficially owns, either directly or indirectly, more than fifty percent (50%) of (i) the total combined voting power of all classes of voting securities, (ii) the total combined equity interests or (iii) the capital or profit interests, in the case of a partnership, or (b) otherwise has the power to vote, either directly or indirectly, sufficient securities to elect a majority of the board of directors or similar governing body. For purposes of this Agreement, with respect to SpinCo, “Subsidiary” shall also include Hangzhou KFC Co., Ltd., Suzhou KFC Co., Ltd. and Wuxi KFC Co., Ltd.

“Tangible Information” shall mean Information that is contained in written, electronic or other tangible forms.

“Tax” shall have the meaning set forth in the Tax Matters Agreement.

“Tax Matters Agreement” shall mean the Tax Matters Agreement to be entered into by and between YUM and the SpinCo Parties in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Tax Return” shall have the meaning set forth in the Tax Matters Agreement.

“Technology” shall mean all technology, designs, formulae, recipes, algorithms, procedures, methods, discoveries, processes, techniques, ideas, know-how, research and development, technical data, tools, materials, specifications, processes, inventions (whether patentable or unpatentable and whether or not reduced to practice), apparatus, creations, improvements, works of authorship in any media, confidential, proprietary or nonpublic information, and other similar materials, and all recordings, graphs, drawings, reports, analyses and other writings, and other tangible embodiments of the foregoing in any form whether or not listed herein, in each case, other than Software.

“Third Party” shall mean any Person other than the Parties or any other members of the Yum Group or the SpinCo Group.

“Third-Party Claim” shall have the meaning set forth in Section 4.5(a).

“Transfer Documents” shall have the meaning set forth in Section 2.1(b).

“Transferred Entities” shall mean the entities set forth on Schedule 1.9.

“Transition Committee” shall have the meaning set forth in Section 2.13.

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“Transition Services Agreement” shall mean the Transition Services Agreement to be entered into by and between YUM and SpinCo in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Unreleased SpinCo Liability” shall have the meaning set forth in Section 2.5(a)(ii).

“Unreleased YUM Liability” shall have the meaning set forth in Section 2.5(b)(ii).

“YCCL” shall have the meaning set forth in the Preamble.

“YUM” shall have the meaning set forth in the Preamble.

“YUM Accounts” shall have the meaning set forth in Section 2.9(a).

“YUM Assets” shall have the meaning set forth in Section 2.2(b).

“YUM Board” shall have the meaning set forth in the Recitals.

“YUM Business” shall mean all businesses, operations and activities (whether or not such businesses, operations or activities are or have been terminated, divested or discontinued) conducted at any time prior to the Effective Time by YUM, SpinCo or any other member of their respective Groups, other than the SpinCo Business.

“YUM Group” shall mean YUM and each Person that is a Subsidiary of YUM (other than SpinCo and any other member of the SpinCo Group).

“YUM Indemnitees” shall have the meaning set forth in Section 4.2.

“YUM Liabilities” shall have the meaning set forth in Section 2.3(b).

“YUM Name and YUM Marks” shall mean the names, marks, trade dress, logos, monograms, domain names and other source or business identifiers of YUM, SpinCo or any other member of their respective Groups using or containing “Yum!,” “Yum,” “Kentucky Fried Chicken,” “KFC,” “Pizza Hut,” or “Taco Bell” either alone or in combination with other words or elements, and all names, marks, trade dress, logos, monograms, domain names and other source or business identifiers confusingly similar to or embodying any of the foregoing either alone or in combination with other words or elements, together with the goodwill associated with any of the foregoing.

“YUM Shares” shall mean the common shares of YUM, no par value per share.

“YUM Software” shall mean all Software, other than SpinCo Software, owned by YUM, SpinCo or any other member of their respective Groups as of immediately prior to the Effective Time, including the Software set forth on Schedule 1.7.

“YUM Specified Actions” shall mean those Actions set forth in Schedule 1.11.

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“YUM Technology” shall mean all Technology, other than SpinCo Technology, owned by YUM, SpinCo or any other member of their respective Groups as of immediately prior to the Effective Time, including the Technology set forth on Schedule 1.8.

## ARTICLE II THE SEPARATION

### 2.1 Transfer of Assets and Assumption of Liabilities.

(a) At or prior to the Effective Time, but in any case, prior to the Distribution, in accordance with the plan and structure set forth on Schedule 2.1(a) (the “Plan of Reorganization”):

(i) *Transfer and Assignment of SpinCo Assets.* YUM shall, and shall cause the other applicable members of the YUM Group to, contribute, assign, transfer, convey and deliver to SpinCo, or the applicable SpinCo Designees, and SpinCo or such SpinCo Designees shall accept from YUM and the applicable members of the YUM Group, all of YUM’s and such YUM Group member’s respective direct or indirect right, title and interest in and to all of the SpinCo Assets (it being understood that if any SpinCo Asset shall be held by a Transferred Entity or a wholly owned Subsidiary of a Transferred Entity, such SpinCo Asset may be assigned, transferred, conveyed and delivered to SpinCo as a result of the transfer of all of the equity interests in such Transferred Entity from YUM or the other applicable members of the YUM Group to SpinCo or the applicable SpinCo Designee);

(ii) *Acceptance and Assumption of SpinCo Liabilities.* The SpinCo Parties and the applicable SpinCo Designees shall accept, assume and agree faithfully to perform, discharge and fulfill all the SpinCo Liabilities in accordance with their respective terms (it being understood that if any SpinCo Liability is a liability of a Transferred Entity or a wholly owned Subsidiary of a Transferred Entity, such SpinCo Liability may be assumed by the SpinCo Parties as a result of the transfer of all of the equity interests in such Transferred Entity from YUM or the other applicable members of the YUM Group to SpinCo or the applicable SpinCo Designee; provided that the SpinCo Parties shall cause such Transferred Entity and such SpinCo Designee to perform, discharge and fulfill all such SpinCo Liabilities). The SpinCo Parties and such SpinCo Designees shall be responsible for all SpinCo Liabilities, regardless of when or where such SpinCo Liabilities arose or arise, whether the facts on which they are based occurred prior to or subsequent to the Effective Time, where or against whom such SpinCo Liabilities are asserted or determined (including any SpinCo Liabilities arising out of claims made by YUM’s or SpinCo’s respective directors, officers, employees, agents, Subsidiaries or Affiliates against any member of the YUM Group or the SpinCo Group) or whether asserted or determined prior to or subsequent to the Effective Time, and regardless of whether arising from or alleged to arise from negligence, recklessness, violation of Law, fraud or misrepresentation by any member of the YUM Group or the SpinCo Group, or any of their respective directors, officers, employees, agents, Subsidiaries or Affiliates;

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(iii) *Transfer and Assignment of YUM Assets.* YUM and the SpinCo Parties shall cause SpinCo and the other applicable members of the SpinCo Group to contribute, assign, transfer, convey and deliver to YUM or certain members of the YUM Group designated by YUM, and YUM or such other members of the YUM Group shall accept from SpinCo and the applicable members of the SpinCo Group, all of SpinCo’s and such SpinCo Group members’ respective direct or indirect right, title and interest in and to all YUM Assets; and

(iv) *Acceptance and Assumption of YUM Liabilities.* YUM and the other applicable members of the YUM Group designated by YUM shall accept, assume and agree faithfully to perform, discharge and fulfill all the YUM Liabilities held by SpinCo or any SpinCo Designee and YUM and the other applicable members of the YUM Group shall be responsible for all YUM Liabilities in accordance with their respective terms, regardless of when or where such YUM Liabilities arose or arise, whether the facts on which they are based occurred prior to or subsequent to the Effective Time, where or against whom such YUM Liabilities are asserted or determined (including any YUM Liabilities arising out of claims made by YUM’s or SpinCo’s respective directors, officers, employees, agents, Subsidiaries or Affiliates against any member of the YUM Group or the SpinCo Group) or whether asserted or determined prior to or subsequent to the Effective Time, and regardless of whether arising from or alleged to arise from negligence, recklessness, violation of Law, fraud or misrepresentation by any member of the YUM Group or the SpinCo Group, or any of their respective directors, officers, employees, agents, Subsidiaries or Affiliates.

(b) *Transfer Documents.* In furtherance of the contribution, assignment, transfer, conveyance and delivery of the Assets and the acceptance and assumption of the Liabilities in accordance with Section 2.1(a), (i) each of YUM, on the one hand, and the SpinCo Parties, on the other hand, shall execute and deliver, and shall cause the applicable other members of its Group to execute and deliver, to the other, such bills of sale, quitclaim deeds, stock powers, certificates of title, assignments of Contracts and other instruments of transfer, conveyance and assignment as and to the extent necessary to evidence the transfer, conveyance and assignment of all of such Party’s and the applicable members of its Group’s right, title and interest in and to such Assets to the other and the applicable other members of its Group in accordance with Section 2.1(a), and (ii) each of YUM, on the one hand, and the SpinCo Parties, on the other hand, shall execute and deliver, and shall cause the applicable other members of its Group to execute and deliver, to the other, such assumptions of Contracts and other instruments of assumption as and to the extent necessary to evidence the valid and effective assumption of the Liabilities by such Party or the applicable members of its Group in accordance with Section 2.1(a). All of the foregoing documents contemplated by this Section 2.1(b) shall be referred to collectively herein as the “Transfer Documents.”

(c) *Misallocations.* If at any time or from time to time (whether prior to, at or after the Effective Time), one Party (or any other member of such Party’s Group) shall receive or otherwise possess any Asset that is allocated to another unaffiliated Party (or any other member of such other Party’s Group) pursuant to this Agreement or any Ancillary Agreement, such Party shall promptly transfer, or cause to be transferred, such Asset to the Party so entitled thereto (or to such member of such Party’s Group), and

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such Party (or other member of such Party’s Group) shall accept such Asset. Prior to any such transfer, the Person receiving or possessing such Asset shall hold such Asset in trust for such other Person. In the event that, at any time or from time to time (whether prior to, at or after the Effective Time), one Party hereto (or any other member of such Party’s Group) shall receive or otherwise be obligated for any Liability that is allocated to another unaffiliated Party (or the other applicable member of such Party’s Group) pursuant to this Agreement or any Ancillary Agreement, such Party shall promptly transfer, or cause to be transferred, such Liability to the Party (or to such member of such Party’s Group) responsible therefor, and the Party (or other member of such Party’s Group) responsible therefor shall accept, assume and agree to faithfully perform such Liability.

(d) *Waiver of Bulk-Sale and Bulk-Transfer Laws.* The SpinCo Parties hereby waive compliance by each and every member of the YUM Group with the requirements and provisions of any “bulk-sale” or “bulk-transfer” Laws of any jurisdiction that may otherwise be applicable with respect to the transfer or sale of any or all of the SpinCo Assets to any member of the SpinCo Group. YUM hereby waives compliance by each and every member of the SpinCo Group with the requirements and provisions of any “bulk-sale” or “bulk-transfer” Laws of any jurisdiction that may otherwise be applicable with respect to the transfer or sale of any or all of the YUM Assets to any member of the YUM Group.



(a) *SpinCo Assets*. For purposes of this Agreement, “SpinCo Assets” shall mean (without duplication):

- (i) all issued and outstanding capital stock or other equity interests of the Transferred Entities that are owned by YUM, SpinCo or any other member of their respective Groups as of the Effective Time;
- (ii) all Assets of any Party or any of the other members of such Party’s Group included or reflected as assets of the SpinCo Group on the SpinCo Balance Sheet, subject to any dispositions of such Assets subsequent to the date of the SpinCo Balance Sheet; provided that the amounts set forth on the SpinCo Balance Sheet with respect to any Assets shall not be treated as minimum amounts or limitations on the amount of such Assets that are included in the definition of SpinCo Assets pursuant to this subclause (ii);
- (iii) all Assets (including cash and cash equivalents) of YUM, SpinCo or any other member of their respective Groups as of the Effective Time that are of a nature or type that would have resulted in such Assets being included or reflected as Assets of SpinCo or any of the other members of the SpinCo Group on a pro forma consolidated balance sheet of the SpinCo Group or any notes or subledgers thereto as of the Effective Time (were such balance sheet, notes and subledgers to be prepared on a basis consistent with the determination of the Assets included on the SpinCo Balance Sheet), it being understood that (A) the SpinCo Balance Sheet shall be used to determine the types of, and methodologies used to determine, those Assets that are included in the definition of SpinCo Assets pursuant to this subclause (iii); and (B) the amounts set forth on the SpinCo Balance Sheet with respect to any Assets shall not be treated as minimum amounts or limitations on

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the amount of such Assets that are included in the definition of SpinCo Assets pursuant to this subclause (iii);

- (iv) all Assets of YUM, SpinCo or other member of their respective Groups as of the Effective Time that are expressly provided by this Agreement or any Ancillary Agreement as Assets to be transferred to or owned by SpinCo or any other member of the SpinCo Group;
- (v) all SpinCo Contracts as of the Effective Time and all rights, interests or claims of YUM, SpinCo or any other member of their respective Groups thereunder as of the Effective Time;
- (vi) all SpinCo Intellectual Property, SpinCo Software and SpinCo Technology as of the Effective Time and all rights, interests or claims of YUM, SpinCo or any other member of their respective Groups thereunder or thereto as of the Effective Time (collectively, the “SpinCo IP/IT”);
- (vii) all SpinCo Permits as of the Effective Time and all rights, interests or claims of YUM, SpinCo or any other member of their respective Groups thereunder as of the Effective Time;
- (viii) all SpinCo Real Property as of the Effective Time;
- (ix) to the extent not already identified in subclauses (i) through (viii) of this Section 2.2(a), all Assets of any Party or any other member of their respective Groups as of the Effective Time that are primarily related to the SpinCo Business;
- (x) subject to applicable Law and the provisions of the applicable Ancillary Agreements, to the extent not already identified in subclauses (i) through (ix) of this Section 2.2(a), all rights, interests and claims of any Party or any other member of their respective Groups as of the Effective Time with respect to Information that is exclusively related to the SpinCo Assets, the SpinCo Liabilities, the SpinCo Business or the Transferred Entities, and a non-exclusive right to use all Information that is related to, but not exclusively related to, the SpinCo Assets, the SpinCo Liabilities, the SpinCo Business or the Transferred Entities; and
- (xi) any and all Assets set forth on Schedule 2.2(a)(xi).

Notwithstanding the foregoing, the SpinCo Assets shall not in any event include any Asset referred to in subclauses (i) through (vi) of Section 2.2(b).

- (b) *YUM Assets*. For the purposes of this Agreement, “YUM Assets” shall mean all Assets of YUM, SpinCo or any other member of their respective Groups as of the Effective Time, other than the SpinCo Assets, it being understood that the YUM Assets shall include (without duplication):
  - (i) all Assets that are expressly contemplated by this Agreement or any Ancillary Agreement (including, for the avoidance of doubt, the Schedules hereto or

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thereto) as Assets to be retained or owned by YUM or any other member of the YUM Group;

- (ii) all Contracts of YUM, SpinCo or any other member of their respective Groups as of the Effective Time (other than the SpinCo Contracts);
- (iii) all MLA IP and all other Intellectual Property, Software and Technology owned by YUM, SpinCo or any other member of their respective Groups as of the Effective Time (other than SpinCo IP/IT), including the YUM Name and YUM Marks and the Intellectual Property set forth on Schedule 2.2(b)(iii);
- (iv) all Permits of YUM, SpinCo or any other member of their respective Groups as of the Effective Time (other than the SpinCo Permits);

(v) all Real Property of YUM, SpinCo or any other member of their respective Groups as of the Effective Time (other than the SpinCo Real Property); and

(vi) any and all Assets set forth on Schedule 2.2(b)(vi).

### 2.3 SpinCo Liabilities; YUM Liabilities.

(a) *SpinCo Liabilities.* For the purposes of this Agreement, “SpinCo Liabilities” shall mean the following Liabilities of YUM, SpinCo or any other member of their respective Groups (without duplication):

(i) all Liabilities included or reflected as liabilities or obligations of SpinCo or any other member of the SpinCo Group on the SpinCo Balance Sheet, subject to any discharge of such Liabilities subsequent to the date of the SpinCo Balance Sheet; provided that the amounts set forth on the SpinCo Balance Sheet with respect to any Liabilities shall not be treated as minimum amounts or limitations on the amount of such Liabilities that are included in the definition of SpinCo Liabilities pursuant to this subclause (i);

(ii) all Liabilities of YUM, SpinCo or any other member of their respective Groups as of the Effective Time that are of a nature or type that would have resulted in such Liabilities being included or reflected as Liabilities of SpinCo or any other member of the SpinCo Group on a pro forma consolidated balance sheet of the SpinCo Group or any notes or subledgers thereto as of the Effective Time (were such balance sheet, notes and subledgers to be prepared on a basis consistent with the determination of the Liabilities included on the SpinCo Balance Sheet), it being understood that (A) the SpinCo Balance Sheet shall be used to determine the types of, and methodologies used to determine, those Liabilities that are included in the definition of SpinCo Liabilities pursuant to this subclause (ii); and (B) the amounts set forth on the SpinCo Balance Sheet with respect to any Liabilities shall not be treated as minimum amounts or limitations on the amount of such Liabilities that are included in the definition of SpinCo Liabilities pursuant to this subclause (ii);

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(iii) all Liabilities relating to, arising out of or resulting from the actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing before, at, or after the Effective Time (for the avoidance of doubt, whether or not such Liabilities cease being contingent, mature, become known, are asserted or foreseen, or accrue, in each case, before, at or after the Effective Time), in each case to the extent that such Liabilities relate to, arise out of or result from the SpinCo Business, as conducted at any time before, at or after the Effective Time (including any Liability relating to, arising out of or resulting from any act or failure to act by any Person, whether or not such act or failure to act is or was within such Person’s authority, with respect to the SpinCo Business), or any of the SpinCo Assets;

(iv) all Liabilities that are expressly provided by this Agreement or any Ancillary Agreement (including, for the avoidance of doubt, the Schedules hereto or thereto) as Liabilities to be assumed by SpinCo or any other member of the SpinCo Group, and all agreements, obligations and Liabilities of any member of the SpinCo Group under this Agreement or any of the Ancillary Agreements;

(v) all Liabilities to the extent relating to, arising out of or resulting from, in each case, before, at or after the Effective Time, the SpinCo Contracts, the SpinCo Intellectual Property, the SpinCo Software, the SpinCo Technology, the SpinCo Permits or the SpinCo Real Property;

(vi) all Liabilities (A) relating to, arising out of or resulting from the SpinCo Specified Actions or (B) set forth on Schedule 2.3(a)(vi); and

(vii) all Liabilities arising out of claims made by any Third Party (including YUM’s or a SpinCo Party’s respective directors, officers, shareholders, current and former employees and agents) against any member of the YUM Group or the SpinCo Group to the extent relating to, arising out of or resulting from the SpinCo Business or the SpinCo Assets or the other business, operations, activities or Liabilities referred to in subclauses (i) through (vi) above;

provided that, notwithstanding the foregoing, the Parties agree that (A) the Liabilities set forth in Section 2.3(b) and any Liabilities of any member of the YUM Group pursuant to the Ancillary Agreements shall not be SpinCo Liabilities but instead shall be YUM Liabilities and (B) the Liabilities of each Party relating to, arising out of or resulting from any Mixed Actions shall be governed by Section 4.12(c).

(b) *YUM Liabilities.* For the purposes of this Agreement, “YUM Liabilities” shall mean the following Liabilities of YUM, SpinCo or any other member of their respective Groups (without duplication):

(i) all Liabilities relating to, arising out of or resulting from actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to the Effective Time (for the avoidance of doubt, whether or not such Liabilities cease being contingent, mature, become known, are asserted or foreseen, or accrue, in each case before, at or after the Effective Time) of any member of the YUM Group and, prior to the

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Effective Time, any member of the SpinCo Group, in each case, to the extent that such Liabilities are not SpinCo Liabilities;

(ii) all Liabilities that are expressly provided by this Agreement or any Ancillary Agreement (including, for the avoidance of doubt, the Schedules hereto or thereto) as Liabilities to be assumed or retained by YUM or any other member of the YUM Group, and all agreements, obligations and Liabilities of any member of the YUM Group under this Agreement or any of the Ancillary Agreements;

(iii) all Liabilities arising out of claims made by any Third Party (including YUM’s or SpinCo’s respective directors, officers, shareholders, current and former employees and agents) against any member of the YUM Group or the SpinCo Group to the extent relating to, arising out of or resulting from the YUM Business or the YUM Assets; and

(iv) all Liabilities (A) relating to, arising out of or resulting from the YUM Specified Actions or (B) set forth on Schedule 2.3(b)(iv).

#### 2.4 Approvals and Notifications.

(a) *Approvals and Notifications for SpinCo Assets.* To the extent that the transfer or assignment of any SpinCo Asset, the assumption of any SpinCo Liability, the Separation or the Distribution requires any Approvals or Notifications, the Parties shall use their commercially reasonable efforts to obtain or make such Approvals or Notifications as soon as reasonably practicable; provided, that, except to the extent expressly provided in this Agreement or any of the Ancillary Agreements or as otherwise agreed between YUM and the SpinCo Parties, neither YUM nor the SpinCo Parties shall be obligated to contribute capital or pay any consideration in any form (including providing any letter of credit, guaranty or other financial accommodation) to any Person in order to obtain or make such Approvals or Notifications.

(b) *Delayed SpinCo Transfers.* If and to the extent that the valid, complete and perfected transfer or assignment to the SpinCo Group of any SpinCo Asset or assumption by the SpinCo Group of any SpinCo Liability would be a violation of applicable Law or require any Approvals or Notifications that has not been obtained or made by the Effective Time then, unless the Parties mutually shall otherwise determine, the transfer or assignment to the SpinCo Group of such SpinCo Asset or the assumption by the SpinCo Group of such SpinCo Liability, as the case may be, shall be automatically deemed deferred and any such purported transfer, assignment or assumption shall be null and void until such time as all legal impediments are removed or such Approvals or Notifications have been obtained or made. Notwithstanding the foregoing, any such SpinCo Assets or SpinCo Liabilities shall continue to constitute SpinCo Assets and SpinCo Liabilities, as the case may be, for all other purposes of this Agreement.

(c) *Treatment of Delayed SpinCo Assets and Delayed SpinCo Liabilities.* If any transfer or assignment of any SpinCo Asset (or a portion thereof) or any assumption of any SpinCo Liability (or a portion thereof) intended to be transferred, assigned or assumed hereunder, as the case may be, is not consummated at or prior to the Effective Time, whether as a result of the provisions of Section 2.4(b) or for any other reason (any such SpinCo Asset (or a portion thereof),

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a “Delayed SpinCo Asset” and any such SpinCo Liability (or a portion thereof), a “Delayed SpinCo Liability”), then, insofar as reasonably possible and subject to applicable Law, the member of the YUM Group retaining such Delayed SpinCo Asset or such Delayed SpinCo Liability, as the case may be, shall thereafter hold such Delayed SpinCo Asset or Delayed SpinCo Liability, as the case may be, for the use and benefit (or the performance and obligation, in the case of a Liability) of the member of the SpinCo Group entitled thereto or obligated thereon (at the expense of the member of the SpinCo Group entitled thereto or obligated thereon). In addition, the member of the YUM Group retaining such Delayed SpinCo Asset or such Delayed SpinCo Liability shall, insofar as reasonably possible and to the extent permitted by applicable Law, treat such Delayed SpinCo Asset or Delayed SpinCo Liability in the ordinary course of business in accordance with past practice and take such other actions as may be reasonably requested by the member of the SpinCo Group to which such Delayed SpinCo Asset is to be transferred or assigned, or which is to assume such Delayed SpinCo Liability, as the case may be, in order to place such member of the SpinCo Group in a substantially similar position as if such Delayed SpinCo Asset or Delayed SpinCo Liability had been transferred, assigned or assumed as contemplated hereby and so that all the benefits and burdens relating to such Delayed SpinCo Asset or Delayed SpinCo Liability, as the case may be, including use, risk of loss, potential for gain, and dominion, control and command over such Delayed SpinCo Asset or Delayed SpinCo Liability, as the case may be, and all costs and expenses related thereto, shall from and after the Effective Time inure to and be the responsibility of the SpinCo Group.

(d) *Transfer of Delayed SpinCo Assets and Delayed SpinCo Liabilities.* If and when the Approvals or Notifications, the absence of which caused the deferral of transfer or assignment of any Delayed SpinCo Asset or the deferral of assumption of any Delayed SpinCo Liability pursuant to Section 2.4(b), are obtained or made, and, if and when any other legal impediments for the transfer or assignment of any Delayed SpinCo Asset or the assumption of any Delayed SpinCo Liability have been removed, the transfer or assignment of the applicable Delayed SpinCo Asset or the assumption of the applicable Delayed SpinCo Liability, as the case may be, shall be effected in accordance with the terms of this Agreement and/or the applicable Ancillary Agreement.

(e) *Costs for Delayed SpinCo Assets and Delayed SpinCo Liabilities.* Any member of the YUM Group retaining a Delayed SpinCo Asset or Delayed SpinCo Liability due to the deferral of the transfer or assignment of such Delayed SpinCo Asset or the deferral of the assumption of such Delayed SpinCo Liability, as the case may be, shall not be obligated, in connection with the foregoing, to expend any money unless the necessary funds are advanced (or otherwise made available) by SpinCo or the member of the SpinCo Group entitled to the Delayed SpinCo Asset or obligated with respect to the Delayed SpinCo Liability, other than reasonable out-of-pocket expenses, attorneys’ fees and recording or similar fees, all of which shall be promptly reimbursed by the SpinCo Parties or the member of the SpinCo Group entitled to such Delayed SpinCo Asset or obligated with respect to such Delayed SpinCo Liability.

(f) *Approvals and Notifications for YUM Assets.* To the extent that the transfer or assignment of any YUM Asset or the assumption of any YUM Liability requires any Approvals or Notifications, the Parties shall use their commercially reasonable efforts to obtain or make such Approvals or Notifications as soon as reasonably practicable; provided, that, except to the extent expressly provided in this Agreement or any of the Ancillary Agreements or as otherwise agreed

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between YUM and the SpinCo Parties, neither YUM nor the SpinCo Parties shall be obligated to contribute capital or pay any consideration in any form (including providing any letter of credit, guaranty or other financial accommodation) to any Person in order to obtain or make such Approvals or Notifications.

(g) *Delayed YUM Transfers.* If and to the extent that the valid, complete and perfected transfer or assignment to the YUM Group of any YUM Asset or assumption by the YUM Group of any YUM Liability would be a violation of applicable Law or require any Approval or Notification that has not been obtained or made by the Effective Time then, unless the Parties mutually shall otherwise determine, the transfer or assignment to the YUM Group of such YUM Asset or the assumption by the YUM Group of such YUM Liability, as the case may be, shall be automatically deemed deferred and any such purported transfer, assignment or assumption shall be null and void until such time as all legal impediments are removed or such Approval or

Notification has been obtained or made. Notwithstanding the foregoing, any such YUM Assets or YUM Liabilities shall continue to constitute YUM Assets and YUM Liabilities, as the case may be, for all other purposes of this Agreement.

(h) *Treatment of Delayed YUM Assets and Delayed YUM Liabilities.* If any transfer or assignment of any YUM Asset (or a portion thereof) or any assumption of any YUM Liability (or a portion thereof) intended to be transferred, assigned or assumed hereunder, as the case may be, is not consummated at or prior to the Effective Time whether as a result of the provisions of Section 2.4(g) or for any other reason (any such YUM Asset (or a portion thereof), a “Delayed YUM Asset” and any such YUM Liability (or a portion thereof), a “Delayed YUM Liability”), then, insofar as reasonably possible and subject to applicable Law, the member of the SpinCo Group retaining such Delayed YUM Asset or such Delayed YUM Liability, as the case may be, shall thereafter hold such Delayed YUM Asset or Delayed YUM Liability, as the case may be, for the use and benefit (or the performance and obligation, in the case of a Liability) of the member of the YUM Group entitled thereto or obligated thereon (at the expense of the member of the YUM Group entitled thereto or obligated thereon). In addition, the member of the SpinCo Group retaining such Delayed YUM Asset or such Delayed YUM Liability shall, insofar as reasonably possible and to the extent permitted by applicable Law, treat such Delayed YUM Asset or Delayed YUM Liability in the ordinary course of business in accordance with past practice. Such member of the SpinCo Group shall also take such other actions as may be reasonably requested by the member of the YUM Group to which such Delayed YUM Asset is to be transferred or assigned, or which is to assume such Delayed YUM Liability, as the case may be, in order to place such member of the YUM Group in a substantially similar position as if such Delayed YUM Asset or Delayed YUM Liability had been transferred, assigned or assumed as contemplated hereby and so that all the benefits and burdens relating to such Delayed YUM Asset or Delayed YUM Liability, as the case may be, including use, risk of loss, potential for gain, and dominion, control and command over such Delayed SpinCo Asset or Delayed SpinCo Liability, as the case may be, and all costs and expenses related thereto, shall from and after the Effective Time inure to and be the responsibility of the YUM Group.

(i) *Transfer of Delayed YUM Assets and Delayed YUM Liabilities.* If and when the Approvals or Notifications, the absence of which caused the deferral of transfer or assignment of any Delayed YUM Asset or the deferral of assumption of any Delayed YUM Liability pursuant to Section 2.4(g), are obtained or made, and, if and when any other legal

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impediments for the transfer or assignment of any Delayed YUM Asset or the assumption of any Delayed YUM Liability have been removed, the transfer or assignment of the applicable Delayed YUM Asset or the assumption of the applicable Delayed YUM Liability, as the case may be, shall be effected in accordance with the terms of this Agreement and/or the applicable Ancillary Agreement.

(j) *Costs for Delayed YUM Assets and Delayed YUM Liabilities.* Any member of the SpinCo Group retaining a Delayed YUM Asset or Delayed YUM Liability due to the deferral of the transfer or assignment of such Delayed YUM Asset or the deferral of the assumption of such Delayed YUM Liability, as the case may be, shall not be obligated, in connection with the foregoing, to expend any money unless the necessary funds are advanced (or otherwise made available) by YUM or the member of the YUM Group entitled to the Delayed YUM Asset or obligated with respect to the Delayed YUM Liability, other than reasonable out-of-pocket expenses, attorneys’ fees and recording or similar fees, all of which shall be promptly reimbursed by YUM or the member of the YUM Group entitled to such Delayed YUM Asset or obligated with respect to such Delayed YUM Liability.

## 2.5 Novation of Liabilities.

### (a) *Novation of SpinCo Liabilities.*

(i) Except as set forth in Schedule 2.5(a), each of YUM and the SpinCo Parties, at the request of the other, shall use its commercially reasonable efforts to obtain, or to cause to be obtained, as soon as reasonably practicable, any consent, substitution, approval or amendment required to novate or assign all SpinCo Liabilities and obtain in writing the unconditional release of each member of the YUM Group that is a party to any related agreement, lease, license or other obligation or Liability, so that, in any such case, the members of the SpinCo Group shall be solely responsible for such SpinCo Liabilities; provided, that, except as otherwise expressly provided in this Agreement or any of the Ancillary Agreements, neither YUM nor the SpinCo Parties shall be obligated to contribute any capital or pay any consideration in any form (including providing any letter of credit, guaranty or other financial accommodation) to any Third Party from whom any such consent, substitution, approval, amendment or release is requested.

(ii) If YUM and the SpinCo Parties are unable to obtain, or to cause to be obtained, any such required consent, substitution, approval, amendment or release and the applicable member of the YUM Group continues to be bound by such agreement, lease, license or other obligation or Liability (each, an “Unreleased SpinCo Liability”), the SpinCo Parties shall, to the extent not prohibited by Law, as indemnitor, guarantor, agent or subcontractor for such member of the YUM Group, as the case may be, (A) pay, perform and discharge fully all the obligations or other Liabilities of such member of the YUM Group that constitute Unreleased SpinCo Liabilities from and after the Effective Time and (B) use its commercially reasonable efforts to effect such payment, performance or discharge prior to any demand for such payment, performance or discharge is permitted to be made by the obligee thereunder on any member of the YUM Group. If and when any such consent, substitution, approval, amendment or release shall be obtained or the Unreleased SpinCo Liabilities shall otherwise become assignable or able to be novated,

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YUM shall promptly assign, or cause to be assigned, and the SpinCo Parties or the applicable SpinCo Group member shall assume, such Unreleased SpinCo Liabilities without exchange of further consideration.

### (b) *Novation of YUM Liabilities.*

(i) Each of YUM and the SpinCo Parties, at the request of the other, shall use its commercially reasonable efforts to obtain, or to cause to be obtained, as soon as reasonably practicable, any consent, substitution, approval or amendment required to novate or assign all YUM Liabilities and obtain in writing the unconditional release of each member of the SpinCo Group that is a party to any related agreement, lease, license or other obligation or Liability, so that, in any such case, the members of the YUM Group shall be solely responsible for such YUM Liabilities; provided, that, except as otherwise expressly provided in this Agreement or any of the Ancillary Agreements, neither YUM nor the SpinCo Parties

shall be obligated to contribute any capital or pay any consideration in any form (including providing any letter of credit, guaranty or other financial accommodation) to any Third Party from whom any such consent, substitution, approval, amendment or release is requested.

(ii) If YUM and the SpinCo Parties are unable to obtain, or to cause to be obtained, any such required consent, substitution, approval, amendment or release and the applicable member of the SpinCo Group continues to be bound by such agreement, lease, license or other obligation or Liability (each, an “Unreleased YUM Liability”), YUM shall, to the extent not prohibited by Law, as indemnitor, guarantor, agent or subcontractor for such member of the SpinCo Group, as the case may be, (A) pay, perform and discharge fully all the obligations or other Liabilities of such member of the SpinCo Group that constitute Unreleased YUM Liabilities from and after the Effective Time and (B) use its commercially reasonable efforts to effect such payment, performance or discharge prior to any demand for such payment, performance or discharge is permitted to be made by the obligee thereunder on any member of the SpinCo Group. If and when any such consent, substitution, approval, amendment or release shall be obtained or the Unreleased YUM Liabilities shall otherwise become assignable or able to be novated, the SpinCo Parties shall promptly assign, or cause to be assigned, and YUM or the applicable YUM Group member shall assume, such Unreleased YUM Liabilities without exchange of further consideration.

2.6 Release of Guarantees. In furtherance of, and not in limitation of, the obligations set forth in Section 2.5:

(a) At or prior to the Effective Time or as soon as practicable thereafter, each of YUM and the SpinCo Parties shall, at the request of the other and with the reasonable cooperation of such other Party and the applicable member(s) of such Party’s Group, use commercially reasonable efforts to: (i) have any member(s) of the YUM Group removed as guarantor of or obligor for any SpinCo Liability, including the removal of any Security Interest on or in any YUM Asset that may serve as collateral or security for any such SpinCo Liability; and (ii) have any member(s) of the SpinCo Group removed as guarantor of or obligor for any YUM Liability,

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including the removal of any Security Interest on or in any SpinCo Asset that may serve as collateral or security for any such YUM Liability.

(b) To the extent required to obtain a release from a guarantee of:

(i) any member of the YUM Group, the SpinCo Parties shall (or shall cause one (1) or more other members of the SpinCo Group to) execute a guarantee agreement in the form of the existing guarantee or such other form as is agreed to by the relevant parties to such guarantee agreement, which agreement shall include the removal of any Security Interest on or in any YUM Asset that may serve as collateral or security for any such SpinCo Liability, except to the extent that such existing guarantee contains representations, covenants or other terms or provisions either (A) with which the SpinCo Parties would be reasonably unable to comply or (B) which the SpinCo Parties would not reasonably be able to avoid breaching; and

(ii) any member of the SpinCo Group, YUM shall (or shall cause one (1) or more other members of the Yum Group to) execute a guarantee agreement in the form of the existing guarantee or such other form as is agreed to by the relevant parties to such guarantee agreement, which agreement shall include the removal of any Security Interest on or in any SpinCo Asset that may serve as collateral or security for any such YUM Liability, except to the extent that such existing guarantee contains representations, covenants or other terms or provisions either (A) with which YUM would be reasonably unable to comply or (B) which YUM would not reasonably be able to avoid breaching.

(c) If YUM and the SpinCo Parties are unable to obtain, or to cause to be obtained, any such required removal or release as set forth in clauses (a) and (b) of this Section 2.6: (i) YUM, the SpinCo Parties, or the other relevant member of the YUM Group or the SpinCo Group, as applicable, that has assumed the Liability with respect to such guarantee shall indemnify, defend and hold harmless the guarantor or obligor against or from any Liability arising from or relating thereto in accordance with the provisions of Article IV and shall, as agent or subcontractor for such guarantor or obligor, pay, perform and discharge fully all the obligations or other Liabilities of such guarantor or obligor thereunder; and (ii) each of YUM and each of the SpinCo Parties, on behalf of itself and the other members of the YUM Group or the SpinCo Group, respectively, agree not to renew or extend the term of, increase any obligations under, or transfer to a third party, any loan, guarantee, lease, Contract or other obligation for which any other Party or a member of its Group is or may be liable unless all obligations of such other Party and the members of such other Party’s Group with respect thereto are thereupon terminated by documentation satisfactory in form and substance to such other Party.

2.7 Termination of Agreements.

(a) Except as set forth in Section 2.7(b), in furtherance of the releases and other provisions of Section 4.1, the SpinCo Parties and each other member of the SpinCo Group, on the one hand, and YUM and each other member of the YUM Group, on the other hand, hereby terminate any and all agreements, arrangements, commitments or understandings, whether or not in writing, between or among either of the SpinCo Parties and/or any other member of the SpinCo Group, on the one hand, and YUM and/or any other member of the YUM Group, on the other

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hand, effective as of the Effective Time. No such terminated agreement, arrangement, commitment or understanding (including any provision thereof which purports to survive termination) shall be of any further force or effect after the Effective Time. Each Party shall, at the reasonable request of any other Party, take, or cause to be taken, such other actions as may be necessary to effect the foregoing.

(b) The provisions of Section 2.7(a) shall not apply to any of the following agreements, arrangements, commitments or understandings (or to any of the provisions thereof): (i) this Agreement and the Ancillary Agreements (and each other agreement or instrument expressly contemplated by this Agreement or any Ancillary Agreement to be entered into by YUM, SpinCo, or any other member of their respective Groups or to be continued from and after the Effective Time); (ii) any agreements, arrangements, commitments or understandings listed or described on Schedule 2.7(b)(ii); (iii) any agreements, arrangements, commitments or understandings to which any Third Party is a party; (iv) any intercompany accounts payable or accounts receivable accrued as of the Effective Time that are reflected in the books and records of the Parties or otherwise documented in writing in accordance with past practices, which shall be settled in the manner contemplated by Section 2.7(c); (v) any agreements, arrangements, commitments or understandings to which any non-wholly

owned Subsidiary of YUM or either of the SpinCo Parties, as the case may be, is a party (it being understood that directors' qualifying shares or similar interests will be disregarded for purposes of determining whether a Subsidiary is wholly owned); and (vi) any Shared Contracts.

(c) All of the intercompany accounts receivable and accounts payable between any member of the YUM Group, on the one hand, and any member of the SpinCo Group, on the other hand, outstanding as of the Effective Time and arising out of the Contracts described in Section 2.7(b) or out of the provision, prior to the Effective Time, of the services to be provided following the Effective Time pursuant to any of the Ancillary Agreements shall be paid or settled following the Effective Time in the ordinary course of business or, if otherwise mutually agreed prior to the Effective Time by duly authorized representatives of SpinCo and YUM, cancelled, assigned or assumed by SpinCo or one (1) or more Subsidiaries of SpinCo. All other intercompany accounts receivable and accounts payable between any member of the YUM Group, on the one hand, and any member of the SpinCo Group, on the other hand, outstanding as of the Effective Time shall be paid, settled or otherwise eliminated by means of cash payments, a dividend, capital contribution, a combination of the foregoing, or otherwise as determined by YUM in its sole and absolute discretion.

## 2.8 Treatment of Shared Contracts.

(a) Subject to applicable Law and without limiting the generality of the obligations set forth in Section 2.1, unless the Parties otherwise agree, or the benefits or obligations of any Contract described in this Section 2.8 are expressly conveyed to the applicable Party pursuant to this Agreement or an Ancillary Agreement, any (i) Contract, a portion of which is a SpinCo Contract, and the remainder of which is a YUM Asset or (ii) Contract entered into prior to the Effective Time that relates to the SpinCo Business but is not exclusively related to the SpinCo Business and with respect to which the portion that relates to the SpinCo Business cannot be divided (any such Contract, a "Shared Contract"), shall be assigned in relevant part to the applicable member(s) of the applicable Group, if so assignable, or appropriately amended prior to,

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at or after the Effective Time, so that YUM, SpinCo or the applicable other member of its respective Group shall, as of the Effective Time, be entitled to the rights and benefits, and shall assume the related portion of any Liabilities, inuring to its respective businesses; provided that (A) in no event shall any member of any Group be required to assign (or amend) any Shared Contract in its entirety or to assign a portion of any Shared Contract which is not assignable (or cannot be amended) by its terms (including any terms imposing consents or conditions on an assignment where such consents or conditions have not been obtained or fulfilled), and (B) if any Shared Contract cannot be so partially assigned by its terms or otherwise, or cannot be amended or if assignment or amendment of such Shared Contract would impair the benefit the parties thereto derive from such Shared Contract, then the Parties shall, and shall cause each of the members of their respective Groups to, take such other reasonable and permissible actions (including by providing prompt written notice to each other Party with respect to any relevant claim of Liability or other relevant matters arising in connection with a Shared Contract so as to allow such other Party the ability to exercise any applicable rights under such Shared Contract) to cause a member of the SpinCo Group or the YUM Group, as the case may be, to receive the rights and benefits of that portion of each Shared Contract that relates to the SpinCo Business or the YUM Business, respectively (in each case, to the extent so related), as if such Shared Contract had been assigned to (or amended to admit) a member of the applicable Group pursuant to this Section 2.8, and to bear the burden of the corresponding Liabilities (including any Liabilities that may arise by reason of such arrangement), as if such Liabilities had been assumed by a member of the applicable Group pursuant to this Section 2.8.

(b) Each of YUM and the SpinCo Parties shall, and shall cause the other members of its Group to, (i) treat for all Tax purposes the portion of each Shared Contract inuring to its respective businesses as Assets owned by, and/or Liabilities of, as applicable, such Party, or the other members of its Group, as applicable, not later than the Effective Time and (ii) neither report nor take any Tax position (on a Tax Return or otherwise) inconsistent with such treatment (unless required by applicable Law).

(c) Nothing in this Section 2.8 shall require any member of any Group to make any non-*de minimis* payment (except to the extent advanced, assumed or agreed in advance to be reimbursed by any member of the other Group), incur any non-*de minimis* obligation or grant any non-*de minimis* concession for the benefit of any member of the other Group in order to effect any transaction contemplated by this Section 2.8.

## 2.9 Bank Accounts; Cash Balances.

(a) Each Party agrees to take, or cause the other members of its Group to take, at the Effective Time (or such earlier time as the Parties may agree), all actions necessary to amend all Contracts governing each bank and brokerage account owned by SpinCo or any other member of the SpinCo Group (collectively, the "SpinCo Accounts") and all Contracts governing each bank or brokerage account owned by YUM or any other member of the YUM Group (collectively, the "YUM Accounts") so that each such SpinCo Account and YUM Account, if currently linked (whether by automatic withdrawal, automatic deposit or any other authorization to transfer funds from or to, hereinafter "Linked") to any YUM Account or SpinCo Account, respectively, is de-linked from such YUM Account or SpinCo Account, respectively.

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(b) With respect to any outstanding checks issued or payments initiated by YUM, SpinCo or any other member of their respective Groups prior to the Effective Time, such outstanding checks and payments shall be honored following the Effective Time by the Person or Group owning the account on which the check is drawn or from which the payment was initiated, respectively.

(c) As between YUM and the SpinCo Parties (and the other members of their respective Groups), all payments made and reimbursements received after the Effective Time to or by any Party (or member of its Group) that relate to a business, Asset or Liability of another Party (or other member of its Group), shall be held by such Party in trust for the use and benefit of the Party entitled thereto and, promptly following receipt by such Party of any such payment or reimbursement, YUM or the SpinCo Parties, as applicable, shall pay over, or shall cause the applicable other member of its Group to pay over, to such other Party the amount of such payment or reimbursement without right of set-off.

2.10 Ancillary Agreements. Effective at or prior to the Effective Time, each of YUM and the SpinCo Parties will, or will cause the applicable other members of their respective Groups to, execute and deliver all Ancillary Agreements to which it is a party.

2.11 Disclaimer of Representations and Warranties. EACH OF YUM (ON BEHALF OF ITSELF AND EACH OTHER MEMBER OF THE YUM GROUP) AND EACH OF THE SPINCO PARTIES (ON BEHALF OF ITSELF AND EACH OTHER MEMBER OF THE SPINCO GROUP) UNDERSTANDS AND AGREES THAT, EXCEPT AS EXPRESSLY SET FORTH HEREIN OR IN ANY ANCILLARY AGREEMENT, NO PARTY TO

THIS AGREEMENT, ANY ANCILLARY AGREEMENT OR ANY OTHER AGREEMENT OR DOCUMENT CONTEMPLATED BY THIS AGREEMENT, ANY ANCILLARY AGREEMENT OR OTHERWISE, IS REPRESENTING OR WARRANTING IN ANY WAY AS TO THE ASSETS, BUSINESSES OR LIABILITIES TRANSFERRED OR ASSUMED AS CONTEMPLATED HEREBY OR THEREBY, AS TO ANY CONSENTS OR APPROVALS REQUIRED IN CONNECTION THEREWITH, AS TO THE VALUE OR FREEDOM FROM ANY SECURITY INTERESTS OF ANY ASSETS OF SUCH PARTY OR ANY OTHER MEMBER OF ITS GROUP, OR ANY OTHER MATTER CONCERNING ANY ASSETS OR LIABILITIES OF SUCH PARTY OR ANY OTHER MEMBER OF ITS GROUP, OR AS TO THE EXISTENCE OR ABSENCE OF ANY DEFENSES OR RIGHT OF SETOFF OR FREEDOM FROM COUNTERCLAIM WITH RESPECT TO ANY CLAIM OR OTHER ASSET OR LIABILITY, INCLUDING ANY ACCOUNTS RECEIVABLE OR ACCOUNTS PAYABLE, OF ANY PARTY OR ANY OTHER MEMBER OF ITS GROUP, OR AS TO THE LEGAL SUFFICIENCY OF ANY ASSIGNMENT, DOCUMENT OR INSTRUMENT DELIVERED HEREUNDER TO CONVEY TITLE TO ANY ASSET OR THING OF VALUE UPON THE EXECUTION, DELIVERY AND FILING HEREOF OR THEREOF. EXCEPT AS MAY EXPRESSLY BE SET FORTH HEREIN OR IN ANY ANCILLARY AGREEMENT, ALL SUCH ASSETS ARE BEING TRANSFERRED ON AN "AS IS," "WHERE IS" BASIS (AND, IN THE CASE OF ANY REAL PROPERTY, BY MEANS OF A QUITCLAIM OR SIMILAR FORM OF DEED OR CONVEYANCE) AND THE RESPECTIVE TRANSFEREES SHALL BEAR THE ECONOMIC AND LEGAL RISKS THAT (A) ANY CONVEYANCE WILL PROVE TO BE INSUFFICIENT TO VEST IN THE TRANSFEREE GOOD AND MARKETABLE TITLE, FREE AND CLEAR OF ANY SECURITY INTEREST, AND (B) ANY

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NECESSARY APPROVALS OR NOTIFICATIONS ARE NOT OBTAINED OR MADE OR THAT ANY REQUIREMENTS OF LAWS OR JUDGMENTS ARE NOT COMPLIED WITH.

2.12 Financial Information Certifications. YUM's disclosure controls and procedures and internal control over financial reporting (as each is contemplated by the Exchange Act) are currently applicable to SpinCo as its Subsidiary. In order to enable the principal executive officer and principal financial officer of SpinCo to make the certifications required of them under Section 302 of the Sarbanes-Oxley Act of 2002, YUM (i) by the earlier of (A) thirty-five (35) days after the end of the fiscal quarter in which the Distribution occurs and (B) the date upon which SpinCo is required to file with the SEC its first periodic report on Form 10-Q following the effectiveness of the Form 10, shall provide SpinCo with one (1) or more certifications with respect to such disclosure controls and procedures, its internal control over financial reporting and the effectiveness thereof (each, a "Certification"); and (ii) shall, if requested in writing by SpinCo at least ten (10) Business Days prior to the date on which SpinCo is required to file with the SEC its first annual report on Form 10-K, provide SpinCo with one or more Certifications covering the period of time, if any, in the fiscal quarter in which the Distribution occurs that SpinCo was a wholly owned Subsidiary of YUM (such period of time, the "Stub Period"), provided that if requested in writing by YUM at least ten (10) Business Days prior to the date on which YUM is required to file with the SEC its annual report on Form 10-K, SpinCo shall provide YUM with a representation memorandum and/or letter signed by SpinCo's Controller, CFO and CEO in order to support YUM's own Certifications with respect to YUM's business and operations during the Stub Period (such representation memorandum and/or letter to be of a form and substance substantially similar to such representation memorandums and/or letters provided by the China Division to YUM in the past). Any such Certification(s) provided by YUM to SpinCo under this Section 2.12 shall be provided by YUM (and not by any officer or employee in their individual capacity).

2.13 Transition Committee. Prior to the Effective Time, the Parties shall establish a transition committee (the "Transition Committee") that shall consist of an equal number of members from YUM and SpinCo. The Transition Committee shall be responsible for monitoring and managing all matters related to any of the transactions contemplated by this Agreement or any Ancillary Agreements for the period following the Effective Time. The Transition Committee shall have the authority to (a) establish one (1) or more subcommittees from time to time as it deems appropriate or as may be described in any Ancillary Agreements, with each such subcommittee comprised of one (1) or more members of the Transition Committee or one (1) or more employees of any Party or any member of their respective Groups, and each such subcommittee having such scope of responsibility as may be determined by the Transition Committee from time to time; (b) delegate to any such committee any of the powers of the Transition Committee; (c) combine, modify the scope of responsibility of, and disband any such subcommittees; and (d) modify or reverse any such delegations. The Transition Committee shall establish general procedures for managing the responsibilities delegated to it under this Section 2.13, and may modify such procedures from time to time. All decisions by the Transition Committee or any subcommittee thereof shall be effective only if mutually agreed by YUM and SpinCo. The Parties shall utilize the procedures set forth in Article VII to resolve any matters as to which the Transition Committee is not able to reach a decision.

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### ARTICLE III THE DISTRIBUTION

#### 3.1 Sole and Absolute Discretion; Cooperation.

(a) YUM shall, in its sole and absolute discretion, determine the terms of the Distribution, including the form, structure and terms of any transaction(s) and/or offering(s) to effect the Distribution and the timing and conditions to the consummation of the Distribution. In addition, YUM may, at any time and from time to time until the consummation of the Distribution, modify or change the terms of the Distribution, including by accelerating or delaying the timing of the consummation of all or part of the Distribution. Nothing shall in any way limit YUM's right to terminate this Agreement or the Distribution as set forth in Article IX or alter the consequences of any such termination from those specified in Article IX.

(b) The SpinCo Parties shall cooperate with YUM to accomplish the Distribution and shall, at YUM's direction, promptly take any and all actions necessary or desirable to effect the Distribution, including in respect of the registration under the Exchange Act of SpinCo Shares on the Form 10. YUM shall select any investment bank or manager in connection with the Distribution, as well as any financial printer, solicitation and/or exchange agent and financial, legal, accounting and other advisors for YUM. The SpinCo Parties and YUM will provide to the Agent any information required in order to complete the Distribution.

3.2 Actions Prior to the Distribution. Prior to the Effective Time and subject to the terms and conditions set forth herein, the Parties shall take, or cause to be taken, the following actions in connection with the Distribution:

(a) Notice to NYSE. YUM shall, to the extent possible, give NYSE not less than ten (10) days' advance notice of the Record Date in compliance with Rule 10b-17 under the Exchange Act.

(b) *SpinCo Certificate of Incorporation and SpinCo Bylaws.* On or prior to the Distribution Date, YUM and SpinCo shall take all necessary actions so that, as of the Effective Time, the SpinCo Certificate of Incorporation and the SpinCo Bylaws shall become the amended and restated certificate of incorporation and amended and restated bylaws of SpinCo, respectively.

(c) *SpinCo Directors and Officers.* On or prior to the Distribution Date, YUM and SpinCo shall take all necessary actions so that as of the Effective Time: (i) the directors and executive officers of SpinCo shall be those set forth in the Information Statement made available to the Record Holders prior to the Distribution Date, unless otherwise agreed by the Parties, and (ii) SpinCo shall have such other officers as the board of directors of SpinCo shall appoint.

(d) *NYSE Listing.* SpinCo shall prepare, file and pursue an application to permit listing of the SpinCo Shares to be distributed in the Distribution on the NYSE, subject to official notice of issuance.

(e) *Securities Law Matters.* SpinCo shall file any amendments or supplements to the Form 10 as may be necessary or advisable in order to cause the Form 10 to become and remain effective as required by the SEC or federal, state or other applicable securities Laws. YUM

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and SpinCo shall cooperate in preparing, filing with the SEC and causing to become effective registration statements or amendments thereof that are required to reflect the establishment of, or amendments to, any employee benefit and other plans necessary or advisable in connection with the transactions contemplated by this Agreement and the Ancillary Agreements. YUM and SpinCo will prepare, and SpinCo will, to the extent required under applicable Law, file with the SEC any such documentation and any requisite no-action letters that YUM determines are necessary or desirable to effectuate the Distribution, and YUM and the SpinCo Parties shall each use their respective reasonable best efforts to obtain all necessary approvals from the SEC with respect thereto as soon as practicable. YUM and the SpinCo Parties shall take all such action as may be necessary or appropriate under the securities or blue sky Laws of the United States (and any comparable Laws under any foreign jurisdiction) in connection with the Distribution.

(f) *Information Statement.* YUM shall make available the Information Statement to the Record Holders.

(g) *The Distribution Agent.* YUM shall enter into a distribution agent agreement, or such other agreement as may be necessary, with the Agent or otherwise provide instructions to the Agent regarding the Distribution.

(h) *Financing Transactions.* In connection with the Separation and prior to the Effective Time, YUM and the SpinCo Parties shall cooperate with respect to and undertake such financing transactions (which may also include the transfer of cash between the YUM Group and the SpinCo Group) as YUM determines to be advisable.

(i) *Stock-Based Employee Benefit Plans.* YUM and the SpinCo Parties shall take all actions as may be necessary to approve the grants of adjusted equity awards by YUM (in respect of YUM Shares) and SpinCo (in respect of SpinCo Shares) in connection with the Distribution in order to satisfy the requirements of Rule 16b-3 under the Exchange Act.

### 3.3 Conditions to the Distribution.

(a) The consummation of the Distribution will be subject to the satisfaction, or waiver, in whole or in part, by YUM in its sole and absolute discretion, of the following conditions:

(i) The transfer of the SpinCo Assets (other than any Delayed SpinCo Asset) and SpinCo Liabilities (other than any Delayed SpinCo Liability) contemplated to be transferred to SpinCo (or another member of the SpinCo Group) on or prior to the Distribution shall have occurred as contemplated by Section 2.1, and the transfer of the YUM Assets (other than any Delayed YUM Asset) and YUM Liabilities (other than any Delayed YUM Liability) contemplated to be transferred to YUM (or another member of the YUM Group) on or prior to the Distribution Date shall have occurred as contemplated by Section 2.1, in each case pursuant to the Plan of Reorganization.

(ii) YUM shall have received (A) one (1) or more opinions of its external tax advisors, in each case, satisfactory to the YUM Board, regarding certain tax matters relating to the Distribution and related transactions and (B) an opinion of each of Mayer Brown LLP and PricewaterhouseCoopers LLP, regarding the qualification of the

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Distribution as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 361 of the Code.

(iii) The SEC shall have declared effective the Form 10; no order suspending the effectiveness of the Form 10 shall be in effect; and no proceedings for such purposes shall be pending before or threatened by the SEC.

(iv) The Information Statement shall have been made available to the Record Holders.

(v) The actions and filings necessary or appropriate under applicable U.S. federal, U.S. state or other securities Laws or blue sky Laws and the rules and regulations thereunder shall have been taken or made, and, where applicable, shall have become effective or been accepted.

(vi) Any Approvals or Notifications of any Governmental Authorities required for the consummation of the Separation and Distribution[, including [•]] shall have been obtained.

(vii) No order, injunction or decree issued by any Governmental Authority of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Separation, the Distribution or any of the transactions related thereto shall be in effect.



(viii) The SpinCo Shares to be distributed to the YUM shareholders in the Distribution shall have been accepted for listing on the NYSE, subject to official notice of issuance.

(ix) Each of the Ancillary Agreements shall have been duly executed and delivered by the applicable parties thereto.

(x) An independent valuation firm shall have delivered one (1) or more opinions to the YUM Board confirming the solvency and financial viability of each of YUM and SpinCo immediately after the consummation of the Distribution, and such opinions shall be acceptable to YUM in form and substance in YUM's sole discretion, and such opinions shall not have been withdrawn, rescinded or modified in any respect.

(xi) No other event or development shall have occurred or shall exist that, in the judgment of the YUM Board, in its sole discretion, makes it inadvisable to effect the Separation, the Distribution or the other transactions contemplated hereby.

(b) The foregoing conditions are for the sole benefit of YUM and shall not give rise to or create any duty on the part of YUM or the YUM Board to waive or not waive any such condition or in any way limit YUM's right to terminate this Agreement as set forth in Article IX or alter the consequences of any such termination from those specified in Article IX. Any determination made by the YUM Board prior to the Distribution concerning the satisfaction or waiver of any or all of the conditions set forth in Section 3.3(a) shall be conclusive and binding on the Parties.

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### 3.4 The Distribution.

(a) Subject to Section 3.3, at or prior to the Effective Time, SpinCo will deliver to the Agent, for the benefit of the Record Holders, book-entry transfer authorizations for such number of the outstanding SpinCo Shares as is necessary to effect the Distribution, and shall cause the transfer agent for the YUM Shares to instruct the Agent to distribute at the Effective Time the appropriate number of SpinCo Shares to each such holder or designated transferee or transferees of such holder by way of direct registration in book-entry form. SpinCo will not issue paper stock certificates in respect of the SpinCo Shares. The Distribution shall be effective at the Effective Time.

(b) Subject to Sections 3.3 and 3.4(c), each Record Holder will be entitled to receive in the Distribution a number of whole SpinCo Shares to be determined by resolution of the YUM Board, for every one (1) YUM Share held by such Record Holder on the Record Date, rounded down to the nearest whole number.

(c) No fractional shares will be distributed or credited to book-entry accounts in connection with the Distribution, and any such fractional share interests to which a Record Holder would otherwise be entitled shall not entitle such Record Holder to vote or to any other rights as a shareholder of SpinCo. In lieu of any such fractional shares, each Record Holder who, but for the provisions of this Section 3.4(c), would be entitled to receive a fractional share interest of a SpinCo Share pursuant to the Distribution, shall be paid cash, without any interest thereon, as hereinafter provided. As soon as practicable after the Effective Time, YUM shall direct the Agent to determine the number of whole and fractional SpinCo Shares allocable to each Record Holder, to aggregate all such fractional shares into whole shares, and to sell the whole shares obtained thereby in the open market at the then-prevailing prices on behalf of each Record Holder who otherwise would be entitled to receive fractional share interests (with the Agent, in its sole and absolute discretion, determining when, how and through which broker-dealer and at what price to make such sales), and to cause to be distributed to each such Record Holder, in lieu of any fractional share, such Record Holder's or owner's ratable share of the total proceeds of such sale, after deducting any Taxes required to be withheld and applicable transfer Taxes, and after deducting the costs and expenses of such sale and distribution, including brokers' fees and commissions. None of YUM, SpinCo or the Agent will be required to guarantee any minimum sale price for the fractional SpinCo Shares sold in accordance with this Section 3.4(c). Neither YUM nor SpinCo will be required to pay any interest on the proceeds from the sale of fractional shares. Neither the Agent nor the broker-dealers through which the aggregated fractional shares are sold shall be Affiliates of YUM or the SpinCo Parties. Solely for purposes of computing fractional share interests pursuant to this Section 3.4(c) and Section 3.4(d), the beneficial owner of YUM Shares held of record in the name of a nominee in any nominee account shall be treated as the Record Holder with respect to such shares.

(d) Notwithstanding anything herein to the contrary, if the distribution of SpinCo Shares pursuant to the Distribution is not permitted under the applicable Law of any jurisdiction (each such jurisdiction, a "Prohibited Jurisdiction"), each Record Holder in such Prohibited Jurisdiction who, but for such applicable Law, would have received a SpinCo Share pursuant to the Distribution, shall receive a distribution of cash, without any interest thereon, in lieu of such SpinCo Share to the extent permitted by the applicable Law of such Prohibited

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Jurisdiction. The procedures set forth in Section 3.4(c) with respect to fractional shares shall apply to the distribution of SpinCo Shares to Record Holders in Prohibited Jurisdictions, *mutatis mutandis*, with each reference to a "fractional share" in such sentences being deemed a reference to a SpinCo Share that, but for this Section 3.4(d) and for applicable Law, would have been distributed pursuant to the Distribution to a Record Holder in a Prohibited Jurisdiction.

(e) Any SpinCo Shares or cash in lieu of SpinCo Shares (or fractions thereof) that remain unclaimed by any Record Holder one hundred and eighty (180) days after the Distribution Date shall be delivered to SpinCo, and SpinCo shall hold such SpinCo Shares for the account of such Record Holder, and the Parties agree that all obligations to provide such SpinCo Shares and cash, if any, in lieu of SpinCo Shares (or fractions thereof) shall be obligations of the SpinCo Parties, subject in each case to applicable escheat or other abandoned property Laws, and YUM shall have no Liability with respect thereto.

(f) Until the SpinCo Shares are duly transferred in accordance with this Section 3.4 and applicable Law and subject to Section 3.4(d), from and after the Effective Time, the SpinCo Parties will regard the Persons entitled to receive such SpinCo Shares as record holders of SpinCo Shares in accordance with the terms of the Distribution without requiring any action on the part of such Persons. The SpinCo Parties agree that, subject to any transfers of such shares, from and after the Effective Time (i) each such holder will be entitled to receive all dividends payable on, and exercise voting rights and all other rights and privileges with respect to, the SpinCo Shares then held by such holder, and (ii) each such holder will be entitled, without any action on the part of such holder, to receive evidence of ownership of the SpinCo Shares then held by such holder.

4.1 Release of Pre-Distribution Claims.

(a) *SpinCo Parties Release of YUM Group.* Except as provided in Sections 4.1(c) and 4.3, effective as of the Effective Time, each of the SpinCo Parties does hereby, for itself and each other member of the SpinCo Group, and their respective successors and assigns, and, to the extent permitted by Law, all Persons who at any time prior to the Effective Time have been shareholders, directors, officers, agents or employees of any member of the SpinCo Group (in each case, in their respective capacities as such), remise, release and forever discharge (i) YUM and the other members of the YUM Group, and their respective successors and assigns, (ii) all Persons who at any time prior to the Effective Time have been shareholders, directors, officers, agents or employees of any member of the YUM Group (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns and (iii) all Persons who at any time prior to the Effective Time are or have been shareholders, directors, officers, agents or employees of a Transferred Entity and who are not, as of immediately following the Effective Time, directors, officers or employees of either of the SpinCo Parties or another member of the SpinCo Group, in each case from: (A) all SpinCo Liabilities, (B) all Liabilities arising from or in connection with the transactions and all other activities to implement the Separation and the Distribution and (C) all Liabilities arising from or in connection with actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to the Effective Time

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(whether or not such Liabilities cease being contingent, mature, become known, are asserted or foreseen, or accrue, in each case before, at or after the Effective Time), in each case to the extent relating to, arising out of or resulting from the SpinCo Business, the SpinCo Assets or the SpinCo Liabilities.

(b) *YUM Release of SpinCo Group.* Except as provided in Sections 4.1(c) and 4.2, effective as of the Effective Time, YUM does hereby, for itself and each other member of the YUM Group and their respective successors and assigns, and, to the extent permitted by Law, all Persons who at any time prior to the Effective Time have been shareholders, directors, officers, agents or employees of any member of the YUM Group (in each case, in their respective capacities as such), remise, release and forever discharge each SpinCo Party and the other members of the SpinCo Group, and their respective successors and assigns, from (A) all YUM Liabilities, (B) all Liabilities arising from or in connection with the transactions and all other activities to implement the Separation and the Distribution and (C) all Liabilities arising from or in connection with actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to the Effective Time (whether or not such Liabilities cease being contingent, mature, become known, are asserted or foreseen, or accrue, in each case before, at or after the Effective Time), in each case to the extent relating to, arising out of or resulting from the YUM Business, the YUM Assets or the YUM Liabilities.

(c) *Obligations Not Affected.* Nothing contained in Section 4.1(a) or 4.1(b) shall impair any right of any Person to enforce this Agreement, any Ancillary Agreement or any agreements, arrangements, commitments or understandings that are specified in Section 2.7(b) or the applicable Schedule to Section 2.7(b) as not to terminate as of the Effective Time, in each case in accordance with its terms. Nothing contained in Section 4.1(a) or 4.1(b) shall release any Person from:

- (i) any Liability provided in or resulting from any agreement among any members of the YUM Group or the SpinCo Group that is specified in Section 2.7(b) or the applicable Schedule to Section 2.7(b) as not to terminate as of the Effective Time, or any other Liability specified in Section 2.7(b) as not to terminate as of the Effective Time;
- (ii) any Liability, contingent or otherwise, assumed, transferred, assigned or allocated to the Group of which such Person is a member in accordance with, or any other Liability of any member of any Group under, this Agreement or any Ancillary Agreement;
- (iii) any Liability for the sale, lease, construction or receipt of goods, property or services purchased, obtained or used in the ordinary course of business by a member of one Group from a member of the other Group prior to the Effective Time;
- (iv) any Liability provided in or resulting from any Contract or understanding that is entered into after the Effective Time between any Party (and/or a member of such Party's Group), on the one hand, and any other Party (and/or a member of such other Party's Group), on the other hand;

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(v) any Liability that the Parties may have with respect to indemnification or contribution or other obligation pursuant to this Agreement, any Ancillary Agreement or otherwise for claims brought against the Parties or members of their Groups by Third Parties, which Liability shall be governed by the provisions of this Article IV and Article V and, if applicable, the appropriate provisions of the Ancillary Agreements; or

(vi) any Liability the release of which would result in the release of any Person other than a Person released pursuant to this Section 4.1.

In addition, nothing contained in Section 4.1(a) shall release any member of the YUM Group from honoring its existing obligations to indemnify any director, officer or employee of SpinCo who was a director, officer or employee of any member of the YUM Group at or prior to the Effective Time, to the extent such director, officer or employee becomes a named defendant in any Action with respect to which such director, officer or employee was entitled to such indemnification pursuant to such existing obligations, it being understood that, if the underlying obligation giving rise to such Action is a SpinCo Liability, the SpinCo Parties shall indemnify YUM for such Liability (including YUM's costs to indemnify the director, officer or employee) in accordance with the provisions set forth in this Article IV.

(d) *No Claims.* The SpinCo Parties shall not make, and shall not permit any other member of the SpinCo Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against YUM or any other member of the YUM Group, or any other Person released pursuant to Section 4.1(a), with respect to any Liabilities released pursuant to Section 4.1(a). YUM shall not make, and shall not permit any other member of the YUM Group to make, any claim or demand, or commence any Action asserting any claim or

demand, including any claim of contribution or any indemnification, against either SpinCo Party or any other member of the SpinCo Group, or any other Person released pursuant to Section 4.1(b), with respect to any Liabilities released pursuant to Section 4.1(b).

(e) *Execution of Further Releases.* At any time at or after the Effective Time, at the request of YUM or SpinCo, each other Party shall cause each member of its respective Group to execute and deliver releases reflecting the provisions of this Section 4.1.

4.2 Indemnification by the SpinCo Parties. Except as otherwise specifically set forth in this Agreement or in any Ancillary Agreement, to the fullest extent permitted by Law, the SpinCo Parties shall, and shall cause the other members of the SpinCo Group to, indemnify, defend and hold harmless YUM, each other member of the YUM Group and each of their respective past, present and future directors, officers, employees and agents, in each case in their respective capacities as such, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the “YUM Indemnitees”), from and against any and all Liabilities of the YUM Indemnitees relating to, arising out of or resulting from, directly or indirectly, any of the following items (without duplication):

(a) any SpinCo Liability;

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(b) any failure of a SpinCo Party, any other member of the SpinCo Group or any other Person to pay, perform or otherwise promptly discharge any SpinCo Liabilities in accordance with their terms, whether prior to, at or after the Effective Time;

(c) the SpinCo Specified Actions;

(d) any breach by a SpinCo Party or any other member of the SpinCo Group of this Agreement or any of the Ancillary Agreements;

(e) except to the extent it relates to a YUM Liability, any guarantee, indemnification or contribution obligation, surety bond or other credit support agreement, arrangement, commitment or understanding for the benefit of any member of the SpinCo Group by any member of the YUM Group that survives following the Distribution; and

(f) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the Form 10, the Information Statement (as amended or supplemented if SpinCo shall have furnished any amendments or supplements thereto) or any other Disclosure Document, other than the matters described in clause (f) of Section 4.3.

4.3 Indemnification by YUM. Except as otherwise specifically set forth in this Agreement or in any Ancillary Agreement, to the fullest extent permitted by Law, YUM shall, and shall cause the other members of the YUM Group to, indemnify, defend and hold harmless each SpinCo Party, each other member of the SpinCo Group and each of their respective past, present and future directors, officers, employees or agents, in each case in their respective capacities as such, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the “SpinCo Indemnitees”), from and against any and all Liabilities of the SpinCo Indemnitees relating to, arising out of or resulting from, directly or indirectly, any of the following items (without duplication):

(a) any YUM Liability;

(b) any failure of YUM, any other member of the YUM Group or any other Person to pay, perform or otherwise promptly discharge any YUM Liabilities in accordance with their terms, whether prior to, at or after the Effective Time;

(c) the YUM Specified Actions;

(d) any breach by YUM or any other member of the YUM Group of this Agreement or any of the Ancillary Agreements;

(e) except to the extent it relates to a SpinCo Liability, any guarantee, indemnification or contribution obligation, surety bond or other credit support agreement, arrangement, commitment or understanding for the benefit of any member of the YUM Group by any member of the SpinCo Group that survives following the Distribution; and

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(f) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to statements made explicitly in YUM’s name in the Form 10, the Information Statement (as amended or supplemented if SpinCo shall have furnished any amendments or supplements thereto) or any other Disclosure Document; it being agreed that the statements set forth on Schedule 4.3(f) shall be the only statements made explicitly in YUM’s name in the Form 10, the Information Statement or any other Disclosure Document, and all other information contained in the Form 10, the Information Statement or any other Disclosure Document shall be deemed to be information supplied by SpinCo.

4.4 Indemnification Obligations Net of Insurance Proceeds and Other Amounts.

(a) The Parties intend that any Liability subject to indemnification, contribution or reimbursement pursuant to this Article IV or Article V will be net of Insurance Proceeds or other amounts actually recovered (net of any out-of-pocket costs or expenses incurred in the collection thereof) from any Person by or on behalf of the Indemnatee in respect of any indemnifiable Liability. Accordingly, the amount which any Party (an “Indemnifying Party”) is required to pay to any Person entitled to indemnification or contribution hereunder (an “Indemnatee”) will be reduced by any Insurance Proceeds or other amounts actually recovered (net of any out-of-pocket costs or expenses incurred in the collection thereof) from any Person by or on behalf of the Indemnatee in respect of the related Liability. If an Indemnatee receives a payment (an “Indemnity Payment”) under this Agreement from an Indemnifying Party in respect of any Liability and subsequently receives Insurance Proceeds or any other amounts in respect of such Liability, then within ten (10) calendar days of receipt of such Insurance Proceeds or other amounts, the Indemnatee will pay to the Indemnifying Party an amount equal to the excess of the

Indemnity Payment received over the amount of the Indemnity Payment that would have been due if the Insurance Proceeds or such other amounts (net of any out-of-pocket costs or expenses incurred in the collection thereof) had been received, realized or recovered before the Indemnity Payment was made.

(b) The Parties agree that an insurer that would otherwise be obligated to pay any claim shall not be relieved of the responsibility with respect thereto or, solely by virtue of any provision contained in this Agreement or any Ancillary Agreement, have any subrogation rights with respect thereto, it being understood that no insurer or any other Third Party shall be entitled to a “windfall” (*i.e.*, a benefit they would not be entitled to receive in the absence of the indemnification provisions) by virtue of the liability allocation, indemnification and contribution provisions hereof. Accordingly, any provision herein that could have the result of giving any insurer or other Third Party such a “windfall” shall be suspended or amended to the extent necessary to not provide such “windfall.” Each Party shall, and shall cause the members of its Group to, use commercially reasonable efforts to seek or collect or recover any Insurance Proceeds that may be collectible or recoverable with respect to the Liabilities for which indemnification or contribution may be available under this [Article IV](#); provided that the Indemnitee’s inability to collect or recover any such Insurance Proceeds shall not limit the Indemnifying Party’s obligations under this Agreement.

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#### 4.5 Procedures for Indemnification of Third-Party Claims.

(a) *Notice of Claims.* If, at or following the Effective Time, an Indemnitee shall receive notice or otherwise learn of the assertion by a Person (including any Governmental Authority) who is not a member of the YUM Group or the SpinCo Group of any claim or of the commencement by any such Person of any Action (collectively, a “[Third-Party Claim](#)”) with respect to which an Indemnifying Party may be obligated to provide indemnification to such Indemnitee pursuant to [Section 4.2](#) or [4.3](#), or any other Section of this Agreement or any Ancillary Agreement, such Indemnitee shall give such Indemnifying Party written notice thereof as soon as practicable, but in any event no later than fourteen (14) days after becoming aware of such Third-Party Claim. Any such notice shall describe the Third-Party Claim in reasonable detail, including the facts and circumstances giving rise to such claim for indemnification, and include copies of all notices and documents (including court papers) received by the Indemnitee relating to the Third-Party Claim. Notwithstanding the foregoing, the failure of an Indemnitee to provide notice in accordance with this [Section 4.5\(a\)](#) shall not relieve an Indemnifying Party of its indemnification obligations under this Agreement, except to the extent (if any) to which the Indemnifying Party is actually prejudiced by the Indemnitee’s failure to provide notice in accordance with this [Section 4.5\(a\)](#).

(b) *Control of Defense.* An Indemnifying Party may elect to defend (and seek to settle or compromise, subject to [Section 4.5\(e\)](#)), at its own expense and with its own counsel, any Third-Party Claim; provided that, prior to the Indemnifying Party assuming and controlling defense of such Third-Party Claim, it shall first confirm to the Indemnitee in writing that, assuming the facts presented to the Indemnifying Party by the Indemnitee being true, the Indemnifying Party shall indemnify the Indemnitee for any Liabilities to the extent resulting from, or arising out of, such Third-Party Claim. Notwithstanding the foregoing, if the Indemnifying Party assumes such defense and, in the course of defending such Third-Party Claim, (i) the Indemnifying Party discovers that the facts presented at the time the Indemnifying Party acknowledged its indemnification obligation in respect of such Third-Party Claim were not true in all material respects and (ii) such untruth provides a reasonable basis for asserting that the Indemnifying Party does not have an indemnification obligation in respect of such Third-Party Claim, then (A) the Indemnifying Party shall not be bound by such acknowledgment, (B) the Indemnifying Party shall promptly thereafter provide the Indemnitee written notice of its assertion that it does not have an indemnification obligation in respect of such Third-Party Claim and (C) the Indemnitee shall have the right to assume the defense of such Third-Party Claim. Within thirty (30) days after the receipt of a notice from an Indemnitee in accordance with [Section 4.5\(a\)](#) (or sooner, if the nature of the Third-Party Claim so requires), the Indemnifying Party shall provide written notice to the Indemnitee indicating whether the Indemnifying Party shall assume responsibility for defending the Third-Party Claim. If an Indemnifying Party elects not to assume responsibility for defending any Third-Party Claim or fails to notify an Indemnitee of its election within thirty (30) days after receipt of the notice from an Indemnitee as provided in [Section 4.5\(a\)](#), then the Indemnitee that is the subject of such Third-Party Claim shall be entitled to continue to conduct and control the defense of such Third-Party Claim.

(c) *Allocation of Defense Costs.* If an Indemnifying Party has elected to assume the defense of a Third-Party Claim, then such Indemnifying Party shall be solely liable for all fees and expenses incurred by it in connection with the defense of such Third-Party Claim and

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shall not be entitled to seek any indemnification or reimbursement from the Indemnitee for any such fees or expenses incurred by the Indemnifying Party during the course of the defense of such Third-Party Claim by such Indemnifying Party, regardless of any subsequent decision by the Indemnifying Party to reject or otherwise abandon its assumption of such defense. If an Indemnifying Party elects not to assume responsibility for defending any Third-Party Claim or fails to notify an Indemnitee of its election within thirty (30) days after receipt of a notice from an Indemnitee as provided in [Section 4.5\(a\)](#), and the Indemnitee conducts and controls the defense of such Third-Party Claim and the Indemnifying Party has an indemnification obligation with respect to such Third-Party Claim, then the Indemnifying Party shall be liable for all reasonable fees and expenses incurred by the Indemnitee in connection with the defense of such Third-Party Claim.

(d) *Right to Monitor and Participate.* An Indemnitee that does not conduct and control the defense of any Third-Party Claim, or an Indemnifying Party that has failed to elect to defend any Third-Party Claim as contemplated hereby, nevertheless shall have the right to employ separate counsel (including local counsel, as necessary) of its own choosing to monitor and participate in (but not control) the defense of any Third-Party Claim for which it is a potential Indemnitee or Indemnifying Party, but the fees and expenses of such counsel shall be at the expense of such Indemnitee or Indemnifying Party, as the case may be, and the provisions of [Section 4.5\(c\)](#) shall not apply to such fees and expenses. Notwithstanding the foregoing, but subject to [Sections 6.7](#) and [6.8](#), such Indemnitee or Indemnifying Party shall cooperate with the Party entitled to conduct and control the defense of such Third-Party Claim in such defense and make available to the controlling Party, at the non-controlling Party’s expense, all witnesses, information and materials in such Party’s possession or under such Party’s control relating thereto as are reasonably required by the controlling Party. In addition to the foregoing, if any Indemnitee shall in good faith determine that such Indemnitee and the Indemnifying Party have actual or potential differing defenses or conflicts of interest between them that make joint representation inappropriate, then the Indemnitee shall have the right to employ separate counsel (including local counsel, as necessary) and to participate in (but not control) the defense, compromise, or settlement thereof, and the Indemnifying Party shall bear the reasonable fees and expenses of such counsel for all Indemnitees.

(e) *No Settlement.* No Party may settle or compromise any Third-Party Claim for which any Party is seeking to be indemnified hereunder without the prior written consent of such other Party, which consent may not be unreasonably withheld, conditioned or delayed, unless such

settlement or compromise is solely for monetary damages that are fully payable, and are capable of being paid in full, by the settling or compromising Party, does not involve any admission, finding or determination of wrongdoing or violation of Law by any other Party (or any other member of its Group or any of their respective past, present or future directors, officers or employees) and provides for a full, unconditional and irrevocable release of each other Party (and each other relevant member of its Group and any of its or their relevant past, present, or future directors, officers or employees) from all Liability in connection with the Third-Party Claim. The Parties hereby agree that if a Party presents any other Party with a written notice containing a proposal to settle or compromise a Third-Party Claim for which any Party is seeking to be indemnified hereunder and the Party receiving such proposal does not respond in any manner to the Party presenting such proposal within thirty (30) days (or within any such shorter time period that may be required by applicable Law or court order) of receipt of such proposal, then the Party receiving such proposal shall be deemed to have consented to the terms of such proposal.

#### 4.6 Additional Matters.

(a) *Timing of Payments.* Indemnification or contribution payments in respect of any Liabilities for which an Indemnitee is entitled to indemnification or contribution under this Article IV shall be paid reasonably promptly (but in any event within thirty (30) days of the final determination of the amount that the Indemnitee is entitled to indemnification or contribution under this Article IV) by the Indemnifying Party to the Indemnitee as such Liabilities are incurred upon demand by the Indemnitee, including reasonably satisfactory documentation setting forth the basis for the amount of such indemnification or contribution payment, including documentation with respect to calculations made and consideration of any Insurance Proceeds that actually reduce the amount of such Liabilities. The indemnity and contribution provisions contained in this Article IV shall remain operative and in full force and effect, regardless of (i) any investigation made at any time by or on behalf of any Indemnitee and (ii) the knowledge at any time by the Indemnitee of Liabilities for which it might be entitled to indemnification hereunder.

(b) *Notice of Direct Claims.* Any claim for indemnification or contribution under this Agreement or any Ancillary Agreement that does not result from a Third-Party Claim shall be asserted by written notice given by the Indemnitee to the applicable Indemnifying Party; provided that the failure by an Indemnitee to so assert any such claim shall not prejudice the ability of the Indemnitee to do so at a later time except to the extent (if any) that the Indemnifying Party is actually prejudiced thereby. Such Indemnifying Party shall have a period of thirty (30) days after the receipt of such notice within which to respond thereto. If such Indemnifying Party does not respond within such thirty (30)-day period, such specified claim shall be conclusively deemed a Liability of the Indemnifying Party under this Section 4.6(b) or, in the case of any written notice in which the amount of the claim (or any portion thereof) is estimated, on such later date when the amount of the claim (or such portion thereof) becomes finally determined. If such Indemnifying Party does not respond within such thirty (30)-day period or rejects such claim in whole or in part, such Indemnitee shall, subject to the provisions of Article VII, be free to pursue such remedies as may be available to such party as contemplated by this Agreement and the Ancillary Agreements, as applicable, without prejudice to its continuing rights to pursue indemnification or contribution hereunder.

(c) *Pursuit of Claims Against Third Parties.* If (i) a Party incurs any Liability arising out of this Agreement or any Ancillary Agreement; (ii) an adequate legal or equitable remedy is not available for any reason against each other Party to satisfy the Liability incurred by the incurring Party; and (iii) a legal or equitable remedy may be available to any other Party against a Third Party for such Liability, then such other Party shall use its commercially reasonable efforts to cooperate with the incurring Party, at the incurring Party's expense, to permit the incurring Party to obtain the benefits of such legal or equitable remedy against the Third Party.

(d) *Subrogation.* In the event of payment by or on behalf of any Indemnifying Party to any Indemnitee in connection with any Third-Party Claim, such Indemnifying Party shall be subrogated to and shall stand in the place of such Indemnitee as to any events or circumstances in respect of which such Indemnitee may have any right, defense or claim relating to such Third-Party Claim against any claimant or plaintiff asserting such Third-Party Claim or against any other Person. Such Indemnitee shall cooperate with such Indemnifying Party in a reasonable

manner, and at the cost and expense of such Indemnifying Party, in prosecuting any subrogated right, defense or claim.

(e) *Substitution.* In the event of an Action for which a Party is entitled to indemnification hereunder in which the Indemnifying Party is not a named defendant, if either the Indemnitee or Indemnifying Party shall so request, the Parties shall endeavor to substitute the Indemnifying Party for the named defendant. If such substitution or addition cannot be achieved for any reason or is not requested, the named defendant shall allow the Indemnifying Party to manage the Action as set forth in Section 4.5 and this Section 4.6, and, subject to the other provisions of this Article IV, the Indemnifying Party shall fully indemnify the named defendant against all costs of defending the Action (including court costs, sanctions imposed by a court, attorneys' fees, experts' fees and all other external expenses), the costs of any judgment or settlement and the cost of any interest or penalties relating to any judgment or settlement.

#### 4.7 Right of Contribution.

(a) *Contribution.* If any right of indemnification contained in Section 4.2 or Section 4.3 is held unenforceable or is unavailable for any reason, or is insufficient to hold harmless an Indemnitee in respect of any Liability for which such Indemnitee is entitled to indemnification hereunder, then the Indemnifying Party shall contribute to the amounts paid or payable by the Indemnitees as a result of such Liability (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and the other members of its Group, on the one hand, and the Indemnitees entitled to contribution, on the other hand, as well as any other relevant equitable considerations.

(b) *Allocation of Relative Fault.* Solely for purposes of determining relative fault pursuant to this Section 4.7: (i) any fault associated with the business conducted with the Delayed SpinCo Assets or Delayed SpinCo Liabilities (except for the gross negligence or intentional misconduct of a member of the YUM Group) or with the ownership, operation or activities of the SpinCo Business prior to the Effective Time shall be deemed to be the fault of SpinCo, YCCL and the other members of the SpinCo Group, and no such fault shall be deemed to be the fault of YUM or any other member of the YUM Group; and (ii) any fault associated with the business conducted with Delayed YUM Assets or Delayed YUM Liabilities (except for the gross negligence or intentional misconduct of a member of the SpinCo Group) or with the ownership, operation or activities of the YUM Business prior to the Effective Time shall be deemed to be the fault of YUM and the other members of the YUM Group, and no such fault shall be deemed to be the fault of SpinCo, YCCL or any other member of the SpinCo Group.

4.8 Covenant Not to Sue. Each Party hereby covenants and agrees that none of it, the other members of such Party's Group or any Person claiming through it or any of them shall bring suit or otherwise assert any claim against any Indemnitee, or assert a defense against any claim asserted by any Indemnitee, before any court, arbitrator, mediator or administrative agency anywhere in the world, alleging that: (a) the assumption of any SpinCo Liabilities by SpinCo, YCCL or any other member of the SpinCo Group on the terms and conditions set forth in this Agreement and the Ancillary Agreements is void or unenforceable for any reason; (b) the retention of any YUM Liabilities by YUM or a member of the YUM Group on the terms and conditions set

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forth in this Agreement and the Ancillary Agreements is void or unenforceable for any reason; or (c) the provisions of this Article IV are void or unenforceable for any reason.

4.9 Remedies Cumulative. The remedies provided in this Article IV shall be cumulative and shall not preclude assertion by any Indemnitee of any other rights or the seeking of any and all other remedies against any Indemnifying Party.

4.10 Survival of Indemnities. The rights and obligations of each of YUM and the SpinCo Parties and the respective Indemnitees under this Article IV shall survive (a) the sale or other transfer by any Party or any member of its respective Group of any assets or businesses or the assignment by it of any liabilities; or (b) any merger, consolidation, business combination, sale of all or substantially all of its Assets, restructuring, recapitalization, reorganization or similar transaction involving a Party or any of the other members of such Party's Group.

4.11 Coordination with Ancillary Agreements.

(a) The provisions of Sections 4.2 through 4.10 and Sections 4.12 through 4.13 shall not apply with respect to Taxes or Tax matters (including the control of Tax related proceedings), which shall be governed exclusively by the Tax Matters Agreement. In the case of any conflict between this Agreement and the Tax Matters Agreement in relation to any matters addressed by the Tax Matters Agreement, the Tax Matters Agreement shall prevail.

(b) The provisions of Sections 4.2 through 4.10 shall not apply (except as expressly set forth in the applicable Ancillary Agreement) with respect to the representations, warranties, covenants and agreements set forth in the Master License Agreement, the Guaranty or the Transition Services Agreement, which shall be governed by the Master License Agreement, the Guaranty and the Transition Services Agreement, respectively. In the case of any conflict between this Agreement and the Master License Agreement in relation to any matters addressed by the Master License Agreement, the Master License Agreement shall prevail. In the case of any conflict between this Agreement and the Guaranty in relation to any matters addressed by the Guaranty, the Guaranty shall prevail. In the case of any conflict between this Agreement and the Transition Services Agreement in relation to any matters addressed by the Transition Services Agreement, the Transition Services Agreement shall prevail.

4.12 Management of Certain Actions. This Section 4.12 shall govern the direction of certain pending and future Actions in which members of the SpinCo Group or the YUM Group are named as parties, but shall not alter the allocation of Liabilities set forth in Article II or the rights and obligations under Section 4.5 unless expressly set forth in this Section 4.12.

(a) Management of SpinCo Specified Actions. From and after the Effective Time, the SpinCo Group shall direct the defense or prosecution of any (i) SpinCo Specified Actions and (ii) any other Actions that constitute only SpinCo Liabilities or SpinCo Assets. If an Action that constitutes solely a SpinCo Liability or a SpinCo Asset is commenced after the Effective Time naming a member of the YUM Group as a party thereto, then the SpinCo Parties shall use their respective commercially reasonable efforts to cause such member of the YUM Group to be removed as a party to such Action. No Party shall add any other Party (or any other

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member of its Group) to any Action pending as of the Effective Time without the prior written consent of such other Party.

(b) Management of YUM Specified Actions. From and after the Effective Time, the YUM Group shall direct the defense or prosecution of any (i) YUM Specified Actions and (ii) any other Actions that constitute only YUM Liabilities or YUM Assets. If an Action that constitutes solely a YUM Liability or a YUM Asset is commenced after the Effective Time naming a member of the SpinCo Group as a party thereto, then YUM shall use its commercially reasonable efforts to cause such member of the SpinCo Group to be removed as a party to such Action. No Party shall add any other Party (or any other Member of its Group) to any Action pending as of the Effective Time without the prior written consent of such other Party.

(c) Management of Mixed Actions. From and after the Effective Time, the Parties shall jointly manage (whether as co-defendants or co-plaintiffs) any (i) Actions set forth on Schedule 4.12(c) (except as otherwise set forth therein) and (ii) any other Action that constitutes both a SpinCo Liability and a YUM Liability (clauses (i) and (ii), the "Mixed Actions"). The Parties shall reasonably cooperate and consult with each other, and to the extent necessary or advisable, maintain a joint defense in a manner that would preserve for YUM, SpinCo and their respective Affiliates any attorney-client privilege, joint defense or other privilege with respect to Mixed Actions. Notwithstanding anything to the contrary herein, the Parties may jointly retain counsel (in which case the cost of counsel shall be shared equally by YUM, on the one hand, and the SpinCo Parties, on the other hand) or retain separate counsel (in which case each Party will bear the cost of its separate counsel) with respect to any Mixed Action; provided that YUM, on the one hand, and the SpinCo Parties, on the other hand, shall share equally discovery and other joint litigation costs. In any Mixed Action, each of YUM and the SpinCo Parties may pursue separate defenses, claims, counterclaims or settlements to those claims relating to the YUM Business or the SpinCo Business, respectively; provided that each Party shall in good faith make all reasonable efforts to avoid adverse effects on any other Party. Notwithstanding anything to the contrary herein, (i) if a judgment is obtained with respect to a Mixed Action, the Parties shall endeavor in good faith to allocate the Liabilities in respect of such judgment between them based on the YUM Business and the SpinCo Business, and otherwise shall share equally such Liabilities; and (ii) if a recovery is obtained with respect to a Mixed Action, the Parties shall endeavor in good faith to allocate the Assets in respect of such recovery between them based on their respective injuries, and otherwise shall share equally such Assets. A Party (or another member of its Group) that is not named as a defendant in a Mixed Action may elect to become a Party to such Mixed Action, and the Party (or other member of its Group) named in such Mixed Action shall reasonably cooperate to have such first Party (or other member of its Group) named in such Mixed Action.

(d) *Delegation of Rights of Recovery.* To the maximum extent permitted by applicable Law, the rights to recovery of each member of a Party's Group in respect of any past, present or future Action are hereby delegated to such Party. It is the intent of the Parties that the foregoing delegation shall satisfy any Law requiring such delegation to be effected pursuant to a power of attorney or similar instrument. Each of the Parties and each of the other members of its Group shall execute such further instruments or documents as may be necessary to effect such delegation.

4.13 *Settlement of Actions.* No Party managing an Action pursuant to Section 4.12 shall settle or compromise such Action without the prior written consent of a Party (not to be unreasonably withheld, conditioned or delayed) if such settlement or compromise would result in any remedy or relief being imposed upon any member of such other Party's Group (or any of such Group's respective past, present or future directors, officers or employees).

ARTICLE V  
CERTAIN OTHER MATTERS

5.1 *Insurance Matters.*

(a) YUM and the SpinCo Parties agree to cooperate in good faith to provide for an orderly transition of insurance coverage from the date hereof through the Effective Time. In no event shall YUM, any other member of the YUM Group or any YUM Indemnitee have Liability or obligation whatsoever to any member of the SpinCo Group if any insurance policy or other Contract or policy of insurance shall be terminated or otherwise cease to be in effect for any reason, shall be unavailable or inadequate to cover any Liability of any member of the SpinCo Group for any reason whatsoever or shall not be renewed or extended beyond the current expiration date.

(b) From and after the Effective Time, with respect to any Liabilities incurred by any member of the SpinCo Group prior to the Effective Time, YUM will provide SpinCo with access to, and SpinCo may, upon ten (10) days' prior written notice to YUM, make claims under, YUM's third-party insurance policies that may provide coverage for acts occurring prior to the Effective Time, if renewed, and YUM's historical policies of insurance, but solely to the extent that such policies provided coverage for members of the SpinCo Group prior to the Effective Time; provided that such access to, and the right to make claims under, such insurance policies, shall be subject to the terms and conditions of such insurance policies, including any limits on coverage or scope, any deductibles and other fees and expenses, and shall be subject to the following additional conditions:

(i) The SpinCo Parties shall report any claim to YUM, as promptly as practicable, and in any event in sufficient time so that such claim may be made in accordance with YUM's claim reporting procedures in effect immediately prior to the Effective Time (or in accordance with any modifications to such procedures after the Effective Time communicated by YUM to the SpinCo Parties in writing);

(ii) The SpinCo Parties and the other members of the SpinCo Group shall indemnify, hold harmless and reimburse YUM and the other members of the YUM Group for any deductibles, self-insured retention, fees and expenses incurred by YUM or any members of the YUM Group to the extent resulting from any access to, or any claims made by the SpinCo Parties or any other members of the SpinCo Group under, any insurance provided pursuant to this Section 5.1(b), including any indemnity payments, settlements, judgments, legal fees and allocated claims expenses and claim handling fees, whether such claims are made by the SpinCo Parties, their employees or Third Parties; and

(iii) The SpinCo Parties shall exclusively bear (and neither YUM nor any other members of the YUM Group shall have any obligation to repay or reimburse the SpinCo Parties or any other member of the SpinCo Group for) and shall be liable for all uninsured, uncovered, unavailable or uncollectible amounts of all such claims made by the SpinCo Parties or any other member of the SpinCo Group under the policies as provided for in this Section 5.1(b). If an insurance policy aggregate is exhausted, or believed likely to be exhausted, due to noticed claims, the SpinCo Group, on the one hand, and the YUM Group, on the other hand, shall be responsible for their pro rata portion of the reinstatement premium, if any, based upon the losses of such Group submitted to YUM's insurance carrier(s) (including any submissions prior to the Effective Time). To the extent that the YUM Group or the SpinCo Group is allocated more than its pro rata portion of such premium due to the timing of losses submitted to YUM's insurance carrier(s), each other Party shall promptly pay the first Party an amount so that each Group has been properly allocated its pro rata portion of the reinstatement premium. Subject to the following sentence, YUM may elect not to reinstate the policy aggregate. In the event that YUM elects not to reinstate the policy aggregate, it shall provide prompt written notice to SpinCo, and SpinCo may direct YUM in writing to, and YUM shall, in such case, reinstate the policy aggregate; provided that the SpinCo Parties shall be responsible for all reinstatement premiums and other costs associated with such reinstatement.

If any member of the YUM Group incurs any Liabilities prior to or in respect of the period prior to the Effective Time for which such member of the YUM Group is entitled to coverage under third-party insurance policies of any member of the SpinCo Group, the same process pursuant to this Section 5.1(b) shall apply, substituting "YUM" for "SpinCo" or "the SpinCo Parties," as applicable, and "the SpinCo Parties" for "YUM."

(c) Except as provided in Section 5.1(b), from and after the Effective Time, neither the SpinCo Parties nor any other member of the SpinCo Group shall have any rights to or under any of the insurance policies of YUM or any other member of the YUM Group. At the Effective Time, the SpinCo Parties shall have in effect all insurance programs required to comply with the contractual obligations of the SpinCo Parties and the other members of the SpinCo Group and such other insurance policies required by applicable Law or as reasonably necessary or appropriate for companies operating a business similar to the SpinCo Business.

(d) Neither the SpinCo Parties nor any other member of the SpinCo Group, in connection with making a claim under any insurance policy of YUM or any other member of the YUM Group pursuant to this Section 5.1, shall take any action that would be reasonably likely to (i) have an adverse impact on the then-current relationship between YUM or any other member of the YUM Group, on the one hand, and the applicable insurance company, on the other hand; (ii) result in the applicable insurance company terminating or reducing coverage, or increasing the amount of any premium owed by YUM or any other member of the YUM Group under the applicable insurance policy; or (iii) otherwise compromise, jeopardize or interfere with the rights of YUM or any other member of the YUM Group under the applicable insurance policy.

(e) All payments and reimbursements by the SpinCo Parties pursuant to this Section 5.1 will be made within thirty (30) days after the SpinCo Parties' receipt of an invoice therefor from YUM. If YUM or any other member of the YUM Group incurs costs to enforce the

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SpinCo Parties' obligations herein, the SpinCo Parties agrees to indemnify and hold harmless YUM and the other members of the YUM Group for such enforcement costs, including reasonable attorneys' fees. YUM shall retain the exclusive right to control the YUM Group's insurance policies and programs, including the right to erode, exhaust, settle, release, commute, buyback or otherwise resolve disputes with respect to any of its insurance policies and programs and to amend, modify or waive any rights under any such insurance policies and programs, notwithstanding whether any such policies or programs apply to any SpinCo Liabilities and/or claims the SpinCo Parties or any other member of the SpinCo Group has made or could make in the future, and no member of the SpinCo Group shall erode, exhaust, settle, release, commute, buyback or otherwise resolve disputes with insurers of any member of the YUM Group with respect to any of their respective insurance policies and programs, or amend, modify or waive any rights under any such insurance policies and programs. The SpinCo Parties shall and shall cause the other members of the SpinCo Group to cooperate with YUM and share such information as is reasonably necessary in order to permit YUM to manage and conduct the YUM Group's insurance matters as it deems appropriate. Neither YUM nor any of the other members of the YUM Group shall have any obligation to secure extended reporting for any claims under any Liability policies of YUM or any other member of the YUM Group for any acts or omissions by any member of the SpinCo Group incurred prior to the Effective Time.

(f) YUM shall, and shall cause the other members of the YUM Group to, (i) use commercially reasonable efforts, at SpinCo's reasonable request (and provided that the SpinCo Parties comply with the requirements of Section 5.1(b)), to assist SpinCo in making claims under the YUM Group insurance policies described in Section 5.1(b), (ii) notify SpinCo within thirty (30) days of any election by YUM to control any claim under a YUM Group insurance policy or program to the extent such claim relates to a SpinCo Asset and/or SpinCo Liability, (iii) promptly (and in any event within thirty (30) days after YUM's receipt thereof) pay over to SpinCo or the applicable member of the SpinCo Group any Insurance Proceeds that are received by YUM or any member of the YUM Group in respect of such claims, and (iv) endeavor to notify SpinCo of any changes to the structure or limit of subsequent renewals relating to directors and officers insurance programs.

(g) This Agreement shall not be considered as an attempted assignment of any policy of insurance or as a Contract of insurance and shall not be construed to waive any right or remedy of any member of the YUM Group in respect of any insurance policy or any other Contract or policy of insurance.

(h) Each of the SpinCo Parties does hereby, for itself and each other member of the SpinCo Group, agree that no member of the YUM Group shall have any Liability whatsoever as a result of the insurance policies and practices of YUM and the other members of the YUM Group as in effect at any time, including as a result of the level or scope of any such insurance, the creditworthiness of any insurance carrier, the terms and conditions of any policy, the adequacy or timeliness of any notice to any insurance carrier with respect to any claim or potential claim or otherwise.

5.2 Late Payments. Except as expressly provided to the contrary in this Agreement or in any Ancillary Agreement, any amount not paid when due pursuant to this Agreement or any Ancillary Agreement (and any amounts billed or otherwise invoiced or

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demanded and properly payable that are not paid within thirty (30) days of such bill, invoice or other demand) shall accrue interest from and including the date immediately following the due date therefor through and including the date of payment at a rate per annum equal to the Prime Rate plus three percent (3%). Such rate shall be redetermined at the beginning of each calendar quarter following such due date. Such interest will be payable at the same time as the payment to which it relates and shall be calculated on the basis of a year of three hundred sixty-five (365) days and the actual number of days for which due.

5.3 Treatment of Payments for Tax Purposes. For all tax purposes, the Parties agree to treat (i) any payment required by this Agreement (other than payments with respect to interest accruing after the Effective Time) as either a contribution by YUM to SpinCo or a distribution by SpinCo to YUM, as the case may be, occurring immediately prior to the Effective Time or as a payment of an assumed or retained Liability; and (ii) any payment of interest as taxable or deductible, as the case may be, to the Party entitled under this Agreement to receive such payment or required under this Agreement to make such payment, in either case except as otherwise required by applicable Law. In the event that any such payment is made by a member of the YUM Group or the SpinCo Group (other than YUM or SpinCo) or is received by a member of the YUM Group or the SpinCo Group (other than YUM or SpinCo), then for all Tax purposes the Parties shall treat such payment as being made and received by YUM or SpinCo, as the case may be, with corresponding distributions or contributions deemed to occur between YUM and the applicable members of the YUM Group or SpinCo and the applicable members of the SpinCo Group, as the case may be.

5.4 Non-Solicitation. Each Party, agrees that, for a period of twelve (12) months from the Distribution Date, such Party (a "Soliciting Party") shall not, and shall cause the other members of its Group not to, solicit for employment any person who is employed by any member of any other Party's Group (a "Protected Party") at the level of seniority of director or higher without the Protected Party's express written consent; provided, that this Section 5.4 shall not prohibit: (i) generalized solicitations that are not directed to employees of the Protected Party; (ii) the solicitation of a person whose employment was terminated by the Protected Party prior to any such solicitation; or (iii) the solicitation of a person who has terminated his or her employment with the Protected Party without any prior solicitation by the Soliciting Party.

5.5 Inducement. The SpinCo Parties acknowledge and agree that YUM's willingness to cause, effect and consummate the Separation and the Distribution has been conditioned upon and induced by the SpinCo Parties' covenants and agreements in this Agreement and the Ancillary Agreements, including the SpinCo Parties' assumption of the SpinCo Liabilities pursuant to the Separation and the provisions of this Agreement and the SpinCo Parties' covenants and agreements contained in Article IV.

5.6 Post-Effective Time Conduct. The Parties acknowledge that, after the Effective Time, YUM (and the other members of the YUM Group) shall be independent of SpinCo (and the other members of the SpinCo Group), and SpinCo (and the other members of the SpinCo Group) shall be independent of YUM (and the other members of the YUM Group), in each case with responsibility for its own respective actions and inactions and its own respective Liabilities relating to, arising out of or resulting from the conduct of its business, operations and activities following the Effective Time, except as may otherwise be provided in this Agreement or any



Ancillary Agreement, and each Party shall and shall cause the other members of its Group to (except as otherwise provided in Article IV) use commercially reasonable efforts to prevent such Liabilities from being inappropriately borne by any other Party (or the other members of its Group).

ARTICLE VI  
EXCHANGE OF INFORMATION; CONFIDENTIALITY

6.1 Agreement for Exchange of Information.

(a) Subject to Section 6.9, any other applicable confidentiality obligations, any Ancillary Agreement or any other agreement between the Parties or other members of their respective Groups, each of YUM and each of the SpinCo Parties, on behalf of itself and each other member of its respective Group, agrees to use commercially reasonable efforts to provide or make available, or cause to be provided or made available, to each other Party and the other members of such other Party's Group, at any time before, on or after the Effective Time, as soon as reasonably practicable after written request therefor, any information (or a copy thereof) in the possession or under the control of such Party or any other member of such Party's Group to the requesting Party or other member of such Party's Group to the extent that (i) such information relates to the SpinCo Business, or any SpinCo Asset or SpinCo Liability, if a SpinCo Party or any other member of the SpinCo Group is the requesting Party, or to the YUM Business, or any YUM Asset or YUM Liability, if YUM or any other member of the YUM Group is the requesting Party; (ii) such information is required by the requesting Party to comply with its obligations under this Agreement or any Ancillary Agreement; or (iii) such information is required by the requesting Party or any other member of such Party's Group to comply with any obligation imposed by any Governmental Authority; provided, however, that, if the Party to whom the request has been made determines that any such provision of information could be detrimental to the Party providing the information or any other member of such Party's Group, violate any Law or agreement, or waive any privilege available under applicable Law, including any attorney-client privilege, then the Parties shall use commercially reasonable efforts to permit compliance with such obligations to the extent and in a manner that avoids any such harm or consequence. The Party providing information pursuant to this Section 6.1 shall only be obligated to provide such information in the form, condition and format in which it then exists, and in no event shall such Party be required to perform any improvement, modification, conversion, updating or reformatting of any such information, and nothing in this Section 6.1 shall expand the obligations of a Party under Section 6.4.

(b) Without limiting the generality of the foregoing, until the end of the SpinCo fiscal year during which the Distribution Date occurs (and for a reasonable period of time afterwards as required for each Party to prepare consolidated financial statements or complete a financial statement audit for the fiscal year during which the Distribution Date occurs), each Party shall use its commercially reasonable efforts to cooperate with each other Party's information requests to enable (i) each other Party to meet its timetable for dissemination of its earnings releases, financial statements and management's assessment of the effectiveness of its disclosure controls and procedures and its internal control over financial reporting in accordance with Items 307 and 308, respectively, of Regulation S-K promulgated under the Exchange Act; and (ii) each other Party's accountants to timely complete their review of the quarterly financial statements and

audit of the annual financial statements, including, to the extent applicable to such Party, its auditor's audit of its internal control over financial reporting and management's assessment thereof in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, the SEC's and Public Company Accounting Oversight Board's rules and auditing standards thereunder and any other applicable Laws.

6.2 Ownership of Information. The provision of any information pursuant to Section 6.1 or 6.7 shall not affect the ownership of such information (which shall be determined solely in accordance with the terms of this Agreement and the Ancillary Agreements), or constitute a grant of rights in or to any such information.

6.3 Compensation for Providing Information. Subject to any Ancillary Agreement or any other agreement between the Parties or other members of their respective Groups, the Party requesting information agrees to reimburse each other Party for the reasonable costs, if any, of creating, gathering, copying, transporting and otherwise complying with the request with respect to such information (including any reasonable costs and expenses incurred in any review of information for purposes of protecting the Privileged Information of the providing Party or any other member of such Party's Group or in connection with the restoration of backup media for purposes of providing the requested information). Except as may be otherwise specifically provided elsewhere in this Agreement, any Ancillary Agreement or any other agreement between the Parties or other members of their respective Groups, such costs shall be computed in accordance with the providing Party's standard methodology and procedures as may be provided to each other Party from time to time.

6.4 Record Retention. To facilitate the possible exchange of information pursuant to this Article VI and other provisions of this Agreement after the Effective Time, each of the Parties agrees to use (and to cause the other members of its respective Group to use) commercially reasonable efforts, which shall be no less rigorous than those used for retention of such Party's own information, to retain all information in their respective possession or control on the Effective Time in accordance with the policies of YUM as in effect on the Effective Time or such other policies as may be adopted by YUM after the Effective Time (provided, that, in the case of SpinCo or YCCL, that YUM notifies SpinCo of any such change); provided, that in the case of any information relating to Taxes, such retention period shall be extended to the expiration of the applicable statute of limitations (giving effect to any extensions thereof). Notwithstanding the foregoing, Section 6.5 of the Tax Matters Agreement will govern the retention of Tax related records.

6.5 Limitations of Liability. No Party shall have any Liability to any other Party in the event that any information exchanged or provided pursuant to this Agreement is found to be inaccurate in the absence of gross negligence, bad faith or willful misconduct by the Party providing such information. No Party shall have any Liability to any other Party if any information is destroyed after commercially reasonable efforts by such Party to comply with the provisions of Section 6.4.

6.6 Other Agreements Providing for Exchange of Information.

(a) The rights and obligations granted under this Article VI are subject to any specific limitations, qualifications or additional provisions on the sharing, exchange, retention, use or confidential treatment of information set forth in any Ancillary Agreement or any other agreement between the Parties or other members of their respective Groups.

(b) If a Party (or any other member of its respective Group) receives, pursuant to a request for information in accordance with this Article VI, Tangible Information that is not relevant to its request, such Party shall, at the request of the providing Party, (i) return it to the providing Party or, at the providing Party's request, destroy such Tangible Information; and (ii) deliver to the providing Party written confirmation that such Tangible Information was returned or destroyed, as the case may be, which confirmation shall be signed by an authorized representative of the requesting Party.

#### 6.7 Production of Witnesses; Records; Cooperation.

(a) After the Effective Time, except in the case of an adversarial Action or Dispute between YUM and SpinCo, or any other members of their respective Groups, each Party shall use its commercially reasonable efforts to make available to each other Party, upon written request, the former, current and future directors, officers, employees, other personnel and agents of the members of its respective Group as witnesses and any books, records or other documents within its Group's control or which its Group otherwise has the ability to make available without undue burden, to the extent that any such person (giving consideration to business demands of such directors, officers, employees, other personnel and agents) or books, records or other documents may reasonably be required in connection with any Action in which the requesting Party (or member of such Party's Group) may from time to time be involved, regardless of whether such Action is a matter with respect to which indemnification may be sought hereunder. The requesting Party shall bear all costs and expenses in connection therewith.

(b) If an Indemnifying Party chooses to defend or to seek to compromise or settle any Third-Party Claim, each other Party shall make available to such Indemnifying Party, upon written request, the former, current and future directors, officers, employees, other personnel and agents of the members of its respective Group as witnesses and any books, records or other documents within its Group's control or which its Group otherwise has the ability to make available without undue burden, to the extent that any such person (giving consideration to business demands of such directors, officers, employees, other personnel and agents) or books, records or other documents may reasonably be required in connection with such defense, settlement or compromise, and shall otherwise cooperate in such defense, settlement or compromise.

(c) Without limiting the foregoing, except in the case of an adversarial Action or Dispute between YUM and SpinCo or any other members of their respective Groups, the Parties shall cooperate and consult to the extent reasonably necessary with respect to any Actions.

(d) Without limiting any provision of this Section 6.7 and subject to the terms of the Master License Agreement, each of the Parties agrees to cooperate, and to cause each other member of its respective Group to cooperate, with each other in the defense of any infringement or similar claim with respect to any Intellectual Property and shall not claim to acknowledge, or

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permit any other member of its respective Group to claim to acknowledge, the validity or infringing use of any Intellectual Property of a Third Party in a manner that would hamper or undermine the defense of such infringement or similar claim.

(e) The obligation of the Parties to provide witnesses pursuant to this Section 6.7 is intended to be interpreted in a manner so as to facilitate cooperation and shall include the obligation to provide as witnesses directors, officers, employees, other personnel and agents without regard to whether such person could assert a possible business conflict (subject to the exception set forth in the first sentence of Section 6.7(a)).

#### 6.8 Privileged Matters.

(a) The Parties recognize that legal and other professional services that have been and will be provided prior to the Effective Time have been and will be rendered for the collective benefit of each of the members of the YUM Group and the SpinCo Group, and that each of the members of the YUM Group and the SpinCo Group should be deemed to be the client with respect to such services for the purposes of asserting all privileges which may be asserted under applicable Law in connection therewith. The Parties recognize that legal and other professional services will be provided following the Effective Time, which services will be rendered solely for the benefit of the YUM Group or the SpinCo Group, as the case may be.

(b) The Parties agree as follows:

(i) YUM shall be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any Privileged Information that relates solely to the YUM Business and not to the SpinCo Business, whether or not the Privileged Information is in the possession or under the control of any member of the YUM Group or any member of the SpinCo Group. YUM shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any Privileged Information that relates solely to any YUM Specified Actions or to any YUM Liabilities resulting from any Actions that are now pending or may be asserted in the future, whether or not the Privileged Information is in the possession or under the control of any member of the YUM Group or any member of the SpinCo Group; and

(ii) SpinCo shall be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any Privileged Information that relates solely to the SpinCo Business and not to the YUM Business, whether or not the Privileged Information is in the possession or under the control of any member of the SpinCo Group or any member of the YUM Group. SpinCo shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any Privileged Information that relates solely to any SpinCo Specified Actions or to any SpinCo Liabilities resulting from any Actions that are now pending or may be asserted in the future, whether or not the Privileged Information is in the possession or under the control of any member of the SpinCo Group or any member of the YUM Group.

(iii) If the Parties do not agree as to whether certain information is Privileged Information, then such information shall be treated as Privileged Information,

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and the Party that believes that such information is Privileged Information shall be entitled to control the assertion or waiver of all privileges and immunities in connection with any such information until such time as it is finally judicially determined that such information is not Privileged Information, unless the Parties otherwise agree. The Parties shall use the procedures set forth in Article VII to resolve any Disputes as to whether any information relates solely to the YUM Business, solely to the SpinCo Business, or to both the YUM Business and the SpinCo Business.

(c) Subject to the remaining provisions of this Section 6.8, the Parties agree that they shall have a shared privilege or immunity with respect to all privileges and immunities not allocated pursuant to Section 6.8(b) and all privileges and immunities relating to any Actions or other matters that involve both YUM and SpinCo (or one (1) or more members of their respective Groups) and in respect of which both YUM and SpinCo have Liabilities under this Agreement, and that no such shared privilege or immunity may be waived by any Party (or another member of its Group) without the written consent of each other Party.

(d) If any Dispute arises between the Parties or any other members of their respective Groups regarding whether a privilege or immunity should be waived to protect or advance the interests of any Party and/or any other member of their respective Groups, each Party agrees that it shall (i) negotiate with each other Party in good faith; (ii) endeavor to minimize any prejudice to the rights of any other Party (and the other members of the Group); and (iii) not unreasonably withhold consent to any request for waiver by any other Party. Further, each Party specifically agrees that it shall not withhold its consent to the waiver of a privilege or immunity for any purpose except in good faith to protect its own legitimate interests.

(e) Subject to Section 6.9, in the event of any adversarial Action or Dispute between YUM and SpinCo, or any other members of their respective Groups, any Party may waive a privilege in which any other Party or member of such other Party's Group has a shared privilege, without obtaining consent pursuant to Section 6.8(c); provided that such waiver of a shared privilege shall be effective only as to the use of information with respect to the Action or Dispute between the Parties and/or the applicable members of their respective Groups, and shall not operate as a waiver of the shared privilege with respect to any Third Party.

(f) Upon receipt by any Party, or by any other member of its respective Group, of any subpoena, discovery or other request that may reasonably be expected to result in the production or disclosure of Privileged Information subject to a shared privilege or immunity or as to which another Party has the sole right hereunder to assert a privilege or immunity, or if any Party obtains knowledge that any of its, or any other member of its respective Group's, current or former directors, officers, agents or employees have received any subpoena, discovery or other requests that may reasonably be expected to result in the production or disclosure of such Privileged Information, such Party shall promptly notify each other Party of the existence of the request (which notice shall be delivered to such other Party no later than five (5) business days following the receipt of any such subpoena, discovery or other request) and shall provide each other Party a reasonable opportunity to review the Privileged Information and to assert any rights it or they may have under this Section 6.8 or otherwise, to prevent the production or disclosure of such Privileged Information.

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(g) Any furnishing of, or access or transfer of, any information pursuant to this Agreement is made in reliance on the agreements of YUM and the SpinCo Parties set forth in this Section 6.8 and in Section 6.9 to maintain the confidentiality of Privileged Information and to assert and maintain all applicable privileges and immunities. The Parties agree that their respective rights to any access to information, witnesses and other Persons, the furnishing of notices and documents and other cooperative efforts between the Parties contemplated by this Agreement, and the transfer of Privileged Information between the Parties and members of their respective Groups pursuant to this Agreement, shall not be deemed a waiver of any privilege that has been or may be asserted under this Agreement or otherwise.

(h) The Parties acknowledge that members of the YUM Group and members of the SpinCo Group may have or develop interests adverse to each other following the Effective Time. Each Party hereby waives (i) any and all current and future objections to any outside counsel that represented YUM or any of its Affiliates prior to the Effective Time from continuing to represent or in the future representing their respective clients or any Party (or any members of such Party's Group) in any matter, including matters in which members of the YUM Group and members of the SpinCo Group are adverse and Disputes relating to this Agreement or any Ancillary Agreement and (ii) all current and future rights to seek disqualification, whether based on the possession or disclosure of confidential information or otherwise, of any such outside counsel from any representation of their respective clients or any Party (or any members of such Party's Group) in any matter, including matters in which members of the YUM Group and members of the SpinCo Group are adverse and Disputes relating to this Agreement or any Ancillary Agreement.

(i) In connection with any matter contemplated by Section 6.7 or this Section 6.8, the Parties agree to, and to cause the other members of their respective Groups to, use commercially reasonable efforts to maintain their respective separate and joint privileges and immunities, including by executing joint defense and/or common interest agreements where necessary or useful for this purpose.

#### 6.9 Confidentiality.

(a) Confidentiality. Subject to Section 6.10, any Ancillary Agreement and any other agreement between the Parties or other members of their respective Groups, from and after the Effective Time until the five (5)-year anniversary of the Effective Time, each of YUM and each of the SpinCo Parties shall, and shall cause each other member of its respective Group to, and shall cause its and their respective Representatives to, hold in strict confidence, with at least the same degree of care that applies to YUM's confidential and proprietary information pursuant to policies in effect as of the Effective Time, all confidential and proprietary information concerning each other Party or any other member of such other Party's respective Group or their respective businesses that is either in its possession (including confidential and proprietary information in its possession prior to the date hereof) or furnished by any such other Party or any other member of such Party's Group or its or their respective Representatives at any time pursuant to this Agreement, any Ancillary Agreement or otherwise, and not use any such confidential and proprietary information other than for such purposes as shall be expressly permitted hereunder or thereunder, except, in each case, to the extent that such confidential and proprietary information has been (i) in the public domain or generally available to the public, other than as a result of a

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disclosure by such Party or any other member of such Party's Group or any of their respective Representatives in violation of this Agreement, any Ancillary Agreement or any other agreement between the Parties or other members of their respective Groups, (ii) later lawfully acquired from other sources by such Party (or any other member of such Party's Group) which sources are not themselves bound by a confidentiality obligation or other contractual, legal or

fiduciary obligation of confidentiality to any other Party (or any other member of such Party's Group) with respect to such confidential and proprietary information, (iii) independently developed or generated without reference to or use of any proprietary or confidential information of any other Party or any other member of such Party's Group, or (iv) determined by YUM, in its reasonable discretion, to be information required to be disclosed pursuant to federal, state or other applicable securities Laws or the rules of any applicable securities exchange, including in YUM's periodic filings made under the Exchange Act. If any confidential and proprietary information of one Party or any other member of such Party's Group is disclosed to any other Party or any member of such other Party's Group in connection with providing services to such first Party or any other member of such first Party's Group under this Agreement or any Ancillary Agreement, then such disclosed confidential and proprietary information shall be used only as required to perform such services.

(b) No Release; Return or Destruction. Each Party agrees not to release or disclose, or permit to be released or disclosed, any information addressed in Section 6.9(a) to any other Person, except its Representatives who need to know such information in their capacities as such (who shall be advised of their obligations hereunder with respect to such information), and except in compliance with Section 6.10.

(c) Third-Party Information; Privacy or Data Protection Laws. Each Party acknowledges that it and members of such Party's Group may presently have and, following the Effective Time, may gain access to or possession of confidential or proprietary information of, or personal information relating to, Third Parties (i) that was received under privacy policies and/or confidentiality or non-disclosure agreements entered into between such Third Parties, on the one hand, and any other Party or members of such other Party's Group, on the other hand, prior to the Effective Time; or (ii) that, as between the Parties, was originally collected by any other Party or members of such other Party's Group and that may be subject to and protected by privacy policies, as well as privacy, data protection or other applicable Laws. Subject to any Ancillary Agreement and any other agreement between the Parties or other members of their respective Groups, each Party agrees that it shall hold, protect and use, and shall cause the members of its respective Group and its respective Representatives to hold, protect and use, in strict confidence the confidential and proprietary information of, or personal information relating to, Third Parties in accordance with privacy policies and privacy, data protection or other applicable Laws and the terms of any agreements that were either entered into before the Effective Time or affirmative commitments or representations that were made before the Effective Time by, between or among any other Party or members of any other Party's Group, on the one hand, and such Third Parties, on the other hand.

6.10 Protective Arrangements. In the event that a Party or any other member of such Party's Group either determines on the advice of its counsel that it is required to disclose any information pursuant to applicable Law or receives any request or demand under lawful process or from any Governmental Authority to disclose or provide information of any other Party (or any other member of any other Party's Group) that is subject to the confidentiality provisions hereof, such Party shall notify each other Party (to the extent legally permitted) as promptly as practicable

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under the circumstances prior to disclosing or providing such information and shall cooperate, at such other Party's cost and expense, in seeking any appropriate protective order reasonably requested by any other Party. In the event that such other Party fails to receive such appropriate protective order in a timely manner and the Party (or other member of such Party's Group) so required or receiving the request or demand reasonably determines that its failure to disclose or provide such information will actually prejudice the Party (or member of such Party's Group) so required or receiving the request or demand (or other member of such Party's Group), then the Party (or member of such Party's Group) so required or that received such request or demand (or other member of such Party's Group) may thereafter disclose or provide information to the extent required by such Law (as so advised by its counsel) or by lawful process or such Governmental Authority, and the disclosing Party (or other member of such Party's Group) shall promptly provide each other Party with a copy of the information so disclosed, in the same form and format so disclosed, together with a list of all Persons to whom such information was disclosed, in each case to the extent legally permitted.

## ARTICLE VII DISPUTE RESOLUTION

7.1 Good-Faith Negotiation. Subject to Section 7.8, any Party seeking resolution of any dispute, controversy or claim arising out of or relating to this Agreement or any Ancillary Agreement (other than the Master License Agreement or the Guaranty) (a "Dispute") shall provide written notice thereof to each other Party (an "Initial Notice"). For a period of thirty (30) days following the delivery of the Initial Notice, the Parties shall attempt in good faith to negotiate a resolution of the Dispute. The negotiations shall be conducted by the appropriate executives of each Party who have authority to resolve the Dispute. All such negotiations shall be confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence. If the Parties are unable for any reason to resolve a Dispute within thirty (30) days after the delivery of the Initial Notice (which period may be extended by written agreement of the Parties) or if a Party reasonably concludes that each other Party is not willing to negotiate as contemplated by this Section 7.1, the Dispute shall be submitted to mediation in accordance with Section 7.2.

7.2 Mandatory Mediation. Any Dispute not resolved pursuant to Section 7.1 shall, at the written request of any Party (a "Mediation Request"), be submitted to mandatory mediation in accordance with the then current International Institute for Conflict Prevention and Resolution ("CPR") Mediation Procedure, except as modified herein. The mediation shall be held in English in Dallas, Texas, U.S.A. or such other place as the Parties may mutually agree in writing. YUM and SpinCo shall have twenty (20) days from receipt by a Party of a Mediation Request to agree on a mediator. If no mediator has been agreed upon by YUM and SpinCo within twenty (20) days of receipt by a Party of a Mediation Request, then YUM or SpinCo may request (on written notice to each other Party) that CPR appoint a mediator in accordance with the CPR Mediation Procedure. The costs and expenses of any such mediation, including compensation and expenses of the mediator, shall be borne by YUM and SpinCo, except for any Party's own legal costs (which are separately addressed in Section 7.7). All mediation pursuant to this Section 7.2 shall be confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence. If the Dispute has not been resolved within sixty (60) days of the appointment of a mediator, or within ninety (90) days after receipt by a Party of a Mediation

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Request (whichever occurs sooner), or within such longer period as the Parties may agree to in writing, then the Dispute shall be submitted to binding confidential arbitration in accordance with Section 7.3.

7.3 Confidential Arbitration.

(a) In the event that a Dispute has not been resolved within sixty (60) days of the appointment of a mediator in accordance with Section 7.2, or within ninety (90) days after receipt by a Party of a Mediation Request (whichever occurs sooner), or within such longer period as the Parties may agree to in writing, then such Dispute shall, at the written request of YUM or SpinCo (the “Arbitration Request”) be submitted to be finally resolved by binding confidential arbitration pursuant to the then current CPR Rules for Administered Arbitration (the “Administered Rules”), except as modified herein. The details of the arbitration shall be as set forth in this Section 7.3.

(b) Unless otherwise agreed by the Parties in writing, any Dispute to be decided pursuant to this Section 7.3 will be decided (i) before a sole arbitrator if the amount in dispute, inclusive of all claims and counterclaims, totals less than \$5 million; or (ii) by a panel of three (3) arbitrators if the amount in dispute, inclusive of all claims and counterclaims, totals \$5 million or more or involves a request for non-monetary relief.

(c) The panel of three (3) arbitrators will be chosen as follows: (i) within fifteen (15) days from the date of the receipt of the Arbitration Request, YUM and SpinCo will name an arbitrator; and (ii) the two (2) Party-appointed arbitrators will thereafter, within thirty (30) days from the date on which the second of the two (2) arbitrators was named, name a third, independent arbitrator who will act as chairperson of the arbitral tribunal. In the event that YUM or SpinCo fails to name an arbitrator within fifteen (15) days from the date of receipt of the Arbitration Request, then, upon written application by YUM or SpinCo, that arbitrator shall be appointed pursuant to the Administered Rules. In the event that the two (2) Party-appointed arbitrators fail to appoint the third within the time frame specified above or in the event that YUM or SpinCo fails to name an arbitrator within fifteen (15) days from the date of receipt of the Arbitration Request, then the third, independent arbitrator will be appointed pursuant to the Administered Rules. If the arbitration will be before a sole independent arbitrator, then the sole independent arbitrator will be appointed by agreement of YUM and SpinCo within fifteen (15) days of the date of receipt of the Arbitration Request. If the Parties cannot agree to a sole independent arbitrator during such fifteen (15) day period, then upon written application by YUM or SpinCo, the sole independent arbitrator will be appointed pursuant to the Administered Rules.

(d) The arbitration shall be conducted in English. Any document that a Party seeks to use that is not in English shall be provided along with an English translation.

(e) The place of arbitration shall be Dallas, Texas, U.S.A.

(f) The arbitrator or arbitrators shall establish procedures under which each Party will be entitled to conduct discovery.

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(g) The arbitrator or arbitrators shall award to the substantially prevailing Party (as determined by arbitrator or arbitrators) the costs and expenses of the proceeding, including reasonable attorneys’ and experts’ fees.

(h) The arbitrator or arbitrators will issue a reasoned award.

(i) The arbitrator or arbitrators will have the right to award, on an interim basis, or include in the final award, any relief which the arbitrator or arbitrators deems proper in the circumstances, including money damages (with interest on unpaid amounts from the due date) and injunctive relief (including specific performance and other equitable relief); provided that the arbitrator or arbitrators will not award any relief not specifically requested by a Party and, in any event, will not award any relief not permitted by this Agreement or the applicable Ancillary Agreement.

(j) Notwithstanding anything herein to the contrary, the Parties agree that the award rendered by the arbitrator or arbitrators (the “Original Award”) may be appealed under the CPR Arbitration Appeal Procedure (“Appeal Procedure”). Appeals must be initiated within thirty (30) days of receipt of an Original Award, in accordance with the Appeal Procedure, by filing a written notice with CPR. The Original Award shall not be considered final until after the expiration of the time for filing the notice of appeal pursuant to the Appeal Procedure. Unless otherwise agreed by the Parties, the appeal shall be conducted at the place of the original arbitration.

(k) Any Original Award rendered by the arbitrator or arbitrators that is not timely appealed in accordance with the foregoing provisions or that is not modified by the appeal tribunal, and any award as modified or established by the appeal tribunal, shall be final and judgment may be entered thereon in any court having jurisdiction thereof.

(l) Subject to Section 7.3(g), the costs and expenses of any such arbitration, including compensation and expenses of the arbitrator or arbitrators, shall be borne by YUM and SpinCo equally, except for each Party’s own legal costs (which are separately addressed in Section 7.7).

7.4 Confidentiality. No oral or documentary representations made by the Parties during any negotiation, mediation or arbitration conducted pursuant to this Article VII shall be admissible for any purpose in any subsequent proceedings. YUM shall not, and shall cause the other members of its respective Group not to, and the SpinCo Parties shall not, and shall cause the other members of the SpinCo Group not to, disclose any information provided or documents produced by a member of the other Group in any negotiation, mediation or arbitration conducted pursuant to this Article VII or any information about the existence, contents or results of any such negotiation, mediation or arbitration without the prior written consent of YUM (in the case of disclosure by a member of the SpinCo Group) or the SpinCo Parties (in the case of disclosure by a member of the YUM Group), except in the course of a judicial or regulatory proceeding or as may be required by Law or the rules of any applicable securities exchange or requested by a Governmental Authority. Before it or another member of its respective Group makes any disclosure permitted by the preceding sentence, each of YUM and SpinCo shall, to the extent

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reasonably practicable, give each other Party reasonable written notice of the intended disclosure and afford each other Party a reasonable opportunity to protect its interests.

7.5 Conduct and Tolling During Dispute Resolution Process. Unless otherwise agreed in writing, the Parties shall, and shall cause the members of their respective Group to, continue to honor all commitments and obligations under this Agreement and each Ancillary Agreement to the extent required thereby during the course of dispute resolution pursuant to the provisions of this Article VII, unless such commitments or obligations are the specific subject of the Dispute at issue. The initiation of mediation or arbitration pursuant to this Article VII will toll the applicable statute of limitations for the duration of any such proceedings.

7.6 Limitations Period. Any claim arising out of or relating to this Agreement or any Ancillary Agreement (other than the Master License Agreement or the Guaranty) shall be governed by the statute of limitations under the governing law set forth in Section 10.2.

7.7 Enforcement Costs. Except as otherwise provided in this Article VII, each Party shall bear its own legal costs (including attorneys' and experts' fees, and all other expenses) incurred in enforcing this Agreement or in otherwise pursuing, or defending against, a claim, demand, action or proceeding under or in connection with this Agreement.

7.8 Litigation and Unilateral Commencement of Arbitration. Notwithstanding the foregoing provisions of this Article VII, (a) a Party may seek preliminary provisional or injunctive judicial relief from a court with respect to a Dispute without first complying with the procedures set forth in Section 7.1, Section 7.2 and Section 7.3 if such action is reasonably necessary to avoid irreparable damage and (b) a Party may initiate arbitration before the expiration of the periods specified in Section 7.2 and Section 7.3 if such Party has submitted a Mediation Request and the other Parties have failed, within the applicable periods set forth in Section 7.2 and Section 7.3, to agree upon a date for the first mediation session to take place within twenty (20) days after the appointment of the mediator.

## ARTICLE VIII FURTHER ASSURANCES AND ADDITIONAL COVENANTS

### 8.1 Further Assurances.

(a) In addition to the actions specifically provided for elsewhere in this Agreement, each of the Parties shall use its reasonable best efforts, prior to, at and after the Effective Time, to take, or cause to be taken, all actions, and to do, or cause to be done, all things, reasonably necessary, proper or advisable under applicable Laws, regulations and agreements to consummate and make effective the transactions contemplated by this Agreement and the Ancillary Agreements.

(b) Without limiting the foregoing, prior to, at and after the Effective Time, each Party shall cooperate with each other Party, and without any further consideration, but at the expense of the requesting Party, to execute and deliver, or use its reasonable best efforts to cause to be executed and delivered, all instruments, including instruments of conveyance, assignment and transfer, and to make all filings with, and to obtain all Approvals or Notifications of, any Governmental Authority or any other Person under any permit, license, agreement, indenture or

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other instrument (including any consents or Governmental Approvals), and to take all such other actions as such Party may reasonably be requested to take by any other Party from time to time, consistent with the terms of this Agreement and the Ancillary Agreements, in order to effectuate the provisions and purposes of this Agreement and the Ancillary Agreements and the transfers of the SpinCo Assets and the YUM Assets and the assignment and assumption of the SpinCo Liabilities and the YUM Liabilities and the other transactions contemplated hereby and thereby. Without limiting the foregoing, each Party will, at the reasonable request, cost and expense of any other Party, take such other actions as may be reasonably necessary to vest in such other Party good and marketable title to the Assets transferred or allocated to such Party under this Agreement or any of the Ancillary Agreements, free and clear of any Security Interest, if and to the extent it is practicable to do so.

(c) At or prior to the Effective Time, YUM and the SpinCo Parties, in their respective capacities as direct and indirect shareholders of other members of their Groups, shall each approve or ratify any actions that are reasonably necessary or desirable to be taken by YUM, the SpinCo Parties or any of the other members of their respective Groups, as the case may be, to effectuate the transactions contemplated by this Agreement and the Ancillary Agreements.

(d) Nothing in this Article VIII shall limit or affect the provisions of Section 3.1(a) or Article IX.

## ARTICLE IX TERMINATION

9.1 Termination. Notwithstanding any provision to the contrary, this Agreement and all Ancillary Agreements may be terminated and the Distribution may be amended, modified or abandoned at any time prior to the Effective Time by YUM, in its sole and absolute discretion, without the approval or consent of any other Person, including either of the SpinCo Parties. After the Effective Time, this Agreement may not be terminated except by an agreement in writing signed by a duly authorized officer of each of the Parties.

9.2 Effect of Termination. In the event of any termination of this Agreement prior to the Effective Time, this Agreement and all Ancillary Agreements shall become void and no Party (nor any of its Affiliates, directors, officers or employees) shall have any Liability or obligation to any other Party (or any of its Affiliates) by reason of this Agreement.

## ARTICLE X MISCELLANEOUS

### 10.1 Counterparts; Entire Agreement; Corporate Power; Facsimile Signatures.

(a) This Agreement may be executed in one (1) or more counterparts, all of which shall be considered one (1) and the same agreement, and shall become effective when one (1) or more counterparts have been signed by each of the Parties and delivered to each other Party.

(b) This Agreement and the Ancillary Agreements contain the entire agreement between the Parties with respect to the subject matter hereof, and supersede all previous agreements, negotiations, discussions, writings, understandings, commitments and conversations

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with respect to such subject matter, and there are no agreements or understandings between the Parties other than those set forth or referred to herein or therein.

(c) YUM represents and warrants to the SpinCo Parties, and each of the SpinCo Parties represents and warrants to YUM, as follows:

(i) it has the requisite corporate or other power and authority and has taken all corporate or other action necessary in order to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby; and

(ii) this Agreement has been duly executed and delivered by it and constitutes a valid and binding agreement of it enforceable in accordance with the terms hereof.

(d) Each Party acknowledges that it and each other Party, and the other members of their respective Groups, may be executing this Agreement and certain of the Ancillary Agreements by facsimile, stamp or mechanical signature, and agrees that delivery of an executed counterpart of a signature page to this Agreement or any Ancillary Agreement (whether executed by manual, stamp or mechanical signature) by facsimile or by email in portable document format (PDF) shall be effective as delivery of such executed counterpart of this Agreement or any Ancillary Agreement. Each Party expressly adopts and confirms each such facsimile, stamp or mechanical signature (regardless of whether delivered in person, by mail, by courier, by facsimile or by email in portable document format (PDF)) made in its respective name as if it were a manual signature delivered in person, agrees that it will not assert that any such signature or delivery is not adequate to bind such Party to the same extent as if it were signed manually and delivered in person and agrees that, at the reasonable request of any Party at any time, it will as promptly as reasonably practicable cause this Agreement and any Ancillary Agreement to be manually executed (any such execution to be as of the date of the initial date thereof) and delivered in person, by mail or by courier.

10.2 Governing Law. This Agreement and, unless expressly provided therein, each Ancillary Agreement (and any claims or disputes arising out of or related hereto or thereto or to the transactions contemplated hereby and thereby or to the inducement of any party to enter herein and therein, whether for breach of contract, tortious conduct or otherwise and whether predicated on common law, statute or otherwise) shall be governed by and construed and interpreted in accordance with the Laws of the State of Delaware irrespective of the choice of laws principles of the State of Delaware including all matters of validity, construction, effect, enforceability, performance and remedies.

10.3 Binding Effect; Assignability. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns; provided that no Party may assign any of its rights or assign or delegate any of its obligations under this Agreement without the express prior written consent of each other Party.

10.4 No Third-Party Beneficiaries. Except for the indemnification rights under this Agreement of any YUM Indemnitee or SpinCo Indemnitee in their respective capacities as such, (a) the provisions of this Agreement are solely for the benefit of the Parties, respectively, and

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do not and are not intended to confer upon any Person except the Parties any rights or remedies hereunder, and (b) there are no Third Party beneficiaries of this Agreement and this Agreement shall not provide any Third Party with any remedy, claim, Liability, reimbursement or other right in excess of those existing without reference to this Agreement.

10.5 Notices. All notices, requests, claims, demands or other communications under this Agreement shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service, by facsimile with receipt confirmed (followed by delivery of an original via overnight courier service) or by registered or certified mail (postage prepaid, return receipt requested) to the respective Parties at the following addresses (or at such other address for a Party as shall be specified in a notice given to the other Parties in accordance with this Section 10.5):

If to YUM, to:

Yum! Brands, Inc.  
1441 Gardiner Lane  
Louisville, Kentucky 40213  
Attention: Scott A. Catlett, Vice President & Deputy General Counsel  
Facsimile: (502) 874-7637

with copies (which shall not constitute notice) to:

Wachtell, Lipton, Rosen & Katz  
51 West 52nd Street  
New York, New York 10019  
Attention: Benjamin M. Roth  
Facsimile: (212) 403-2000

and

Mayer Brown LLP  
71 South Wacker Drive  
Chicago, Illinois 60606  
Attention: Frederick B. Thomas  
Jodi A. Simala  
Facsimile: (312) 706-8436

If to SpinCo or YCCL, to:

Yum China Holdings, Inc.

16/F Two Grand Gateway  
3 Hongqiao Road  
Shanghai 200030  
The People's Republic of China  
Attention: Shella Ng, Chief Legal Officer  
Facsimile: +86-21-2407-7898

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with copies (which shall not constitute notice) to:

Wachtell, Lipton, Rosen & Katz  
51 West 52nd Street  
New York, New York 10019  
Attention: Benjamin M. Roth  
Facsimile: (212) 403-2000

and

Mayer Brown LLP  
71 South Wacker Drive  
Chicago, Illinois 60606  
Attention: Frederick B. Thomas  
Jodi A. Simala  
Facsimile: (312) 706-8436

A Party may, by notice to each other Party, change the address to which such notices are to be given.

10.6 **Severability.** If any provision of this Agreement or the application thereof to any Person or circumstance is determined by an arbitrator or by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof or the application of such provision to Persons or circumstances or in jurisdictions other than those as to which it has been held invalid, void or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby. Upon such determination, the Parties shall negotiate in good faith in an effort to agree upon such a suitable and equitable provision to effect, as closely as possible, the original intent of the Parties.

10.7 **Force Majeure.** No Party shall be deemed in default of this Agreement for any delay or failure to fulfill any obligation (other than a payment obligation) hereunder so long as and to the extent to which any delay or failure in the fulfillment of such obligation is prevented, frustrated, hindered or delayed as a consequence of circumstances of Force Majeure. In the event of any such excused delay, the time for performance of such obligations (other than a payment obligation) shall be extended for a period equal to the time lost by reason of the delay. A Party claiming the benefit of this provision shall, as soon as reasonably practicable after the occurrence of any such event, (a) provide written notice to each other Party of the nature and extent of any such Force Majeure condition and (b) use commercially reasonable efforts to remove any such causes and resume performance under this Agreement as soon as reasonably practicable.

10.8 **No Set-Off.** Except as expressly set forth in any Ancillary Agreement or as otherwise mutually agreed to in writing by the Parties, no Party and no other member of such Party's Group shall have any right of set-off or other similar rights with respect to (a) any amounts payable pursuant to this Agreement or any Ancillary Agreement; or (b) any other amounts claimed to be owed to another Party or any other member of its Group arising out of this Agreement or any Ancillary Agreement.

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10.9 **Expenses.** Except as otherwise expressly set forth in this Agreement or any Ancillary Agreement, or as otherwise agreed to in writing by the Parties, all out-of-pocket fees, costs and expenses incurred prior to the Effective Time in connection with the preparation, execution, delivery and implementation of this Agreement and any Ancillary Agreement, the Separation, the Form 10, the Information Statement, the Plan of Reorganization and the Distribution and the consummation of the transactions contemplated hereby and thereby will be borne by the Party or the applicable member of such Party's Group incurring such fees, costs or expenses. The Parties agree that certain specified costs and expenses shall be allocated between the Parties as set forth on Schedule 10.9.

10.10 **Headings.** The article, section and paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

10.11 **Survival of Covenants.** Except as expressly set forth in this Agreement, the covenants and agreements contained in this Agreement, and Liability for the breach of any such obligations contained herein, shall survive the Separation and the Distribution and shall remain in full force and effect.

10.12 **Waivers of Default; Remedies Cumulative.** Waiver by a Party of any default by another Party of any provision of this Agreement shall not be deemed a waiver by the waiving Party of any subsequent or other default, nor shall it prejudice the rights of another Party. No failure or delay by a Party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall a single or partial exercise thereof prejudice any other or further exercise thereof or the exercise of any other right, power or privilege. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

10.13 **Specific Performance.** Subject to the provisions of Article VII, in the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Agreement, the Party who is, or is to be, thereby aggrieved shall have the right to specific performance and



injunctive or other equitable relief in respect of its rights under this Agreement, in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative. The Parties agree that the remedies at law for any breach or threatened breach, including monetary damages, are inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at law would be adequate is waived. Any requirements for the securing or posting of any bond with such remedy are waived by each of the Parties.

10.14 Amendments. No provisions of this Agreement may be waived, amended, supplemented or modified, unless such waiver, amendment, supplement or modification is in writing and signed by the authorized representative of the Party against whom it is sought to enforce such waiver, amendment, supplement or modification.

10.15 Interpretation. In this Agreement, (a) words in the singular shall be deemed to include the plural and vice versa and words of one gender shall be deemed to include the other genders as the context requires; (b) the terms “hereof,” “herein,” and “herewith” and words of

similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole (including all of the Schedules and Exhibits hereto) and not to any particular provision of this Agreement; (c) Article, Section, Schedule and Exhibit references are to the Articles, Sections, Schedules and Exhibits to this Agreement unless otherwise specified; (d) unless otherwise stated, all references to any agreement (including this Agreement and each Ancillary Agreement) shall be deemed to include the exhibits, schedules and annexes to such agreement; (e) references to “\$” shall mean U.S. dollar; (f) the word “including” and words of similar import when used in this Agreement shall mean “including, without limitation,” unless otherwise specified; (g) the word “or” shall not be exclusive; (h) unless otherwise specified in a particular case, the word “days” refers to calendar days; (i) references to “written” or “in writing” include in electronic form; (j) references to “business day” shall mean any day other than a Saturday, a Sunday or a day on which banking institutions are generally authorized or required by law to close in the United States, or Dallas, Texas, or Shanghai, China as the context requires; (k) references herein to this Agreement or any other agreement contemplated herein shall be deemed to refer to this Agreement or such other agreement as of the date on which it is executed and as it may be amended, modified or supplemented thereafter, unless otherwise specified; and (l) unless expressly stated to the contrary in this Agreement, all references to “the date hereof,” “the date of this Agreement,” “hereby” and “hereupon” and words of similar import shall all be references to [•], 2016.

10.16 Limitations of Liability. Notwithstanding anything in this Agreement to the contrary, neither the SpinCo Parties or any other member of the SpinCo Group, on the one hand, nor YUM or any other member of the YUM Group, on the other hand, shall be liable under this Agreement to the other for any indirect, punitive, exemplary, remote, speculative or similar damages in excess of compensatory damages of the other (other than any such damages awarded to a Third Party with respect to a Third-Party Claim).

10.17 Performance. All obligations of the SpinCo Parties under this Agreement are joint and several obligations of SpinCo and YCCL. YUM shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth in this Agreement or in any Ancillary Agreement to be performed by any member of the YUM Group. The SpinCo Parties shall cause to be performed, and hereby guarantee the performance of, all actions, agreements and obligations set forth in this Agreement or in any Ancillary Agreement to be performed by any member of the SpinCo Group.

10.18 Mutual Drafting. This Agreement and the Ancillary Agreements shall be deemed to be the joint work product of the Parties, and any rule of construction that a document shall be interpreted or construed against a drafter of such document shall not be applicable.

*[Remainder of page intentionally left blank]*

IN WITNESS WHEREOF, the Parties have caused this Separation and Distribution Agreement to be executed by their duly authorized representatives.

YUM! BRANDS, INC.

By: \_\_\_\_\_  
Name:  
Title:

YUM CHINA HOLDINGS, INC.

By: \_\_\_\_\_  
Name:  
Title:

YUM RESTAURANTS CONSULTING (SHANGHAI) COMPANY LIMITED

By: \_\_\_\_\_  
Name:  
Title:



**AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
YUM CHINA HOLDINGS, INC.**

Yum China Holdings, Inc., a corporation organized and existing under the laws of the State of Delaware (the “Corporation”), pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, as the same may be amended (the “DGCL”), hereby certifies as follows:

1. The name of the Corporation is Yum China Holdings, Inc. The Corporation was originally formed as Yum! China Holding, Inc. by filing a Certificate of Incorporation with the Secretary of State of the State of Delaware on April 1, 2016. On June 30, 2016, the Corporation filed a Certificate of Amendment with the Secretary of State of the State of Delaware, which amended the Certificate of Incorporation by changing the name of the Corporation to Yum China Holdings, Inc.

2. This Amended and Restated Certificate of Incorporation was duly adopted in accordance with the provisions of Sections 242 and 245 of the DGCL and by the written consent of its stockholders in accordance with Section 228 of the DGCL.

3. This Amended and Restated Certificate of Incorporation amends and restates, in its entirety, the original Certificate of Incorporation, as amended.

4. Effective as of [·] Eastern time on [·], the text of the original Certificate of Incorporation, as amended, is amended and restated to read in its entirety as follows:

FIRST: The name of the corporation is Yum China Holdings, Inc..

SECOND: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

THIRD: The Corporation shall have authority to issue [·] shares, par value \$0.01 per share, of which [·] shares shall be Common Stock, and of which [·] shares shall be Preferred Stock, with the following powers, preferences and rights, and qualifications, limitations and restrictions.

(a) Except as otherwise provided by law, each share of Common Stock shall have one vote, and, except as otherwise provided in respect of any series of Preferred Stock hereafter issued, the exclusive voting power for all purposes shall be vested in the holders of the Common Stock. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the Common Stock shall be entitled, after payment or provision for payment of the debts and other liabilities of the Corporation and the amount to which the holders of any series of Preferred Stock hereafter issued having a preference on distribution in the liquidation, dissolution or winding up of the Corporation shall be entitled, to share ratably in the remaining net assets of the Corporation.

(b) Preferred Stock may be issued in one or more series, from time to time, with each such series to consist of such number of shares and to have such voting powers relative to other classes or series of Preferred Stock, if any, or Common Stock, full or limited or no voting powers and such designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, as shall be stated in the resolution or resolutions and certificate of designation providing for the issuance of such series adopted by the board of directors of the Corporation (the “Board of Directors”), and the Board of Directors is hereby expressly vested with the authority, to the fullest extent now or hereafter permitted by applicable law, to adopt any such resolution or resolutions.

FOURTH: The address of the registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, New Castle County. The name of the Corporation’s registered agent is The Corporation Trust Company. The Corporation may have such other offices, either within or without the State of Delaware, as the Board of Directors may designate or as the business of the Corporation may from time to time require.

FIFTH: No holder of any share of capital stock of the Corporation, whether now or hereafter authorized, shall have any preemptive right to subscribe for or to purchase any shares of capital stock or other securities of the Corporation, nor have any right to cumulate such holder’s votes for the election of Directors (as defined below). Any action required or permitted to be taken by the stockholders of the Corporation (the “Stockholders”) must be effected at a duly called annual or special meeting of the Stockholders and may not be effected by any consent in writing in lieu of a meeting.

SIXTH: The term of existence of the Corporation shall be perpetual.

SEVENTH: The following provisions are intended for the management of the business and for the regulation of the affairs of the Corporation, and it is expressly provided that the same are intended to be in furtherance and not in limitation of the powers conferred by statute:

(a) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authorities by this Amended and Restated Certificate of Incorporation expressly conferred upon it, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by this Amended and Restated Certificate of Incorporation or by the bylaws of the Corporation (as amended from time to time in accordance with the provisions thereof, the “Bylaws”) required to be exclusively exercised or done by the Stockholders.

(b) Special meetings of the Stockholders may be called exclusively: (i) by the Board of Directors; or (ii) by the Chairman of the Board of Directors, the Corporation’s Chief Executive Officer or the Corporation’s Secretary, in each case with the concurrence of a majority of the Board of Directors. Special meetings of Stockholders shall be held at such places and times as determined by the Board of Directors in its discretion. Advance notice of stockholder nominations for the election of Directors and of business to be brought before any meeting of the Stockholders shall be given in the manner provided in the Bylaws.

(c) The number of directors of the Corporation (“Directors”) constituting the Board of Directors shall not be less than three nor more than fifteen. Within such limit, the number of members of the entire Board of Directors shall be fixed from time to time exclusively by the Board of Directors, subject to the rights of holders of any series of Preferred Stock with respect to the election of Directors, if any. During any period when the holders of any series of Preferred Stock have the right to elect additional Directors as provided for or fixed pursuant to the provisions of Article Third above, then upon commencement and for the duration of the period during which such right continues, the then otherwise total authorized number of Directors shall automatically be increased by such specified number of Directors and the holders of such Preferred Stock shall be entitled to elect the additional Directors so provided for or fixed pursuant to such provisions.

(d) Prior to the third annual meeting of Stockholders, the Board of Directors shall be classified into three classes: Class I; Class II; and Class III. Each class shall consist, as nearly as possible, of one-third of the total number of Directors constituting the entire Board of Directors and the allocation of Directors among the three classes shall be determined by the Board of Directors. The initial Class I Directors shall serve for a term expiring at the first annual meeting of Stockholders following [-]; the initial Class II Directors shall serve for a term expiring at the second annual meeting of Stockholders following [-]; and the initial Class III Directors shall serve for a term expiring at the third annual meeting of Stockholders following [-]. Directors elected to replace initial Class I and Class II Directors shall serve terms expiring at the third annual meeting of Stockholders following [-]. Each Director in each class shall hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal. If the number of Directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of Directors in each class as nearly equal as possible.

(e) From and including the third annual meeting of Stockholders, each Director shall be elected to serve a term of one year, with each Director’s term to expire at the annual meeting next following the Director’s election. Notwithstanding the expiration of the term of a Director, the Director shall continue to hold office until a successor shall be elected and qualified or until his or her earlier death, resignation or removal.

(f) Directors may be removed: (i) prior to the third annual meeting of Stockholders, only for cause by the affirmative vote of a majority of the voting power of outstanding Common Stock; and (ii) from and including the third annual meeting of Stockholders, with or without cause by the affirmative vote of a majority of the voting power of outstanding Common Stock.

(g) A vacancy occurring on the Board of Directors, including, without limitation, a vacancy resulting from an increase in the number of Directors or from the failure by Stockholders to elect the full authorized number of Directors, may only be filled by a majority of the remaining Directors or by the sole remaining Director in office. In the event of the death, resignation, removal of a Director during his or her elected term of office, his or her successor shall serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualified.

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(h) The Board of Directors is expressly authorized to adopt, amend or repeal the Bylaws, in whole or in part, without any action on the part of the Stockholders;

(i) The Corporation shall have the right, subject to any express provisions or restrictions herein or in the Bylaws, from time to time, to amend, alter or repeal any provision of this Amended and Restated Certificate of Incorporation in any manner now or hereafter provided by law.

(j) The Board of Directors may create and make appointments to one or more committees of the Board of Directors comprised exclusively of Directors who will serve at the pleasure of the Board of Directors and who may have and exercise such powers of the Board of Directors in directing the management of the business and affairs of the Corporation as the Board of Directors may delegate, in its sole discretion, consistent with the provisions of the DGCL and this Amended and Restated Certificate of Incorporation.

(k) Unless and except to the extent the Bylaws so require, the election of Directors need not be by written ballot.

#### EIGHTH:

(a) A Director shall not be personally liable to the Corporation or the Stockholders for monetary damages for breach of fiduciary duty as a Director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as the same exists or may hereafter be amended.

(b) Each Director and officer of the Corporation who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a “proceeding”), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a Director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including, without limitation, service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, to the fullest extent permitted by law, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including, without limitation, attorneys’ fees, judgments, fines, amounts paid or to be paid in settlement, and excise taxes or penalties arising under the Employee Retirement Income Security Act of 1974, as the same may be amended) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in paragraph (c) of this Article, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part

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thereof) was authorized by the Board of Directors. The right to indemnification conferred in this Article Eighth shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the DGCL requires, the payment of such expenses incurred by a Director or officer in his or her capacity as a Director or officer in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such Director or officer, to repay all amounts so advanced if it shall ultimately be determined that such Director or officer is not entitled to be indemnified under this Article Eighth or otherwise. The Corporation may, by action of the Board of Directors, provide indemnification to employees and agents of the Corporation or another corporation, partnership, joint venture, trust or other enterprise with the same scope and effect as the foregoing indemnification of Directors and officers.

(c) If a claim under paragraph (b) of this Article is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the DGCL for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including, without limitation, its Board of Directors, independent legal counsel, or the Stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including, without limitation, its Board of Directors, independent legal counsel, or the Stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(d) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article Eighth shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of this Amended and Restated Certificate of Incorporation, bylaw, agreement, vote of Stockholders or disinterested Directors or otherwise.

(e) The Corporation may maintain insurance, at its expense, to protect itself and any Director, officer, employee or agent of the Corporation or any director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

(f) Any amendment, repeal or modification of any provision of this Article Eighth shall, unless otherwise required by law, be prospective only (except to the extent such amendment, repeal or modification permits the Corporation to further limit or eliminate the

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liability of Directors or officers) and shall not adversely affect any right or protection of any current or former Director or officer of the Corporation existing hereunder at the time of such amendment, repeal or modification with respect to any act or omission occurring prior to such amendment, repeal or modification.

NINTH: Unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (a) any derivative action or proceeding brought or purporting to be brought on behalf of the Corporation, (b) any action asserting a claim for or based on a breach of a fiduciary duty owed by any current or former Director, officer, employee or agent of the Corporation to the Corporation or to the Stockholders, including, without limitation, a claim alleging the aiding and abetting of such a breach of fiduciary duty, (c) any action asserting a claim against the Corporation or any current or former Director, officer, employee or agent of the Corporation arising pursuant to any provision of the DGCL, this Amended and Restated Certificate of Incorporation or the Bylaws (as either may be amended from time to time), (d) any action asserting a claim related to or involving the Corporation that is governed by the internal affairs doctrine, or (e) any action asserting an "internal corporate claim" as that term is defined in Section 115 of the DGCL, shall be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal court for the District of Delaware).

TENTH: If any provision or provisions of this Amended and Restated Certificate of Incorporation shall be held to be invalid, illegal or unenforceable as applied to any circumstance for any reason whatsoever, the validity, legality and enforceability of such provision in any other circumstance and of the remaining provisions of this Amended and Restated Certificate of Incorporation shall not in any way be affected or impaired thereby.

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IN WITNESS WHEREOF, the Corporation has duly executed this Amended and Restated Certificate of Incorporation as of the [·] day of [·], 2016.

YUM CHINA HOLDINGS, INC.

By: \_\_\_\_\_

Name:

Title:

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**AMENDED AND RESTATED BYLAWS**

**OF**

**YUM CHINA HOLDINGS, INC.**

**ARTICLE 1 — OFFICES**

Section 1. Offices and Records. The registered office of Yum China Holdings, Inc. (the “Corporation”) in the State of Delaware shall be in the City of Wilmington, New Castle County. The name and address of the Corporation’s registered agent shall be The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, New Castle County. The Corporation may have offices at such other places, either within or without the State of Delaware, as the Board of Directors of the Corporation (the “Board of Directors”) may from time to time determine. The books and records of the Corporation may be kept inside or outside the State of Delaware.

**ARTICLE 2 — MEETINGS OF STOCKHOLDERS**

Section 1. Place of Meeting. Meetings of the stockholders of the Corporation (the “Stockholders”) shall be held at such places, if any, either within or without the State of Delaware, as shall be designated by the Board of Directors in the notice of the meeting.

Section 2. Annual Meeting. The annual meeting of the Stockholders shall be held on such date and at such place, if any, and time as the Board of Directors shall determine, for the purpose of electing directors of the Corporation (“Directors”) and the transaction of such business as may be a proper subject for action at the meeting.

Section 3. Special Meetings. Special meetings of the Stockholders may be called exclusively: (a) by the Board of Directors; or (b) by the Chairman of the Board of Directors, the Corporation’s Chief Executive Officer or the Corporation’s Secretary, in each case with the concurrence of a majority of the Board of Directors. Special meetings of the Stockholders shall be held at such places, if any, and times as determined by the Board of Directors in its discretion.

Section 4. Notice of Meetings. At least ten (10) and no more than sixty (60) days prior to any annual or special meeting of the Stockholders, the Corporation shall notify the Stockholders of the date, time and place, if any, and means of remote communication, if any, of the meeting and, in the case of a special meeting or where otherwise required by the Corporation’s Amended and Restated Certificate of Incorporation (the “Certificate”) or by statute, shall briefly describe the purpose or purposes of the meeting. Without limiting the manner by which notice otherwise may be given effectively to Stockholders, notice of meetings may be given to Stockholders by means of electronic transmission in accordance with applicable law. Only business within the purpose or purposes described in the notice may be conducted at a special meeting. Unless otherwise required by the Certificate or by statute, the Corporation shall be required to give notice only to the Stockholders entitled to vote at the meeting. If an annual or special Stockholders’ meeting is adjourned to a different date, time or place, notice thereof need

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not be given if the new date, time or place, if any, and means of remote communication, if any, is announced at the meeting before adjournment. If a new record date for the adjourned meeting is fixed pursuant to Article 7, Section 5 hereof, notice of the adjourned meeting shall be given to persons who are Stockholders as of the new record date. If mailed, notice shall be deemed to be effective when deposited in the United States mail with postage thereon prepaid, correctly addressed to the Stockholder’s address shown in the Corporation’s current record of Stockholders.

Section 5. Quorum, Presiding Officer. Except as otherwise prescribed by statute or these Bylaws, at any meeting of the Stockholders of the Corporation, the presence in person or by proxy of the holders of record of a majority of the issued and outstanding shares of capital stock of the Corporation entitled to vote thereat shall constitute a quorum for the transaction of business. In the absence of a quorum at such meeting or any adjournment or adjournments thereof, the holders of record of a majority of such shares so present in person or by proxy and entitled to vote thereat may adjourn the meeting from time to time until a quorum shall be present. At any such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called. Meetings of the Stockholders shall be presided over by the Chairman or Vice Chairman of the Board of Directors or, if neither is present, by another officer or Director who shall be designated to serve in such event by the Board of Directors. The Secretary of the Corporation, or an Assistant Secretary designated by the officer or Director presiding at the meeting, shall act as secretary of the meeting.

Section 6. Voting. Except as otherwise prescribed by statute, the Certificate or these Bylaws, at any meeting of the Stockholders of the Corporation, each Stockholder shall be entitled to one (1) vote in person or by proxy for each share of voting capital stock of the Corporation registered in the name of such Stockholder on the books of the Corporation on the date fixed pursuant to these Bylaws as the record date for the determination of the Stockholders entitled to vote at such meeting. No proxy shall be voted after eleven (11) months from its date unless said proxy provides for a longer period. Shares of its voting capital stock belonging to the Corporation shall not be voted either directly or indirectly. The vote for the election of Directors, other matters expressly prescribed by statute and, upon the direction of the presiding officer or Director of the meeting, the vote on any other question before the meeting, shall be by ballot. Except as otherwise provided by law, the Certificate or these Bylaws, in all matters other than the election of Directors, the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the matter shall be the act of the Stockholders.

Section 7. Notice of Stockholder Proposal. No business may be transacted at an annual meeting of the Stockholders, other than business properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (c) otherwise properly brought before the annual meeting by any Stockholder of the Corporation (i) who is a Stockholder of record both on the date of the giving of the notice provided for in Section 9 of this Article 2 and at the time of the annual meeting, (ii) who is

entitled to vote at the meeting, and (iii) who complies with the notice procedures set forth in Section 9 of this Article 2. Except for proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the "Exchange Act"), included in the notice of meeting given by or at the direction of the Board of Directors, the foregoing clause (c) shall be the exclusive means for a Stockholder to propose business to be brought before an annual meeting of the Stockholders. Stockholders seeking to nominate persons for election to the Board of Directors must comply with Section 9 or Section 10, as applicable, of this Article 2.

Section 8. Postponement of Stockholders Meeting. A scheduled annual or special meeting of the Stockholders may be postponed by the Board of Directors by public notice given at or prior to the time of the meeting.

Section 9. Stockholder Nominations of Directors and Other Proposals. Only persons who are nominated in accordance with the procedures in this Section 9, or the procedures in Section 10 of this Article 2, shall be eligible for election as Directors of the Corporation. Nominations of persons for election to the Board of Directors may be made at any annual meeting of the Stockholders, or at any special meeting of the Stockholders called for the purpose of electing Directors, (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (b) by any Stockholder of the Corporation (i) who is a Stockholder of record both on the date of the giving of the notice provided for in this Section 9 and at the time of the meeting, (ii) who is entitled to vote at the meeting, and (iii) who complies with the notice procedures set forth in this Section 9. Except as provided in Section 10 of this Article 2, the foregoing clause (b) shall be the exclusive means for a Stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual or special meeting.

In addition to any other applicable requirements, for a nomination to be made or any other business to be proposed by a Stockholder, such Stockholder must have given timely notice thereof, and timely updates and supplements thereof, in proper written form to the Secretary of the Corporation.

To be timely, a Stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation: (a) in the case of an annual meeting of the Stockholders, not more than one hundred and twenty (120) days and not less than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the case of the first annual meeting after [-] and in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the Stockholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever first occurs; and (b) in the case of a special meeting of the Stockholders called for the purpose of electing Directors, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made, whichever first occurs. In no event shall any adjournment or postponement of an annual meeting or special meeting, or the public announcement thereof, commence a new time period for the giving of a Stockholder's notice as described above.

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Notwithstanding anything in the immediately preceding paragraph to the contrary, in the event that the number of Directors to be elected to the Board of Directors is increased by the Board of Directors, and there is no public announcement by the Corporation naming all of the nominees for Director or specifying the size of the increased Board of Directors at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a Stockholder's notice required by this Section 9 of this Article 2 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which the public announcement specifying the size of the increased Board of Directors is first made by the Corporation.

In addition, to be considered timely, a Stockholder's notice shall further be updated and supplemented, if necessary, so that the information provided or required to be provided in such notice shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to the Secretary at the principal executive offices of the Corporation not later than five (5) business days after the record date for the meeting in the case of the update and supplement required to be made as of the record date, and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof. For the avoidance of doubt, the obligation to update and supplement as set forth in this Section 9 or any other Section of these Bylaws shall not limit the Corporation's rights with respect to any deficiencies in any notice provided by a Stockholder, extend any applicable deadlines hereunder to amend or update any proposal or nomination (or notice thereof) or to submit any new proposal or nomination (or notice thereof), including, without limitation, by changing or adding nominees, matters, business and/or resolutions proposed to be brought before a meeting of the Stockholders.

To be in proper written form, a Stockholder's notice to the Secretary must set forth:

(a) As to the Stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal, as applicable, is made: (i) the name and address of such Stockholder, as they appear on the Corporation's books, of such beneficial owner, if any, and of their respective affiliates or associates or others acting in concert therewith, (ii) (A) the class or series and number of shares of the Corporation which are, directly or indirectly, owned beneficially and of record by such Stockholder, such beneficial owner and any of their respective affiliates or associates or others acting in concert therewith, (B) any option, warrant, convertible security, stock appreciation right or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of capital stock of the Corporation, or any derivative or synthetic arrangement having the characteristics of a long position in any class or series of shares of capital stock of the Corporation, or any contract, derivative, swap or other transaction or series of transactions designed to produce economic benefits and risks that correspond substantially to the ownership of any class or series of shares of capital stock of the Corporation, including due to the fact that the value of such contract, derivative, swap or

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other transaction or series of transactions is determined by reference to the price, value or volatility of any class or series of shares of capital stock of the Corporation, whether or not such instrument, contract or right shall be subject to settlement in the underlying class or series of shares of capital stock of the Corporation, through the delivery of cash or other property, or otherwise, and without regard to whether the Stockholder of record, the beneficial owner, if any, or any of their respective affiliates or associates or others acting in concert therewith, may have entered into transactions that hedge or mitigate the economic effect of such instrument, contract or right, or any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of capital stock of the Corporation (any of the foregoing, a "Derivative Instrument") directly or indirectly owned beneficially by such Stockholder, the beneficial owner, if any, or any of their respective affiliates or associates or others acting in concert therewith, (C) any proxy, contract, arrangement, understanding, or relationship pursuant to which such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith have any right to vote any class or series of shares of the Corporation, (D) any agreement, arrangement, understanding, relationship or otherwise, including, without limitation, any repurchase or similar so-called "stock borrowing" agreement or arrangement, involving such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith, directly or indirectly, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of any class or series of the shares of the Corporation by, manage the risk of share price changes for, or increase or decrease the voting power of, such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith with respect to any class or series of the shares of the Corporation, or which provides, directly or indirectly, the opportunity to profit or share in any profit derived from any decrease in the price or value of any class or series of the shares of the Corporation (any of the foregoing, a "Short Interest"), (E) any rights to dividends on the shares of the Corporation owned beneficially by such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith that are separated or separable from the underlying shares of the Corporation, (F) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith is a general partner or, directly or indirectly, beneficially owns an interest in a general partner of such general or limited partnership, (G) any performance-related fees (other than an asset-based fee) that such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith are entitled to based on any increase or decrease in the value of shares of capital stock of the Corporation or Derivative Instruments, if any, including, without limitation, any such interests held by any members of the immediate family sharing the same household of such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith, (H) any significant equity interests or any Derivative Instruments or Short Interests in any principal competitor of the Corporation held by such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith and (I) any direct or indirect interest of such Stockholder, such

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beneficial owner or any of their respective affiliates or associates or others acting in concert therewith in any contract with the Corporation, any affiliate of the Corporation or any principal competitor of the Corporation (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement), (iii) all information that would be required to be set forth in a Schedule 13D filed pursuant to Rule 13d-1(a) or an amendment pursuant to Rule 13d-2(a) if such a statement were required to be filed under the Exchange Act by such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith, if any, and (iv) any other information relating to such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act;

(b) If the notice relates to any business other than a nomination of a Director or Directors that the Stockholder proposes to bring before the meeting, in addition to the matters set forth in paragraph (a) above: (i) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest of such Stockholder, such beneficial owner and each of their respective affiliates or associates or others acting in concert therewith, if any, in such business; (ii) the text of the proposal or business (including the text of any resolutions proposed for consideration and, in the event that such proposal or business includes a proposal to amend the bylaws of the Corporation, the text of the proposed amendment); and (iii) a description of all agreements, arrangements and understandings between such Stockholder, such beneficial owner or any of their respective affiliates or associates or others acting in concert therewith, if any, and any other person or persons (including their names) in connection with the proposal of such business by such Stockholder;

(c) As to each individual, if any, whom the Stockholder proposes to nominate for election or reelection to the Board of Directors, in addition to the matters set forth in paragraph (a) above: (i) all information relating to such individual that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14 of the Exchange Act (including, without limitation, such individual's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); and (ii) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three (3) years, and any other material relationships, between or among such Stockholder and beneficial owner, if any, or any of their respective affiliates and associates or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Item 404 of Regulation S-K promulgated under the Securities Act of 1933, as amended (the "Securities Act"), if the Stockholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or

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associate thereof or person acting in concert therewith, were the "registrant" for purposes of such item and the nominee were a director or executive officer of such registrant; and

(d) With respect to each individual, if any, whom the Stockholder proposes to nominate for election or reelection to the Board of Directors, in addition to the matters set forth in paragraphs (a) and (c) above, a completed and signed questionnaire, representation and agreement required by Section 11 of this Article 2. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent Director or that could be material to a reasonable Stockholder's understanding of the independence, or lack thereof, of such nominee. Notwithstanding anything to the contrary, only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible for election as Directors.



If the Chairman of the meeting determines that a nomination was not made in accordance with the foregoing procedures, or that business was not properly brought before the meeting in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded or that the business was not properly brought before the meeting and such business shall not be transacted. For purposes of this Section 9, “affiliate” and “associate” shall have the meanings ascribed thereto in Rule 405 under the Securities Act, and the rules and regulations thereunder; provided, however, that the term “partner” as used in the definition of “associate” shall not include any limited partner that is not involved in the management of the relevant partnership.

Section 10. Proxy Access.

(a) Whenever the Board of Directors solicits proxies with respect to the election of Directors at an annual meeting of Stockholders, subject to the provisions of this Section 10, the Corporation shall include in its proxy statement for such annual meeting, (i) as a nominee, in addition to any persons nominated for election by the Board of Directors or any committee thereof, any person nominated for election (the “Stockholder Nominee”) to the Board of Directors by a Stockholder, or group of no more than 20 Stockholders, that satisfies the requirements of this Section 10 (the “Eligible Stockholder”) and that timely submits the notice required by this Section 10 (the “Notice of Proxy Access Nomination”) requesting to have its nominee included in the Corporation’s proxy materials for such annual meeting pursuant to this Section 10 and (ii) the Required Information (defined below) concerning such person. No person may be a member of more than one group of Stockholders constituting an Eligible Stockholder with respect to any annual meeting. For purposes of this Section 10, the “Required Information” that the Corporation will include in its proxy statement is the information provided to the Secretary of the Corporation by the Eligible Stockholder concerning the Stockholder Nominee and the Eligible Stockholder that is required to be disclosed in the Corporation’s proxy statement by the regulations promulgated under the Exchange Act, and if the Eligible Stockholder so elects, a written statement, not to exceed 500 words, in support of the Stockholder Nominee’s candidacy (the “Statement”). Notwithstanding anything to the contrary contained in this Section 10, the Corporation may omit from its proxy materials any information or Statement (or portion thereof) that it, in good faith, believes would violate any applicable law or regulation. For the purposes of this Section 10:

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(1) “Voting Stock” shall mean outstanding shares of capital stock of the Corporation entitled to vote generally for the election of Directors;

(2) “Constituent Holder” shall mean any Stockholder, collective investment fund or beneficial holder whose stock ownership is counted for the purposes of qualifying as holding the Required Stock (as defined below) or qualifying as an Eligible Stockholder;

(3) “affiliate” and “associate” shall have the meanings ascribed thereto in Rule 405 under the Securities Act, and the rules and regulations thereunder; provided, however, that the term “partner” as used in the definition of “associate” shall not include any limited partner that is not involved in the management of the relevant partnership; and

(4) a Stockholder (including any Constituent Holder) shall be deemed to “own” only those outstanding shares of Voting Stock as to which the Stockholder itself (or such Constituent Holder itself) possesses both (a) the full voting and investment rights pertaining to the shares and (b) the full economic interest in (including the opportunity for profit and risk of loss on) such shares. The number of shares calculated in accordance with the foregoing clauses (a) and (b) shall be deemed not to include (and to the extent any of the following arrangements have been entered into by affiliates of the Stockholder (or of any Constituent Holder), shall be reduced by) any shares (x) sold by such Stockholder or Constituent Holder (or any of either’s affiliates) in any transaction that has not been settled or closed, including any short sale, (y) borrowed by such Stockholder or Constituent Holder (or any of either’s affiliates) for any purposes or purchased by such Stockholder or Constituent Holder (or any of either’s affiliates) pursuant to an agreement to resell, or (z) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such Stockholder or Constituent Holder (or any of either’s affiliates), whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of Voting Stock, in any such case which instrument or agreement has, or is intended to have, or if exercised by either party thereto would have, the purpose or effect of (i) reducing in any manner, to any extent or at any time in the future, such Stockholder’s or Constituent Holder’s (or either’s affiliate’s) full right to vote or direct the voting of any such shares, and/or (ii) hedging, offsetting or altering to any degree gain or loss arising from the full economic ownership of such shares by such Stockholder or Constituent Holder (or either’s affiliate), other than any such arrangements solely involving an exchange listed multi-industry market index fund in which Voting Stock represents at the time of entry into such arrangement less than 10% of the proportionate value of such index. A Stockholder (including any Constituent Holder) shall “own” shares held in the name of a nominee or other intermediary so long as the Stockholder itself (or such Constituent Holder itself) retains the right to instruct how the shares are voted with respect to the election of Directors and the right to direct the disposition thereof and possesses the full economic interest in the shares. A Stockholder’s (including any Constituent Holder’s) ownership of shares shall be deemed to continue during any period in which such person has loaned such shares or delegated any voting power over such shares by means of a proxy, power of attorney or other instrument or arrangement which in all such cases is revocable at any

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time by the Stockholder. The terms “owned,” “owning” and other variations of the word “own” shall have correlative meanings.

(b) To be timely, the Notice of Proxy Access Nomination must be delivered to, or mailed to and received by, the Secretary of the Corporation no earlier than one hundred fifty (150) days and no later than one hundred twenty (120) days prior to the anniversary of the date that the Corporation issued its proxy statement for the immediately preceding annual meeting of Stockholders. In no event shall any adjournment or postponement of an annual meeting, the date of which has been announced by the Corporation, commence a new time period for the giving of a Notice of Proxy Access Nomination.

(c) The maximum number of Stockholder Nominees nominated by all Eligible Stockholders that will be included in the Corporation’s proxy materials with respect to an annual meeting of Stockholders (the “Nominee Limit”) shall not exceed 20% of the total number of Directors in office as of the last day on which a Notice of Proxy Access Nomination may be delivered pursuant to and in accordance with this Section 10 (the “Final Proxy Access Nomination Date”) or if such amount is not a whole number, the closest whole number below 20%; provided, that in no circumstance shall the Nominee Limit exceed the number of Directors to be elected at the applicable annual meeting as noticed by the Corporation, and provided, further, that the Nominee Limit shall be reduced by the number of Directors in office or director candidates that in either case will be included in the Corporation’s proxy materials with respect to such annual meeting as an unopposed (by the Corporation) nominee pursuant to any agreement, arrangement or other understanding with any stockholder or group of stockholders (other than any such agreement, arrangement or understanding entered into in connection with an acquisition of Voting

Stock, by such stockholder or group of stockholders, from the Corporation). In the event that one or more vacancies for any reason occurs on the Board of Directors after the Final Proxy Access Nomination Date but before the date of the annual meeting and the Board of Directors resolves to reduce the size of the board in connection therewith, the Nominee Limit shall be calculated based on the number of Directors in office as so reduced. Any individual (i) nominated by an Eligible Stockholder for inclusion in the Corporation's proxy materials pursuant to this Section 10 whom the Board of Directors decides to nominate as a nominee of the Board of Directors, or (ii) nominated pursuant to any agreement, arrangement or other understanding with any stockholder or group of stockholders (other than any such agreement, arrangement or understanding entered into in connection with an acquisition of Voting Stock, by such stockholder or group of stockholders, from the Corporation, shall, in each case, further reduce the Nominee Limit. Any Eligible Stockholder submitting more than one Stockholder Nominee for inclusion in the Corporation's proxy materials pursuant to this Section 10 shall rank such Stockholder Nominees based on the order that the Eligible Stockholder desires such Stockholder Nominees to be selected for inclusion in the Corporation's proxy statement in the event that the total number of Stockholder Nominees submitted by Eligible Stockholders pursuant to this Section 10 exceeds the maximum number of nominees provided for in this Section 10. In the event that the number of Stockholder Nominees submitted by Eligible Stockholders pursuant to this Section 10 exceeds the maximum number of nominees provided for in this Section 10, the highest ranking Stockholder Nominee who meets the requirements of this Section 10 from each Eligible Stockholder will be selected for inclusion in the Corporation's proxy materials until the maximum number is reached, going in order of the number (largest to smallest) of shares of the common stock, par value \$0.01 per share, of the

Corporation ("Common Stock") each Eligible Stockholder disclosed as owned in its respective Notice of Proxy Access Nomination submitted to the Corporation. If the maximum number is not reached after the highest ranking Stockholder Nominee who meets the requirements of this Section 10 from each Eligible Stockholder has been selected, this process will continue with the next highest ranked nominees as many times as necessary, following the same order each time, until the maximum number is reached. Notwithstanding anything to the contrary contained in this Section 10, if the Corporation receives notice pursuant to Section 9 of this Article 2 that a Stockholder intends to nominate for election at such meeting a number of nominees greater than or equal to a majority of the total number of Directors to be elected at such meeting, no Stockholder Nominees will be included in the Corporation's proxy materials with respect to such meeting pursuant to this Section 10.

(d) If the Stockholder Nominee or an Eligible Stockholder fails to continue to meet the requirements of this Section 10 or if a Stockholder Nominee withdraws, dies, becomes disabled or is otherwise disqualified from being nominated for election or serving as a Director prior to the annual meeting: (1) the Corporation may, to the extent feasible, remove the name of the Stockholder Nominee and the Statement from its proxy statement, remove the name of the Stockholder Nominee from its form of proxy and/or otherwise communicate to its Stockholders that the Stockholder Nominee will not be eligible for nomination at the annual meeting; and (2), subsequent to the last day on which a Stockholder's Notice of Proxy Access Nomination would be timely, the Eligible Stockholder may not name another Stockholder Nominee or otherwise cure in any way any defect preventing the nomination of the Stockholder Nominee identified in the Notice of Proxy Access Nomination provided pursuant to this Section 10.

(e) In order to make a nomination pursuant to this Section 10, an Eligible Stockholder must have owned (as defined above) the Required Ownership Percentage (as defined below) of shares of Common Stock (the "Required Stock") continuously for the Minimum Holding Period (as defined below) as of both the date the Notice of Proxy Access Nomination is delivered to, or mailed to and received by, the Secretary of the Corporation in accordance with this Section 10 and the record date for determining the Stockholders entitled to vote at the annual meeting and must continue to own the Required Stock through the meeting date. For purposes of this Section 10, the "Required Ownership Percentage" is three percent (3%) or more, and the "Minimum Holding Period" is three (3) years.

(f) Within the time period specified in this Section 10 for delivering the Notice of Proxy Access Nomination, an Eligible Stockholder must provide the following materials in writing to the Secretary of the Corporation: (i) one or more written statements from the record holder of the shares of Common Stock owned by the Eligible Stockholder (and from each intermediary through which the shares of Common Stock are or have been held during the Minimum Holding Period) verifying that, as of a date within seven (7) calendar days prior to the date the Notice of Proxy Access Nomination is delivered to, or mailed to and received by, the Secretary of the Corporation, the Eligible Stockholder owns, and has owned continuously for the Minimum Holding Period, the Required Stock, and the Eligible Stockholder's agreement to provide, within five (5) business days after the record date for the annual meeting, written statements from the record holder and intermediaries verifying the Eligible Stockholder's continuous ownership of the Required Stock through the record date; (ii) a copy of the Schedule 14N that has been filed with the Securities and Exchange Commission ("SEC") as required by

Rule 14a-18 under the Exchange Act; (iii) the information, representations and agreements that are the same as those that would be required to be set forth in a Stockholder's notice of nomination pursuant to Section 9 of this Article 2; (iv) a representation and agreement of the Eligible Stockholder that the Eligible Stockholder (including each member of any group of Stockholders that together is an Eligible Stockholder hereunder) (A) acquired the Required Stock in the ordinary course of business and not with the intent to change or influence control of the Corporation, and does not presently have such intent, (B) presently intends to maintain qualifying ownership of the Required Stock through the date of the annual meeting, (C) has not engaged and will not engage in any, and has not and will not be a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a Director at the annual meeting other than its Stockholder Nominee(s) or a nominee of the Board of Directors, (D) agrees not to distribute to any Stockholder any form of proxy for the annual meeting other than the form distributed by the Corporation, (E) agrees to comply with all applicable laws and regulations applicable to the use, if any, of soliciting material and to file any such soliciting material with the SEC regardless of whether such filing is required under Regulation 14A under the Exchange Act, and (F) will provide facts and other information in all communications with the Corporation and its Stockholders that are or will be true and correct in all material respects and do not and will not omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; (v) a representation as to the Eligible Stockholder's (including each member of any group of Stockholders that together is an Eligible Stockholder hereunder) intentions with respect to maintaining qualifying ownership of the Required Stock for at least one (1) year following the annual meeting; and (vi) an undertaking that the Eligible Stockholder agrees to (A) assume all liability stemming from any legal or regulatory violation arising out of the Eligible Stockholder's communications with the Stockholders or out of the information that the Eligible Stockholder provided to the Corporation and (B) indemnify and hold harmless the Corporation and each of its Directors, officers and employees individually against any and all liabilities, losses and damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Corporation or any of its Directors, officers or employees arising out of any nomination submitted by the Eligible Stockholder pursuant to this Section 10.

(g) Within the time period specified in this Section 10 for delivering the Notice of Proxy Access Nomination, each Eligible Stockholder and Stockholder Nominee must deliver or cause to be delivered to the Secretary of the Corporation:

(i) a written representation and agreement of the Stockholder Nominee that such person (A) consents to being named in the Corporation's proxy statement as a nominee and to serving as a Director if elected, (B) understands his or her duties as a Director under the General Corporation Law of the State of Delaware (the "DGCL") and agrees to act in accordance with those duties while serving as a Director, (C) is not and will not become a party to any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person as to how such nominee, if elected as a Director, will act or vote as a Director on any issue or question to be decided by the Board of Directors, (D) in connection with such nominee's candidacy for Director, is not and will not become a party to any compensatory, payment or

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other financial agreement, arrangement or understanding with any person other than the Corporation, and has not and will not receive any such compensation or other payment from any person other than the Corporation, in each case that has not been disclosed to the Secretary of the Corporation, (E) in connection with such nominee's service as a Director of the Corporation, is not and will not become a party to any compensatory, payment or other financial agreement, arrangement or understanding with any person other than the Corporation, and has not and will not receive any such compensation or other payment from any person other than the Corporation, (F) if elected as a Director, will comply with all applicable laws and stock exchange listing standards and the Corporation's policies and guidelines applicable to Directors, and (G) will provide facts and other information in all communications with the Corporation and its Stockholders that are or will be true and correct in all material respects and do not and will not omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(ii) with respect to each Stockholder Nominee, all completed and signed questionnaires required of Directors, and such additional information as the Corporation may determine necessary to permit the Board of Directors to determine if such Stockholder Nominee is independent under the listing standards of each exchange upon which the Common Stock of the Corporation is listed, any applicable rules of the SEC and any publicly disclosed standards used by the Board of Directors in determining and disclosing the independence of Directors; and

(iii) with respect to each Stockholder Nominee who consents to stand for election, an irrevocable resignation of such Stockholder Nominee in advance of the meeting for the election of Directors, providing that such resignation shall become effective upon a determination by the Board of Directors or any committee thereof that (A) the information provided to the Corporation by such individual pursuant to this Section 10 was untrue in any material respect or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading or (B) such individual, or the Eligible Stockholder who nominated such individual, failed to comply with any obligation owed or breached any representation made under or pursuant to these Bylaws.

(h) In the event that any information or communication provided by the Eligible Stockholder or the Stockholder Nominee to the Corporation or its Stockholders ceases to be true and correct in any material respect or omits a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, such Eligible Stockholder or Stockholder Nominee, as the case may be, shall promptly notify the Secretary of the Corporation of such defect in such previously provided information or communication and of the information that is required to correct any such defect.

(i) The Corporation shall not be required to include, pursuant to this Section 10, a Stockholder Nominee in its proxy materials for any meeting of the Stockholders (i) for which the

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Secretary of the Corporation receives a notice that a Stockholder has nominated such Stockholder Nominee for election to the Board of Directors pursuant to the advance notice requirements for Stockholder nominees for Director set forth in Section 9 of this Article 2, (ii) who is not independent under the listing standards of each exchange upon which the Common Stock of the Corporation is listed, any applicable rules of the SEC and any publicly disclosed standards used by the Board of Directors in determining and disclosing independence of Directors, in each case as determined by the Board of Directors, (iii) whose election as a member of the Board of Directors would cause the Corporation to be in violation of these Bylaws, the Certificate, the rules and listing standards of any exchange upon which the Common Stock of the Corporation is listed, or any applicable state or federal law, rule or regulation, (iv) who is or has been, within the past three (3) years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914, (v) who is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in such a criminal proceeding within the past ten (10) years or (vi) if such Stockholder Nominee or the Eligible Stockholder (or any member of any group of Stockholders that together is such Eligible Stockholder) nominating such Stockholder Nominee fails to comply with any of its obligations or breaches any of its representations made under or pursuant to these Bylaws.

(j) Notwithstanding anything to the contrary set forth herein, the Board of Directors or the presiding officer of the annual meeting of the Stockholders shall declare a nomination of a Stockholder Nominee by an Eligible Stockholder to be invalid, and such nomination shall be disregarded notwithstanding that proxies in respect of the vote of Stockholders of such annual meeting may have been received by the Corporation, if (i) the Stockholder Nominee and/or the nominating Eligible Stockholder (or any member of any group of Stockholders that together is such Eligible Stockholder) shall have failed to comply with any of its or their obligations or breached any of its or their representations under or pursuant to these Bylaws, as determined by the Board of Directors or the presiding officer of the meeting; or (ii) the nominating Eligible Stockholder (or a qualified representative thereof) does not appear at the meeting of the Stockholders to present the nomination of such Stockholder Nominee pursuant to this Section 10.

(k) Any Stockholder Nominee who is included in the Corporation's proxy materials for a particular annual meeting of the Stockholders but either (i) withdraws from or becomes ineligible or unavailable for election at such annual meeting, or (ii) does not receive votes cast in favor of such Stockholder Nominee's election equal to at least 25% of the number of shares of Common Stock voted in such election, will be ineligible to be a Stockholder

Nominee pursuant to this Section 10 for the next two (2) annual meetings. For the avoidance of doubt, this Section 10 shall not prevent any Stockholder from nominating any person to the Board of Directors pursuant to and in accordance with Section 9 of this Article 2.

Section 11. Questionnaire, Representation and Agreement. To be eligible to be a nominee of any Stockholder for election or reelection as a Director, such proposed nominee must deliver (in accordance with the time periods prescribed for delivery of notice under this Article 2) to the Secretary at the principal executive offices of the Corporation a completed written questionnaire with respect to the background and qualification of such individual and the background of any other person on whose behalf, directly or indirectly, the nomination is being made (which questionnaire shall be provided by the Secretary upon written request), and a written representation and agreement (in the form provided by the Secretary upon written

request) that such individual (a) is not and will not become a party to (i) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person as to how such person, if elected as a Director, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Corporation, and (ii) any Voting Commitment that could limit or interfere with such individual's ability to comply, if elected as a Director, with such individual's fiduciary duties under applicable law, (b) in connection with such nominee's candidacy for or services as Director, is not and will not become a party to any compensatory, payment or other financial agreement, arrangement or understanding with any person other than the Corporation, and has not and will not receive any such compensation or other payment from any person other than the Corporation, (c) in such individual's personal capacity and on behalf of any person on whose behalf, directly or indirectly, the nomination is being made, would be in compliance, if elected as a Director, and will comply, with all applicable corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Corporation publicly disclosed from time to time, (d) consents to being named as a nominee and agrees to serve if elected as a Director, and (e) will abide by the requirements of Section 8 of Article 4.

### ARTICLE 3 — BOARD OF DIRECTORS

Section 1. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authorities by these Bylaws expressly conferred upon it, the Board of Directors may exercise all such powers and do all such lawful acts and things as are not by statute or by the Certificate or by these Bylaws required to be exclusively exercised or done by the Stockholders.

Section 2. Number, Term and Qualification. The number, term and qualification of Directors of the Corporation shall be as provided in the Certificate.

Section 3. Resignation and Removal. Directors may be removed from office only for the reasons, if any, specified in the Certificate. Any Director may resign at any time by giving notice in writing or by electronic transmission to the Chairman of the board, the Chief Executive Officer or the Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the occurrence of some other event, and, unless otherwise specified in such notice, the acceptance of such resignation shall not be necessary to make it effective.

Section 4. Vacancies. Vacancies occurring in the Board of Directors shall be filled only as provided in the Certificate.

### ARTICLE 4 — MEETINGS OF DIRECTORS

Section 1. Annual and Regular Meetings. All annual and regular meetings of the Board of Directors shall be held at such places and times as determined by the Board of Directors in its discretion.

Section 2. Special Meetings. Special meetings of the Board of Directors shall be held at such places and times as determined by the Board of Directors in its discretion.

Section 3. Notice of Meetings. Unless the Board of Directors by resolution determines otherwise in accordance with authority set forth in the Certificate, notice of any meeting of the Board of Directors shall be given to each Director at such person's business or residence in writing by hand delivery, first-class or overnight mail or courier service, email or facsimile transmission, or orally by telephone. If mailed by first-class mail, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, at least five (5) days before such meeting. If by overnight mail or courier service, such notice shall be deemed adequately delivered when delivered to the overnight mail or courier service company at least forty-eight (48) hours before such meeting. If by email, facsimile transmission, telephone or by hand, such notice shall be deemed adequately delivered when the notice is transmitted at least twenty-four (24) hours before such meeting. The Secretary shall give such notice of any meetings called by the Board of Directors by such means of communication as may be specified by the Board of Directors.

Section 4. Quorum. A majority of the Directors in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors.

Section 5. Manner of Acting. A majority of Directors who are present at a meeting at which a quorum is present will constitute the required vote to effect any action taken by the Board of Directors.

Section 6. Action Without Meeting. Action required or permitted to be taken at a meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board of Directors. The action must be evidenced by one or more written consents signed by each Director, or an electronic transmission given by each Director, describing the action taken, and included in the minutes or filed with the corporate records. Action taken without a meeting is effective when the last Director signs the consent or gives an electronic transmission, unless the consent specifies a subsequent effective date.

Section 7. Meeting by Communications Device. The Board of Directors may permit Directors to participate in any meeting of the Board of Directors by, or conduct the meeting through the use of, any means of communication by which all Directors participating may simultaneously hear each other during the meeting. A Director participating in a meeting by this means is deemed to be present in person at the meeting.

Section 8. Required Vote for Directors.

(a) Except as set forth below, election of Directors at all meetings of the Stockholders at which Directors are to be elected shall be by ballot, and, subject to the rights of the holders of any series of preferred shares to elect Directors under specified circumstances, a majority of the votes cast at any meeting for the election of Directors at which a quorum is present shall elect Directors. For purposes of these Bylaws, a majority of votes cast shall mean that the number of shares voted “for” a Director’s election exceeds 50% of the number of votes cast with respect to that Director’s election. Votes cast shall include direction to withhold authority in each case and exclude abstentions with respect to that Director’s election. Notwithstanding the foregoing, in the event of a contested election of Directors, Directors shall be elected by the vote of a plurality of the votes cast at any meeting for the election of Directors at which a quorum is present. For

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purposes of these Bylaws, a “contested election” shall mean any election of Directors in which the number of candidates for election as Directors exceeds the number of Directors to be elected, with the determination thereof being made by the Secretary as of the close of the applicable notice of nomination period set forth in Article 2, Section 9 of these Bylaws or under applicable law, based on whether one or more notice(s) of nomination were timely filed in accordance with Article 2, Section 9 of these Bylaws; provided, however, that the determination that an election is a contested election shall be determinative only as to the timeliness of a notice of nomination and not otherwise as to its validity. If, prior to the time the Corporation mails its initial proxy statement in connection with such election of Directors, one or more notices of nomination are withdrawn such that the number of candidates for election as Director no longer exceeds the number of Directors to be elected, the election shall not be considered a contested election, but in all other cases, once an election is determined to be a contested election, Directors shall be elected by the vote of a plurality of the votes cast at any meeting for the election of Directors at which a quorum is present.

(b) If a nominee for Director who is an incumbent Director is not elected and no successor has been elected at such meeting, the Director shall promptly tender his or her resignation to the Board of Directors. The Nominating and Governance Committee shall make a recommendation to the Board of Directors as to whether to accept or reject the tendered resignation, or whether other action should be taken. The Board of Directors shall act on the tendered resignation, taking into account the Nominating and Governance Committee’s recommendation, and publicly disclose (by a press release, a filing with the SEC or other broadly disseminated means of communication) its decision regarding the tendered resignation and the rationale behind the decision within ninety (90) days from the date of the certification of the election results. The Nominating and Governance Committee in making its recommendation, and the Board of Directors in making its decision, may each consider any factors or other information that it considers appropriate and relevant. The Director who tenders his or her resignation shall not participate in the recommendation of the Nominating and Governance Committee or the decision of the Board of Directors with respect to his or her resignation. If such incumbent Director’s resignation is not accepted by the Board of Directors, such Director shall continue to serve until the next annual meeting and until his or her successor is duly elected, or his or her earlier death, resignation or removal. If a Director’s resignation is accepted by the Board of Directors pursuant to these Bylaws, or if a nominee for Director is not elected and the nominee is not an incumbent Director, then the Board of Directors, in its sole discretion, may fill any resulting vacancy pursuant to the provisions of Article 3, Section 4 of these Bylaws or may decrease the size of the Board of Directors pursuant to the provisions of Article 3, Section 2 of these Bylaws.

## ARTICLE 5 — COMMITTEES

Section 1. Election and Powers. The Board of Directors may appoint such committees with such members who shall have such powers and authority as may be determined by the Board of Directors as provided in the Certificate. To the extent specified by the Board of Directors or in the Certificate, each committee shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation.

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Section 2. Removal; Vacancies. Unless the Board of Directors by resolution determines otherwise in accordance with authority specified in the Certificate, any member of a committee may be removed at any time exclusively by the Board of Directors with or without cause, and vacancies in the membership of a committee as a result of death, resignation, disqualification or removal shall be filled by a majority of the whole Board of Directors. Unless the Board of Directors by resolution determines otherwise in accordance with authority specified in the Certificate, the Board of Directors may discharge any committee, either with or without cause, at any time.

Section 3. Meetings. The provisions of Article 4 governing meetings of the Board of Directors, action without meeting, notice, waiver of notice and quorum and voting requirements shall apply to the committees of the Board of Directors and its members to the extent not otherwise prescribed by the Board of Directors in the resolution authorizing the establishment of the committee.

Section 4. Minutes. Each committee shall keep minutes of its proceedings and shall report thereon to the Board of Directors at or before the next meeting of the Board of Directors.

Section 5. Chairman. The Chairman shall preside at meetings of the Board of Directors and the Stockholders and shall have such powers and perform such other duties as the Board of Directors may prescribe or as may be prescribed in these Bylaws. The Board of Directors may, in its discretion, designate a Chairman as “Executive Chairman.” Such Executive Chairman shall have such powers and perform such other duties as the Board of Directors may prescribe or as may be prescribed for the Chairman in these Bylaws.

Section 6. Vice Chairman. The Vice Chairman shall have such powers and perform such duties as the Board of Directors or the Chairman (to the extent he or she is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed by these Bylaws.

## ARTICLE 6 — OFFICERS

Section 1. Titles. The Board of Directors shall have the power and authority to elect from time to time such officers of the Corporation, including a President, a Chief Executive Officer, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Chief Financial Officer, a General Counsel, a Controller, a Treasurer, a Secretary, one or more Assistant Controllers, one or more Assistant Treasurers, and

one or more Assistant Secretaries, and such other officers as shall be deemed necessary or desirable from time to time. The officers shall have the authority and perform the duties set forth herein or as from time to time may be prescribed by the Board of Directors. Any two or more offices may be held by the same individual, but no officer may act in more than one capacity where action of two or more officers is required.

The officers of the Corporation may appoint one or more individuals to hold a title which includes Assistant or Deputy together with one of the officer titles indicated above. An individual holding such title by virtue of being so appointed rather than by virtue of being elected

to such position by the Board of Directors shall not be an officer of the Corporation for purposes of the Certificate or these Bylaws.

Section 2. Election; Removal. The officers of the Corporation may be elected by the Board of Directors and shall serve at the pleasure of the Board of Directors as specified at the time of their election, until their successors are elected and qualify, or until the earlier of their death, resignation or removal. Any officer may be removed by the Board of Directors at any time with or without cause.

Section 3. Compensation. The compensation of the officers may be fixed by the Board of Directors or any duly authorized committee thereof.

Section 4. General Powers of Officers. Except as may be otherwise provided in these Bylaws or in the DGCL or by resolution of the Board of Directors, the Chief Executive Officer, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the General Counsel, the Controller, the Treasurer, the Secretary, or any one of them, may (i) execute and deliver in the name of the Corporation, in the name of any division of the Corporation, or in both names, any agreement, contract, deed, instrument, power of attorney or other document pertaining to the business or affairs of the Corporation or any division of the Corporation, and (ii) delegate to any employee or agent the power to execute and deliver any such agreement, contract, deed, instrument, power of attorney or other document.

Section 5. Chief Executive Officer. The Chief Executive Officer of the Corporation shall report directly to the Board of Directors. Except in such instances as the Board of Directors may confer powers in particular transactions upon any other officer, and subject to the control and direction of the Board of Directors, the Chief Executive Officer shall manage the business and affairs of the Corporation and shall communicate to the Board of Directors and any committee thereof reports, proposals and recommendations for their respective consideration or action. He or she may do and perform all acts on behalf of the Corporation.

Section 6. President. The President shall have such powers and perform such duties as the Board of Directors and the Chief Executive Officer (to the extent he or she is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed by these Bylaws.

Section 7. Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. The Executive Vice Presidents, Senior Vice Presidents and Vice Presidents shall have such powers and perform such duties as the Board of Directors or the Chief Executive Officer (to the extent he or she is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed by these Bylaws.

Section 8. Chief Financial Officer. The Chief Financial Officer shall have powers and perform such duties as the Board of Directors or the Chief Executive Officer (to the extent he or she is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these Bylaws. The Chief Financial Officer shall present to the Board of Directors such balance sheets, income statements,

budgets and other financial statements and reports as the Board of Directors or the Chief Executive Officer (to the extent he or she is authorized by the Board of Directors to prescribe the authority and duties of other officers) may require and shall perform such other duties as may be prescribed or assigned pursuant to these Bylaws and all other acts incident to the position of Chief Financial Officer.

Section 9. Controller. The Controller shall be responsible for the maintenance of adequate accounting records of all assets, liabilities, capital and transactions of the Corporation. The Controller shall prepare such balance sheets, income statements, budgets and other financial statements and reports as the Board of Directors or the Chief Executive Officer or the Chief Financial Officer (to the extent they are authorized by the Board of Directors to prescribe the authority and duties of other officers) may require, and shall perform such other duties as may be prescribed or assigned pursuant to these Bylaws and all other acts incident to the position of Controller.

Section 10. Treasurer.

(a) The Treasurer shall have the care and custody of all funds and securities of the Corporation except as may be otherwise ordered by the Board of Directors, and shall cause such funds (i) to be invested or reinvested from time to time for the benefit of the Corporation as may be designated by the Board of Directors or by the Chairman, the Chief Executive Officer, the Vice Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), or (ii) to be deposited to the credit of the Corporation in such banks or depositories as may be designated by the Board of Directors or by the Chairman, the Chief Executive Officer, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), and shall cause such securities to be placed in safekeeping in such manner as may be designated by the Board of Directors or by the Chairman, the Chief Executive Officer, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations).

(b) The Treasurer or such other person or persons as may be designated for such purpose by the Board of Directors or by the Chairman, the Chief Executive Officer, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations) may endorse in the name and on behalf of the Corporation all instruments for the payment of money, bills of lading, warehouse receipts, insurance policies and other commercial documents requiring such endorsement.

(c) The Treasurer or such other person or persons as may be designated for such purpose by the Board of Directors or by the Chairman, the Chief Executive Officer, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), (i) may sign all receipts and vouchers for payments made to the Corporation; (ii) shall provide a statement of the cash account of the Corporation to the Board of Directors as often as it shall require the same; and (iii) shall enter regularly in the books to be kept for that purpose full and accurate account of all moneys received and paid on account of the Corporation and of all securities received and delivered by the Corporation.

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(d) The Treasurer shall perform such other duties as may be prescribed or assigned pursuant to these Bylaws and all other acts incident to the position of Treasurer.

Section 11. Secretary. The Secretary shall keep the minutes of all meetings of the Stockholders, the Board of Directors and the committees of the Board of Directors. The Secretary shall cause to be prepared and maintained (i) at the office of the Corporation a share ledger containing the names and addresses of all Stockholders and the number of shares held by each, and (ii) any list of the Stockholders required by law to be prepared for any meeting of the Stockholders. The Secretary shall be responsible for the custody of all share books and of all unissued share certificates. The Secretary shall be the custodian of the seal of the Corporation. The Secretary shall affix or cause to be affixed the seal of the Corporation, and when so affixed may attest the same and shall perform such other duties as may be prescribed or assigned pursuant to these Bylaws and all other acts incident to the position of Secretary.

Section 12. Voting upon Securities. Unless otherwise ordered by the Board of Directors, the Chief Executive Officer, the President, any Executive Vice President, any Senior Vice President or any Vice President shall have full power and authority on behalf of the Corporation to attend, act and vote at meetings of the security holders of any entity in which the Corporation may hold securities, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner, the Corporation might have possessed and exercised if present. The Board of Directors may by resolution from time to time confer such power and authority upon any person or persons.

Section 13. Continuing Determination by Board. All powers and duties of the officers shall be subject to a continuing determination by the Board of Directors.

## ARTICLE 7 — CAPITAL STOCK

Section 1. Certificates. The interest of each Stockholder may be evidenced by certificates for shares of stock in such form as the appropriate officers of the Corporation may from time to time prescribe or be uncertificated. The name and address of the persons to whom shares of capital stock of the Corporation are issued, with the number of shares and date of issue, shall be entered on the share transfer records of the Corporation. Certificates for shares of the capital stock of the Corporation shall be in such form not inconsistent with the Certificate as shall be approved by the Board of Directors. Each certificate shall be signed (either manually or by facsimile) by (a) the Chairman, the Chief Executive Officer, the President or any Vice President, and by the Secretary, any Assistant Secretary, the Treasurer or any Assistant Treasurer or (b) any two (2) officers designated by the Board of Directors. Each certificate may be sealed with the seal of the Corporation or facsimile thereof.

Section 2. Transfer of Shares.

(a) The shares of the capital stock of the Corporation shall be transferred on the books of the Corporation, in the case of certificated shares of stock, by the holder thereof in person or by such person's attorney duly authorized in writing, upon surrender for cancellation of certificates for at least the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, with such proof of the authenticity of the

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signature as the Corporation or its agents may reasonably require; and, in the case of uncertificated shares of stock, upon receipt of proper transfer instructions from the registered holder of the shares or by such person's attorney duly authorized in writing, and upon compliance with appropriate procedures for transferring shares in uncertificated form. No transfer of shares shall be valid as against the Corporation for any purpose until it shall have been entered in the share records of the Corporation by an entry showing from and to whom transferred.

(b) The share certificates shall be signed, countersigned and registered in such manner as the Board of Directors may by resolution prescribe, which resolution may permit all or any of the signatures on such certificates to be in facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

(c) Notwithstanding anything to the contrary in these Bylaws, at all times that the Corporation's shares are listed on a stock exchange, the shares of capital stock of the Corporation shall comply with all direct registration system eligibility requirements established by such exchange, including any requirement that shares of the Corporation's capital stock be eligible for issue in book-entry form. All issuances and transfers of shares of the Corporation's capital stock shall be entered on the books of the Corporation with all information necessary to comply with such direct registration system eligibility requirements, including the name and address of the person to whom the shares are issued, the number of shares issued and the date of issue. The Board of Directors shall have the power and authority to make such rules and regulations as it may deem necessary or proper concerning the issue, transfer and registration of shares of stock of the Corporation in both the certificated and uncertificated form.

Section 3. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents and one or more registrars of transfers and may require all share certificates to be signed or countersigned by the transfer agent and registered by the registrar.

Section 4. Regulations. The Board of Directors may make such rules and regulations as it deems expedient concerning the issue, transfer and registration of shares of capital stock of the Corporation.

Section 5. Fixing Record Date. For the purpose of determining the Stockholders entitled to notice of or to vote at any meeting of the Stockholders, or entitled to receive payment of any dividend, or in order to make a determination of the Stockholders for any other purpose, the Board of

Directors may fix in advance a date as the record date for the determination of Stockholders. The record date shall not be more than sixty (60) days before the meeting or action requiring a determination of Stockholders. A determination of the Stockholders entitled to notice of or to vote at a Stockholders' meeting shall be effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it shall do if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting. If no record date is fixed for the determination of Stockholders, the record date shall be

the day the notice of the meeting is mailed or the day the action requiring a determination of Stockholders is taken.

Section 6. Lost Certificates. In case of loss, theft, mutilation or destruction of any certificate evidencing shares of the capital stock of the Corporation, another may be issued in its place upon proof of such loss, theft, mutilation or destruction and upon the giving of an indemnity or other undertaking to the Corporation in such form and in such sum as the Board of Directors may direct.

#### ARTICLE 8 — GENERAL PROVISIONS

Section 1. Dividends and Other Distributions. The Board of Directors may from time to time declare and the Corporation may pay dividends or make other distributions with respect to its outstanding shares in the manner and upon the terms and conditions provided by law.

Section 2. Seal. The seal of the Corporation shall be any form approved from time to time by the Board of Directors.

Section 3. Waiver of Notice. Whenever notice is required to be given to a Stockholder, Director or other person under the provisions of these Bylaws, the Certificate or applicable statute, a waiver in writing signed by, or an electronic transmission given by, the person or persons entitled to the notice, whether before or after the date and time stated in the notice, and delivered to the Corporation, shall be equivalent to giving the notice.

Section 4. Depositaries. The Chairman, the Chief Executive Officer, the President, the Chief Financial Officer and the Treasurer are each authorized to designate depositaries for the funds of the Corporation deposited in its name or that of a division of the Corporation, or both, and the signatories with respect thereto in each case, and from time to time, to change such depositaries and signatories, with the same force and effect as if each such depositary and the signatories with respect thereto and changes therein had been specifically designated or authorized by the Board of Directors; and each depositary designated by the Board of Directors or by the Chairman, the Chief Executive Officer, the President, the Chief Financial Officer or the Treasurer shall be entitled to rely upon the certificate of the Secretary or any Assistant Secretary of the Corporation setting forth the fact of such designation and of the appointment of the officers of the Corporation or of other persons who are to be signatories with respect to the withdrawal of funds deposited with such depositary, or from time to time the fact of any change in any depositary or in the signatories with respect thereto.

Section 5. Signatories. Unless otherwise designated by the Board of Directors or by the Chairman, the Chief Executive Officer, the President, the Chief Financial Officer or the Treasurer, all notes, drafts, checks, acceptances and orders for the payment of money shall be (a) signed by the Treasurer or any Assistant Treasurer, and (b) countersigned by the Controller or any Assistant Controller, or either signed or countersigned by the Chairman, the Chief Executive Officer, the Vice Chairman, the President, any Executive Vice President, any Senior Vice President or any Vice President in lieu of either the officers designated in (a) or the officers designated in (b) of this Section 5.

Section 6. Proxies. Unless otherwise provided for by a resolution of the Board of Directors, the Chief Executive Officer, or any Vice President or Secretary or Assistant Secretary designated by the Board of Directors, may from time to time appoint an attorney or attorneys or agent or agents of the Corporation to cast, in the name and on behalf of the Corporation, the votes which the Corporation may be entitled to cast as the holder of stock or other securities in any other corporation, any of whose stock or other securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation or to consent in writing, in the name of the Corporation as such holder, to any action by such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal, or otherwise, all such written proxies or other instruments as he may deem necessary or proper in the premises.

Section 7. Fiscal Year. The fiscal year of the Corporation shall be fixed by the Board of Directors.

Section 8. Amendments. Except as may be otherwise provided in the DGCL, these Bylaws may be amended or repealed by the Board of Directors, including any Bylaw adopted, amended, or repealed by the Stockholders generally. These Bylaws may be amended or repealed by the Stockholders even though the Bylaws may also be amended or repealed by the Board of Directors.



## MASTER LICENSE AGREEMENT

Dated [        ], 2016

Between

YUM! RESTAURANTS ASIA PTE. LTD.

And

YUM RESTAURANTS CONSULTING (SHANGHAI) COMPANY LIMITED

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## EXHIBITS

Exhibit A	—	Brands and Brand Owners
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Exhibit B	—	Categories and Sources of Brand Standards
Exhibit C	—	Cross Licensed IP
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Exhibit E	—	Guaranty

THIS MASTER LICENSE AGREEMENT (this “Agreement”) is made and entered into this [ ] day of [ ], 2016 (the “Effective Date”) by and between Yum! Restaurants Asia Pte. Ltd., a private limited company organized and existing under the laws of Singapore, having its offices at 99 Bukit Timah Road, #06-00, Singapore 229835 as “master licensee” (for purposes of this Agreement, “Licensor”), and Yum Restaurants Consulting (Shanghai) Company Limited, a company organized under the laws of the People’s Republic of China, having its offices at 16/F Two Grand Gateway, 3 Hongqiao Road, Shanghai, the People’s Republic of China as “master sublicensee” (for purposes of this Agreement, “Licensee”). Licensor and Licensee are sometimes referred to in this Agreement individually as a “Party” and collectively as the “Parties”.

## RECITALS

A. Prior to the Effective Date, the business division of Yum! Brands, Inc. (“Yum”), known as Yum! Restaurants China (“YumChina”), has been primarily responsible for the conduct of the Brand Restaurant Businesses within the People’s Republic of China (the “PRC”), and YumChina, by virtue of its status as a business division of Yum and the various International Franchise Agreements entered into from time to time, has been entitled to use certain trademarks and other IP of Yum and its Subsidiaries in connection with such business activities.

B. Prior to or on the Effective Date, the businesses and assets of, and the Subsidiaries of Yum included in, YumChina will be contributed, assigned, transferred, conveyed and delivered to Yum China Holdings, Inc., a Delaware corporation (“SpinCo”) and on or about the Effective Date, Yum will distribute to its stockholders the shares of SpinCo owned by Yum, making SpinCo a separate public company, independent from Yum.

C. In connection with such contribution, assignment, transfer, conveyance, delivery and distribution, the Parties desire to enter into a license of and to certain trademarks and other IP of Yum and its remaining Subsidiaries, as further described in this Agreement, in order for SpinCo and its Subsidiaries to continue the operation of the Brand Restaurant Businesses in the Territory.

D. Licensor is a wholly-owned indirect Subsidiary of Yum and has the right to license the trademarks and other IP of Yum and its Subsidiaries necessary for SpinCo and its Subsidiaries to continue to operate the Brand Restaurant Businesses in the Territory; Licensee is a wholly-owned indirect Subsidiary of SpinCo and the entity through which SpinCo intends to continue to operate the Brand Restaurant Businesses in the Territory from and after the Effective Date.

E. SpinCo shall guarantee the obligations of Licensee under this Agreement by executing the form of Guaranty set forth in Exhibit E.

F. The Parties desire that the scope of the license granted pursuant to this Agreement will include trademarks and other IP of Yum and its Subsidiaries used by YumChina in the conduct of the Brand Restaurant Businesses prior to the Effective Date, and will also include, as expressly set out in this Agreement, certain additional trademarks and other IP of Yum and its Subsidiaries that may come into existence after the Effective Date and during the Term.

In consideration of the foregoing and the mutual covenants and consideration set forth herein, the receipt and sufficiency of which are hereby acknowledged, Licensor and Licensee agree as follows:

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1. **DEFINED TERMS** As used in this Agreement, the following terms have the meanings set forth below. Additional terms used in this Agreement are defined as they appear in the body of this Agreement and are referenced in the chart at the end of this Section.

“Additional Brands” means any brand, other than the Brands, that Licensor may, in the future, develop, own or control and for which there exists a branded Restaurant System.

“Affiliate” means, with respect to any named person or entity, any other person or entity controlling, controlled by, or under common control with the named person or entity. As used in this Agreement, unless expressly noted otherwise, each applicable Affiliate of Licensor after giving effect to the separation of YumChina from Yum shall be deemed as included in the definition of Licensor for each provision where Licensor is granting rights pursuant to the terms and conditions hereof or where Licensor is acknowledged or agreed to be the owner of IP.

“Annual Strategic Plan” means Licensee’s annual plan for the Brands in the Territory during the upcoming calendar year. Topics for the Annual Strategic Plan should include: (i) material changes to existing Brand Standards or Brand Products; (ii) an overview of proposed advertising and marketing programs for each Brand; (iii) development plans for new Restaurants; (iv) an overview of third party sublicensing for the Brands; (v) any recommendations or proposals from Licensee regarding New Business Opportunities and/or Additional Brands, subject to Section 2.4 (and in each case, the terms upon which it may, in Licensor’s sole discretion, be licensed to Licensee); and (vi) Licensee’s progress with respect to the Taco Bell Brand Development Initiative..

“Anti-Terrorism Laws” means Executive Order 13224 issued by the President of the U.S., the Terrorism Sanctions Regulations (Title 31, Part 595 of the U.S. Code of Federal Regulations), the Foreign Terrorist Organizations Sanctions Regulations (Title 31, Part 597 of the U.S. Code of Federal Regulations), the Cuban Assets Control Regulations (Title 31, Part 515 of the U.S. Code of Federal Regulations), the USA PATRIOT Act, and all other present and future laws, policies, lists and any other requirements of any Governmental Authority (including the United States Department of Treasury Office of Foreign Assets Control and any government agency outside the U.S.) addressing or in any way relating to terrorist acts and/or acts of war.

“Benchmark Year” means each calendar year immediately preceding the corresponding Measurement Period. To illustrate, the first Benchmark Year is January 1, 2016 through December 31, 2016 (corresponding to the first Measurement Period of January 1, 2017 through December 31, 2021) and the second Benchmark Year is January 1, 2017 through December 31, 2017 (corresponding to the second Measurement Period of January 1, 2018 through December 31, 2022).

“Brand” means individually each, and “Brands” means collectively all, of the branded Restaurant Systems identified in Exhibit A, and which are primarily known by their respective brand and business names (“Brand Names”) currently known separately as “KFC” (or “Kentucky Fried Chicken”), “Pizza Hut” including its icon, “the Red Roof”, and “Taco Bell” including its icon, “the Bell” (including the Mandarin language equivalents and derivatives thereof).

“Brand Business IP” means the IP, other than the Core Brand IP, used in connection with the conduct of the Brand Restaurant Businesses.

“Brand Owners” means the entities that own the Brands as set forth in Exhibit A.

“Brand Restaurant Businesses” means the full range of business activities performed in the licensing and/or operation of businesses conducted through Restaurants, including all the related

development, promotional, and support activities. “Brand Restaurant Business” means any of the Brand Restaurant Businesses relating to a Brand.

“Brand Standards” means the standards, specifications and requirements for the commercial use of the Brand System IP in the conduct of the Brand Restaurant Businesses and in the development and operation of the Restaurants under the Brands (including Brand Trademark usage, maintenance and registration standards; food safety and other quality assurance processes; governance protocols; and Restaurant design, inspection and maintenance processes) as established by Licensor, all subject to updating and amendment, from time to time, as specified in Section 5.3. Exhibit B includes a list of categories of Brand Standards and the source of each.

“Brand System IP” means the collection of IP of Yum and its Subsidiaries used in connection with the conduct of the Brand Restaurant Businesses, comprised of the Core Brand IP, together with that portion of the Brand Business IP existing as of the Effective Date.

“Business Days” means all days that are not weekends or national holidays under the laws of the country in which the Party obligated to make the referenced payment, give the referenced notice, exercise the referenced right, or perform the referenced obligation resides.

“Change of Control” of Licensee or SpinCo means the occurrence of one or more of the following events:

- (1) Licensee ceases to be a wholly-owned direct or indirect subsidiary of SpinCo;
- (2) any direct or indirect, voluntary or involuntary, sale, lease, assignment, conveyance, gift, pledge, mortgage, encumbrance or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of Licensee or SpinCo, determined together with its Subsidiaries on a consolidated basis, or a material portion of such assets related to any of the Brands, to any person or entity that is a Competitor or to any group of related persons or entities (as the term group is interpreted for purposes of Section 13(d) of the United States Securities Exchange Act of 1934, as amended (a “Group”)) where any member of such Group is a Competitor;
- (3) the consummation of any plan of merger, consolidation, share exchange, tender offer or combination (any such transaction, a “Business Combination”) directly or indirectly involving Licensee or SpinCo and any Competitor;
- (4) any person, entity or Group, alone or together with its Affiliates, is the beneficial owner, directly or indirectly, of capital stock or other securities of SpinCo representing twenty percent (20%) or more of SpinCo’s then outstanding common stock or twenty percent (20%) or more of SpinCo’s then outstanding capital stock or other securities having general voting rights and such person or entity, or any member of such Group, is a Competitor; or
- (5) any person, entity or Group, alone or together with its Affiliates, has the power, directly or indirectly, to direct the business, management, operations or policies of Licensee or SpinCo, whether through the ownership of voting securities, by contract or otherwise, and such person or entity, or any member of such Group, is a Competitor.

“Competing Business” means (a) any business that offers for sale as a principal food product for consumption by consumers any food product (including pizza, pasta, ready-to-eat chicken and Mexican-style food) that is substantially similar to any of the Brand Products and any business that grants franchises, licenses or similar arrangements to others to operate such a business (as used in this definition, a product is a “principal food product” if the sale of such product generates more than twenty percent (20%) of all product revenues of the business either in the Territory or in the world) and (b) the following

businesses: McDonald’s, Domino’s Pizza, Papa John’s Pizza, Chick-fil-A, Dicos, Little Caesars Pizza, Burger King, Chipotle, Subway, Olive Garden Italian Kitchen, and Popeye’s Louisiana Kitchen. Licensor may reasonably update the list of Competing Businesses in (b) to reflect changes in Competing Businesses, but not more than once each calendar year during the Term, and provided, that no update which adds a new Competing Business shall be deemed to prohibit an interest in such Competing Business that pre-dates such update.

“Competitor” means a person or entity that is directly or indirectly Engaged in a Competing Business or is an Affiliate of a person or entity that is directly or indirectly Engaged in a Competing Business. In this context “Engaged” or “Engages” means to engage in, maintain, operate, assist, be occupied or associated with, have any financial or beneficial interest in, or otherwise participate in a specified business or activity, whether as an owner, stockholder, member, partner, lender, director, manager, officer or employee, licensor, advisor or consultant, or otherwise.

“Confidential Information” means trade secrets, know-how, and other proprietary knowledge or confidential information of a Party and its Affiliates, including (i) with respect to Licensor and its Affiliates, the Brand System IP and all confidential knowledge and information concerning the Restaurant Systems operating under the Brands or necessary or useful to the development or operation of Restaurants, including technology, designs, concepts, ideas, information, formulas, recipes, studies, plans, reports, analyses, compilations, strategies, programs, data, methods, techniques or processes regarding each Brand’s services, products, methods of doing business, markets, customer data, profits, sales, or other financial information that derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use, and (ii) with respect to Licensee and its Affiliates, all confidential information related to its operation of the Brand Restaurant Businesses (other than information constituting Confidential Information of Licensor). Confidential Information does not include information which: (i) the non-disclosing Party can demonstrate became known to the Party by proper means before the disclosure thereof by the disclosing Party or its Affiliates, (ii) at or after the time of such disclosure, had become or later becomes a part of the public domain other than in breach of this Agreement or any Sublicense, or (iii) the non-disclosing Party receives through proper publication or communication from an independent third party having the right to disclose the same.

“Core Brand IP” means the following IP of Yum and its Subsidiaries, including, for periods prior to the Effective Date, Subsidiaries of Yum which subsequently become Subsidiaries of SpinCo: (i) the “Brand Trademarks”, which are comprised of the Brand Names, and versions thereof, incorporating all or a

portion of a Brand Name, together with all trademarks, service marks, trade names, domain names, logos, commercial symbols and all other source indicators and other similar rights, whether registered or unregistered, authorized by Licensor now and in the future for use in connection with the conduct of the Brand Restaurant Businesses; (ii) the “Brand Marketing Materials”, which are comprised of all the advertising, marketing, promotional and public relations materials in every medium, used directly or indirectly to promote the Brand Restaurant Businesses; (iii) the “Brand Products”, which are comprised of all products (and associated know-how, including recipes, cooking methods and restaurant equipment modifications or customizations developed or commissioned for the production of products) and services authorized for sale or promotion at Restaurants; and (iv) the “Brand Restaurant Designs”, which are comprised of the prototypical architectural plans, designs, layouts, design concepts, drawings and specifications for Restaurants. Core Brand IP includes Future Core IP.

“Customer Data” means (i) any information or data identifying, describing, concerning or generated by prospective, actual or past customers, website visitors or other social media contacts of any of the Brand Restaurant Businesses operating in the Territory, including all other customer information in any database, regardless of the source thereof, and (ii) any information or data related to any of the foregoing (including customer lists, reports, forms, methodologies, segmentations and statistical data,

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whether individually or in the aggregate). For the purpose of this Agreement, Customer Data shall include only information or data that has been collected, generated, or used by a Brand Restaurant Business. The term “Customer Data” shall not include any customer information or data, including general market or customer insight research, that is generated, collected, or used by the Licensee for purposes other than as described in the preceding sentence, above.

“Future Brand Business IP” means Brand Business IP, other than the Brand System IP, that is developed or acquired by Licensee or any of its Affiliates or any of the Sublicensees after the Effective Date for use in the conduct of the Brand Restaurant Businesses and that is an extension, derivative or new version of existing Brand System IP or is useable in the commercialization of the Core Brand IP.

“Future Core IP” means additional IP of the types described in clauses (i) through (iv) in the definition of Core Brand IP for use in the conduct of the Brand Restaurant Businesses that is modified, developed or acquired after the Effective Date.

“Good Standing” means that Licensee is in full compliance with all of its obligations under Applicable Laws, this Agreement, and each other agreement between Licensee and Licensor or any of its Affiliates (including all payment obligations), that each of Licensee’s Affiliates is in full compliance with all of its obligations under Applicable Laws, each Sublicense and each agreement between such Affiliate and Licensor or any of its Affiliates, and that all such obligations have been satisfied on a timely basis.

“Governmental Authority” means any national, federal, provincial, state, county, municipal or local governmental and quasi-governmental agency, commission or authority, including any taxing authority.

“IP” means all trademarks, service marks, trade dress, look and feel rights, copyrights, database rights, patents, trade secrets, domain names, know-how, show-how and proprietary information and Confidential Information, tangible and intangible, including all legally cognizable versions of any such intellectual property such as derivative works, colorable imitations, extensions, modifications, improvements, derivations, adaptations, localizations, translations, transliterations, or compilations of any kind.

“Lists” means the lists prepared by the U.S. government identifying those persons with whom U.S. parties are prohibited from doing business, including, and as they may change from time to time: (i) the Specially Designated Nationals List (<http://www.treas.gov/offices/enforcement/ofac/sdn/sdnlist.txt>); (ii) Executive Order 13324 (<http://www.treas.gov/offices/enforcement/ofac/programs/terror/terror.pdf>); (iii) Executive Order 13382 (<http://www.state.gov/t/isn/c22080.htm>); and (iv) Executive Order 12938 (<http://www.state.gov/t/isn/c15233.htm>).

“Measurement Period” means each rolling five (5) calendar year period throughout the Term, beginning January 1, 2017. To illustrate, the first Measurement Period is January 1, 2017 through December 31, 2021 and the second Measurement Period is January 1, 2018 through December 31, 2022.

“Prime Rate” shall mean the rate that Bloomberg displays as “Prime Rate by Country United States” at <http://www.bloomberg.com/quote/PRIME:IND> or on a Bloomberg terminal at PRIMBB Index or, in the absence of Bloomberg displaying such rate, such other rate as Licensor may reasonably determine as the equivalent rate.

“Restaurant” means each of the retail restaurant facilities that is primarily identified by a Brand Name and/or uses Brand System IP and that conducts the offer and sale of authorized products and services through dine-in, carry-out, catering, delivery, kiosk, on-line methods of distribution, centralized

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kitchens/commissaries, and such other methods of distribution as the Parties may mutually agree, including the offer of premiums, and all other related promotional activities (but does not include the sale of any products for resale).

“Restaurant System” means the collection of procedures, policies, standards, specifications and other distinguishing elements, created or acquired in connection with the development and operation of a restaurant concept, but expressly excluding any test concept.

“Sublicense” means any agreement between Licensee and any Affiliate or third party (including any development agreement, trademark license contract or franchise agreement), granting such Affiliate or third party the right to operate one or more Restaurants under the applicable Brand in the Territory, including the Existing Sublicenses and the Future Sublicenses. Each Sublicense must be Brand-specific.

“Sublicensee” means any Affiliate of Licensee or any third party that is or becomes a party to an Existing Sublicense or a Future Sublicense.

“Sublicensee Change of Control” means, as to any Sublicensee, the occurrence of one or more of the following events:

(1) any direct or indirect, voluntary or involuntary, sale, lease, assignment, conveyance, gift, pledge, mortgage, encumbrance or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of such Sublicensee, determined together with its Subsidiaries on a consolidated basis, or a material portion of such assets related to any of the Brands, to any person or entity that is a Competitor or to any Group where any member of such Group is a Competitor;

(2) the consummation of any Business Combination directly or indirectly involving such Sublicensee and any Competitor;

(3) any person, entity or Group, alone or together with its Affiliates, is the beneficial owner, directly or indirectly, of capital stock or other securities of such Sublicensee representing twenty percent (20%) or more of such Sublicensee's then outstanding common stock (or other equity ownership interests) or twenty percent (20%) or more of such Sublicensee's then outstanding capital stock or other securities having general voting rights and such person or entity, or any member of such Group, is a Competitor; or

(4) any person, entity or Group, alone or together with its Affiliates, has the power, directly or indirectly, to direct the business, management, operations or policies of such Sublicensee, whether through the ownership of voting securities, by contract or otherwise, and such person or entity, or any member of such Group, is a Competitor.

“Subsidiary” means with respect to any entity, any corporation, limited liability company, joint venture, partnership or other entity, of which such first entity (a) beneficially owns, either directly or indirectly, more than 50% of (i) the total combined voting power of all classes of voting securities, (ii) the total combined equity interests, or (iii) the capital or profit interests, or (b) otherwise has the power to vote, either directly or indirectly, sufficient securities to elect a majority of the board of directors or similar governing body.

“Taco Bell Brand Development Initiative” means the specific development initiative for the Taco Bell Brand in the Territory set forth in Exhibit A-1, as such exhibit may be supplemented over time by agreement of the Parties in connection with the Annual Strategic Consultation, taking into consideration

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new Taco Bell Restaurant development in comparable markets, projected Taco Bell Brand growth, the market environment and demand for the Taco Bell Brand in the Territory, and current Taco Bell performance in the Territory.

“Tax Matters Agreement” means the Tax Matters Agreement to be entered into by and between Yum and SpinCo in connection with the separation of YumChina from Yum and the distribution to Yum's stockholders of the shares of SpinCo owned by Yum.

“Taxes” means all taxes (including value added taxes), levies, imposts, duties, charges or fees, in each case in the nature of a tax and imposed by any Governmental Authority, whether collected by withholding or otherwise, and any interest, additions to tax or penalties applicable thereto.

“Territory” means the PRC, as geographically constituted on the Effective Date, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan.

“Term” means, collectively, the “Initial Term” and any “Renewal Term” as described in Sections 13.1 and 13.2.

“Transfer” means to sell, assign, convey, give away, pledge, mortgage, grant a security interest in or lien against, license, or otherwise transfer or encumber, or any sale, assignment, conveyance, gift, pledge, mortgage, grant of security interest, lien, license, or other transfer or encumbrance.

The following terms are defined in the referenced Section, paragraph, or Recital of this Agreement:

<u>Defined Term</u>		<u>Section</u>
Administered Rules	17.3	
Advertising Assessment	3.2	
Agreement	Preamble	
Annual Strategic Consultation	5.4	
Appeal Procedure	17.3.7	
Applicable Laws	7.1	
Arbitration Request	17.3	
Assigned Payments	6.1.2	
Bank	14.1.6.B	
Clearance Activities	4.3.1	
CPR	17.2.2	
Cross Licensed IP	4.1.1	
Effective Date	Preamble	
Enforcement Activities	4.3.1	
Existing Sublicenses	6.1	
Future Sublicenses	6.2	
Governmental Approvals	6.3.5	
Grace Period	3.4.1	
Gross Revenue	3.1	
Indemnitees	11.1	
Initial Term	13.1	
Late Payment	14.1.6.B	
Letter of Credit	14.1.6.B	
Licensee	Preamble	

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Licensee Releasing Parties	4.1.2.B
Licensor	Preamble
Licensor Purchase Right	15.4.5
Licensor Released Parties	4.1.2.B
New Business Opportunity	2.4
Non-Restated Sublicense	6.1
Original Award	17.3.7
Party(ies)	Preamble
Payment Default	14.1.6.A
Payment Dispute Notice	14.1.6.C
PRC	Recital A
Registration Activities	4.3.1
Renewal Term	13.2
Restated Sublicense	6.1
ROFR Agreement	2.4.1
ROFR Notice	2.4.1
SGM Breach	2.1.3.A
SGM Calculation Statement	2.1.3.A
SGM Report	2.1.3.A
Sales Growth Metric	2.1.3
Secured Amount	14.1.6.B
SpinCo	Recital B
Transaction Tax	3.5.3
Underpayment	14.1.6.B
Yum	Recital A
YumChina	Recital A

## 2. GRANT OF LICENSE AND UNDERTAKING TO DEVELOP

2.1 Grant of IP Licenses. Licensor hereby grants Licensee the exclusive right and license, and Licensee hereby assumes the obligation, to use the Brand System IP to operate Brand Restaurant Businesses in the Territory, inclusive of the right to sublicense the Brand System IP needed in order to operate the Restaurants to Sublicensees under Sublicenses for the sole purpose of operating Restaurants in the Territory, provided that, except for Licensee's right to operate a limited number of Restaurants for test purposes in compliance with the terms of the form Sublicense as if Licensee were the Sublicensee and Licensor were the Sublicensor under such Sublicense, (i) Restaurants may be operated only by Sublicensees under Sublicenses; and (ii) only those Affiliates of Licensee that are Sublicensees have the right to use the Brand System IP and then only in compliance with the applicable Sublicense.

2.1.1 The license granted hereunder is separable as to each of the Brands, as identified by each separate Brand Name used to identify each of the Brand Restaurant Businesses, and the license for each Brand and the associated Brand System IP may be separately assigned, modified, renewed, terminated and enforced by Licensor, in all cases subject to the terms herein.

2.1.2 Licensee shall use its commercially reasonable best efforts to increase the revenues of the Brand Restaurant Businesses during the Term.

2.1.3 Without limitation of Section 2.1.2, subject to Sections 2.1.3.A, through 2.1.3.E, Licensee shall cause the average annual Gross Revenue for each Brand Restaurant Business for

each Measurement Period to exceed the Gross Revenue of such Brand Restaurant Business for the applicable Benchmark Year ("Sales Growth Metric").

A. Within sixty (60) days after the beginning of each calendar year during the Term, Licensee shall calculate the average annual Gross Revenue for the relevant Measurement Period and the Gross Revenue for the relevant Benchmark Year for each Brand Restaurant Business and prepare and deliver to Licensor a written statement setting forth in reasonable detail its determination of the average annual Gross Revenue for the relevant Measurement Period and the Gross Revenue for the relevant Benchmark Year with respect to each Brand Restaurant Business (each, an "SGM Calculation Statement"). In the event Licensee's SGM Calculation Statement indicates a Brand Restaurant Business has failed to meet the Sales Growth Metric (an "SGM Breach"), Licensee may include with the SGM Calculation Statement a report setting forth specific factors, if any, beyond its reasonable control as the predominant cause for such SGM Breach (the "SGM Report").

B. Without limitation of Licensor's rights under Section 8.3, Licensor and its representatives shall have the right to inspect Licensee's books and records with respect to each Brand Restaurant Business, upon reasonable prior notice to Licensee and for purposes reasonably related to the verification of the SGM Calculation Statement, the SGM Report, if any, and any additional information relating to the Sales Growth Metric.

C. In the event the SGM Calculation Statement indicates that the Sales Growth Metric has been satisfied and Licensor agrees with the SGM Calculation Statement, Licensor shall provide written notice to Licensee confirming that the Sales Growth Metric has been satisfied for that particular Measurement Period within thirty (30) days after receipt of the SGM Calculation Statement.

D. In the event an SGM Breach has occurred and Licensee has not included an SGM Report with the SGM Calculation Statement, Licensor shall provide written notice to Licensee confirming such SGM Breach within thirty (30) days after receipt of the SGM Calculation Statement. Failure to submit an SGM Report with the SGM Calculation Statement shall be deemed a waiver of Licensee's right to submit an SGM Report for the relevant Measurement Period.

E. In the event an SGM Breach has occurred and Licensee has included an SGM Report with the SGM Calculation Statement, Licensor shall consider the SGM Report in good faith, while also taking into account factors within Licensee's control, such as Licensee's use of free cash and the amount of capital investments for Brand development, judged on both an historical and competitive basis. If Licensor, in its reasonable discretion, determines that the SGM Breach was predominantly caused by factors beyond Licensee's reasonable control, Licensor shall waive the SGM Breach with respect to the relevant Brand Restaurant Business and shall provide written notice to Licensee so indicating within thirty (30) days after receipt of the SGM Calculation Statement. If Licensor, in its reasonable discretion, determines that the SGM Breach was *not* predominantly caused by factors beyond Licensee's reasonable control, Licensor shall provide written notice to Licensee confirming that an SGM Breach has occurred within thirty (30) days after receipt of the SGM Calculation Statement.

In the event of two (2) consecutive SGM Breaches for a Brand Restaurant Business, Licensor shall be entitled to exercise its rights under Section 15.4.4.

2.2 **Territorial Protections.** During the Term and provided that Licensee and its Affiliates remain in Good Standing (including in compliance with Sections 2.1.2 and 2.1.3), Licensor shall not establish or operate, or grant any other person or entity the right to establish or operate, a Brand Restaurant Business in the Territory or any rights to use the Brand System IP in Restaurants in the Territory.

2.3 **Licensor's Reserved Rights.** Licensee acknowledges and agrees that this Agreement grants Licensee only the right to operate the Brand Restaurant Businesses in the Territory during the Term. Licensor and its Affiliates have and retain all rights not granted to Licensee under this Agreement and may, without notice to Licensee: (a) establish and operate, or grant any person or entity the right to establish and operate, Brand Restaurant Businesses, and use the Brand System IP, outside the Territory or after the Term, and (b) engage in any business in the Territory provided the conduct of the business is not in conflict with the provisions of Section 2.2 and Section 2.4.

2.4 **Licensee's Rights of First Refusal.** Notwithstanding Section 2.3, if during the Term, (i) Licensor proposes to engage, directly or indirectly, in any business in the Territory unrelated to the Brand Restaurant Businesses but utilizing all or any part of the Core Brand IP (a "**New Business Opportunity**"), or (ii) Licensor develops or acquires an Additional Brand, then Licensor shall offer Licensee a right of first refusal in accordance with this Section 2.4.

2.4.1 Within a reasonable period of time following the occurrence of an event described in Section 2.4.(i) or (ii) (regardless of whether Licensor proposes to act on a unilateral voluntary basis or in response to an approach or offer from a third party) and subject to the conditions in Section 2.4.2, Licensor shall notify Licensee in writing of the New Business Opportunity or the Additional Brand (the "**ROFR Notice**"). The ROFR Notice will offer Licensee the first opportunity, on an exclusive basis, to negotiate rights to the New Business Opportunity or the Additional Brand in the Territory. Licensee shall accept or reject the offer to negotiate in writing within thirty (30) days following the date of the ROFR Notice. Licensee's failure to accept or reject the offer in writing within the stated time period shall be deemed to be a rejection of the offer. If Licensee accepts the offer to negotiate rights to the New Business Opportunity or the Additional Brand in the Territory, Licensor and Licensee will negotiate the applicable business terms on an exclusive basis for a period of ninety (90) days following the date of Licensee's written acceptance notice, any such terms to be evidenced by a separate agreement between the Parties or their designees (a "**ROFR Agreement**"). If the Parties have not entered into a ROFR Agreement for the New Business Opportunity or Additional Brand within the ninety (90) day exclusivity period, then, unless the Parties mutually agree in writing to extend the exclusive negotiation period before the expiration of such exclusivity period, Licensee's rights with respect to the New Business Opportunity or Additional Brand in the Territory shall terminate and Licensor shall have the right directly, or indirectly through its Affiliates or third parties, to operate the New Business Opportunity or Additional Brand in the Territory, without any further obligation to Licensee.

2.4.2 Licensee's right of first refusal shall be applicable: (i) only during such time that Licensee and its Affiliates are in Good Standing; (ii) on terms and conditions no less favorable to Licensee than those then offered by Licensor to other third parties, excluding, however (but, nonetheless, fully disclosing to Licensee on a timely basis for its overall appraisal) any one time "development incentives," such as for market entry, new units, test concepts or other forms of growth initiatives which may be offered, from time to time, for limited periods less than the full term of the applicable franchise or license grant; and (iii) with respect to any Additional Brand, only after the business of the Additional Brand is deemed by Licensor, using its reasonable

judgment, to be tested and fully operational. In the event Licensee believes Licensor has failed to provide the ROFR Notice in a timely manner, Licensee's sole remedy shall be to provide written notice to Licensor of such alleged failure. For the convenience of the Parties, the Parties will endeavor to discuss any applicable right of first refusal primarily during the Annual Strategic Consultation.

### 3. **FEES, PAYMENTS AND REQUIRED EXPENDITURES**

3.1 **Royalty.** In consideration for the license granted under Section 2.1, Licensee shall pay to Licensor a continuing royalty fee in an amount equal to three percent (3%) of the Gross Revenue of any kind derived from the operation of the Restaurants in the Territory. For purposes of this Agreement, the term "**Gross Revenue**" shall mean the total of all cash or other payments (including the fair value of an exchange and all payments by check, credit, or charge account, regardless of whether the checks, credits, or charge accounts are ultimately paid) paid or payable at the Restaurant level for the sale or use of any products, goods, or services that are sold at or from any Restaurant in the Territory, excluding value added taxes and governmental surcharges imposed with respect to such sales by Governmental Authorities, and then only if the amount of such value added taxes or governmental surcharges is taken into account in the selling price and is actually paid to the appropriate Governmental Authority (for this purpose, treating value added taxes validly offset against input credits as actually paid to the appropriate Governmental Authority). Royalty fee payments are due on the fifteenth (15th) day of the month with respect to Gross Revenue during the preceding month and, unless otherwise agreed by Licensor, are payable by Licensee to Licensor regardless of collection or non-collection by Licensee from the Sublicensees.

3.2 Required Advertising Expenditures. Annually, during the Term, Licensee shall collect and spend all Advertising Assessments to market, advertise and promote each of the Brands in the Territory in accordance with the Advertising and Marketing Standards set out in the Brand Standards; provided, that up to one percent (1%) of the Gross Revenue may be spent for Restaurant asset upgrades, menu board upgrades, directional signage, premiums, and limited-time offer discount promotion subsidies lasting for twelve (12) weeks or less. Licensee may allocate the Advertising Assessment between national and local store marketing and advertising initiatives and activities in its reasonable discretion. For purposes of this Agreement, "Advertising Assessment" means a minimum advertising fee or contribution under each Sublicense in an amount equal to four percent (4%) of Gross Revenue (including the one percent (1%) of Gross Revenue that may be spent for Restaurant asset upgrades, menu board upgrades, directional signage, premiums, and limited-time offer discount promotion subsidies lasting for twelve (12) weeks or less). The Parties acknowledge and agree that the nature of advertising is evolving and will continue to evolve during the Term. Therefore, upon request by either Party, the other Party will consider in good faith prospective adjustments to the Advertising Assessment, taking into consideration Brand sales, competitor marketing spend rates and trends, and marketing effectiveness (e.g., the availability of other channels or platforms of marketing promotion, such as social media and digital advertising, that may provide for reduced cost and equal or greater consumer reach and conversion) and the resulting impact on sales growth.

3.3 Other Payments. In addition to the royalty fees described in Section 3.1, Licensee shall pay to Licensor and to Licensor's Affiliates and to all third party suppliers promptly when due all other fees, charges and reimbursable amounts payable under this Agreement or other agreements between Licensee and Licensor, Licensor's Affiliates, or such third party suppliers. Such payments shall be made at such times and in such manner as may be specified in this Agreement or such other agreements and, in the absence of any specified time and manner of payment, as invoiced.

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3.4 Payment Terms; Currency. All payments made by Licensee to Licensor under this Agreement shall be sent by electronic wire transfer of immediately available funds to the account designated by Licensor in writing from time to time.

3.4.1 Any payment not actually received within five (5) days after the date on which such payment was due ("Grace Period") shall accrue interest at a rate per annum equal to the Prime Rate plus three percent (3%) or the maximum rate permitted by Applicable Laws, whichever is less, from the end of the Grace Period until paid. Such interest charges are in addition to any other remedies available to Licensor. Additionally, during the first year of the Term, the Grace Period shall be extended to ten (10) days.

3.4.2 Licensee shall not be entitled to withhold payments due to Licensor or its Affiliates on grounds of alleged nonperformance by Licensor or its Affiliates, nor shall Licensee be entitled to set off any amounts that may be owed by Licensor or any of its Affiliates to Licensee or any of its Affiliates against amounts owed by Licensee or any of its Affiliates to Licensor or any of its Affiliates under this Agreement. Notwithstanding any designation Licensee might make, Licensor has sole discretion to apply any of Licensee's payments to any of Licensee's past due indebtedness to Licensor or its Affiliates. Licensor has the right to set off any amounts Licensee owes to Licensor or any of Licensor's Affiliates against any amounts Licensor or any of its Affiliates may owe to Licensee or any of Licensee's Affiliates.

3.4.3 All amounts payable to Licensor under this Agreement shall be paid in Chinese Yuan Renminbi (RMB).

3.4.4 If any Governmental Authority with jurisdiction over any of the Brand Restaurant Businesses or the Parties imposes restrictions on the transfer of funds or currencies to places outside the Territory and such restrictions result in Licensor not receiving payments in accordance with this Agreement in a timely fashion, Licensee shall cooperate with Licensor and use commercially reasonable efforts to effect such payments in a timely fashion by the transfer of funds in alternate currencies as Licensor may designate and/or the funding of such payments from sources outside the Territory, to the extent legally permissible. If, after thirty (30) days, such efforts fail to result in full payment to Licensor, then Licensor shall have the right at any time thereafter to the extent legally permissible to direct the deposit of any or all payments (including accumulated amounts) required hereunder into such accounts in the Territory as Licensor may designate. Nothing herein shall relieve Licensee from the obligation to pay to Licensor the amounts due hereunder.

3.5 Taxes. Licensee shall promptly pay when due all Taxes levied or assessed against Licensee by any Governmental Authority.

3.5.1 Any and all payments by Licensee to Licensor pursuant to this Agreement shall be made without deduction or withholding for any Taxes, except as required by Applicable Laws. If Applicable Laws require Taxes to be withheld or deducted from any payment to Licensor pursuant to this Agreement, Licensee shall withhold or deduct and pay to the applicable Governmental Authority the amount required to be withheld or deducted and shall promptly deliver to Licensor, at least annually or as otherwise reasonably requested by Licensor, receipts and tax forms issued by the applicable Governmental Authority showing that all Taxes were properly withheld or deducted and remitted in compliance with Applicable Laws. Without limiting the foregoing, Licensee shall cooperate with Licensor in any manner Licensor reasonably requires to facilitate Licensor in its efforts to obtain applicable tax credits based on such

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withholdings or deductions, or to obtain any reduction in the amount of such withholding or deduction.

3.5.2 Except as otherwise provided in the Tax Matters Agreement, in the event of any bona fide dispute between Licensee or any of its Affiliates and any Governmental Authority as to liability for Taxes assessed, Licensee or such Affiliate may contest the validity or the amount of the Tax in accordance with procedures of the Governmental Authority or Applicable Laws; provided, however, that, to the extent within the control of Licensee, in no event shall Licensee or such Affiliate permit a tax sale or seizure by levy of execution or similar writ or warrant, or attachment by a creditor, to occur against the premises of any Restaurant, any improvements thereon, or any assets of Licensee or such Affiliate that are part of the Brand Restaurant Businesses or contain the Brand Trademarks.

3.5.3 Licensee bears sole and exclusive responsibility for the reporting, withholding and payment of all Taxes imposed upon it by any jurisdiction, including the responsibility to report to the applicable Governmental Authorities any payment made to Licensor to the extent required by Applicable Laws. The Parties acknowledge that Licensee may be responsible now or in the future to collect and remit sales tax, use tax, excise tax, withholding income tax, value added tax, franchise fee tax, governmental surcharges, stamp tax or consumer tax ("Transaction Tax") with respect to



payments made by Licensee to Licensor pursuant to Section 3.1. Any such Transaction Taxes shall be borne by Licensor and such amounts shall not be added to any amounts payable by Licensee pursuant to Section 3.1.

3.5.4 If Licensee receives any refund or credit in respect of any Taxes withheld or deducted from, or any Transaction Tax paid by Licensor in respect of, any payment made to Licensor pursuant to this Agreement, Licensee shall promptly pay to Licensor an amount equal to the amount of such refund or credit, net of all out-of-pocket expenses (including Taxes) of Licensee with respect to the receipt of such refund or credit. For purposes of this Section 3.5.4, Licensee's ordinary course application of a value added tax credit against value added tax withheld from any payment made to Licensor pursuant to this Agreement shall not be treated as a credit received by Licensee, provided, however, that any credit against value added tax obtained by Licensee as a result of a redetermination of the amount of value added tax due with respect to any such payment to Licensor shall be treated as a credit received by Licensee and payable to Licensor pursuant to this Section 3.5.4.

#### 4. **OWNERSHIP, USE, PROTECTION AND SUBSTITUTION OF IP**

4.1 **Ownership.** Licensee represents and warrants to Licensor that, prior to the Effective Date, Licensee and YumChina have provided to Licensor and Yum all agreements and other documents relating to any and all Brand System IP licensed, used, or owned (or purported to be owned) by YumChina, SpinCo or any of their Affiliates, including Licensee. Licensor hereby represents that the scope of the license for the Brand System IP is expressly designed to include the IP of Yum and its Subsidiaries used to operate the Brand Restaurant Businesses in the Territory prior to the Effective Date, primarily under the direct management of and supervision of YumChina. To the extent any ambiguity exists in this Agreement concerning the scope of the license grant to the Brand System IP, this representation shall assist the Parties in determining the proper interpretation. As between Licensor and its Affiliates (as determined upon or after consummation of the separation of YumChina from Yum), on the one hand, and Licensee and its Affiliates and the Sublicensees (as determined upon or after consummation of the separation of YumChina from Yum), on the other hand, Licensee agrees (for itself and on behalf of its Affiliates and the Sublicensees) that the Brand System IP is, and shall remain, the sole property of Licensor. Licensor and Licensee (for itself and on behalf of its Affiliates and the

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Sublicensees) further agree that any modification, development or acquisition of the IP of Yum and its Subsidiaries occurring prior to the Effective Date by or for Licensee or any of its Affiliates or any of the Sublicensees, whether by itself or in conjunction with Licensor or third parties, shall be deemed to have been commissioned by and for the benefit of Licensor, and Licensee has done or shall do at Licensor's request, all acts (including execution and delivery to Licensor of any and all such documentation) required in order to evidence, secure or perfect the vesting in Licensor of all rights, title and interest in and to such IP or any other Brand System IP or to otherwise give full effect to this Section 4.1 and shall cause its Affiliates and the Sublicensees and, to the extent commercially reasonable, its contractors and other third parties, to do so. The Parties hereby acknowledge and agree to the existence and sufficiency of consideration for the foregoing commissioning arrangements; such consideration including the right of YumChina to use certain IP of Yum and its Subsidiaries in connection with YumChina's business activities prior to the Effective Date. Nothing contained in this Agreement is, or shall be construed as, an assignment of any of the Brand System IP to Licensee or any other person or entity or as a grant to Licensee or any other person or entity of any right, title, or interest in or to any of the Brand System IP except for the express license granted to Licensee to use the Brand System IP under Section 2.1. Except for such license, Licensee acquires no right, title or interest in any of the Brand System IP or any associated past, present or future goodwill, all of which will inure solely to the benefit of Licensor and the Brand Owners.

4.1.1 Licensee represents and warrants to Licensor that, prior to the Effective Date, YumChina has not licensed or authorized the use of any of the Brand System IP by any person or entity other than Sublicensees under the Existing Sublicenses, and has only issued cross licensing rights for some of the Brand System IP to certain businesses of YumChina as set forth in Exhibit C (the "Cross Licensed IP"). During the Term, Licensee shall not provide any further cross licensing rights and shall cause the cross licensing rights to the current Cross Licensed IP to terminate within three (3) years after the Effective Date at Licensee's sole cost and expense and shall provide Licensor evidence of such termination(s) satisfactory to Licensor.

4.1.2 Other than as set forth in this Section 4.1, Licensee acknowledges and agrees that, to the extent permitted by Applicable Laws, the Brand System IP is being licensed "as-is" and without any further representations or warranties by Licensor or any of its Affiliates, including regarding the status, strength, validity, or enforceability of any of the Brand System IP in the Territory (including the status, strength, validity, or enforceability of any registrations or applications to register the Brand Trademarks or any other Brand System IP in the Territory). Licensee further acknowledges and agrees that:

A. Licensee shall not make any demand, assert any claim, or file any action against Licensor or any of its Affiliates (and that neither Licensor nor any of its Affiliates has any obligation to indemnify Licensee or any of its Affiliates or the Sublicensees for liability or damages) arising out of or in connection with the use by Licensee or any Sublicensee of the Brand System IP in the Territory, including demands, claims or actions (or liability or damages) based on the actual or threatened cancellations of Brand System IP registrations or refusals to register any of the Brand System IP by any Governmental Authority and any third party demands or claims related to the Brand System IP.

B. As of the Effective Date, Licensee, for itself and on behalf of all other persons and entities acting on its behalf or claiming under it (collectively, the "Licensee Releasing Parties"), hereby irrevocably and unconditionally releases, acquits and forever discharges Licensor, its Affiliates and their respective owners, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, parents and Subsidiaries, past and present, and all persons acting by, through, under or in concert with

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them or any of them (collectively "Licensor Released Parties"), from all actions, causes of action, suits, debts, liens, obligations, promises, liabilities, claims, rights, demands, damages, controversies, losses, costs, and expenses (including attorneys' fees and costs actually incurred), known or unknown, suspected or unsuspected, fixed or contingent, which they now have, own, hold, claim to have, claim to own, or claim to hold, or at any time heretofore had, owned, held, claimed to have, claimed to own, or claimed to hold against each or any of the Licensor Released Parties arising out of or related to the Brand System IP or any use thereof.

C. Without limiting the foregoing acknowledgements, agreements and release, Licensee agrees that the maximum possible remedy to which Licensee and its Affiliates and the Sublicensees may be entitled as a result of (i) any loss or impairment of the Brand System IP (including the Brand Trademarks) in the Territory or (ii) any breach by Licensor of any express or implied warranties related to the Brand System IP, including any technology/technical secrets, patents, or software, is for Licensor to authorize a replacement for the affected Brand System IP, and Licensee expressly acknowledges and agrees that Licensee's obligations under this Agreement, including its obligation to pay the royalty fees and other amounts due under this Agreement, shall not be relieved, limited, or otherwise modified as a result of any loss or change in the status or value of any of the Brand System IP in the Territory, including losses or changes attributable to actions by Governmental Authorities or third party claims. Licensor also has the right to replace any Brand System IP (including any Brand Trademark) that, in Licensor's belief, is or may be subject to a claim or determination that Licensor has no right to license such Brand System IP under this Agreement, or that such Brand System IP is or may be cancelled or its use by Licensee prohibited in the Territory, or that such Brand System IP is or may be subject to any ownership or rights challenge or any infringement allegation or action. Without limiting or altering the provisions set forth above, Licensee may request a review, during the Annual Strategic Consultation, of recent, material adverse changes in the Brand System IP where Licensee believes other types of remedies are more suitable, which suggestions Licensor shall consider and decide, in its sole discretion.

4.1.3 This Agreement expressly contemplates that Licensee (or any of its Affiliates and any of the Sublicensees) may, subsequent to the Effective Date and during the Term and in accordance with the terms hereof and the Brand Standards, develop or acquire Future Core IP and Future Brand Business IP.

A. Licensor shall solely own all Future Core IP (and, for the avoidance of doubt, Licensor and Licensee (for itself and on behalf of its Affiliates and the Sublicensees) agree that any modification, development or acquisition of Future Core IP by or for Licensee or any of its Affiliates or any of the Sublicensees, whether by itself or in conjunction with Licensor or third parties, shall be deemed to be commissioned by and for the benefit of Licensor, subject, however, to the right of use by Licensee during the Term for the purposes and in the manner provided in this Agreement). Licensee shall inform Licensor in writing of any such modification, development or acquisition of Future Core IP. Licensee shall assign, transfer, and convey, and hereby assigns, transfers, and conveys, to Licensor all rights, title, and interest of Licensee in or to any Future Core IP modified, developed or acquired by or for Licensee and otherwise waives and/or releases all rights of restraint and moral rights therein and thereto, without compensation, recognizing that any Future Core IP modified, developed or acquired by or for Licensee shall simultaneously and by operation of law be included in the Brand System IP licensed

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hereunder. Licensee shall also cause its Affiliates and the Sublicensees and, to the extent commercially reasonable and consistent with the Brand Standards, cause its contractors and other third parties, to assign, transfer, and convey all such rights, title, and interest in and to Future Core IP that may be modified, developed or acquired by or for those parties to Licensor (or its designated Affiliate). Licensee shall do all acts and execute and deliver to Licensor any and all such documentation required in order to evidence, secure or perfect the vesting in Licensor of all rights, title and interest in and to the Future Core IP or to otherwise give full effect to this Section 4.1.3 and shall cause its Affiliates and the Sublicensees and, to the extent commercially reasonable, its contractors and other third parties, to do so. If and to the extent any such assignment is determined to be invalid or unenforceable, Licensee hereby grants (and shall cause its Affiliates and the Sublicensees and, to the extent commercially reasonable and consistent with the Brand Standards, its contractors and other third parties to grant) to Licensor (or its designated Affiliate) an exclusive, worldwide, transferable, assignable, sublicensable, irrevocable, perpetual, non-terminable, royalty-free license in and to such Future Core IP. Neither Licensee nor any of its Affiliates, employees, contractors, or Sublicensees or any other third parties will be entitled to, or have any right or claim against Licensor or the Brand Owners or their respective Affiliates for, any royalty, fee, charge, compensation, or other payment or value of any kind for or in connection with any of the foregoing assignments, transfers, conveyances, or licenses or Licensor's or any of its Affiliates' use, utilization, commercialization, license, transfer, or exercise of any right in any such Future Core IP.

B. Licensee shall solely own all Future Brand Business IP; provided, that in consideration of the rights granted herein and in order to maintain and enhance Brand integrity and avoid Brand divergence, Licensee hereby grants (and shall cause its Affiliates and the Sublicensees and, to the extent commercially reasonable and consistent with the Brand Standards, its contractors and other third parties to grant) to Licensor a non-exclusive, worldwide (other than in the Territory during the Term), transferable, assignable, irrevocable, perpetual, non-terminable, royalty-free right and license to use any such Future Brand Business IP and to sublicense the use of any such Future Brand Business IP to Licensor's Affiliates and their licensees and franchisees operating under the Brands. Upon Licensor's request, Licensee shall reasonably cooperate with Licensor to effectuate this right and license (including executing all documents reasonably required by Licensor).

C. The Parties hereby acknowledge and agree to the existence and sufficiency of consideration for the foregoing commissioning arrangements, assignment, transfer, and conveyance, or license, to Licensor; such consideration including the license to Licensee of the Core Brand IP which may come into existence after the Effective Date and during the Term.

4.1.4 The parties acknowledge that Customer Data is derived, developed, accumulated and used directly through and in connection with Licensee's use of the Brand System IP, and as such, represents an essential element of the goodwill associated with the Brand System IP and the Brand Trademarks necessary to the operation of the Brand Restaurant Businesses. Accordingly, in consideration of the foregoing and subject to the limitations in this Section, Licensee (for itself and on behalf of its Affiliates) hereby grants Licensor and each of its Affiliates an unencumbered right to access and use, and a perpetual and sublicensable license in and to, the Customer Data. Licensor's right to access, use and sublicense the Customer Data may only be exercised: (i) in accordance with Applicable Laws; (ii) following the expiration, non-renewal, termination, or other winding-down of this Agreement or any Brand license granted hereunder; and (iii) in

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connection with the continued operation of the Brand (or Brands) from which the Customer Data was obtained and compiled; provided that in the event of any material breach of this Agreement by Licensee, Licensor and its Affiliates may have the right of access, only, to the Customer Data upon written notice to Licensee, whereupon, Licensee shall provide Licensor with access to the Customer Data of the Brand (or Brands) concerned

and/or derivatives thereof, according to such protocols as may be reasonably established for such purpose and set forth in Brand Standards. For the avoidance of doubt, Licensor may not use any Customer Data in connection with any restaurant system other than the Brand (or Brands) concerned.

4.2 Use. Licensee shall, and shall cause all of the Sublicensees to, use the Brand System IP only as authorized by this Agreement and in accordance with the Brand Standards. Without limitation of the foregoing, Licensee agrees that, during and after the Term, Licensee shall not, and shall cause all the Sublicensees not to:

4.2.1 Engage, directly or indirectly, in any conduct that would dilute, infringe upon, harm, prejudice, bring into disrepute, or interfere with the validity, ownership or enforceability of the rights of Licensor or any of its Affiliates in any of the Brand System IP or the associated goodwill, including any use of the Brand Trademarks in a derogatory, negative, or other inappropriate manner;

4.2.2 Contest the rights of Licensor or any of its Affiliates in any of the Brand System IP or the associated goodwill;

4.2.3 Take, or omit to take, any action that in any way would reflect adversely on, or injure or threaten to injure or diminish the name, image or reputation of, Licensor or any of its Affiliates, the Brand Names, the Brand Trademarks or other Brand System IP, including any action that may invalidate or jeopardize registration of any of the Brand Trademarks or other Brand System IP; or

4.2.4 Take or continue any action which Licensee (or any of the Sublicensees) knows or has reason to know would result in or cause a boycott of any Brand, Brand Product, Licensor, any of the Brand Trademarks, or any product or service bearing or associated with the Brand Trademarks. Notwithstanding the foregoing sentence, in the event any action taken or continued by Licensee or any of the Sublicensees results, or threatens to result, in any such injury, Licensee shall promptly take, and cause all of the Sublicensees to take, all steps necessary to avoid or stop the occurrence of such injury.

4.3 Trademarks.

4.3.1 Subject to Licensor's rights and obligations set forth in this Section 4.3 and in Section 4.5, Licensee shall, in accordance with the Trademark Maintenance and Registration Standards set out in the Brand Standards and at Licensee's expense, conduct the following activities in the Territory with respect to the Brand Trademarks (including those covered by Future Core IP but excluding any Brand Name): (i) select and clear the Brand Trademarks, providing to Licensor or its designee contemporaneous clearance reports and legal opinions in the English language and advising Licensor or its designee when a cleared Brand Trademark may be submitted for registration (collectively, "Clearance Activities"), and (ii) take any and all reasonable actions to police and defend the Brand Trademarks, including issuing any cease and desist demand, filing and prosecuting any administrative action and/or taking legal action, against any infringer or misappropriator, or reasonably suspected infringer or misappropriator, of any of the Brand Trademarks (collectively, "Enforcement Activities"). Notwithstanding the foregoing,

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Licensor shall, in accordance with the Trademark Maintenance and Registration Standards set out in the Brand Standards and at Licensor's expense, conduct the following activities in the Territory with respect to the Brand Trademarks (including those covered by Future Core IP and including any Brand Trademark containing a Brand Name): (a) review and, after consultation with Licensee, approve or disapprove any Brand Trademark prior to its use, and (b) in the name of Licensor or its designee, apply for, prosecute the application for, register and maintain the registration of, the Brand Trademarks ("Registration Activities"). In addition, Licensor shall, at Licensor's expense: (x) conduct any and all Clearance Activities with respect to a Brand Trademark that is a Brand Name, (y) join any Enforcement Activities by Licensee under this Section 4.3.1 as necessary under Applicable Laws in the Territory to conduct such Enforcement Activities, and (z) have the right to monitor and participate in (and by written notice to Licensee, assume management or control of) any Clearance Activities and Enforcement Activities conducted by Licensee (or a part thereof, as decided by Licensor in its sole discretion). Licensee shall otherwise not engage in any Clearance Activities, Registration Activities or Enforcement Activities, or assist or be involved in any way with another's Clearance Activities, Registration Activities or Enforcement Activities, except if and to the extent expressly requested or approved in advance in writing by Licensor to Licensee. To the extent that any trademark license agreements or registered user agreements indicating the right of Licensee or any Sublicensee to use the Brand Trademarks in the Territory, or any confirmation or documentation related thereto, are required to be registered or recorded with any Governmental Authority, Licensee shall promptly file such documentation as provided or approved by Licensor and be responsible for the associated costs.

4.3.2 Licensee shall provide Licensor written notice, as set out in the Brand Standards, of any Brand Trademarks constituting Future Core IP (including changes in color or font or the translation of any of the Brand Trademarks into the local language). Licensee expressly agrees that it shall not use, and shall not permit the Sublicensees to use, any Brand Trademark within the category of Future Core IP (including any such Brand Trademark that includes a Brand Name) until it is approved by Licensor according to the procedures set out in the Brand Standards. Licensee further agrees that it shall not, and shall cause its Affiliates and Sublicensees not to, modify any Brand Trademark that includes a Brand Name until such modification is approved by Licensor according to the procedures set out in the Brand Standards. Without limitation of the foregoing, Licensee further expressly acknowledges and agrees that Licensor shall have sole discretion whether or not to approve any newly created or modified Brand Trademark that includes a Brand Name.

4.4 Copyrights and Patents. Licensee acknowledges and agrees that, as between Licensee and its Affiliates and the Sublicensees, on the one hand, and Licensor and its Affiliates, on the other hand, Licensor and its Affiliates own all patents, patent applications, copyrights and other intellectual property and industrial property rights in and to all materials including or evidencing any Brand System IP. Licensee shall use, and shall cause the Sublicensees to use, proper copyright, patent, and other proprietary notices in accordance with Applicable Laws in the Territory in connection with all such materials. The provisions in Section 4.3.1 regarding Enforcement Activities shall apply to all such Brand System IP materials, including the copyrights, patent rights, and other intellectual property and industrial property rights contained therein. To the extent it is customary and advisable, to register the copyrights and/or patent rights contained in the Brand System IP materials, Licensee shall have the right, at its expense and upon advance written notice to Licensor or its designee, to conduct Registration Activities for such copyrights and patents, acknowledging its agreement that such Registration Activities shall reflect, and shall not alter, the ownership rights set forth herein.

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4.5 **Protection.** Without limiting Section 4.3.1, Licensee shall (and shall cause its Affiliates and the Sublicensees to) assist Licensor in the protection and defense of the Brand Trademarks and other Brand System IP, including preventing the use of the Brand Trademarks or other Brand System IP by any unauthorized persons, that in the sole judgment of Licensor may be necessary or desirable under any Applicable Law. Licensee shall promptly notify Licensor of any use or infringement of the Brand Trademarks or other Brand System IP of which Licensee or any of its Affiliates or the Sublicensees become aware or any challenge or claim arising out of the use of any Brand Trademark or other Brand System IP by Licensee or the Sublicensees. Except to the extent Licensee will conduct any Enforcement Activities in accordance with Section 4.3.1, Licensor shall control all Enforcement Activities and any litigation and other proceeding related to any challenge to Licensee's or any Sublicensee's use of the Brand Trademarks or other Brand System IP (specifically including all Enforcement Activities with respect to any Brand Name), or the use or ownership of any of the Brand Trademarks or other Brand System IP by Licensor or any of its Affiliates. Except to the extent Licensee controls any Enforcement Activities under Section 4.3.1, Licensor shall have the right to determine whether and what Enforcement Activities will be instituted, prosecuted or settled, the terms of settlement and whether any other action will be taken and may prosecute any claims or suits in its own name or join Licensee as a party thereto. Licensee shall be responsible for the fees and expenses of any Enforcement Activities by Licensee under Section 4.3.1. Licensor shall be responsible for the fees and expenses with any Enforcement Activities under this Section 4.5, unless the challenge or claim results from misuse of the Brand Trademarks or other Brand System IP by Licensee or any Sublicensee in violation of this Agreement or any of the Sublicenses, in which case Licensee shall reimburse Licensor and the Brand Owners for their respective fees and expenses (including legal fees and expenses). Upon Licensor's request, Licensee shall, and shall cause all of the Sublicensees to, promptly execute any summary or shortened agreement reflecting the licenses and rights under this Agreement, any confirmation of such licenses or rights, and any other document, and provide any other reasonable assistance to implement the provisions of this Agreement or as deemed necessary for compliance with Applicable Laws in the Territory, and to assist Licensor with any Registration Activities and any Enforcement Activities, all without compensation and without any right to any portion of amounts collected by Licensor in connection therewith, save and except that, in the event Licensor collects a monetary award, Licensor shall reimburse Licensee's costs and expenses incurred in connection with such assistance, pro rata with Licensor's costs and expenses, from such award. Licensee and its Affiliates and the Sublicensees shall not have any rights against Licensor or any of its Affiliates or for damages or other remedy by reason of the failure to prosecute any alleged infringements or imitations by others of any of the Brand Trademarks or for allegedly unauthorized third party use of any of the Brand System IP.

4.6 **Substitution.** Licensor reserves the right to add to, change or modify the Brand System IP, including the right to substitute different Brand Trademarks at any time. Upon receipt of written notice from Licensor to add, change, modify or substitute any of the Brand System IP (including the Brand Trademarks), Licensee shall implement such changes, using its commercially reasonable best efforts, and shall cause the Sublicensees to do the same. Licensee shall also have the same opportunity to discuss such changes or modifications with Licensor, as are set forth in the final sentence of Section 4.1.2.C.

## 5. **QUALITY ASSURANCE AND BRAND STANDARDS**

5.1 **Quality and Brand Standards.** Licensee acknowledges the importance to the reputation and goodwill of the Brands of maintaining high standards of quality in connection with the conduct of the Brand Restaurant Businesses and the associated use of Brand System IP. For that reason, Licensee shall maintain, and shall cause the Sublicensees to maintain: (i) compliance with the Brand Standards, and (ii) a standard of quality that is at least as high as the standard of quality maintained in the Brand Restaurant Businesses up to and upon the Effective Date in the Territory with regard to the goods and services offered and sold under the Brand Trademarks, and in connection with the use of other Brand System IP in

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the Brand Restaurant Businesses. Licensee acknowledges that it is aware of this standard of quality and has experience with maintaining this standard of quality for the Brand Restaurant Businesses prior to, and up to, the Effective Date.

5.2 **Monitoring Compliance with Brand Standards.** From time to time (as further specified in the Brand Standards), Licensor shall have the right, directly or through its designated representatives, to visit, audit and review the Restaurants and the Brand Restaurant Businesses, including with reasonable advance written notice, market offices, shared services centers and logistics centers, as operated by Licensee and the Sublicensees, for compliance with this Agreement and the Brand Standards, including Brand Standards related to IP compliance, books and records, food safety processes and procedures and standards and governance protocols. To facilitate any such visit, audit or review, Licensee shall, and shall cause the Sublicensees to:

5.2.1 Allow Licensor or its representatives, with reasonable advance written notice, to sample representative products and services of the Brand Restaurant Businesses in which the Brand Trademarks and other applicable Brand System IP are utilized;

5.2.2 Permit Licensor or its representatives, with reasonable advance written notice, to visit, audit or review, in addition to Restaurants, any training center, test kitchen, and other facilities of the Brand Restaurant Businesses for purposes of compliance with such of the Brand Standards as may apply thereto;

5.2.3 Obtain permissions, consistent with Licensee's own rights, for Licensor or its representatives to conduct quality control audits or reviews of all vendors and suppliers material to the supply chain supporting the Brand Restaurant Businesses; and

5.2.4 Provide representative samples of the advertising and marketing materials using Brand Trademarks and any of the other Brand System IP in connection with the promotion of the Brand Restaurant Businesses in the prior twenty-four (24) months.

Upon written notice from Licensor, Licensee shall promptly remediate any non-compliance with the Brand Standards, and shall cause the Sublicensees to do the same. Licensee further agrees, in addition to the procedures set out in the Brand Standards, that: (a) if an audit (including a visit or review) results in Licensor's discovery of substantial non-compliance with any of the Brand Standards, Licensor may, without limitation of any other remedy available to it, conduct a re-audit (including a visit or review) within a reasonable time following the initial audit in order to determine whether the deficiencies have been corrected, and Licensee shall reimburse Licensor for all reasonable costs incurred by Licensor in connection with any such re-audit.

5.3 **Adaptation of Brand Standards.** The Parties recognize and acknowledge the need to periodically update the Brand Standards to maintain the quality and contemporary look and feel of Brand Restaurant Businesses. Accordingly, Licensor shall review annually the Brand Standards, taking into account its inspections and the monitoring reports, as described in this Agreement. Following consultation with Licensee, Licensor may publish and implement modifications to the Brand Standards, all of which shall take into account Licensor's use of the Brand System IP and associated Brand Standards in Brand Restaurant Businesses in regions other than the Territory, including the related costs, resources and standards in the industry. Following consultation with Licensee, Licensor may also prescribe an implementation schedule for any newly adopted and published Brand Standards, taking into account costs,

consider in order to adapt the Brand Standards to market conditions in the Territory. Licensor agrees to give good faith consideration to any such request, but Licensor shall have sole discretion whether to approve or disapprove (or approve with modifications) the proposed change. Licensee shall not implement any proposed change to the Brand Standards, and shall cause the Sublicensees not to implement any such change, unless and until Licensor has expressly approved the proposed change in writing. Unless otherwise agreed in writing by the Parties, Licensee and the Sublicensees shall bear the cost of compliance with existing Brand Standards and implementation of and compliance with any updated Brand Standards, which may include from time-to-time Brand Standards governing Restaurant assets, including requirements with respect to structural modifications and/or replacement of Restaurant furnishings, fixtures, and equipment.

5.4 **Annual Strategic Consultation.** Annually, unless otherwise re-scheduled by agreement of the Parties, between September 1 and October 31, representatives of Licensor and Licensee, together with senior management personnel of Yum and SpinCo, shall meet in person to review the Brand Restaurant Businesses (but not other businesses owned or operated by Licensee or its Affiliates unrelated to Licensor and its Affiliates), including: (i) Licensee's Annual Strategic Plan for the upcoming calendar year, (ii) any mutually beneficial opportunities to cross license some or all of each Party's intellectual property not otherwise licensed under this Agreement, and (iii) any other subject that the Parties agree is relevant to their continuing relationship ("**Annual Strategic Consultation**"). Within the preceding parameters, Licensor and Licensee will mutually agree when each Annual Strategic Consultation will be held. Unless otherwise agreed by the Parties, the location of the Annual Strategic Consultations will be at Licensee's headquarters in the Territory. Each Party will be responsible for any travel and living expenses incurred by its personnel attending such meetings. A reasonable period of time (not less than thirty (30) calendar days) prior to each Annual Strategic Consultation, Licensee shall provide a draft of Licensee's Annual Strategic Plan for the upcoming year to Licensor so that the representatives of Licensor may adequately prepare for the meeting. Licensor agrees that all such Annual Strategic Plans are a part of Licensee's Confidential Information and shall be treated as such in accordance with the terms of this Agreement.

## 6. **SUBLICENSES**

6.1 **Assignment or Restatement of Existing Sublicenses.** Prior to the Effective Date, YumChina caused a number of license agreements to be granted to Sublicensees, whether in the form of trademark license agreements, franchise agreements and other similar documents, providing the Sublicensees with the rights to operate Restaurants (or one Restaurant) in the Territory utilizing the Brand System IP (the "**Existing Sublicenses**"). Licensor is a party to some or all of the Existing Sublicenses. Licensee represents and warrants that prior to the Effective Date, (a) Licensee has entered into restated sublicensees, which sublicensees comply with the requirements for Future Sublicenses set forth in Section 6.2 and which shall become effective on the Effective Date ("**Restated Sublicenses**"), with each of its Affiliates that is a party to an Existing Sublicense for periods prior to the Effective Date (it being understood that references to Existing Sublicenses herein include references to Restated Sublicenses unless the context otherwise requires), and (b) Licensee has used its best efforts to enter into a Restated Sublicense with each third party that is a party to an Existing Sublicense for periods prior to the Effective Date. For all Existing Sublicenses that are in effect as of the Effective Date and not represented by a Restated Sublicense (a "**Non-Restated Sublicense**"), Licensor hereby assigns to Licensee all of Licensor's rights (other than as to amounts owing to Licensor for periods prior to the Effective Date), and Licensee hereby assumes all of Licensor's obligations, under the Non-Restated Sublicenses (it being understood that references to Existing Sublicenses herein include references to Non-Restated Sublicenses unless the context otherwise requires). The Parties agree to cooperate (and Licensee shall cause its Affiliates and, to the extent commercially reasonable, all third party Sublicensees to cooperate) in providing any required notice and in executing any documents and taking any other actions that may be necessary or appropriate in connection with such assignment and assumption.

6.1.1 All Existing Sublicenses shall be subject to this Agreement and Licensee shall perform the duties and obligations set forth in this Agreement with respect to the Existing Sublicenses. Following the Effective Date, Licensee shall use its best efforts to enter into a Restated Sublicense with each third party that is a party to a Non-Restated Sublicense.

6.1.2 All royalty fees and other amounts payable to Licensor under the Existing Sublicenses which accrue from and after the Effective Date (the "**Assigned Payments**") shall be the property of Licensee. Any Assigned Payments which come into Licensor's possession shall be delivered promptly to Licensee, and Licensor agrees to forward to Licensee all original documentation supplied by any Sublicensees under the Existing Sublicenses relating to any taxes withheld by them from the Assigned Payments.

6.1.3 From and after the Effective Date, Licensee shall have the responsibility in the Territory for managing, administering, protecting and enforcing, in accordance with this Agreement, all Sublicenses.

6.2 **Grant of Future Sublicenses.** Licensee shall be entitled to grant additional Sublicenses for the operation of Restaurants in the Territory during the Term ("**Future Sublicenses**"); provided, that (i) any Future Sublicense must be evidenced by a written license agreement, franchise agreement or development agreement, the form of which must be approved by Licensor as provided in the last three (3) sentences of this Section 6.2; (ii) no Future Sublicense may reduce or otherwise affect Licensee's obligations under this Agreement; and (iii) each Future Sublicense shall: (a) include representations and agreements to the effect that neither the Sublicensee nor any of its owners are, or will be, associated with a Competing Business during the term of the Sublicense and for a reasonable period of time following the expiration, termination or transfer of the Sublicense or any interest therein; that neither the Sublicensee nor any of its owners are, or will be, in violation of Section 7.1 of this Agreement (applied mutatis mutandis to the Sublicense); and that the Sublicensee and its owners will adhere to confidentiality

Licensor an option (but without any obligation) to acquire and assume (directly or through a designee) Licensee's rights and obligations under the Sublicense upon the expiration or termination of this Agreement or any related interest herein (including any related Brand license granted hereunder), (e) be assignable by Licensee without the Sublicensee's consent, (f) contain provisions requiring that the Sublicensee and the Restaurants adhere to the Brand Standards, (g) include an immediate right of termination by Licensee upon a Sublicensee Change of Control or prohibited Transfer or a violation of any of the representations and agreements described in Section 6.2(iii)(a) and (h) include provisions regarding Licensor's ownership of IP consistent with the provisions of this Agreement. Licensee shall submit to Licensor in advance of its use each form of Future Sublicense (together with a complete and accurate English translation thereof) and Licensor shall have the right, in its sole discretion, to approve, in advance, each such form of Future Sublicense. Licensee shall not enter into any Future Sublicense that differs from such pre-approved form of Future Sublicense. Licensee acknowledges and agrees that no such approval by Licensor shall constitute an assurance, representation or warranty of any kind, express or implied, that such agreements comply with Applicable Laws.

6.3 Licensee's Obligations with Respect to the Sublicenses. Licensee shall:

6.3.1 Recruit, screen and evaluate prospective Sublicensees for compliance with the minimum qualifications for Sublicensees operating under the Brands, as authorized from time to time by Licensor. At Licensor's request, Licensee shall prepare and submit to Licensor, in the form and at the times required by Licensor, a written report regarding each prospective Sublicensee deemed to be qualified by Licensee and shall retain, and upon Licensor's written demand produce for Licensor's inspection, a copy of each Sublicense and all related documents.

6.3.2 Fulfill its obligations under each Sublicense and cause each Sublicensee to operate its Restaurants in compliance with the Sublicense, this Agreement, the Brand Standards and Applicable Laws.

6.3.3 Monitor and enforce prompt and strict compliance by the Sublicensees with all duties and obligations under the Sublicenses. Such enforcement includes (i) delivering prompt written notice of default to any Sublicensee that is in material breach of its Sublicense; (ii) taking all commercially reasonable steps to ensure that the Sublicensee remedies the breach within the applicable cure period (if any); (iii) taking all action necessary to terminate the Sublicense of any Sublicensee that does not remedy the breach; and (iv) initiating and prosecuting (at Licensee's expense) any legal proceedings necessary to achieve full compliance. Licensee's failure to perform in a diligent or timely manner any material obligation owed to its Sublicensees or to take such action as may, in the reasonable judgment of Licensor, be necessary to ensure material compliance with the Sublicenses will constitute a material breach of this Agreement.

6.3.4 In addition to the reporting requirements set forth in the Brand Standards, within fifteen (15) Business Days from the end of each quarter, Licensee shall notify Licensor, in writing, of: (i) the execution of each Sublicense; (ii) the opening of each Restaurant under a Sublicense; and (iii) any Sublicensee or Restaurant that ceases to do business for any reason. Licensee also shall promptly provide Licensor such additional information as Licensor may request regarding the Sublicensees, Sublicenses and Restaurants to enable Licensor to reasonably determine that Restaurant operations are being conducted in accordance with the Sublicense, this Agreement, Brand Standards and Applicable Laws. The Parties agree to cooperate in good faith

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to establish the formats for pro forma documents that set forth the information that will be shared for the purpose of reporting and other disclosures between the Parties.

6.3.5 Without limitation of Licensee's obligations under Section 7, comply with all Applicable Laws relating to the sublicensing of the Brand Trademarks and other Brand System IP, promoting or soliciting the sale of Sublicenses, offering and selling Sublicenses, and terminating or failing to renew any of the Sublicenses; prepare and timely file (if required) any and all documents required to comply with Applicable Laws; and timely obtain at its own cost any and all approvals and/or registrations necessary for the full and proper conduct of the Brand Restaurant Businesses. At Licensor's request, Licensee shall provide to Licensor, at Licensee's expense, copies of all governmental approvals, registrations, or filings required by Applicable Laws ("Governmental Approvals") and/or other approvals and registrations obtained pursuant to this Section 6.3.5.

6.4 Release and Covenant Not to Sue. Licensee, for itself and on behalf of all other Licensee Releasing Parties, hereby irrevocably and unconditionally releases, acquits and forever discharges the Licensor Released Parties, from all actions, causes of action, suits, debts, liens, obligations, promises, liabilities, claims, rights, demands, damages, controversies, losses, costs, and expenses (including attorneys' fees and costs actually incurred), known or unknown, suspected or unsuspected, fixed or contingent, which they now have, own, hold, claim to have, claim to own, or claim to hold, or at any time heretofore had, owned, held, claimed to have, claimed to own, or claimed to hold against each or any of the Licensor Released Parties arising out of or related to the Sublicenses or the performance thereof or conduct thereunder prior to the Effective Date, and Licensee's obligations to administer the Sublicenses under this Agreement.

7. LEGAL COMPLIANCE

7.1 Compliance with Applicable Laws. Licensee shall comply with all Applicable Laws in connection with the performance of its obligations under this Agreement, including the operation of the Brand Restaurant Businesses. For purposes of this Agreement, the term "Applicable Laws" shall mean all applicable common law and all applicable statutes, laws, rules, regulations, ordinances, guidelines, standards, policies and procedures established by any Governmental Authority, including those governing the development, construction, operation and/or promotion of the Restaurants and the safety of the food and other products offered and sold at and from the Restaurants, as in effect on the Effective Date and as may be enacted, modified or amended from time to time thereafter. Licensee shall also require its Sublicensees, through provisions in the Sublicenses and regular monitoring activities, to comply with all Applicable Laws in the development and operation of the Restaurants and accompanying use of the Brand System IP. Without limitation of the foregoing, Licensee shall, and shall cause its Affiliates to:

7.1.1 Comply with all Applicable Laws and any multilateral international conventions against corrupt business practices or money laundering or relating to anti-bribery and anti-corruption, as they may be amended from time to time, including the Foreign Corrupt Practices Act (15 U.S.C. §78dd-2) and any successor statute; and, without limiting the generality of the foregoing, not offer, promise or pay any money, gift or any other thing of value to any person for the purpose of influencing official actions or decisions affecting this Agreement, any Sublicense, any Restaurant, or any of the Brand Restaurant Businesses, while knowing or having reason to know that any portion of this money, gift or thing will, directly or indirectly, be given, offered or promised to: (a) an employee, officer or other person acting in an official capacity for any government or its instrumentality; or (b) any political party, party official or candidate for political office.

7.1.2 Comply with, and assist Licensor and Licensor's Affiliates in their efforts to comply with, all Anti-Terrorism Laws. Licensee certifies, represents, warrants and agrees that: (a) neither Licensee nor any of its Affiliates nor anyone associated with them is included in any of the Lists; (b) Licensee shall not hire or permit any of its Affiliates to hire (or, if already employed, retain) any individual included in any of the Lists; (c) Licensee has no knowledge or information that it, any of its Affiliates, any of their respective management personnel, or anyone associated with any of them has engaged, are engaged or intends to engage in terrorist activities; and (d) neither the property nor interests of Licensee or any of its Affiliates are subject to being "blocked" under any of the Anti-Terrorism Laws.

7.1.3 Execute from time to time, as requested by Licensor, all documentation reasonably required by Licensor to evidence compliance with this Section 7.1.

7.2 **Notice Requirements.** Licensee shall notify Licensor in writing of any breach of Section 7.1 promptly upon learning of any such breach. In addition, Licensee shall immediately notify Licensor in writing following knowledge of the commencement of any action, suit or proceeding or of the issuance of any order, writ, injunction, award or decree of any court or other Governmental Authority, which may, or does, materially and adversely affect the operation or financial condition of any of the Brand Restaurant Businesses or any of the Restaurants.

## 8. **RECORDKEEPING AND REPORTING**

8.1 **Books and Records.** Licensee shall maintain, in a form suitable for prompt audit or review by Licensor, complete and accurate books of account and records regarding the operation of the Brand Restaurant Businesses and shall cause all of the Sublicensees to do the same with respect to all Restaurants operated by them. Such books and records shall conform to the requirements, and shall be maintained for the period, set forth in the Brand Standards.

8.2 **Reports.** In addition to any other reports required under this Agreement, Licensee shall submit to Licensor or its representatives, at Licensee's expense, all reports (including reports of Gross Revenue and information reasonably deemed necessary by Licensor to determine the success of the Brand Restaurant Businesses or Licensee's marketing efforts, such as total Restaurant development or customer or transaction counts for the Restaurants) and financial information required by the Brand Standards, at the time and in the form and manner set forth in the Brand Standards. Notwithstanding anything to the contrary herein, (a) Licensee acknowledges that Yum's securities are publicly owned and, accordingly, that Licensor and Yum may disclose the information included in any report or information (or otherwise obtained by Licensor in connection herewith) required by Applicable Law or the rules of any applicable stock exchange and (b) Licensee agrees that Licensor may use any such information for any valid business purpose, subject to the provisions of Article 9 and the foregoing clause (a).

8.3 **Audits.** Upon reasonable notice and during normal business hours, Licensor or its representatives may conduct an audit or review (and may make copies) of the books and records of the Brand Restaurant Businesses and of any Restaurant. Licensee shall cooperate, and shall require the Sublicensees to cooperate, fully with Licensor in any such audit or review, including reasonable sharing of translation costs. If an audit or review reveals that Licensee has understated Gross Revenue, then Licensee shall pay Licensor any amount due on the understated Gross Revenue, plus interest at the rate set forth in Section 3.4.1 on any overdue amount from the date payment was due until paid in full. In addition, if an audit or review reveals that Gross Revenue was understated by two percent (2%) or more, then Licensee shall reimburse Licensor for all costs and expenses incurred by Licensor in connection with the audit or review, including a reasonable allocation for any use of Licensor's internal audit resources. Licensor's receipt and acceptance of any financial statement or report furnished and/or any royalties paid

by Licensee shall not preclude Licensor from questioning the correctness thereof at any time. The remedies in this Section 8.3 shall be in addition to any other remedies available to Licensor under this Agreement or Applicable Laws.

## 9. **CONFIDENTIALITY**

9.1 **Restrictions on Use of Confidential Information.** Each Party acknowledges that the unauthorized use, publication or disclosure of the other Party's Confidential Information may cause incalculable and irreparable injury to the other Party. Accordingly, each Party agrees to use all commercially reasonable efforts to keep the other Party's Confidential Information confidential and (except as authorized by this Agreement) not to, directly or indirectly, at any time during or after the Term publish, disclose, use or permit the use of (other than as contemplated in this Agreement) the other Party's Confidential Information, in whole or in part, or otherwise make the other Party's Confidential Information available to any unauthorized person without the other Party's prior written consent, which may be granted or withheld by such other Party in its sole and absolute discretion. Disclosure of Confidential Information in response to a valid order by a court or Governmental Authority which seeks to compel the production of Confidential Information, or as otherwise required by Applicable Law or the rules of any internationally recognized stock exchange on which the securities of Yum or SpinCo are traded, shall not be a breach of this Agreement or a waiver of confidentiality for other purposes; provided, that the Party required to make any such disclosure shall provide prompt written notice to the other Party to enable the other Party to seek a protective order or otherwise prevent such disclosure.

9.1.1 Each Party shall grant its employees and representatives access to the other Party's Confidential Information only to the extent such employees and representatives need-to-know the Confidential Information in order to discharge the Party's obligations or exercise the Party's rights under this Agreement, and shall, to the extent permitted by Applicable Law, prohibit its employees and representatives from communicating, divulging, or using the other Party's Confidential Information, except as may be required by Applicable Law or authorized by this Agreement.

9.1.2 If a Party has any reason to believe that a violation of its confidentiality obligations set forth herein has occurred, that Party shall promptly notify the other Party and shall cooperate, at its expense, with the other Party in any action or proceeding deemed necessary or reasonably advisable by the other Party to protect itself against infringement or other unlawful use, including the prosecution of any lawsuit.

## 10. **NON-COMPETITION**

10.1 In-Term Exclusive Relationship. Licensee acknowledges that Licensor has entered into this Agreement in consideration of and in reliance upon Licensee's agreement to deal exclusively with Licensor during the Term in connection with the offer and sale of the categories of food products represented by the Brands. Licensee therefore agrees that, without Licensor's prior written consent, during the Term Licensee shall not, and shall cause its Affiliates not to, directly or indirectly, Engage in any Competing Business located or operating anywhere within (i) the Territory, or (ii) any other country, province, state or other geographic area in which Licensor or any of its Affiliates (a) have used or registered any of the Brand Trademarks (or similar trademarks) or (b) operate or license others to operate under the Brand Trademarks (or similar trademarks).

10.2 Post-Term Restriction on Competition. In order to protect the goodwill and other business interests of Licensor and its Affiliates, Licensee also agrees that for a period of twelve (12) months following the expiration, termination or transfer of this Agreement, and for a period of twelve (12)

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months following the expiration, termination or transfer by Licensee of any interest herein (including any Brand license granted hereunder), Licensee shall not, and shall cause its Affiliates not to, directly or indirectly, Engage in any Competing Business located or operating anywhere within (i) the Territory, or (ii) within a ten (10) mile radius of any Restaurant operating under any Brand (in the case of expiration, termination or transfer of this Agreement) or the applicable Brand (in the case of expiration, termination or transfer of an interest herein) in existence at the time of such expiration, termination, or transfer.

10.3 Ancillary Agreements. Licensee further agrees that:

10.3.1 The covenants in Sections 10.1 and 10.2 contain reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Licensor and its Affiliates.

10.3.2 The covenants in Sections 10.1 and 10.2 will be construed as independent of any other covenant or provision of this Agreement and the existence of any claims Licensee may have against Licensor or any of its Affiliates, whether or not arising from this Agreement, will not constitute a defense to the enforcement by Licensor of such covenants.

10.3.3 If all or any portion of a covenant in Section 10.1 or Section 10.2 is held unreasonable or unenforceable by a court, arbitrator or agency having valid jurisdiction in an unappealed final decision to which Licensor is a party, (a) Licensee and Licensee's Affiliates shall be bound by any lesser covenant (including any lesser time period) subsumed within the terms of such covenant that imposes the maximum duty permitted by Applicable Laws, as if the resulting covenant were separately stated in and made a part of this Agreement, and (b) such decision shall not affect the application of the covenants in any jurisdiction to which such decision does not expressly apply. In addition, Licensor has the right, in Licensor's sole discretion, to reduce the scope of any obligation set forth in Section 10.1 or Section 10.2 without Licensee's consent, effective immediately upon notice to Licensee and Licensee shall comply, and shall cause Licensee's Affiliates to comply, with any obligations as so modified.

## 11. INDEMNIFICATION AND INSURANCE

11.1 Indemnity. Licensee shall indemnify, defend, and hold harmless Licensor, its Affiliates (including the Brand Owners), their respective officers, directors, owners, employees, agents, successors, and assigns, and each of them, in their corporate and individual capacities (collectively, the "Indemnitees") from any and all losses, expenses, liabilities and damages any of them may suffer or incur, including reasonable attorneys' fees, as a result of claims, demands, costs, awards or judgments of any kind or nature, by anyone whomever, and regardless of cause or any concurrent or contributing fault or negligence of any Indemnitee, arising out of or otherwise connected with: (i) any of the Sublicenses; (ii) the ownership, development, construction, maintenance, operation or promotion of Restaurants or the Brand Restaurant Businesses in the Territory; (iii) any act of omission or commission by YumChina, Licensee, any of Licensee's Affiliates, any of the Sublicensees, or any of their respective officers, directors, employees, or agents before and after the Effective Date, including any act of omission or commission in connection with the ownership, maintenance, administration, protection and enforcement of the Brand System IP or intellectual property of any kind developed by Licensee or any of its Affiliates or any of the Sublicensees in the Territory on behalf of Licensee, Licensor or any of their respective Affiliates (and, for the avoidance of doubt, such act of omission or commission shall include any act of omission or commission relating to Licensee's obligation to promptly cause its Affiliates and the Sublicensees and, to the extent commercially reasonable, its contractors and other third parties, to do all acts and execute and deliver to Licensor any and all such documentation required in order to evidence, secure or perfect the vesting in Licensor of all rights, title and interest in and to the Brand System IP or

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Future Core IP pursuant to Sections 4.1 and 4.1.3); (iv) any demands or claims by third parties with respect to the use, licensing or sublicensing of the Brand System IP in the Territory, whether such demands or claims relate to the use, licensing or sublicensing of such Brand System IP before or after the Effective Date, excluding demands or claims arising out of or connected with Licensor's acts or omissions pursuant to Sections 4.3.1 and 4.5 with respect to Brand Trademarks that include a Brand Name; and (v) any breach of any representation or warranty by Licensee under this Agreement. Licensee's obligation to indemnify and the right of the Indemnitees to indemnification under this Section 11.1 shall survive the assignment, transfer, termination or expiration of this Agreement or any interest herein.

11.1.1 Licensee shall promptly undertake the defense of any legal action related to any of the matters described in Section 11.1, and shall retain, and notify Licensor not less than forty-eight (48) hours prior to retaining, reputable, competent and experienced counsel to represent the interests of any Indemnitee. Licensee shall have the right to approve any counsel engaged to represent the interests of any Indemnitee but shall not unreasonably withhold or condition that approval. If Licensee or any of its Affiliates and the Indemnitees (or any one of them) are named as co-defendants, and there is a conflict of interest between them such that they cannot be represented by common counsel, then the Indemnitees may retain separate counsel at Licensee's expense and Licensee shall promptly reimburse the Indemnitees for all costs and attorneys' fees incurred upon request and as they are incurred. The Indemnitees also shall have the right to obtain separate counsel at their own expense, and shall have the right to participate in the defense of the action and any discussions regarding compromise or settlement. No Indemnitee shall be required to seek recovery from any litigant or any other third party to recover its indemnified losses, expenses and other amounts.

11.1.2 Licensee shall not settle or compromise any legal action in which Licensor or any other Indemnitee is a defendant without the prior written consent of Licensor, which Licensor may grant or withhold in its sole discretion.



11.2 **Insurance.** In addition to the obligations set forth in Section 11.1, at all times during the Term, Licensee shall keep in effect the minimum types and amounts of insurance required by the Brand Standards, all of which shall satisfy the requirements set forth in the Brand Standards. Licensee shall provide Licensor evidence of such coverage at the times and in the manner set forth in the Brand Standards. Licensee acknowledges that the insurance coverage required by the Brand Standards does not necessarily represent all possible insurable risks or amounts of loss that may arise out of Licensee's operation of the Brand Restaurant Businesses, and it is Licensee's responsibility to obtain any other or additional insurance in connection with the operation of the Brand Restaurant Businesses as Licensee determines to be appropriate.

## 12. **ASSIGNMENT**

12.1 **By Licensor.** Licensor and any of its Affiliates may Transfer to any person or entity, without Licensee's consent: (i) this Agreement, (ii) all or any part of Licensor's rights or obligations under this Agreement (including any Brand license granted hereunder), and (iii) with respect to any or all of the Brands, their rights in and to the assets of the Brand(s), including any Brand System IP and/or Brand Business IP; provided, that in all cases Licensee's rights and obligations as set forth in this Agreement shall remain in full force and effect following any such Transfer and, as necessary, will be evidenced by a separate agreement on the same terms and conditions as are in this Agreement. Without limiting the foregoing, Licensor and any of its Affiliates may offer their securities privately or publicly; may merge with and acquire, or be acquired by, other persons or entities; and may undertake refinancings, recapitalizations, leveraged buyouts or other economic or financial restructurings. The transferee or

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assignee shall be solely responsible for the obligations of Licensor arising after the effective date of any such Transfer and Licensor shall be released from any obligations under this Agreement related to the subject of the Transfer that accrue after such date. Licensee agrees promptly to execute any documents reasonably required in connection with any such Transfer. Licensor shall provide advance written notice to Licensee of any such Transfer, as and when such notice is permitted under any applicable legal and contractual restrictions by which Licensor may be bound and, to the extent reasonably possible and permitted by Applicable Laws and any binding commitments imposed by the proposed acquirer, will consult with Licensee in advance regarding any proposed Transfer of any of the Brands if the acquirer is a Competing Business as to the Brand which is the subject of the Transfer.

12.2 **By Licensee.** Except for Licensee's right to sublicense the use of the Brand System IP to Sublicensees in accordance with this Agreement, Licensee shall not Transfer any interest in, or rights or obligations under, this Agreement or any Sublicense without Licensor's prior written consent, nor shall Licensee Transfer to any Competitor any Future Brand Business IP used solely in the development or operation of the Restaurants. Licensor may impose any reasonable condition to the granting of its consent to such a Transfer, and in no event shall Licensor be required to consent to such a Transfer if such conditions are not met. Licensee shall notify Licensor in writing prior to any proposed Transfer of any interest in, or rights or obligations under, this Agreement or any Sublicense and shall provide such information related thereto as Licensor may require. Any such purported Transfer occurring by operation of law or otherwise without Licensor's prior written consent shall constitute a material breach of this Agreement. Any consent by Licensor to such a Transfer shall be without prejudice to Licensor's rights against Licensee, or to any right or remedy to which Licensor is entitled by reason of any breach or default that occurred before the Transfer. Without limiting the foregoing, it is expressly agreed that Licensor's consent to such a Transfer shall not waive (i) any payment or other obligation owed by Licensee to Licensor under this Agreement before the Transfer; or (ii) Licensee's duty of indemnification and defense as set forth in Section 11.1, whether before or after such Transfer; or (iii) Licensee's obligation to obtain Licensor's consent to any subsequent Transfer.

## 13. **TERM AND RENEWAL**

13.1 **Initial Term.** This Agreement and each Brand license granted hereunder will become effective on the Effective Date, and, unless sooner terminated as provided in this Agreement, will expire on the fiftieth (50<sup>th</sup>) anniversary of the Effective Date (the "**Initial Term**").

13.2 **Renewal.** Following the expiration of the Initial Term and each subsequent Renewal Term and provided that Licensee is then in Good Standing, this Agreement and each Brand license granted hereunder shall automatically be renewed for additional consecutive successive renewal terms of fifty (50) years each (each, a "**Renewal Term**"), unless Licensee gives written notice of its intent not to renew not less than thirty-six (36) months or more than sixty (60) months before the end of the then-current Term.

## 14. **BREACH**

14.1 **Breach of Agreement.** A material breach shall be, as determined by Licensor, in its sole discretion, any failure by Licensee to comply with any term or condition in this Agreement where, due to such failure, there is an actual, likely or imminent and material harm to any of the Brands, the Brand System IP or the financial or other material benefits or rights of Licensor hereunder. For purposes of clarity, a material breach shall include, though shall not be limited to, any of the events listed in Sections 14.1.1 through 14.1.6. Upon the occurrence of a material breach by Licensee under this Agreement, Licensor may issue to Licensee a written notice of breach identifying the then-known circumstances giving rise to the breach. To the extent that Licensor determines in its sole discretion that the applicable

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breach is curable (i.e., capable of correction within the time periods set forth in this Agreement or the relevant notice of breach), then Licensor shall provide Licensee an opportunity to cure. Breaches referred to in Sections 14.1.1 through 14.1.4 are non-curable. Breaches referred to in Section 14.1.5 may be curable or non-curable as determined by Licensor depending on the circumstances. The following events shall be deemed a material breach:

14.1.1 **Dissolution or Liquidation.** If either Licensee or SpinCo is dissolved or liquidated.

14.1.2 **Insolvency and Bankruptcy.** To the extent permitted by Applicable Law, if either Licensee or SpinCo becomes insolvent, generally does not pay its debts as they become due, or files a voluntary petition (or consents to an involuntary petition or an involuntary petition is filed and is not dismissed within sixty (60) days) under any bankruptcy, insolvency, or similar law, and Licensee cannot prove that such bankruptcy or insolvency has no material adverse effect on Licensee's operation of the Brand Restaurant Businesses or Licensor or any of Licensor's Affiliates or any of the Sublicensees.

14.1.3 **Unauthorized Assignment.** If there is a breach of Section 12.2.

14.1.4 Change of Control. If Licensee or SpinCo permits or undergoes a Change of Control of Licensee or SpinCo.

14.1.5 Breaches That May be Curable or Non-Curable. Licensor may determine in its sole discretion that any breach in Sections 14.1.5.A. through G. is curable or non-curable.

A. Criminal Conviction/Adverse Publicity. If Licensee or any of its Affiliates or any of their respective principal officers is convicted of a felony or other similar crime or offense or engages in a pattern or practice of acts or conduct that, as a result of the attendant adverse publicity, is likely to have or has had a material adverse effect on the Restaurants, any of the Brand Restaurant Businesses, any of the Brand System IP, including any of the Brand Trademarks, or the reputation of any of the Brands, Licensor or any of the Brand Owners;

B. Unauthorized Disclosure of Confidential Information; Violation of Non-Compete. If Licensee or any of its Affiliates, or any officer, director, employee, or agent of Licensee or any of its Affiliates, discloses, or causes or fails to exercise commercially reasonable efforts to prevent the disclosure of, or otherwise uses in an unauthorized manner, any Confidential Information in breach of this Agreement, or if Licensee or any Affiliate of Licensee breaches any covenant against competition set forth in Section 10.1;

C. Failure to Comply with Brand Standards or Enforce the Sublicenses. Without limiting Licensor's rights under Section 14.1.5.E., if Licensee or any of the Sublicensees fails to comply with any of the Brand Standards or if Licensee fails to enforce any of the Sublicenses and such failure has, or is reasonably expected to have, a material adverse effect on any of the Brand Restaurant Businesses, any of the Brand Trademarks or other Brand System IP, or the reputation of the Brands, Licensor or any of the Brand Owners;

D. Loss of Rights in Brand System IP. If Licensee, directly or through the Sublicensees, takes any action that causes, or fails to take any action and such failure causes, or in either case is reasonably likely to cause, in whole or in part, the loss, or imminent loss, of a Brand Owner's ownership rights in all or any part of the Brand System IP that is material to the conduct of the Brand Restaurant Businesses or the operation of the Restaurants

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(including any Brand Trademark that includes a Brand Name) and which Licensor has not approved in writing;

E. Threat or Danger to Public Health or Safety. If Licensee or any of the Sublicensees fails to adhere to the Brand Standards, Applicable Laws, or other generally accepted public health and safety standards, and such failure causes, or is reasonably likely to cause, in whole or in part, a threat or danger, or imminent threat or danger, to public health or safety, then, in addition to Licensor's rights as set forth in this Section 14 and without prejudice to the remedies set forth in Section 15, in the event of such breach and upon written notice from Licensor, which Licensor may give Licensee in its sole discretion, Licensee shall, and shall cause the Sublicensees to, immediately close any affected Restaurant(s), and shall not reopen, or permit the Sublicensees to reopen, such Restaurant(s) until the threat or danger is remedied. The Parties agree that operation of the Restaurants and the Brand Restaurant Businesses without endangering the public health or safety is the sole responsibility of Licensee. Licensor does not assume and shall not have any responsibility or obligation therefor by reserving or exercising the rights granted to Licensor hereunder;

F. Failure to Meet Sales Growth Metric. If, consistent with Section 2.1.3, two (2) consecutive SGM Breaches occur (in which case, the Parties rights and remedies shall be subject to the terms set forth in Section 2.1.3); and

G. Failure to Meet the Taco Bell Brand Development Initiative. If Licensee fails to comply with the Taco Bell Brand Development Initiative (in which case, Licensor's remedy shall be limited to that set forth in Exhibit A-1).

#### 14.1.6 Financial Breach.

A. Failure to Pay Amounts Owed. If Licensee or any of its Affiliates fails to pay any amounts due under this Agreement to Licensor or any of its Affiliates in whole or in part and when such payment becomes due and payable ("Payment Default"), then Licensor may issue a notice of breach to Licensee with respect to such Payment Default. Licensee shall have twenty (20) Business Days following notice of breach to cure the failure to pay.

B. Chronic Late Payment or Underpayment. Without limiting Licensor's other remedies hereunder for any Payment Default, (a) if Licensee fails to make any payment when required under this Agreement (including any applicable Grace Period) ("Late Payment") (excluding any Late Payment attributable solely to the application of Chinese foreign exchange controls outside Licensee's control) on three (3) or more occasions during any twenty-four (24) month period, or (b) if any payment made is less than 90% of the amount due ("Underpayment") on more than one occasion during any twenty-four (24) month period and Licensee fails to comply with Section 14.1.6.C., Licensor may:

(i) Exercise any of the remedies set forth in Section 15 in its sole discretion, including terminating this Agreement and all rights granted to Licensee hereunder immediately upon notice to Licensee, regardless of whether Licensee cured the relevant Late Payments or Underpayment. Should Licensor elect to terminate this Agreement as a result of a Payment Default, all amounts payable under this Agreement then owed and outstanding, together with accrued interest thereon, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by Licensee; or

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(ii) Upon written notice to Licensee, require Licensee to establish and provide to Licensor an irrevocable standby letter of credit in favor of Licensor and in the form required by Licensor (the "Letter of Credit") from a financial institution accepted and approved by Licensor in its sole discretion ("Bank") in the minimum amount of projected fees due and owing for the upcoming twenty-four (24) months (the "Secured Amount"). Evidence of the establishment of the Letter of Credit must be provided to Licensor within ten (10) days following the date of Licensor's written notice to Licensee of the requirement to obtain the Letter of Credit. The term of the Letter of Credit

shall be for a period of five (5) years, unless Licensor otherwise agrees in writing to a shorter term, subject to Licensor's right to require an extension of such term in its reasonable discretion. Licensor shall be permitted to draw upon the Letter of Credit at any time and from time to time during the Term in the event of a Payment Default lasting ten (10) Business Days after Licensor issues a demand for payment to Licensee and by Licensor submitting to the Bank a dated statement signed by a duly authorized representative or officer of Licensor certifying that Licensee is in default of its payment obligations to Licensor under this Agreement in the amount then-owed as of the date of such statement. In the event the Letter of Credit is ever drawn upon by Licensor, Licensee shall replenish the amount of such Letter of Credit immediately, so that amount of the Letter of Credit is at all times no less than the Secured Amount.

C. Good Faith Disputes Regarding Amounts Due. If Licensee, in good faith, disputes any amounts due and payable to Licensor or any of its Affiliates then, on the due date, Licensee shall (i) pay the entire amount owed to Licensor or its Affiliate (without regard to such dispute), and (ii) submit to Licensor a written statement identifying in reasonable detail the basis for the dispute ("Payment Dispute Notice"). If it is finally determined in accordance with this Section 14.1.6.C. and Section 17.3. that Licensee is entitled to all or any portion of the disputed amount, Licensor shall refund such amount within ten (10) Business Days following such final determination. The Parties shall promptly attempt to resolve the dispute and failing resolution within thirty (30) days following the earlier of Licensee's Payment Dispute Notice or Licensor's notice of breach, either Party may submit the dispute directly to arbitration pursuant to Section 17.3; provided, that the arbitration shall be limited to a determination of whether the disputed amount is owed, and the arbitration panel shall consist of one (1) accounting professional designated by Licensor, one (1) accounting professional designated by Licensee, and one (1) arbitrator experienced in resolving payment disputes that is appointed by CPR. If the arbitration panel determines that any or all of the disputed amount is owed to Licensor or any of its Affiliates, then Licensee shall pay the disputed amount determined to be owed, to the extent not previously paid to Licensor (and any past due interest owed thereon) within ten (10) Business Days following the panel's determination and Licensor shall retain any such disputed amount previously paid to it. If the disputed amount previously paid by Licensee to Licensor exceeds the amount determined by the arbitration panel to be owed to Licensor, such excess shall be repaid by Licensor to Licensee. If the arbitration panel determines that none of the disputed amount is owed to Licensor or its Affiliates, then Licensee shall not be required to pay the disputed amount and the disputed amount previously paid by Licensee to Licensor shall be repaid by Licensor to Licensee. If Licensee fails to cure a Payment Default, Licensor may exercise any of the remedies set forth in Section 15.

14.2 Licensee's Right to Request Early Termination of Brand License. Licensee may request an early termination of the license for a particular Brand if Gross Revenue for that Brand has declined for each year during any five (5) consecutive year period during the Term, and Licensee can demonstrate with evidence satisfactory to Licensor that such decline was proximately caused by Licensor's willful

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failure to maintain that Brand outside of the Territory, which willful failure results in material, irreparable damage to that Brand in the Territory, or was proximately caused by a materially adverse change in the Applicable Laws. Licensee must make such request for early termination and provide such evidence in writing to Licensor within ninety (90) days following any such five (5) consecutive year period of Gross Sales declines for the affected Brand. Licensor shall consider this request for early termination in good faith. Any early termination pursuant this Section 14.2 shall be subject to Licensee's obligations under Section 16.1.1 through Section 16.1.6.

## 15. ADDITIONAL REMEDIES

15.1 Acknowledgments Regarding Breach, Default, and Remedies Provisions. The Parties acknowledge the importance of the relationship between Licensor and Licensee and the difficulties and complexities associated with unwinding that relationship in the event this Agreement should be terminated. In recognition of the foregoing, the Parties further acknowledge and agree that the provisions related to breaches, defaults and remedies under this Agreement, including Sections 14 and 15, were written in a manner intended to both protect Licensor's interests in the Brands and the Brand System IP and to preserve the relationship between Licensor and Licensee for the Term, by, among other things, affording Licensor a variety of remedies commensurate with the nature, scope, and severity of a particular breach or default and permitting Licensor to elect alternative remedies to termination in the event of a breach or default by Licensee. However, the Parties expressly acknowledge and agree that certain breaches and defaults may be so severe that Licensor has no reasonable alternative other than to terminate the entire relationship between the Parties, and that it is the Parties' express intent that Licensor be afforded such discretion.

15.2 Defaults. Licensor shall be entitled to give notice of default to Licensee, which shall give rise to the remedies set forth in this Section 15, upon the occurrence of any of the following: (i) any breach by Licensee listed in Sections 14.1.1 through 14.1.4 (as such events are non-curable by their nature); (ii) Licensee's failure to cure a material breach within the cure period as set forth in the notice of breach; or (iii) Licensor's determination, prior to the expiration of the applicable cure period, that there exists reasonable evidence that Licensee does not intend to cure, or is unable to cure, the material breach identified in the notice of breach. Any notice of breach with respect to a curable breach shall set forth an applicable cure period that is reasonably tailored to the applicable breach, provided that the cure period for any SGM Breach shall be at least one (1) year) and in the event that a notice of breach fails to specify a cure period, then the cure period shall be thirty (30) days unless otherwise set forth in this Agreement (for example, as in Section 14.1.6 pertaining to Payment Defaults).

15.3 Brand Specific Enforcement. Notwithstanding anything in this Agreement to the contrary and for the avoidance of doubt, Licensor may exercise the rights set forth in Section 14.1 and the remedies set forth in this Section 15 as to one or more, but fewer than all, of the Brand licenses. This includes, without limitation and for illustration purposes only, the right of Licensor to terminate Licensee's right to operate a particular Brand Restaurant Business for a single Brand, in which event, Licensee would be permitted and required, following the termination, to continue operating the Brand Restaurant Business(es) for the remaining Brand(s) in accordance with the terms and conditions of this Agreement. Licensee expressly acknowledges and agrees that Licensee's obligation to pay the royalty fees and other amounts due for the remaining Brand(s) under this Agreement shall not be relieved, limited, or otherwise modified as a result of the expiration and non-renewal or termination of one or more, but fewer than all, of the Brand licenses.

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15.4 Available Remedies. Upon Licensor giving Licensee a notice of default under Section 15.2, Licensor may, in its sole discretion, terminate this Agreement and all rights granted to Licensee hereunder immediately upon notice to Licensee. Licensor may also, in its sole discretion, exercise any one or more of the following additional remedies:

15.4.1 Institute any and all proceedings permitted by Applicable Laws or in equity with respect to such default, including actions for injunctive and/or declaratory relief (including specific performance) and/or damages;

15.4.2 Suspend or limit Licensee's rights to develop any Restaurant or grant any Sublicenses as determined by Licensor its sole discretion until the default is cured;

15.4.3 Prohibit any Restaurant from opening or operating until the default is cured;

15.4.4 Eliminate or modify the exclusivity granted in Section 2.2 and immediately conduct and further develop the Brand Restaurant Businesses in the Territory or license one or more third parties to do so;

15.4.5 (i) Purchase from Licensee and its Affiliates (which purchase right shall be transferable) the Brand Restaurant Businesses, or any of them, at fair market value, less any damages to Licensor and its Affiliates resulting from Licensee's default and (ii) in connection with such purchase, at Licensor's option and for no additional consideration, require the assignment by Licensee to Licensor (or its designee) of all rights of Licensee under any or all Sublicenses then in effect, in which case Licensor (or its designee) shall assume all obligations of Licensee arising thereunder after such assignment and Licensee shall promptly terminate and enforce the termination of all Sublicenses which Licensor elects not to acquire (collectively, the "Licensor Purchase Right"). Licensor and Licensee will attempt in good faith to agree on the purchase price under subsection 15.4.5(i) and terms and procedures for the exercise of Licensor's rights hereunder, but if they are unable to agree within a reasonable period of time (not to exceed sixty (60) days), the purchase price, terms and procedures will be determined in accordance with Exhibit D. Licensee shall, and shall cause its Affiliates to, effect the transfers and assignments contemplated by this Section 15.4.5 upon such date as Licensor determines, including executing such further documents as may be required; and

15.4.6 Submit the matter directly to arbitration in accordance with Section 17.3 for the sole purpose of determining the amount of damages or other relief to which Licensor is entitled as a result of the default.

15.5 Remedies Cumulative. In addition to the remedies set forth in this Agreement, the Parties may pursue whatever other remedies are available at law or in equity, and all remedies provided under this Agreement are cumulative and not exclusive of other remedies, unless otherwise expressly stated.

## 16. POST-TERM OBLIGATIONS

16.1 Obligations Following Expiration or Termination. Licensee shall comply, and shall cause any Sublicensee as to which Licensor (or its designees) does not assume the Sublicense under Section 15.4.5(ii) to comply, with the following provisions upon the expiration and non-renewal or termination of this Agreement or of any Brand license granted hereunder. If one or more (but fewer than all) of the Brand licenses expire without renewal or are terminated, the provisions set forth below will apply only with respect to those Brands as to which licenses have expired or been terminated.

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16.1.1 Licensee's right to use and sublicense the use of the Brand System IP shall end and Licensee shall (and shall cause the Sublicensees as to which Licensor does not exercise its subrogation rights to) immediately cease all use of the Brand System IP, including the Brand Trademarks.

16.1.2 Licensee shall promptly pay to Licensor all fees and other amounts due under this Agreement.

16.1.3 Licensee shall (and shall cause the Sublicensees as to which Licensor (or its designees) does not assume the Sublicense under 15.4.5(ii) to) cease representing itself as a licensee of Licensor and shall promptly cancel all trade name or other registrations relating to its use of any Brand Trademark, and shall notify all third parties (including Internet domain name authorities and directory publishers) of the termination or expiration of Licensee's right to use any listing, Internet domain name, uniform resource locator, website name, electronic mail address, and search engine metatags and keywords associated with the Brand(s), and shall authorize the transfer of the same to Licensor or its designee.

16.1.4 Licensee, at its sole expense, shall (and shall cause the Sublicensees as to which Licensor does not exercise its subrogation rights to) immediately return to Licensor any and all written materials incorporating Licensor's Confidential Information or shall dispose of such materials as directed by Licensor.

16.1.5 Licensee shall comply with its confidentiality and other obligations under Section 9, its post-term non-competition obligations under Section 10.2 and all other obligations under this Agreement that expressly or by their nature survive expiration or termination.

16.1.6 Licensee and its Affiliates shall not be entitled to receive any compensation or payment from Licensor as a result of the termination or expiration of this Agreement, whether for actual, consequential, indirect, special, incidental or other damages, costs or expenses, whether foreseeable or unforeseeable (including loss of profits, investments or goodwill), any right to which Licensee hereby waives and disclaims. Licensee recognizes that any enhancement of the Brand goodwill or customer base will be primarily attributable to the Brand Trademarks and other Brand System IP and that Licensee has no right to compensation for any contribution it may have made to any such enhancement of goodwill or customer base. Notwithstanding the foregoing, nothing herein shall require Licensee to waive or disclaim any claim which it may have that is derived from a prior breach of this Agreement.

16.1.7 Licensor may exercise the Licensor Purchase Right.

## 17. DISPUTE RESOLUTION

17.1 Governing Law. This Agreement shall be interpreted and construed under the laws of the United States of America and the State of Texas, U.S.A. (without regard to, and without giving effect to, their conflict of laws rules).

17.2 Pre-Arbitration Dispute Resolution. Subject to Section 14.1.6.C.,

17.2.1 Prior to submitting any dispute under this Agreement (with the exception of any disputes concerning breaches which Licensor has determined not to be curable) to mediation, arbitration or any court or other tribunal, a Party shall provide written notice of the dispute to the other Party. Upon

such notice appropriate executives of Licensee and Licensor who have authority to resolve the dispute will meet either in person or by video conference or similar means and shall discuss and use good faith efforts to resolve the dispute. If the dispute cannot be resolved within thirty (30) days of such notice, then the Parties shall submit the claim for resolution to non-binding mediation in accordance with Section 17.2.2.

17.2.2 If the Parties are unable to resolve a dispute under this Agreement in accordance with Section 17.2.1, the Parties agree to submit the dispute (with the exception of any disputes concerning breaches which Licensor has determined not to be curable) to non-binding mediation before bringing such dispute to arbitration in accordance with Section 17.3. The Parties shall select a mediator within twenty (20) days of the date the dispute is submitted to mediation by either Party. The mediation shall be conducted in English by a mediator mutually and jointly approved by both Parties, and failing agreement of the Parties within the twenty (20) day period, by a mediator appointed by the International Institute for Conflict Prevention and Resolution (“CPR”) in accordance with its mediation rules. The mediation shall be conducted at a location mutually and jointly selected by both Parties within ten (10) days following the date on which the mediator is appointed, and failing agreement of the Parties within such time period, then the mediation will be held in Dallas, Texas, U.S.A. The costs and expenses of any such mediation, including compensation and expenses of the mediator (and except for the lawyers’ fees incurred by either Party), shall be borne by both Parties equally.

17.3 Arbitration. If the Parties are unable to resolve a dispute under this Agreement by mediation in accordance with Section 17.2.2, then such dispute and any other controversy or claim arising out of or relating to this Agreement, or the breach hereof, including the determination of the scope or applicability of this agreement to arbitrate, shall, upon written request of either Party (the “Arbitration Request”), be determined by arbitration administered by CPR in accordance with the CPR Rules for Administered Arbitration (“Administered Rules”). Subject to Section 14.1.6.C, details of the arbitration are as follows:

17.3.1 There shall be three (3) arbitrators. The panel of three (3) arbitrators will be chosen as follows: (i) within fifteen (15) days from the date of the receipt of the Arbitration Request, each Party will name an arbitrator; and (ii) the two (2) Party-appointed arbitrators will thereafter name a third, independent arbitrator who will act as chairperson of the arbitral tribunal. In the event that either Party fails to name an arbitrator within fifteen (15) days following the date of receipt of the Arbitration Request, then upon written application by either Party, that arbitrator shall be appointed pursuant to the Administered Rules. In the event that, within thirty (30) days from the date on which the second of the two (2) arbitrators was named, the two (2) Party-appointed arbitrators fail to appoint the third, then the third arbitrator will be appointed pursuant to the Administered Rules.

17.3.2 The arbitration shall be conducted in English. Any document that a Party seeks to use that is not in English shall be provided along with an English translation.

17.3.3 The place of arbitration shall be Dallas, Texas, U.S.A.

17.3.4 The arbitrators shall establish procedures under which each Party will be entitled to conduct discovery.

17.3.5 The arbitrators shall award to the substantially prevailing party (as determined by the arbitrators) the costs and expenses of the proceeding, including reasonable attorneys’ and experts’ fees.

17.3.6 The arbitrators will issue a reasoned award.

17.3.7 Notwithstanding any language herein to the contrary, the Parties agree that the award rendered by the arbitrators (the “Original Award”) may be appealed under the CPR Arbitration Appeal Procedure (“Appeal Procedure”). Appeals must be initiated within thirty (30) days of receipt of an Original Award, in accordance with Rule 2 of the Appeal Procedure, by filing a written notice with CPR. The Original Award shall not be considered final until after the expiration of the time for filing the notice of appeal pursuant to the Appeal Procedure. Following the appeal process, either (i) the Original Award, if no changes have been made by the appellate Tribunal, or (ii) the appellate award, if the Original Award has been changed by the appellate tribunal, may be entered in any court having jurisdiction thereof. Unless otherwise agreed by the parties, the appeal shall be conducted at the place of the original arbitration.

17.3.8 Any award rendered by the arbitrators that is not appealed in accordance with the foregoing provisions or that is not modified by the appeal tribunal, and any award as modified or established by the appeal tribunal, shall be final and judgment may be entered thereon in any court having jurisdiction thereof.

17.3.9 Each Party retains the right to apply to any court of competent jurisdiction for provisional and/or conservatory relief, including prearbitral attachments or injunctions, and any such request shall not be deemed incompatible with the agreement to arbitrate or a waiver of the right to arbitrate. In any action or arbitration, the Party who is aggrieved by any actual or threatened breach of this Agreement shall have the right to specific performance and injunctive or other equitable relief, in addition to any and all other rights and remedies, and the Parties agree the monetary damages are inadequate compensation for any loss.

17.3.10 The existence and content of the arbitral proceedings and any rulings or award shall be kept confidential by the Parties and members of the arbitral tribunal except (i) to the extent that disclosure may be required of a Party to comply with Applicable Laws or the rules of any applicable stock exchange, protect or pursue a contractual right or perform a contractual obligation, or enforce or challenge an award in bona fide legal proceedings before a court or other judicial authority, (ii) with the consent of all Parties, (iii) where needed for the preparation or presentation of a claim or defense in arbitration, (iv) where such information is already in the public domain other than as a result of a breach of this Section, or (v) by order of the arbitral tribunal upon application of a Party.

17.4 Limitations Period. Any claim arising out of or relating to this Agreement shall be governed by the statute of limitations under the governing law set forth in Section 17.1.

17.6 Enforcement Costs. Each Party shall bear its own legal costs (including attorneys' and experts' fees, and all other expenses) incurred in enforcing this Agreement or in otherwise pursuing, or defending against, a claim, demand, action, or proceeding under or in connection with this Agreement

## 18. REPRESENTATIONS AND WARRANTIES

18.1 By Licensor. Licensor represents, warrants and covenants that:

18.1.1 It has the full right, power and authority to enter into this Agreement, to grant the rights granted herein and to perform its obligations hereunder.

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18.1.2 Neither its execution of this Agreement nor the performance of its obligations hereunder: (i) violates any provision of Applicable Laws or any judgment, writ, injunction, order, or decree of any court or other Governmental Authority having jurisdiction over it or any of its Affiliates; (ii) results in or constitutes a material breach or material default under any indenture, contract, commitment, or restriction to which it or any of its Affiliates is a party or by which it or any of its Affiliates is bound; or (iii) requires any consent, vote, or approval which has not been given or taken.

18.2 By Licensee. Licensee represents, warrants and covenants that:

18.2.1 It has the full right, power and authority to enter into this Agreement and to perform its obligations hereunder.

18.2.2 Neither its execution of this Agreement nor the performance of its obligations hereunder: (i) violates any provision of Applicable Laws or any judgment, writ, injunction, order, or decree of any court or other Governmental Authority having jurisdiction over it or any of its Affiliates; (ii) results in or constitutes a material breach or material default under any indenture, contract, commitment, or restriction to which it or any of its Affiliates is a party or by which it or any of its Affiliates is bound; or (iii) requires any consent, vote, or approval which has not been given or taken.

## 19. GENERAL PROVISIONS

19.1 Independent Contractor. Licensor and Licensee are independent contractors. Neither Party shall hold itself out as a partner, joint-venturer, affiliate, associate, agent, employee, or legal representative of the other. Neither Party is authorized (and shall not represent that it has the right) to act for or on behalf of the other, to legally bind the other, or to make any agreement, warranty, covenant, or other representation or create any express or implied obligation on behalf of the other. Without limiting the foregoing, Licensee and the Sublicensees are solely responsible for the hiring, firing, supervision, compensation and training of all employees of the Brand Restaurant Businesses and no employment relationship shall exist between Licensor and any employees of Licensee or any Sublicensee. Licensee and the Sublicensees are solely responsible for collecting and paying when due all applicable employment taxes, workers' compensation contributions, employment insurance premiums, and all similar taxes and charges arising out of the employment relationship between Licensee or any Sublicensee and its employees.

19.2 Severability. If any provision of this Agreement is finally determined by a court of competent jurisdiction or by an arbitration panel authorized to make such a determination under Section 17.3 to be void, invalid or unenforceable for any reason, then that provision shall be reformed to the minimum extent required to render it legal, valid, and enforceable and to preserve the Parties' original intent and the validity and enforceability of the remaining provisions of this Agreement. Notwithstanding the foregoing, if reformation is not possible, the void, invalid or unenforceable provision shall be deemed to be severable and the remainder of this Agreement shall be and remain valid and in full force and effect; provided, that the terms of this Agreement shall be equitably adjusted so as to compensate the appropriate Party for any consideration lost because of the elimination of any such void, invalid or unenforceable provision. If any provision of this Agreement is susceptible to two or more constructions, one of which would render the provision enforceable and the other or others of which would render the provision unenforceable, then the provision shall be given the meaning that renders it enforceable. Notwithstanding the foregoing, if any arbitration panel or court or other Governmental Authority determines that one or more provisions is invalid, illegal or unenforceable, and such determination would, in the reasonable opinion of Licensor, frustrate any of the essential purposes of this Agreement as determined by Licensor,

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then Licensor may terminate this Agreement immediately upon notice to Licensee. Without limiting what Licensor may determine to be an essential purpose of this Agreement, each of the following Sections (and any defined term to the extent used in that Section) is agreed to be an essential purpose of this Agreement: Sections 2.1 (other than 2.1.1), 2.3, 3.1, 3.2, 3.4, 4.1 through 4.6, 5.1, 5.2, 6.1 through 6.3, 9, 10, 12.2, 14, 15, 16, and 17.

19.3 Waiver; Consents and Approvals; Discretion. A Party's waiver of any particular right or breach or default shall not affect or impair that Party's later exercise of that right or the remedies relating to a breach or default of the same or a different kind, nor shall any delay, forbearance or omission of either Party to exercise any right arising out of this Agreement or any remedies relating to a breach or default, affect or impair that Party's rights as to the same or any future exercise of that right or breach or default. A Party's acceptance of any payment due to it shall not be deemed a waiver of any preceding breach of this Agreement. Any consent, approval, authorization or waiver granted under this Agreement will be valid only if in writing and signed by the Party to be charged. Licensor makes no warranties or guaranties and assumes no liability or obligation by providing any waiver, approval, or consent under this Agreement, or by reason of any neglect, delay, or denial of any request therefor. Without limitation of the foregoing, Licensor shall have no liability in connection with or related to the products or services offered or sold at and from any of the Restaurants, even if Licensor required, approved or consented to the product or service. Any provision of this Agreement that grants a Party the right to exercise its discretion shall be construed, unless otherwise conditioned or limited, to mean that Party's sole and absolute discretion.

19.4 Notices and Other Material Communications. Any notice, demand, report or other communication between the Parties with respect to this Agreement or provided for herein must be in writing, in the English language and signed by the Party serving the same and delivered by hand with receipt or by a reputable courier service with tracking capability to the other Party at its address listed on the signature page to this Agreement. Notices will be deemed to have been received if delivered as provided in this Section 19.4. The Party serving the notice shall have the burden of establishing that the notice was received by the other Party, but receipt shall be deemed proven by any third-party carrier’s written verification (including a standard form receipt in paper or electronic form) of its delivery of the notice to the other Party at the address listed on the signature page. Each Party may change its address by delivering written notice to the other Party identifying the new address.

19.5 Amendments. Except as otherwise expressly provided in this Agreement, this Agreement and the Brand licenses granted hereunder may be modified or amended only in writing executed by an authorized representative of each Party.

19.6 Binding Effect. The terms of this Agreement shall inure to the benefit of and be binding upon each Party and each Party’s permitted successors and assigns.

19.7 Governmental Approvals. If any Governmental Approvals must be obtained to enable the Parties to enter into and perform this Agreement, then Licensee will, at Licensee’s expense and with Licensor’s reasonable assistance (as needed), use its best efforts to obtain any such Governmental Approval, including Government Approvals with respect to the operation of the Brand Restaurant Businesses, payment of amounts required under this Agreement, and the offer and sale of Future Sublicenses. Neither Party shall apply for any Governmental Approval until the other Party has had an opportunity to review, comment on and consent (not to be unreasonably withheld) to all materials to be filed with any Governmental Authority. Neither Party shall be obligated to consent to any modification of this Agreement pursuant to or in order to obtain any discretionary Governmental Approval, and the Parties agree that the rights, licenses and privileges granted to Licensee under this Agreement are not meant to be increased or expanded by any Governmental Approval. If the consequence of any

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Governmental Approval is to alter or increase the rights or economic benefits of one Party to the detriment of the other, then the Parties shall cooperate in good faith to amend this Agreement as necessary to restore their respective rights and benefits to the status that existed prior to the implementation of such Governmental Approval.

19.8 Entire Agreement. This Agreement and all schedules, exhibits, and information incorporated into this Agreement by reference, collectively constitute the entire agreement between the Parties in respect to the subject matter hereof, and supersede all prior understandings or agreements between them in connection with the subject matter of this Agreement. There are no representations, arrangements, understandings or agreements, oral or written, between the Parties relating to the subject matter of this Agreement except those fully expressed herein and each Party disclaims any reliance on any such representations, arrangements, understandings, or agreements except those expressed herein, and no officer, employee, representative or agent of either Party has been or is authorized to make any representation, warranty, or promise not contained in this Agreement.

19.9 Survival. The limitations and obligations under this Agreement that, expressly or by their terms, extend beyond the transfer, expiration, or termination of this Agreement or any Brand license granted hereunder shall survive that transfer, expiration, or termination, including the obligation to pay all amounts due (including fees and related obligations pursuant to Section 3), and the provisions of Section 9 (confidentiality), Section 10 (non-competition), Section 11.1 (indemnity), Section 14 (breach), Section 15 (additional remedies), Section 16 (post-term obligations), Section 17 (dispute resolution), and Section 19 (general provisions).

19.10 Construction. A reference in this Agreement to “including” (or “include” or like term) will not be construed restrictively but will mean “including (or “include” or like term) without prejudice to the generality of the foregoing” and “including (or “include” or like term) but without limitation”. The term “shall” is a term of obligation. References to this Agreement will include any Recitals and Exhibits to it, and references to Sections are (unless otherwise indicated) to the sections of this Agreement. The headings are for convenience only and will not affect the interpretation of this Agreement. Unless the context otherwise requires or permits, references to the singular number will include references to the plural number and *vice versa*; references to a “person” will include any company, limited liability partnership, association, partnership, business trust, unincorporated association or other entity; references to a company will include any company, corporation or any body corporate, wherever incorporated; and words denoting any gender will include all genders.

19.11 Counterparts. This Agreement may be executed in one (1) or more counterparts, all of which shall be considered one (1) and the same agreement, and shall become effective when one (1) or more counterparts have been signed by each of the Parties and delivered to the other Party (it being agreed that delivery of a manual, stamp or mechanical signature, whether in person, by courier, by facsimile or by e-mail in portable document format, shall be effective).

19.12 Sublicensees Not Third Party Beneficiaries. The provisions of this Agreement do not and are not intended to confer upon any Sublicensee any rights or remedies hereunder.

[Signature page follows]

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IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute this Agreement to be effective as of the Effective Date.

**LICENSOR:**  
**Yum! Restaurants Asia Pte. Ltd.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Address:  
Yum! Restaurants Asia Pte. Ltd.  
99 Bukit Timah Road, #06-00  
Singapore 229835  
Attention:

**LICENSEE:**  
**Yum Restaurants Consulting (Shanghai) Company Limited**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Address:  
Yum Restaurants Consulting (Shanghai) Company Limited  
16/F Two Grand Gateway, 3 Hongqiao Road  
Shanghai, the People's Republic of China  
Attention:



## TAX MATTERS AGREEMENT

BY AND AMONG

YUM! BRANDS, INC.,

YUM CHINA HOLDINGS, INC.

AND

YUM RESTAURANTS CONSULTING (SHANGHAI) COMPANY LIMITED

DATED AS OF [·], 2016

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TAX MATTERS AGREEMENT

This TAX MATTERS AGREEMENT (this “Agreement”), dated as of [·], 2016, is by and among Yum! Brands, Inc., a North Carolina corporation (“YUM”), Yum China Holdings, Inc., a Delaware corporation (“SpinCo”), and Yum Restaurants Consulting (Shanghai) Company Limited, a company organized under the Laws of the People’s Republic of China (“YCCL”).

RECITALS

WHEREAS, the board of directors of YUM (the “YUM Board”) has determined that it is in the best interests of YUM and its shareholders to create a new publicly traded company that shall operate the SpinCo Business;

WHEREAS, in furtherance of the foregoing, the YUM Board has determined that it is appropriate and desirable to separate the SpinCo Business from the YUM Business (the “Separation”) and, following the Separation, make a distribution, on a pro rata basis and in accordance with a distribution ratio to be determined by the YUM Board, to holders of YUM Shares on the Record Date of all the outstanding SpinCo Shares owned by YUM (the “Distribution”);

WHEREAS, YCCL is an indirect wholly-owned subsidiary of SpinCo and the principal management company for the SpinCo Business;

WHEREAS, YUM, SpinCo and YCCL are entering into the Separation and Distribution Agreement (the “Separation and Distribution Agreement”), dated as of the date hereof, in order to carry out, effect and consummate the Separation and the Distribution and set forth the principal arrangements between them regarding the terms of the Separation and the Distribution;

WHEREAS, for U.S. federal income tax purposes, the Distribution is intended to qualify as a transaction that is generally tax-free under Sections 355 and 361 of the Code to YUM, its shareholders (except with respect to cash received in lieu of fractional shares) and SpinCo and, for purposes of China Capital Gains Tax, the Distribution is intended to qualify as a non-taxable transaction; and

WHEREAS, the Parties desire to provide for and agree upon the allocation between the Parties of Taxes and Tax Benefits arising prior to, as a result of, and subsequent to the Separation and the Distribution, and to provide for and agree upon other matters relating to Taxes.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

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ARTICLE I

DEFINITIONS

For the purpose of this Agreement, the following terms shall have the following meanings, and capitalized terms used herein and not otherwise defined in this Article I shall have the respective meanings assigned to them in the Separation and Distribution Agreement.

“Affiliate” shall mean, when used with respect to a specified Person, a Person that, directly or indirectly, through one (1) or more intermediaries, controls, is controlled by or is under common control with such specified Person. For the purpose of this definition, “control” (including with

correlative meanings, “controlled by” and “under common control with”), when used with respect to any specified Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or other interests, by Contract, agreement, obligation, indenture, instrument, lease, promise, arrangement, release, warranty, commitment, undertaking or otherwise. It is expressly agreed that, prior to, at and after the Effective Time, for purposes of this Agreement, (a) no member of the SpinCo Group shall be deemed to be an Affiliate of any member of the YUM Group, and (b) no member of the YUM Group shall be deemed to be an Affiliate of any member of the SpinCo Group.

“After-Tax Basis” shall mean, with respect to any liability indemnified in this Agreement, the actual amount of any payment to be made with respect to such liability, after increasing such payment by the cost of any Tax Detriment actually incurred by the recipient in respect of such payment, and reducing such payment by the value (as a reduction in Taxes payable for the Tax Year of such payment or as an increase in, or creation of, the amount of any Tax refunds for the Tax Year of such payment or any prior Tax Year) of any Tax Benefit actually realized by the recipient in respect of the payment of the indemnified liability, in each case such that the recipient is in the same after-tax position as it would have been in had no such Tax Detriment or Tax Benefit applied, which Tax Detriments and Tax Benefits shall be treated as actually incurred or actually realized, as the case may be, based on a with-and-without Tax calculation and assuming that all other Tax Items are taken into account prior to taking into account any such Tax Detriment or Tax Benefit.

“Agreement” shall have the meaning set forth in the Preamble.

“Ancillary Agreements” shall have the meaning set forth in the Separation and Distribution Agreement, but excluding this Agreement.

“Business” shall mean the YUM Business or the SpinCo Business, as the context requires.

“China Capital Gains Tax” shall mean any Tax arising from SAT Bulletin 7.

“China Tax Opinion” shall mean, with respect to a specified action, an opinion (or opinions) from a Tax Advisor (or Tax Advisors), at a “should” level of comfort, substantially to the effect that (subject to the assumptions, qualifications and limitations set forth therein) such

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action should not result in the Distribution or an Internal Distribution being subject to China Capital Gains Tax.

“China Taxable Property” shall mean property of an “establishment or place” situated in the PRC, real estate situated in the PRC, equity interests in PRC resident enterprises and any other property directly held by a non-resident enterprise the transfer of which results in enterprise income tax liability for the non-resident enterprise in accordance with the provisions of the *Enterprise Income Tax Law of the PRC*.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Controlling Party” shall mean the Party that has primary responsibility, control and discretion in handling, settling or conducting a Tax Contest pursuant to Section 5.2.

“Covered Separation Taxes” shall mean any Tax resulting from (i) any fact that constitutes a breach by any member of the SpinCo Group of any of the representations provided by any member of the SpinCo Group in the Tax Materials, (ii) any breach by any member of the SpinCo Group of any covenant of the SpinCo Parties under this Agreement (including Article VII) or (iii) any Section 355(e) Event.

“Distribution” shall have the meaning set forth in the Recitals.

“Due Date” shall have the meaning set forth in Section 4.4.

“Governmental Authority” shall mean any nation or government, any state, municipality or other political subdivision thereof, and any entity, body, agency, commission, department, board, bureau, court, tribunal or other instrumentality, whether federal, state, provincial, local, domestic, foreign, supranational or multinational, exercising executive, legislative, judicial, regulatory, administrative or other similar functions of, or pertaining to, a government and any executive official thereof.

“Group” shall mean either the SpinCo Group or the YUM Group, as the context requires.

“Intermediate Entities” shall mean those entities listed in Schedule D.

“Internal Distributions” shall mean the transactions described in Schedule B.

“IRS” shall mean the U.S. Internal Revenue Service.

“Joint Return” shall mean any Tax Return that includes Tax Items attributable to both the YUM Business and the SpinCo Business; provided, that (x) Tax Items described in Section 2.2(d)(ii) shall be ignored for purposes of this determination and (y) any (i) U.S. income Tax Return that includes a member of the YUM Group and (ii) Specified Company Return shall not be a Joint Return. For the avoidance of doubt, no Tax Return of a YUM Intermediate Entity shall be a Joint Return solely as a result of YUM’s responsibility for YUM Intermediate Entity Taxes pursuant to Section 2.1(a)(v).

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“Joint Taxes” shall mean any Taxes shown on a Joint Return or otherwise attributable to both the YUM Business and the SpinCo Business; provided, that (x) all U.S. income Taxes and U.S. income Tax Items (including U.S. credits for foreign Taxes paid) attributable to the Pre-Spin Period (based on an interim closing of the books as of and including the day of the Distribution Date) shall be deemed solely attributable to the YUM Business, except to the extent allocable to SpinCo pursuant to Section 3.1(c), and (y) any Taxes shown on a Specified Company Return shall be deemed solely attributable to the SpinCo Business.

“Law” shall mean any national, supranational, federal, state, provincial, local or similar law (including common law), statute, code, order, ordinance, rule, regulation, treaty (including any income tax treaty), license, permit, authorization, approval, consent, decree, injunction, binding judicial or administrative interpretation or other requirement, in each case, enacted, promulgated, issued or entered by a Governmental Authority.

“Non-Controlling Party” shall mean the Party that does not have primary responsibility, control and discretion in handling, settling or conducting a Tax Contest pursuant to Section 5.2.

“Non-Preparer” shall mean the Party not responsible for the preparation and filing of a Joint Return or a Separate Return, as applicable, pursuant to Section 3.1.

“Parties” shall mean YUM and the SpinCo Parties.

“Party” shall mean YUM, on the one hand, or the SpinCo Parties, on the other hand, as the context requires.

“Person” shall mean an individual, a general or limited partnership, a company, a corporation, a trust, a joint venture, an unincorporated organization, a limited liability entity, any other entity and any Governmental Authority.

“Post-Spin Period” shall mean any Tax Year (or portion thereof) beginning after the Distribution Date.

“PRC” shall mean the People’s Republic of China, excluding Hong Kong, Macau and Taiwan.

“Pre-Spin Period” shall mean any Tax Year (or portion thereof) ending on or before the Distribution Date.

“Preparer” shall mean the Party responsible for the preparation and filing of a Joint Return or a Separate Return, as applicable, pursuant to Section 3.1.

“Prime Rate” shall mean the rate that Bloomberg displays as “Prime Rate by Country United States” at <http://www.bloomberg.com/quote/PRIME:IND> or on a Bloomberg terminal at PRIMBB Index or, in the absence of Bloomberg displaying such rate, such other rate as YUM may reasonably determine as the equivalent rate.

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“Regarded Internal Distributions” shall mean the transactions described in Schedule C.

“Related Separation Transactions” shall mean the transactions described in Schedule 2.1(a) of the Separation and Distribution Agreement.

“Requesting Party” shall have the meaning set forth in Section 6.3.

“SAT Bulletin 7” shall mean the Tax notice issued by the PRC State Administration of Taxation titled *the State Administration of Taxation’s Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises* (国家税务总局公告2015年第7号) (State Administration of Taxation Bulletin [2015] No. 7 (国家税务总局公告2015年第7号)), as may be amended or supplemented from time to time and including any similar or replacement Law or regulation on the Tax treatment of offshore indirect transfers of any China Taxable Property including any applicable Laws in the PRC against the avoidance of PRC Tax.

“Section 355(e) Event” shall mean, with respect to SpinCo or a member of the SpinCo Group, any event involving the stock of SpinCo or an Affiliate of SpinCo or assets of any member of the SpinCo Group that causes the Distribution or a Regarded Internal Distribution to be a taxable event to any member of the YUM Group as the result of the application of Section 355(e) of the Code.

“Separate Return” shall mean any Tax Return that is not a Joint Return. For purposes of this Agreement, (i) a Separate Return of a member of the YUM Group includes any U.S. income Tax Return that includes a member of the YUM Group and (ii) a Separate Return of a member of the SpinCo Group includes any Specified Company Return.

“Separation” shall have the meaning set forth in the Recitals.

“Separation and Distribution Agreement” shall have the meaning set forth in the Recitals.

“Specified Company Return” shall mean any Tax Return filed or required to be filed by a Person listed on Schedule A.

“Specified Tax Returns” shall mean (x) any Tax Return relating to any Pre-Spin Period (including, for the avoidance of doubt, any Tax Return with respect to YUM Intermediate Entity Taxes), (y) any Tax Return relating to any payment made pursuant to the Master License Agreement and (z) any Tax Return relating solely to the YUM Business.

“SpinCo” shall have the meaning set forth in the Preamble.

“SpinCo Group” shall mean (a) with respect to any Pre-Spin Period, SpinCo, YCCL and each Person that will be a Subsidiary of SpinCo as of immediately after the Effective Time, including the Transferred Entities, even if, prior to the Effective Time, such Person is not a Subsidiary of SpinCo; and (b) with respect to any Post-Spin Period, SpinCo, YCCL and each Person that is a Subsidiary of SpinCo.

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“SpinCo Market Capitalization” shall mean the product of (i) the volume-weighted average trading price per share of shares of SpinCo common stock for the thirty (30) consecutive trading days beginning on and following the first (1<sup>st</sup>) trading day following the Distribution Date, as quoted by Bloomberg Financial Services through its “Volume at Price” function, rounded to the nearest whole cent, multiplied by (ii) the arithmetic average of the number of shares of SpinCo common stock outstanding, on a fully-diluted basis, on each of such thirty (30) trading days, rounded to two (2) decimal points.

“SpinCo Parties” shall mean SpinCo and YCCL.

“SpinCo Party Liability Percentage” shall mean the result, expressed as a percentage and rounded to two (2) decimal places, of (i) one hundred percent (100%) minus (ii) the YUM Liability Percentage.

“SpinCo Party Taxes” shall have the meaning set forth in Section 2.2(b).

“Subsidiary” shall mean, with respect to any Person, any corporation, company, limited liability company, joint venture, partnership or other entity of which such Person (a) beneficially owns, either directly or indirectly, more than fifty percent (50%) of (x) the total combined voting power of all classes of voting securities, (y) the total combined equity interests or (z) the capital or profit interests, in the case of a partnership, or (b) otherwise has the power to vote, either directly or indirectly, sufficient securities to elect a majority of the board of directors or similar governing body. For purposes of this Agreement, with respect to SpinCo, “Subsidiary” shall also include Hangzhou KFC Co., Ltd., Suzhou KFC Co., Ltd. and Wuxi KFC Co., Ltd.

“Supplemental Tax Opinion” shall mean, with respect to a specified action, an opinion (or opinions) (other than the Tax Opinions) from a Tax Advisor (or Tax Advisors), at a “will” level of comfort, substantially to the effect that (subject to the assumptions, qualifications and limitations set forth therein) (i) such action will not preclude the Distribution from qualifying for U.S. federal income Tax purposes as a tax-free transaction under Sections 355 and 361 of the Code to YUM, its shareholders (except with respect to cash received in lieu of fractional shares) and SpinCo and (ii) such action will not increase the amount of any Tax imposed on the Distribution or any of the Related Separation Transactions.

“Tax” or “Taxes” shall mean any income, gross income, gross receipts, profits, capital stock, franchise, withholding, payroll, social security, workers compensation, unemployment, disability, property, ad valorem, escheat, stamp, excise, severance, occupation, service, sales, use, license, lease, transfer, import, export, value added, alternative minimum, estimated or other similar tax (including any fee, assessment or other charge in the nature of or in lieu of any tax) imposed by any Governmental Authority and any interest, penalties, additions to tax or additional amounts in respect of the foregoing.

“Tax Advisor” shall mean (i) with respect to the Tax Opinions, Mayer Brown LLP and PricewaterhouseCoopers LLP or (ii) with respect to a Supplemental Tax Opinion or a China Tax Opinion, a law firm or accounting firm, nationally recognized in the applicable jurisdiction, mutually agreed by the Parties.

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“Tax Authority” shall mean, with respect to any Tax, the Governmental Authority that imposes such Tax, and the Governmental Authority (if any) charged with the assessment, determination or collection of such Tax for such Governmental Authority.

“Tax Benefit” shall mean any credit, deduction or other attribute (e.g., net operating loss or net capital loss) that may have the effect of decreasing any Tax.

“Tax Contest” shall mean an audit, review, examination or any other administrative or judicial proceeding with the purpose or effect of redetermining or recovering Taxes of any member of either Group (including any administrative or judicial review of any claim for refund).

“Tax Detriment” shall mean any income, gain or other attribute that may have the effect of increasing any Tax.

“Tax Item” shall mean any Tax Benefit or Tax Detriment.

“Tax Law” shall mean the Law of any Governmental Authority, and any controlling judicial or administrative interpretations of such Law, relating to any Tax.

“Tax Materials” shall mean (i) the representation letters delivered to any Tax Advisor in connection with the delivery of any Tax Opinion or Supplemental Tax Opinion and (ii) any other materials delivered or deliverable by YUM, either of the SpinCo Parties or any other Person in connection with any Tax Opinion or Supplemental Tax Opinion.

“Tax Opinion” shall mean any opinion to be delivered by any Tax Advisor to YUM in connection with the Distribution or the Related Separation Transactions, including (i) opinions from Mayer Brown LLP and PricewaterhouseCoopers LLP substantially to the effect that (subject to the assumptions, qualifications and limitations set forth therein) the Distribution will qualify for U.S. federal income tax purposes generally as a tax-free transaction under Sections 355 and 361 of the Code to YUM, its shareholders (except with respect to cash received in lieu of fractional shares) and SpinCo or (ii) one or more opinions of one or more of YUM’s tax advisors regarding certain other tax matters relating to the Distribution and the Related Separation Transactions.

“Tax Return” shall mean any report of Taxes due (including estimated Taxes), any claims for refund of Taxes paid, any information return with respect to Taxes, or any other similar report, statement, declaration or document required to be filed (by paper, electronically or otherwise) under any applicable Tax Law, including any attachments, exhibits or other materials submitted with any of the foregoing, and including any amendments or supplements to any of the foregoing.

“Tax Year” shall mean, with respect to any Tax, the year, or other period, if applicable, for which the Tax is reported as provided under applicable Tax Law.

“Treasury Regulations” shall mean the regulations promulgated from time to time under the Code as in effect for the relevant Tax Year.

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“YCCL” shall have the meaning set forth in the Preamble.

“YCCL Monthly Withholding Reports” shall mean any reports required to be filed by YCCL on a monthly basis with the applicable PRC Tax Authority with respect to withholding of PRC income Taxes on payments made pursuant to the Master License Agreement.

“YUM” shall have the meaning set forth in the Preamble.

“YUM Board” shall have the meaning set forth in the Recitals.

“YUM Group” shall mean YUM and each Person that is a Subsidiary of YUM (other than SpinCo and any other member of the SpinCo Group).

“YUM Intermediate Entity Taxes” shall mean all Taxes of the Intermediate Entities allocable to any Pre-Spin Period, but excluding any Taxes resulting from the Distribution or any of the Related Separation Transactions.

“YUM Liability Percentage” shall mean the quotient, expressed as a percentage and rounded to two (2) decimal points, of (i) the YUM Market Capitalization, divided by (ii) the sum of the YUM Market Capitalization plus the SpinCo Market Capitalization.

“YUM Market Capitalization” shall mean the product of (i) the volume-weighted average trading price per share of shares of YUM common stock for the thirty (30) consecutive trading days beginning on and following the first (1<sup>st</sup>) trading day following the Distribution Date, as quoted by Bloomberg Financial Services through its “Volume at Price” function, rounded to the nearest whole cent, multiplied by (ii) the arithmetic average of the number of shares of YUM common stock outstanding, on a fully-diluted basis, on each of such thirty (30) trading days, rounded to two (2) decimal points.

“YUM Taxes” shall have the meaning set forth in Section 2.2(a).

## ARTICLE II

### TAX LIABILITIES AND TAX BENEFITS

#### Section 2.1 Responsibility for Taxes.

(a) For any Tax Year (or portion thereof), YUM shall be liable for and indemnify the SpinCo Group on an After-Tax Basis, against the following Taxes (and any reasonable attorneys’ fees and other costs incurred in connection therewith), in each case excluding any Covered Separation Taxes:

(i) Taxes imposed on a member of the YUM Group or the SpinCo Group resulting from the Distribution or any of the Related Separation Transactions, except for any China Capital Gain Tax (which is covered in Section 2.1(a)(iv));

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(ii) Taxes shown on a Separate Return of a member of the YUM Group or relating solely to the YUM Business (in each case, other than Taxes resulting from the Distribution or any of the Related Separation Transactions);

(iii) Taxes that are Joint Taxes allocable to YUM as determined under Section 2.2 (other than Taxes resulting from the Distribution or any of the Related Separation Transactions);

(iv) the YUM Liability Percentage of any Taxes resulting from the imposition of China Capital Gains Tax with respect to the Distribution or the Internal Distributions; and

(v) YUM Intermediate Entity Taxes.

(b) For any Tax Year (or portion thereof), the SpinCo Parties shall jointly and severally be liable for and indemnify the YUM Group, on an After-Tax Basis, against the following Taxes (and any reasonable attorneys’ fees and other costs incurred in connection therewith):

(i) Taxes shown on a Separate Return of a member of the SpinCo Group or relating solely to the SpinCo Business (in each case, other than YUM Intermediate Entity Taxes and Taxes resulting from the Distribution or any of the Related Separation Transactions);

(ii) Taxes that are Joint Taxes allocable to the SpinCo Parties as determined under Section 2.2 (other than YUM Intermediate Entity Taxes and Taxes resulting from the Distribution or any of the Related Separation Transactions);

(iii) the SpinCo Party Liability Percentage of any Taxes resulting from the imposition of China Capital Gains Tax with respect to the Distribution or the Internal Distributions; and

(iv) Taxes that are Covered Separation Taxes.

#### Section 2.2 Allocation of Taxes.

(a) YUM. The portion of any Joint Taxes allocable to YUM (“YUM Taxes”) shall be determined by taking into account the following Tax Items on a pro forma stand-alone basis (as determined pursuant to Section 2.3):

(i) Tax Detriments (other than Tax Detriments resulting from the Distribution or any of the Related Separation Transactions) arising from the operation or ownership of the YUM Business,

(iii) Tax Benefits (other than Tax Benefits resulting from the Distribution or any of the Related Separation Transactions) arising from the operation or ownership of the SpinCo Business, but only to the extent such Tax Benefits are not taken into account in calculating SpinCo Party Taxes under Section 2.2(b)(ii).

(b) *SpinCo Parties*. The portion of any Joint Taxes allocable to the SpinCo Parties ("SpinCo Party Taxes") shall be determined by taking into account the following Tax Items on a pro forma stand-alone basis (as determined pursuant to Section 2.3).

(i) Tax Detriments (other than Tax Detriments resulting from the Distribution or any of the Related Separation Transactions) arising from the operation or ownership of the SpinCo Business,

(ii) Tax Benefits (other than Tax Benefits resulting from the Distribution or any of the Related Separation Transactions) arising from the operation or ownership of the SpinCo Business, and

(iii) Tax Benefits (other than Tax Benefits resulting from the Distribution or any of the Related Separation Transactions) arising from the operation or ownership of the YUM Business, but only to the extent such Tax Benefits are not taken into account in calculating YUM Taxes under Section 2.2(a)(ii).

(c) YUM shall pay SpinCo for any Tax Benefit that is taken into account in calculating the amount of Joint Taxes allocable to YUM pursuant to Section 2.2(a)(iii); *provided, however*, that payment for any such Tax Benefit arising in a Pre-Spin Period and utilized in a Tax Year beginning before the Distribution Date shall be required only if the creation or use of such Tax Benefit results from a Tax Contest resolved after the Distribution Date. The SpinCo Parties shall pay YUM for any Tax Benefit that is taken into account in calculating Joint Taxes allocable to the SpinCo Parties pursuant to Section 2.2(b)(iii); *provided*, that payment for any such Tax Benefit arising in a Pre-Spin Period and utilized in a Tax Year beginning before the Distribution Date shall be required only if the creation or use of such Tax Benefit results from a Tax Contest resolved after the Distribution Date.

(d) Rules for Determining from which Business a Tax Item Arises:

(i) Except to the extent otherwise provided in this Section 2.2, Tax Items shall be deemed to arise from the operation or ownership of the Business to which such items are most closely related.

(ii) Income and similar Taxes collected by withholding shall be deemed to arise solely from the Business of the recipient of the applicable payment.

(e) YUM shall be entitled to any refund relating to Taxes for which YUM is responsible pursuant to Section 2.1(a). The SpinCo Parties shall be entitled to any refund relating to Taxes for which the SpinCo Parties are responsible pursuant to Section 2.1(b).

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### Section 2.3 Special Rules.

(a) *Preparation of Pro Forma Calculations*. YUM shall be responsible for preparing, in its reasonable discretion, all pro forma stand-alone basis computations and allocations provided for in this Article II (including, for the avoidance of doubt, the allocations provided for in Section 2.2(b) and the determinations pursuant to Section 2.2(d)). YUM shall make available to SpinCo, and provide SpinCo with a reasonable opportunity to review, all such pro forma stand-alone basis computations and allocations and shall consider in good faith any comments relating to such computations and allocations that are provided in writing by SpinCo, which comments shall be provided by SpinCo no later than thirty (30) days after such computations and allocations are made available to SpinCo. YUM shall have no obligation to consider any comments that are provided more than thirty (30) days after such computations and allocations are made available to SpinCo.

(b) *Pro Forma Stand-Alone Basis*. For purposes of computing YUM Taxes and SpinCo Party Taxes on a pro forma stand-alone basis for purposes of Section 2.2, Tax Items shall be taken into account:

(i) only to the extent required or allowable under applicable Tax Law, determined as if the applicable Tax Return were filed on a pro forma stand-alone basis,

(ii) by using all applicable elections, accounting methods, and conventions used on the Tax Return on which such Tax Items are actually reported,

(iii) by applying the average Tax rate on such Tax Return; *provided*, if such Tax Item is within a category of Tax Items that is subject to a different rate of Tax than other categories of Tax Items on such Tax Return, the average Tax rate applicable to such category of Tax Items reported on the Tax Return shall apply with respect to such Tax Item, and

(iv) by treating Tax Benefits as used in the order specified under applicable Tax Law or, to the extent that such Tax Law does not specify the order of use, used pro rata.

(c) *Allocation in Straddle Periods*. For purposes of Section 2.2(c) and in determining the amount of any YUM Intermediate Entity Taxes with respect to a Tax Year that begins on or before and ends after the Distribution Date, Tax Items arising during any Tax Year that begins on or before and ends after the Distribution Date shall be treated as arising during the Pre-Spin Period or the Post-Spin Period based on an interim closing of the books as of and including the day of the Distribution Date. Notwithstanding the foregoing, Tax Items attributable to any such Tax Year that are calculated on

an annualized basis (including depreciation, amortization and depletion deductions) shall be apportioned between the Pre-Spin Period and the Post-Spin Period on a daily pro rata basis. For the avoidance of doubt, any amount included in the income of SpinCo pursuant to Section 951(a) of the Code for any period ending after the Distribution Date shall be attributable to the Post-Spin Period.

(d) *Differences between Taxes Shown on Joint Return and Taxes Computed on a Pro Forma Stand-Alone Basis.* If, without regard to this Section 2.3(d), the sum

of YUM Taxes and SpinCo Party Taxes relating to a Joint Return is different from the amount of Tax shown on such Joint Return, then the Tax shown on such Joint Return shall be allocated between the Parties in the same proportion as the amount of YUM Taxes or SpinCo Party Taxes, as appropriate, bears to the sum of YUM Taxes and SpinCo Party Taxes calculated with respect to such Joint Return.

### ARTICLE III

#### PREPARATION AND FILING OF TAX RETURNS

##### Section 3.1 Tax Returns.

(a) *Separate Returns.* YUM shall be responsible for preparing and timely filing (or causing to be prepared and filed) each Separate Return that is a Separate Return of a member of the YUM Group. The SpinCo Parties shall be responsible for preparing and timely filing (or causing to be prepared and filed) each Separate Return that is a Separate Return of a member of the SpinCo Group.

(b) *Joint Returns.*

(i) YUM shall be responsible for preparing and timely filing (or causing to be prepared and filed) all Joint Returns required to be filed under applicable Tax Law by a member of the YUM Group. The SpinCo Parties shall be responsible for preparing and timely filing (or causing to be prepared and filed) all Joint Returns required to be filed under applicable Tax Law by a member of the SpinCo Group. The Parties shall prepare (or cause to be prepared) Joint Returns with the same general degree of care used in preparing Separate Returns.

(ii) The Preparer shall make any Joint Return, or relevant portion thereof, available to the Non-Preparer a reasonable time period before the Joint Return is due, taking into account any extensions that the Preparer files, and shall consider in good faith any comments on such Tax Return that are provided in writing by the Non-Preparer, which comments shall be provided within a reasonable time period after such Tax Return is made available to the Non-Preparer. Furthermore, with respect to any Joint Return, the Preparer shall not take (and shall cause the members of the Preparer's Group not to take) any position that it knows, or reasonably should know, is inconsistent with the past practice of the YUM Group or the SpinCo Group, except as otherwise required by applicable Law.

(iii) If a Tax Benefit associated with a Joint Return for which the SpinCo Parties are the Preparer arises in any taxable period beginning after the Distribution Date, to the fullest extent permitted under applicable Tax Law, the relevant member of the SpinCo Group shall waive the carryback of such Tax Benefit to any taxable period beginning on or before the Distribution Date.

(c) *Pre-Distribution Earnings and Profits.* Notwithstanding anything to the contrary herein, YUM shall, in its sole discretion, determine the amount of, and allocate between YUM and SpinCo (and the members of their respective Groups) in connection with the

Distribution and the Related Separation Transactions, earnings and profits, foreign Taxes paid or accrued and other Tax Items, and such determinations and allocations shall control for all Tax Years, provided, that YUM shall provide SpinCo a reasonable opportunity to review such determinations and allocations, and YUM shall consider in good faith any reasonable written comments with respect to such allocations and determinations submitted by SpinCo. In the event of any redetermination or other adjustment affecting the amounts so determined or allocated, YUM shall, in its sole discretion, update the determinations and allocations made pursuant to this Section 3.1(c), subject to the requirements set forth in the first sentence of this Section 3.1(c).

(d) *Tax Benefits.* The Parties shall cooperate in good faith to ensure that the benefit of any Tax Benefits associated with any Taxes described in Section 2.2(d)(ii) is received by the Party conducting the Business in which such Tax is deemed to arise.

##### Section 3.2 Special Rules Relating to the Preparation of Tax Returns.

(a) *SpinCo Tax Returns.* With respect to any Tax Return for which the SpinCo Parties are the Preparer, during the seven (7) year period following the Distribution Date, the SpinCo Parties shall not take (and shall cause the members of the SpinCo Group not to take), except as otherwise required by applicable Law, any position that (i) could adversely affect any member of the YUM Group, or (ii) is inconsistent with the past practice of the YUM Group or the SpinCo Group. Furthermore, with respect to any Specified Tax Return for which the SpinCo Parties are the Preparer, the SpinCo Parties shall make such Specified Tax Return, or relevant portion thereof, available to YUM a reasonable time period before such Specified Tax Return is due, taking into account any extensions that the SpinCo Parties (or any SpinCo Group member) file, and shall incorporate all reasonable comments as are provided in writing by YUM. The SpinCo Parties shall not file any such Specified Tax Return without YUM's prior written consent, not to be unreasonably withheld, conditioned or delayed (it being understood that YUM shall provide such consent if YUM determines in its reasonable discretion that the applicable Tax Return, or position taken thereon, does not have any direct or indirect relevance to YUM). Notwithstanding the foregoing, the SpinCo Parties shall not be required to make available to YUM any YCCL Monthly Withholding Reports prior to filing and shall be permitted to file such YCCL Monthly Withholding Reports without YUM's prior written consent. The SpinCo Parties shall deliver to YUM copies of any such YCCL Monthly Withholding Reports within fifteen (15) days after filing with the applicable Tax Authority.

(b) *YUM Tax Returns.* YUM shall not take (and shall cause the members of the YUM Group not to take) any position with respect to the treatment of payments under the Master License Agreement that would adversely affect any member of the SpinCo Group, except as otherwise



required by applicable Law.

(c) *Reimbursement for Costs Incurred by Preparer.* The Non-Preparer of a given Tax Return may request that the Preparer amend such Tax Return for the benefit of the Non-Preparer. If the Preparer agrees, in its sole discretion, to amend such Tax Return, the Preparer shall be entitled to reimbursement from the Non-Preparer for any reasonable third-party costs that are attributable to the Non-Preparer's request, to the extent those costs exceed \$50,000. Notwithstanding the foregoing, if the Non-Preparer's request to amend is a result of Preparer's failure to prepare such Tax Return in compliance with Sections 3.2(a) and 3.2(b), the Preparer

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shall use commercially reasonable efforts to amend such Tax Return and the Preparer shall not be entitled to reimbursement from the Non-Preparer for any costs that are attributable to the Non-Preparer's request.

(d) *Allocation of Tax Items Between Joint Return and Related Separate Return.* If Tax Items are allocated between a Joint Return and any related Separate Return, then the Preparer of such Separate Return shall (and shall cause the members of its Group to) file the related Separate Return in a manner that is consistent with the reporting of such Tax Items on the Joint Return.

(e) *SAT Bulletin 7.* YUM and the SpinCo Parties shall each file, or cause the applicable members of the YUM Group or the SpinCo Group, respectively, to file, any Tax Returns (for the avoidance of doubt, including any Tax reporting filings) that are mandatorily required by SAT Bulletin 7 to be filed by such Person with respect to the Distribution and the Internal Distributions. YUM and the SpinCo Parties shall consult with their respective tax advisors and cooperate as reasonably necessary to ensure compliance with any applicable reporting requirements pursuant to SAT Bulletin 7, provided, however, that the SpinCo Parties shall not (and shall cause each member of the SpinCo Group not to) file any Tax Return (including any Tax reporting filing) or otherwise communicate with any Tax Authority with respect to the application of SAT Bulletin 7 to the Distribution or the Internal Distributions without YUM's prior written consent, or as otherwise mandatorily required by applicable Law.

(f) *Information Returns.* Any information return (such as IRS Form 5471) with respect to a member of the SpinCo Group that is required to be included in the U.S. federal income Tax Returns of both SpinCo and YUM for the Tax Year in which the Distribution occurs shall be prepared by YUM. YUM shall make any such information return available to SpinCo a reasonable time period before such information return is due, taking into account any available extensions, and shall consider in good faith any comments that are timely provided in writing by SpinCo.

Section 3.3 Financial Accounting Reports. With respect to Tax Items that are reflected on YUM's financial accounting books, during the seven (7) year period following the Distribution Date, SpinCo shall not prepare its financial accounting books in a manner that is inconsistent with YUM's reporting of such Tax Items.

## ARTICLE IV

### TAX PAYMENTS

Section 4.1 Payment of Taxes to Tax Authorities. YUM shall be responsible for remitting (or causing to be remitted) to the proper Tax Authority all Taxes shown (including Taxes for which the SpinCo Parties are wholly or partially liable pursuant to Section 2.1 or Section 2.2) on any Tax Return for which YUM is the Preparer, and the SpinCo Parties shall be responsible for remitting (or causing to be remitted) to the proper Tax Authority all Taxes shown (including Taxes for which YUM is wholly or partially liable pursuant to Section 2.1 or Section 2.2) on any Tax Return for which the SpinCo Parties are the Preparer.

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### Section 4.2 Indemnification Payments.

(a) *Tax Payments Made by the SpinCo Group.* If any member of the SpinCo Group remits a payment to a Tax Authority for Taxes for which YUM is wholly or partially liable under this Agreement, YUM shall remit to SpinCo the amount for which it is liable within thirty (30) days after receiving written notification requesting such amount.

(b) *Tax Payments Made by the YUM Group.* If any member of the YUM Group remits a payment to a Tax Authority for Taxes for which the SpinCo Parties are wholly or partially liable under this Agreement, the SpinCo Parties shall remit to YUM the amount for which they are liable within thirty (30) days after receiving written notification requesting such amount.

#### (c) *Payments for Tax Benefits.*

(i) If a member of the YUM Group uses a Tax Benefit for which SpinCo is entitled to reimbursement pursuant to Section 2.2(c), YUM shall pay to SpinCo, within thirty (30) days following the use of such Tax Benefit, an amount equal to the deemed value of such Tax Benefit, as determined in Section 4.2(c)(iv).

(ii) If a member of the SpinCo Group uses a Tax Benefit for which YUM is entitled to reimbursement pursuant to Section 2.2(c), the SpinCo Parties shall pay to YUM, within thirty (30) days following the use of such Tax Benefit, an amount equal to the deemed value of such Tax Benefit, as determined in Section 4.2(c)(iv).

(iii) For purposes of this Agreement, a Tax Benefit will be considered used (A) in the case of a Tax Benefit that generates a Tax refund, at the time such Tax refund is received and (B) in all other cases, at the time the Tax Return is filed with respect to such Tax Benefit or, if no Tax Return is filed, at the time the Tax would have been due in the absence of such Tax Benefit.

(iv) The deemed value of any such Tax Benefit will be (A) in the case of a Tax credit, the amount of such credit or (B) in the case of a Tax deduction, an amount equal to the product of (1) the amount of such deduction and (2) the highest statutory rate applicable

under Section 11 of the Code or other applicable rate under state, local or foreign Law, as appropriate.

Section 4.3 Initial Determinations and Subsequent Adjustments. The initial determination of the amount of any payment that one Party is required to make to another under this Agreement shall be made on the basis of the Tax Return as filed, or, if the Tax to which the payment relates is not reported in a Tax Return, on the basis of the amount of Tax initially paid to the Tax Authority. The amounts paid under this Agreement will be redetermined, and additional payments relating to such redetermination will be made, as appropriate, if as a result of an audit by a Tax Authority, an amended Tax Return, an actual or deemed payment under Section 4.2 in excess of the amounts owed thereunder, or for any other reason (i) additional Taxes to which such redetermination relates are subsequently paid, (ii) a refund of such Taxes is received, (iii) the Group to which a Tax Item is allocated changes or (iv) the amount or character

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of any Tax Item is adjusted or redetermined. Each payment required by the immediately preceding sentence (A) as a result of a payment of additional Taxes will be due thirty (30) days after the date on which the additional Taxes were paid, (B) as a result of the receipt of a refund will be due thirty (30) days after the refund was received, (C) as a result of a change in the allocation of a Tax Item will be due thirty (30) days after the date on which the final action resulting in such change is taken by a Tax Authority or either Party or any member of its Group or (D) as a result of an adjustment or redetermination of the amount or character of a Tax Item will be due thirty (30) days after the date on which the final action resulting in such adjustment or redetermination is taken by a Tax Authority or either Party or any member of its Group. If a payment is made as a result of an audit by a Tax Authority which does not conclude the matter, further adjusting payments will be made, as appropriate, to reflect the outcome of subsequent administrative or judicial proceedings.

Section 4.4 Interest on Late Payments. Payments pursuant to this Agreement that are not made by the date prescribed in this Agreement or, if no such date is prescribed, within thirty (30) days after written demand for payment is made (the “Due Date”) shall accrue interest for the period from and including the date immediately following the Due Date through and including the date of payment at a rate per annum equal to the Prime Rate plus three percent (3%). Such rate shall be redetermined at the beginning of each calendar quarter following such Due Date. Such interest will be payable at the same time as the payment to which it relates and shall be calculated on the basis of a year of three hundred sixty-five (365) days and the actual number of days for which due.

Section 4.5 Payments by or to Other Group Members. When appropriate under the circumstances to reflect the underlying liability for a Tax or entitlement to a Tax refund or Tax Benefit, a payment which is required to be made by or to YUM or the SpinCo Parties may be made by or to another member of the YUM Group or the SpinCo Group, as appropriate, but nothing in this Section 4.5 shall relieve YUM or the SpinCo Parties of their respective obligations under this Agreement.

Section 4.6 Procedural Matters. Any written notice for indemnification delivered to the indemnifying Party in accordance with Section 8.4 shall state the amount due and owing together with a schedule calculating in reasonable detail such amount (and shall include any relevant Tax records, statement, bill or invoice related to such Taxes, costs, expenses or other amounts due and owing). All payments required to be made by one Party to the other Party pursuant to this Article IV shall be made in U.S. Dollars by electronic, same day wire transfer. Payments shall be deemed made when received. If the indemnifying Party fails to make a payment to the indemnified Party within the time period set forth in this Article IV, the indemnifying Party shall pay to the indemnified Party, in addition to interest that accrues pursuant to Section 4.4, any reasonable costs or expenses incurred by the indemnified Party to secure such payment or to satisfy the indemnifying Party’s obligation to make the indemnification payment.

Section 4.7 Tax Consequences of Payments. Except as otherwise required by applicable Law, for all Tax purposes, the Parties agree to treat: (a) any payment required by this Agreement (other than payments with respect to interest accruing from the date an applicable payment is required to be made pursuant to this Agreement) as either a contribution by YUM to

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SpinCo or a distribution by SpinCo to YUM, as the case may be, occurring immediately prior to the Effective Time, or as a payment of an assumed or retained liability; and (b) any payment of interest as taxable or deductible, as the case may be, to the Party entitled under this Agreement to receive such payment or required under this Agreement to make such payment. In the event that, pursuant to Section 4.5 or otherwise pursuant to this Agreement any such payment is made by a member of the YUM Group or the SpinCo Group (other than YUM or SpinCo) or is received by a member of the YUM Group or the SpinCo Group (other than YUM or SpinCo), then for all Tax purposes the Parties shall treat such payment as being made and received by YUM or SpinCo, as the case may be, with corresponding distributions or contributions deemed to occur between YUM and the applicable members of the YUM Group or SpinCo and the applicable members of the SpinCo Group, as the case may be. If any payment under this Agreement causes, directly or indirectly, an increase in the Taxes owed by the recipient (or any of the members of its Group) under one or more applicable Tax Laws through withholding or otherwise, the payor’s payment obligation under this Agreement shall be grossed up to take into account any additional Taxes that may be owed by the recipient (or any of the members of its Group) as a result of such payment. For the avoidance of doubt, the preceding sentence shall not be applied to result in any duplication of a payment where, in accordance with another provision herein, a payment under this Agreement is calculated on an After-Tax Basis. The Parties shall cooperate in good faith to calculate any such gross up and After-Tax Basis amount, to minimize the amount of any Taxes imposed with respect to the receipt of any payment under this Agreement and to maximize the amount of any Tax Benefits to the recipient of any such indemnity payment with respect to the underlying liability. In the event that a Tax Authority asserts that the treatment by YUM, SpinCo or a member of their respective Groups of a payment pursuant to this Agreement should be other than as required pursuant to this Section 4.7, YUM or SpinCo, as appropriate, shall promptly provide written notice to the other Party and use its commercially reasonable efforts to contest such assertion.

Section 4.8 No Duplication. Notwithstanding anything to the contrary herein, nothing in this Agreement shall require a Party (or a member of such Party’s Group) to make any payment attributable to any indemnification for Taxes or payment of Taxes hereunder, or for any Tax Benefit, for which payment has previously been made by such Party (or a member of such Party’s Group) hereunder.

ARTICLE V

TAX CONTESTS

Section 5.1 Notices. Each Party shall promptly, and in all events within fifteen (15) days, provide written notice to the other Party of any pending or threatened Tax Contest of which it becomes aware relating to (i) Taxes for which it may be indemnified, or Tax Benefits for which it may be reimbursed, by the other Party hereunder, (ii) the qualification of the Distribution as a tax-free transaction under Sections 355 and 361 of the Code to YUM, its shareholders (except with respect to cash received in lieu of fractional shares) and SpinCo, (iii) application of China Capital Gains Tax to the Distribution or the Internal Distributions, (iv) any change in the Tax treatment of the Distribution or any of the Related Separation Transactions or (v) in the case of notice to be provided by the SpinCo Parties, any Specified Tax Return. Such notice shall contain factual information (to the extent known by the notifying Party or its agents

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or representatives) describing any asserted Tax liability in reasonable detail and shall be accompanied by copies of any notice and other documents received from any Tax Authority in respect of any such matters. If (i) an indemnified Party has knowledge of an asserted Tax liability with respect to a matter for which it is to be indemnified hereunder, (ii) such Party fails to give the indemnifying Party prompt notice of such asserted Tax liability and (iii) the indemnifying Party has the right, pursuant to Section 5.2, to control (or to elect to control) the Tax Contest relating to such Tax liability, then (A) if the indemnifying Party is precluded from contesting the asserted Tax liability as a result of the failure to give prompt notice, the indemnifying Party shall have no obligation to indemnify the indemnified Party for any Taxes arising out of such asserted Tax liability and (B) if the indemnifying Party is not precluded from contesting the asserted Tax liability, but such failure to give prompt notice results in a monetary detriment to the indemnifying Party, then any amount which the indemnifying Party is otherwise required to pay the indemnified Party pursuant to this Agreement shall be reduced by the amount of such detriment.

Section 5.2 Control of Tax Contests.

(a) *General Rule*. Except as otherwise provided in this Section 5.2, the Preparer of any Tax Return shall be the Controlling Party with respect to any Tax Contest involving a Tax reported on such Tax Return.

(b) *Certain Tax Contests*. The Non-Preparer shall be the Controlling Party with respect to that portion of any Tax Contest involving a Tax or Tax Benefit reported on a Joint Return where the Non-Preparer is liable for such Tax or entitled to reimbursement for such Tax Benefit under this Agreement and such Tax or Tax Benefit is separable from all other Taxes or Tax Benefits reported on such Joint Return. Notwithstanding anything herein to the contrary, YUM shall have the right, in its sole discretion, to elect to be the Controlling Party with respect to any Tax Contest relating to (i) the Distribution or any of the Related Separation Transactions and (ii) unless YUM determines in its reasonable discretion that the Tax Contest does not have any direct or indirect relevance to YUM, any Tax Return described in clauses (x) or (z) of the definition of Specified Tax Returns.

(c) *Non-Controlling Party Participation Rights*. With respect to any Tax Contest involving (w) a Tax for which the Non-Controlling Party may be liable or have an indemnification obligation under this Agreement, (x) a Tax Benefit for which the Non-Controlling Party may be entitled to reimbursement under this Agreement, (y) any Tax Return relating to any payment made pursuant to the Master License Agreement or (z) where the Non-Controlling Party is YUM, the Distribution, any of the Related Separation Transactions, or a Tax Return described in clauses (x) or (z) of the definition of Specified Tax Returns, (i) the Non-Controlling Party shall, at its own cost and expense, be entitled to participate in such Tax Contest or to propose joint counsel to represent both Parties with respect to the applicable Tax Contest, which proposal the Controlling Party shall consider in good faith, (ii) the Controlling Party shall keep the Non-Controlling Party reasonably informed and consult in good faith with the Non-Controlling Party and its Tax advisors with respect to any issue relating to such Tax Contest, (iii) the Controlling Party shall provide the Non-Controlling Party with copies of all correspondence, notices and other written materials received from any Tax Authority and shall otherwise keep the Non-Controlling Party and its Tax advisors advised of significant developments in the Tax

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Contest and of significant communications involving representatives of the Tax Authority, and shall provide the Non-Controlling Party with such other information relating to the Tax Contest as is reasonably requested by the Non-Controlling Party, (iv) the Non-Controlling Party may request that the Controlling Party take a position in respect of such Tax Contest, and the Controlling Party shall do so provided that (A) there exists substantial authority for such position (within the meaning of the accuracy-related penalty provisions of Section 6662 of the Code), (B) the adoption of such position would not reasonably be expected to increase any Taxes for which the Controlling Party is liable or decrease any Tax Benefit for which it is entitled to reimbursement during any foreseeable Tax Year (unless the Non-Controlling Party agrees to indemnify and hold harmless the Controlling Party from such increase in Taxes or reduction in Tax Benefits), and (C) the Non-Controlling Party agrees to reimburse the Controlling Party for any reasonable third-party costs that are attributable to the Non-Controlling Party's request, to the extent those costs exceed \$50,000, (v) the Controlling Party shall provide the Non-Controlling Party with a copy of any written submission to be sent to a Taxing Authority at least twenty (20) days prior to the submission thereof (provided, that in the event that such Taxing Authority requires a submission within twenty (20) days, the copy to the Non-Controlling Party shall be provided by the Controlling Party as soon as reasonably practicable after receiving communication of such requirement from such Taxing Authority) and shall give good faith consideration to any comments or suggested revisions that the Non-Controlling Party or its Tax advisors may have with respect thereto, and (vi) there will be no settlement, resolution or closing or other agreement with respect thereto without the prior consent of the Non-Controlling Party, which consent shall not be unreasonably withheld, conditioned or delayed.

(d) *Assistance with respect to Tax Contests*. At the request of the Controlling Party, the Non-Controlling Party shall take (and shall cause its Subsidiaries to take) any action (*e.g.*, executing a limited power of attorney) that is reasonably necessary in order for the Controlling Party's Group to handle, settle or conduct the Tax Contest. Each Party shall assist the other Party in taking (or causing to be taken) any remedial actions that are necessary or desirable to minimize the effects of any adjustment made by a Tax Authority. The Controlling Party shall reimburse the Non-Controlling Party for any reasonable out-of-pocket costs actually incurred in complying with this Section 5.2(d). The Controlling Party shall have no obligation to indemnify the Non-Controlling Party for any additional Taxes resulting from the Tax Contest, if the Non-Controlling Party fails to provide assistance in accordance with this Section 5.2(d), to the extent such additional Taxes are directly attributable to the Non-Controlling Party's failure to provide such assistance.

ARTICLE VI

ASSISTANCE AND COOPERATION

Section 6.1 Cooperation and Exchange of Information. Each Party shall provide to the other, as soon as practicable, such information and data as the other Party may reasonably request, such as customary internal Tax and accounting work papers, information and procedures, in connection with (A) enabling the other Party to complete and timely file all Tax Returns that may be required to be filed with respect to the activities of the Party (or any members of its Group), (B) determining a liability for Tax or a right to a Tax Benefit (or the amount of any of the foregoing), (C) conducting or participating in a Tax Contest or (D)

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satisfying any accounting or Tax requirements. The Parties will discuss in good faith any change in Tax Law that might reasonably be expected to affect any position taken on any Tax Return or in any Tax Contest that is subject to this Agreement. Each Party shall devote the personnel and resources necessary in order to carry out this Section 6.1 and shall make its employees available on a mutually convenient basis to provide explanations of any documents or information provided hereunder. Each Party shall carry out its responsibilities under this Section 6.1 charging to the other only the reasonable out-of-pocket costs actually incurred. Any information obtained under this Section 6.1 shall be kept in strict confidence, with at least the same degree of care and confidentiality that applies to YUM's confidential and proprietary information pursuant to policies in effect as of the Effective Time, except as otherwise may be necessary in connection with the filing of Tax Returns. Further, the provisions of Section 6.9 of the Separation and Distribution Agreement shall govern the confidentiality, disclosure and use of all confidential and proprietary information relating to Taxes.

Section 6.2 Reliance on Exchanged Information. If a member of the SpinCo Group supplies Tax records, documents or other information to a member of the YUM Group, or a member of the YUM Group supplies Tax records, documents or other information to a member of the SpinCo Group, and an officer of the receiving Group member intends to sign a statement or other document under penalties of perjury in reliance upon the accuracy of such Tax records, documents or other information, then a duly authorized officer of the Group member supplying such Tax records, documents or other information shall certify, to such officer's knowledge and belief, the accuracy and completeness of the Tax records, documents or other information so supplied. For the avoidance of doubt, the limitations of liability set forth in Section 6.5 of the Separation and Distribution Agreement shall apply to any such certification.

Section 6.3 Private Letter Rulings and Supplemental Tax Opinions. Each of the Parties agrees that at the reasonable request of the other Party (the "Requesting Party"), such Party shall cooperate and use reasonable efforts to (and shall cause its Subsidiaries to cooperate and use reasonable efforts to) assist the Requesting Party in obtaining, as expeditiously as reasonably practicable, a private letter ruling from the IRS with respect to the Distribution or to a Related Separation Transaction or a Supplemental Tax Opinion from a Tax Advisor. Within thirty (30) days after receiving an invoice from the other Party therefor, the Requesting Party shall reimburse such Party for all reasonable costs and expenses incurred by such Party and the members of its Group in connection with assisting the Requesting Party in obtaining any such private letter ruling or Supplemental Tax Opinion. Notwithstanding the foregoing, no Party shall be required to file any IRS letter ruling submission unless the other Party represents to the filing Party that (i) it has reviewed the IRS letter ruling submission and (ii) all information and representations, if any, relating to any member of the other Party's Group contained in the IRS letter ruling submissions are true, correct and complete in all material respects.

Section 6.4 Withholding and Reporting. With respect to stock of YUM or SpinCo delivered to any Person, YUM and the SpinCo Parties shall cooperate (and shall cause the members of their respective Groups to cooperate) so as to permit YUM to discharge any applicable Tax withholding and Tax reporting obligations, including the appointment of SpinCo or one or more of its Subsidiaries as the withholding and reporting agent if YUM or one or more of its Subsidiaries is not otherwise required or permitted to withhold and report under applicable Tax Law.

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Section 6.5 Retention of Tax Records. YUM and each of the SpinCo Parties each shall preserve (and shall cause the members of their respective Groups to preserve) all Tax records, documents or other similar information that are in their possession (or in the possession of the members of their respective Groups), and that could affect the liability of any member of the other Group for Taxes, for as long as the contents thereof may become material in the administration of any matter under applicable Tax Law, but in any event until the later of (i) the expiration of any applicable statutes of limitation, as extended, and (ii) seven (7) years after the Distribution Date.

## ARTICLE VII

### RESTRICTION ON CERTAIN ACTIONS OF THE GROUPS

Section 7.1 General Restrictions. Following the Effective Time, YUM and each of the SpinCo Parties each shall not (and shall cause the members of their respective Groups not to) take any action that, or fail to take any action the failure of which to take, would be inconsistent with (i) the qualification of the Distribution as a tax-free transaction described in Sections 355 and 361 of the Code to YUM, its shareholders (except with respect to cash received in lieu of fractional shares), and SpinCo, (ii) the treatment of the Distribution as not subject to China Capital Gains Tax or (iii) the tax-free treatment of the Distribution, the Internal Distributions or the Regarded Internal Distributions.

Section 7.2 Restricted Actions Relating to Tax Materials. Without limiting the other provisions of this Article VII, following the Effective Time, YUM and each of the SpinCo Parties each shall not (and shall cause the members of their respective Groups not to) take any action that, or fail to take any action the failure of which to take, would be reasonably likely to be inconsistent with, or cause any Person to be in breach of, any representation or covenant, or any material statement, made by YUM or either of the SpinCo Parties (or any member of their respective Groups), as applicable, in the Tax Materials.

Section 7.3 Certain SpinCo Actions Following the Distribution.

(a) General Rule. Except as provided in Section 7.3(b), and without limiting the other provisions of this Article VII, during the two-year period beginning on the Distribution Date, SpinCo shall not take or enter into a binding agreement to take (and the SpinCo Parties shall cause the members of the SpinCo Group not to take or enter into a binding agreement to take) any of the following actions:

(i) the facilitation or allowance of the SpinCo Group to cease being engaged in the SpinCo Business as an active trade or business (within the meaning of Section 355(b) of the Code);

(ii) the liquidation or partial liquidation of SpinCo;

(iii) the sale of fifty percent (50%) or more of the assets that constitute the SpinCo Business to any Person, other than an entity that is and will be wholly-owned, directly or indirectly, by SpinCo;

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(iv) the transfer of any assets in a transaction described in subparagraphs (A), (C), (D), (F), or (G) of Section 368(a) (1) of the Code to another entity, other than an entity that is and will be wholly-owned, directly or indirectly, by SpinCo;

(v) the transfer of fifty percent (50%) or more of the assets that constitute the SpinCo Business in a transaction described in Section 351 or Section 721 of the Code, other than a transfer to an entity that is and will be wholly-owned, directly or indirectly, by SpinCo;

(vi) the issuance of its stock (or any instrument that is convertible or exchangeable into any such stock), other than an issuance to which Treasury Regulations §§ 1.355-7(d)(8) or (9) applies;

(vii) the facilitation or permitting of, or other participation in, any acquisition (or deemed acquisition) of its stock that, together with any related transaction, would result in one or more Persons acquiring (or being deemed to acquire after applying the rules of Sections 355(e)(4)(C) and 355(e)(3)(B) of the Code) forty percent (40%) or more (by vote or value) of the outstanding stock of SpinCo; or

(viii) the redemption or other repurchase of its stock other than pursuant to open market stock repurchase programs meeting the requirements of Section 4.05(1)(b) of Rev. Proc. 96-30, 1996-1 C.B. 696, as in effect prior to its amendment by Rev. Proc. 2003-48, 2003-2 C.B. 86.

(b) *Opinion of Counsel with Respect to Restricted Actions.* SpinCo may take (or cause its Subsidiaries to take) (i) one or more of the actions listed in Sections 7.3(a)(i) through 7.3(a)(vi) if, and only if, SpinCo provides to YUM in advance a Supplemental Tax Opinion that is in form and substance satisfactory to YUM, in its sole discretion or (ii) an action listed in Sections 7.3(a)(vii) and 7.3(a)(viii) if, and only if, SpinCo provides to YUM in advance both (A) a Supplemental Tax Opinion and (B) a China Tax Opinion, each in form and substance satisfactory to YUM, in its sole discretion. Any such Supplemental Tax Opinion or China Tax Opinion must be delivered to YUM for its review and comment at least twenty (20) days prior to SpinCo (or any of its Subsidiaries) taking or entering into a binding agreement to take the applicable action, and SpinCo shall not (and the SpinCo Parties shall cause each member of the SpinCo Group not to) take or enter into a binding agreement to take the applicable action without YUM's prior written confirmation that the Supplemental Tax Opinion (and China Tax Opinion, if applicable) is in form and substance satisfactory to YUM, in its sole discretion.

Section 7.4 *Year of Distribution Restrictions.* During the period that begins on the Distribution Date and ends on the latest of (A) the end of the Tax Year of YUM in which the Distribution occurs, (B) the end of the Tax Year of the applicable SpinCo Group member in which the Distribution occurs or (C) December 31 of the calendar year in which the Distribution occurs, (i) the SpinCo Parties shall not take (and shall cause each member of the SpinCo Group not to take) any action outside the ordinary course of business (including, for the avoidance of doubt, sales of significant assets or non-payment of accrued intercompany liabilities) and (ii) the

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SpinCo Parties shall cause Yum! Franchise China Trust and Yum! Franchise China Trust II not to make any distributions.

Section 7.5 *Little Sheep.* During the one-year period beginning on the Distribution Date, the SpinCo Parties shall not take (and shall cause each member of the SpinCo Group not to take) any action (including the making of any election) that could reasonably be expected to result in Little Sheep Group Limited being classified for U.S. federal income tax purposes other than as a partnership.

## ARTICLE VIII

### MISCELLANEOUS

Section 8.1 *Entire Agreement.* This Agreement, together with the Separation and Distribution Agreement and the Ancillary Agreements, contain the entire agreement between the Parties with respect to the subject matter hereof, and supersede all previous agreements, negotiations, discussions, writings, understandings, commitments and conversations with respect to such subject matter, and there are no agreements or understandings between the Parties other than those set forth or referred to herein or therein.

Section 8.2 *Governing Law.* This Agreement (and any claims or disputes arising out of or related hereto or to the transactions contemplated hereby or to the inducement of any Party to enter herein, whether for breach of contract, tortious conduct or otherwise and whether predicated on common law, statute or otherwise) shall be governed by and construed and interpreted in accordance with the Laws of the State of Delaware irrespective of the choice of laws principles of the State of Delaware including all matters of validity, construction, effect, enforceability, performance and remedies.

Section 8.3 *Termination.* Notwithstanding any provision to the contrary, this Agreement may be terminated at any time prior to the Effective Time by YUM, in its sole and absolute discretion, without the approval or consent of any other Person, including the SpinCo Parties. After the Effective Time, this Agreement may not be terminated except by an agreement in writing signed by a duly authorized officer of each of the Parties. In the event of any termination of this Agreement prior to the Effective Time, this Agreement shall become void and neither Party (nor any of its Affiliates, directors, officers, or employees) shall have any Liability or obligation to the other Party (or any of its Affiliates) by reason of this Agreement.

Section 8.4 *Notices.* Unless expressly provided herein, all notices, requests, claims, demands or other communications under this Agreement shall be delivered in accordance with the requirements for the provision of notice set forth in Section 10.5 of the Separation and Distribution Agreement.

Section 8.5 Counterparts. This Agreement may be executed in one (1) or more counterparts, all of which shall be considered one (1) and the same agreement, and shall become effective when one (1) or more counterparts have been signed by each of the Parties and delivered to the other Party. The provisions of Section 10.1(d) of the Separation and Distribution Agreement shall, for the avoidance of doubt, apply to the execution of this Agreement.

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Section 8.6 Binding Effect; Assignability. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns; provided, that neither Party may assign any of its rights or assign or delegate any of its obligations under this Agreement without the express prior written consent of the other Party.

Section 8.7 No Third Party Beneficiaries. The provisions of this Agreement are solely for the benefit of the Parties and do not and are not intended to confer upon any Person except the Parties any rights or remedies hereunder, and there are no Third Party beneficiaries of this Agreement and this Agreement shall not provide any Third Party with any remedy, claim, Liability, reimbursement or other right in excess of those existing without reference to this Agreement.

Section 8.8 Severability. If any provision of this Agreement or the application thereof to any Person or circumstance is determined by an arbitrator or by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances or in jurisdictions other than those as to which it has been held invalid, void or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby. Upon such determination, the Parties shall negotiate in good faith in an effort to agree upon such a suitable and equitable provision to effect, as closely as possible, the original intent of the Parties.

Section 8.9 Waivers of Default; Remedies Cumulative. Waiver by a Party of any default by the other Party of any provision of this Agreement shall not be deemed a waiver by the waiving Party of any subsequent or other default, nor shall it prejudice the rights of the other Party. No failure or delay by a Party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall a single or partial exercise thereof prejudice any other or further exercise thereof or the exercise of any other right, power or privilege. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

Section 8.10 Amendments. No provisions of this Agreement may be deemed waived, amended, supplemented or modified by a Party, unless such waiver, amendment, supplement or modification is in writing and signed by the authorized representative of the Party against whom it is sought to enforce such waiver, amendment, supplement or modification.

Section 8.11 Authority. YUM represents on behalf of itself, SpinCo represents on behalf of itself, and YCCL represents on behalf of itself, as follows:

- (a) it has the requisite corporate or other power and authority and has taken all corporate or other action necessary in order to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby; and
- (b) this Agreement has been duly executed and delivered by it and constitutes a valid and binding agreement of it enforceable against it in accordance with the terms hereof.

Section 8.12 Specific Performance. Subject to the provisions of Article VII of the Separation and Distribution Agreement, in the event of any actual or threatened default in, or

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breach of, any of the terms, conditions and provisions of this Agreement, the Party or Parties who are, or are to be, thereby aggrieved shall have the right to specific performance and injunctive or other equitable relief in respect of its or their rights under this Agreement, in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative. The Parties agree that the remedies at law for any breach or threatened breach, including monetary damages, are inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at law would be adequate is waived. Any requirements for the securing or posting of any bond with such remedy are waived by each of the Parties.

Section 8.13 Mutual Drafting. This Agreement shall be deemed to be the joint work product of the Parties, and any rule of construction that a document shall be interpreted or construed against a drafter of such document shall not be applicable.

Section 8.14 Performance. All obligations of the SpinCo Parties under this Agreement are joint and several obligations of SpinCo and YCCL. YUM shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth in this Agreement to be performed by any member of the YUM Group. The SpinCo Parties shall cause to be performed, and hereby guarantee the performance of, all actions, agreements and obligations set forth in this Agreement to be performed by any member of the SpinCo Group.

Section 8.15 Limitations of Liability. Notwithstanding anything in this Agreement or the Separation and Distribution Agreement to the contrary, neither the SpinCo Parties or any other member of the SpinCo Group, on the one hand, nor YUM or any other member of the YUM Group, on the other hand, shall be liable under this Agreement to the other for any indirect, punitive, exemplary, remote, speculative or similar damages in excess of compensatory damages of the other (other than any such damages awarded to a Third Party with respect to a Third-Party Claim).

Section 8.16 Predecessors or Successors. Any reference to YUM, the SpinCo Parties, a Person or a Subsidiary in this Agreement shall include any predecessors or successors (*e.g.*, by merger or other reorganization, liquidation or conversion) of YUM, the SpinCo Parties, such Person or such Subsidiary, respectively.

Section 8.17 Expenses. Except as otherwise expressly provided for herein, or as otherwise agreed to in writing by the Parties, each Party and its Subsidiaries shall bear its own expenses incurred in connection with the preparation of Tax Returns and other matters related to Taxes under the provisions of this Agreement for which they are liable.

Section 8.18 Change in Law. Any reference to a provision of the Code or any other Tax Law shall include a reference to any applicable successor provision or Law.

Section 8.19 Disputes. The procedures for discussion, negotiation, mediation and arbitration set forth in Article VII of the Separation and Distribution Agreement shall apply to all disputes, controversies or claims (whether sounding in contract, tort or otherwise) that may arise out of or relate to, or arise under or in connection with, this Agreement.

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Section 8.20 Employment Tax Overlap. In the event of any conflict between this Agreement and the Employee Matters Agreement with respect to taxes associated with employees of either Group, the Employee Matters Agreement shall govern.

Section 8.21 Incorporation. Sections 10.8 (No Set-Off), 10.10 (Headings) and 10.15 (Interpretation) of the Separation and Distribution Agreement are hereby incorporated in this Agreement as if fully set forth herein.

[Signatures set forth on following page]

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives.

YUM! BRANDS, INC.

By:

\_\_\_\_\_  
Name:

Title:

YUM CHINA HOLDINGS, INC.

By:

\_\_\_\_\_  
Name:

Title:

YUM RESTAURANTS CONSULTING (SHANGHAI) COMPANY LIMITED

By:

\_\_\_\_\_  
Name:

Title:

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SCHEDULE A

<u>Entity Name</u>	<u>Country in which Organized</u>
Atto Primo (Shanghai) Co., Ltd.	China
Bai Sheng Restaurants China Holdings Limited	Hong Kong
Bai Sheng Restaurants (Hong Kong) Limited	Hong Kong
Baotou Little Sheep Jingchen Catering Co., Ltd.	China
Baotou Little Sheep Mutton Co., Ltd.	China
Baotou Little Sheep Shenhua Catering Company Limited	China
Baotou Yangwang Farming Company Limited	China
Beijing KFC Co., Ltd.	China
Beijing Pizza Hut Co., Ltd.	China
Beijing Yizhuang Little Sheep Catering Co., Ltd.	China
Beijing Zhichun Road Little Sheep Catering Co., Ltd.	China
Changsha Fuwang Catering Management Co., Ltd.	China
Changsha KFC Co., Ltd.	China

ChangSha Little Sheep Catering Administration Co., Ltd.	China
Changsha Yongao Catering Company Ltd.	China
China XiaoFeiYang Catering Chain Co., Ltd.	British Virgin Islands
Chongqing KFC Co., Ltd.	China
Dalian KFC Co., Ltd.	China
Dezhou Little Sheep Catering Co., Ltd.	China
Dongguan Humen Little Sheep Catering Company Limited	China
Dongguan KFC Co., Ltd.	China
East Dawning (Shanghai) Co., Ltd.	China
Foshan Little Sheep Catering Co., Ltd.	China
Foshan Mengjie Catering Company Limited	China
Fuzhou Cangshan Little Sheep Catering Co., Ltd.	China
Fuzhou Fuxing Little Sheep Catering Company Limited	China
Fuzhou Gulou Hualin Little Sheep Catering Co., Ltd.	China
Fuzhou Gulou Little Sheep Catering Company Limited	China
Fuzhou Taijiang Little Sheep Catering Co., Ltd.	China
Gansu Hongfu Little Sheep Catering Management Company Limited	China
Gansu Hongxi Little Sheep Catering Co., Ltd.	China
Gansu Hongxiang Little Sheep Catering Co., Ltd.	China
GanSu Little Sheep Catering Co., Ltd.	China
Guangzhou Little Sheep Corporation Consulting Management Co., Ltd.	China
Guangzhou Little Sheep Trading Company Limited	China
Guangzhou Xingwang Catering Co., Ltd. (f.k.a Guangzhou Hajie Catering Co., Ltd.)	China
Guangzhou Yingfeng Yijing Catering Co., Ltd.	China
Guangzhou Yuansheng Catering Co., Ltd.	China

Entity Name	Country in which Organized
Hangzhou KFC Co., Ltd.	China
Hangzhou YongAo Catering Co. Ltd.	China
Hohhot Little Sheep Catering Co., Ltd.	China
HuanSheng Advertising (Shanghai) Company Limited	China
Huansheng Consulting (Wuhan) Co., Ltd.	China
Huan Sheng Information Technology (Shanghai) Limited	China
Huizhou Yanfu Catering Management Co., Ltd.	China
Hulun Buir Little Sheep Xiqi Mutton Co., Ltd.	China
Inner Mongolia Little Sheep Catering Chain Company Limited	China
Inner Mongolia Little Sheep Food Company Limited (f.k.a Bayannur Little Sheep Meat Company Limited)	China
Inner Mongolia Little Sheep Meat Company Limited	China
Inner Mongolia Little Sheep Seasoning Company Limited	China
Jiangmen Pengjiang Little Sheep Catering Co., Ltd.	China
Jiaozuo Little Sheep Catering Co., Ltd.	China
Jinan Zhaofei Little Sheep Catering Co., Ltd.	China
Jinjiang Little Sheep Catering Co., Ltd.	China
Kentucky Fried Chicken Global B.V.	Netherlands
Kunming KFC Co., Ltd.	China
Lanzhou KFC Co., Ltd.	China
Little Sheep Catering Company Limited, Yongding Road, Beijing City	China
Little Sheep Group Limited	Cayman Islands
Little Sheep Hong Kong Company Limited	Hong Kong
Little Sheep Hong Kong Holdings Company Limited	Hong Kong
Little Sheep Macau - Restaurant Chain of Stores Limited	Macau
Little Sheep MongKok Company Limited	Hong Kong
Little Sheep Tsim Sha Tsui Company Limited	Hong Kong
Little Sheep Tsuen Wan Company Limited	Hong Kong
Little Sheep Yuenlang Co., Ltd.	Hong Kong
Nanchang KFC Co., Ltd.	China
Nanchang Taoyuan Little Sheep Catering Management Co, Ltd.	China
Nanjing KFC Co., Ltd.	China
Nanjing Lucheng Little Sheep Catering Business Management Company Limited	China
Nanjing Mengle Little Sheep Catering Company Limited	China
Nanjing MengYuan Little Sheep Catering Co., Ltd.	China
NanJing XingMeng Little Sheep Catering Co., Ltd.	China
Nanning KFC Co., Ltd.	China
Nanning Little Sheep Catering Chain Company Limited	China
Nanning Ruyun Catering Co., Ltd.	China
NingBo JiangDong ShuGuang Little Sheep Catering Co., Ltd.	China

Entity Name	Country in which Organized
Ningbo Little Sheep Catering Company Limited	China



Qingdao KFC Co., Ltd.	China
Shandong Little Sheep Hotel Management Company Limited	China
Shanghai Changning Little Sheep Catering Company Limited	China
Shanghai ChengShan Little Sheep Catering Co, Ltd.	China
Shanghai Fengnan Little Sheep Catering Co., Ltd.	China
Shanghai Gumei Little Sheep Catering Co., Ltd.	China
Shanghai Huijin Little Sheep Catering Co., Ltd.	China
Shanghai Jingan Little Sheep Catering Management Company Limited	China
Shanghai KFC Co., Ltd.	China
Shanghai Little Sheep Catering Company Limited	China
Shanghai Lujiabang Little Sheep Catering Company Limited	China
Shanghai Luyuan Little Sheep Catering Company Limited (fka Shanghai Chuangbao Shuangcheng Little Sheep Catering Company Limited)	China
Shanghai Pengpu Little Sheep Catering Company Limited	China
Shanghai Pizza Hut Co., Ltd.	China
Shanghai Putuo Little Sheep Catering Company Limited	China
Shanghai Qibao Little Sheep Catering Company Limited	China
Shanghai Qingpu Little Sheep Catering Management Company Limited	China
ShangHai WangYuan Little Sheep Catering Co., Ltd.	China
Shanghai Yangpu Little Sheep Catering Company Limited	China
Shanghai Zhenhua Little Sheep Catering Co., Ltd.	China
Shantou KFC Co., Ltd.	China
ShenYang MengXing Little Sheep Catering Co., Ltd.	China
Shenyang Minsheng Little Sheep Catering Company Limited	China
Shenyang Wangda Little Sheep Catering Co., Ltd.	China
Shenyang Xiangjiang Little Sheep Catering Company Limited	China
ShenYang YongAo Little Sheep Catering Co., Ltd.	China
Shenzhen Little Sheep Catering Chain Company Limited	China
Shenzhen Little Sheep Enterprise Company Limited	China
Shenzhen Tianjiao Catering Co., Ltd.	China
Shenzhen Xintu Catering Co., Ltd.	China
Shenzhen Huacai Catering Co., Ltd.	China
ShiShi Little Sheep Catering Co, Ltd.	China
Sunrise Investments Co., Ltd.	British Virgin Islands
Suzhou KFC Co., Ltd.	China
Taiyuan KFC Co., Ltd.	China
Tangshan Little Sheep Catering Co., Ltd.	China
Tianjin KFC Co., Ltd.	China
Wandle Investments Limited	Hong Kong
Wuhan Mengwang Catering Co., Ltd.	China

<b>Entity Name</b>	<b>Country in which Organized</b>
WuHan MengXiang Little Sheep Catering Co. Ltd.	China
WuHan YongAo Little Sheep Catering Co., Ltd.	China
Wuxi KFC Co., Ltd.	China
Xiamen KFC Co., Ltd.	China
Xiamen Lianqian Little Sheep Catering Co., Ltd.	China
Xiamen Shixin Little Sheep Catering Co., Ltd.	China
Xian Hepingmen Little Sheep Catering Co., Ltd.	China
Xian Hezong Little Sheep Catering Co., Ltd.	China
Xilinhot Xihua Farming Development Company Limited	China
XiNing Little Sheep Catering Co., Ltd.	China
Xinjiang KFC Co., Ltd.	China
Xinxiang Hongqi Heping Little Sheep Catering Co., Ltd.	China
YIF US LLC	U.S. (DE)
Yinchuan Little Sheep Catering Company Limited	China
YRI Hong Kong I Limited	Hong Kong
YRI Hong Kong II Limited	Hong Kong
YRI Hong Kong IV Limited	Hong Kong
Yum! (Shanghai) Food Co., Ltd.	China
Yum! Asia Holdings Pte. Ltd.	Singapore
Yum China E-Commerce Limited	Hong Kong
Yum! China Finance S.à r.l.	Luxembourg
Yum! Franchise China IV S.à r.l.	Luxembourg
Yum! Franchise China Trust	China
Yum! Franchise China Trust I S.à r.l.	Luxembourg
Yum! Franchise China Trust II	China
Yum! Franchise China Trust III	China
Yum! Franchise China Trust III S.à r.l.	Luxembourg
Yum! Franchise China Trust IV	China
Yum! Global Investments I B.V.	Netherlands
Yum! Global Investments II B.V.	Netherlands

Yum! Global Investments III LLC	U.S. (DE)
Yum! Restaurants (Chengdu) Co., Ltd.	China
Yum Restaurants (China) Investment Company Limited	China
Yum! Restaurants (Fuzhou) Co., Ltd.	China
Yum! Restaurants (Guangdong) Co., Ltd.	China
Yum! Restaurants (Shenyang) Co., Ltd.	China
Yum! Restaurants (Shenzhen) Co. Ltd.	China
Yum! Restaurants (Wuhan) Co., Ltd.	China
Yum! Restaurants (Xian) Co., Ltd.	China
Yum Restaurants Consulting (Shanghai) Company Limited	China
Yum! Restaurants International S.a.r.l.	Luxembourg

Entity Name	Country in which Organized
Zhengzhou Hezong Little Sheep Catering Co., Ltd.	China
Zhengzhou Hongzhuan Little Sheep Catering Co., Ltd.	China
Zhengzhou KFC Co., Ltd.	China
Zhongshan Little Sheep Catering Co., Ltd.	China

## SCHEDULE B

### INTERNAL DISTRIBUTIONS

- Pizza Hut Inc. (“PHI”), a California corporation, merges with and into Pizza Hut, LLC (“PHLLC”), a Delaware limited liability company (“LLC”) that is treated as a disregarded entity for U.S. federal income tax purposes, with PHLLC surviving the merger.
- Pizza Hut International, LLC (“PHILLC”), a Delaware LLC that is treated as a disregarded entity for U.S. federal income tax purposes, distributes certain preferred stock (the “KFCH Preferred Stock”) of KFC Holding Co. (“KFCH”), a Delaware corporation, to PHLLC.
- PHLLC distributes the KFCH Preferred Stock to Pizza Hut Holdings, LLC (“PHHLLC”), a Delaware LLC that is treated as a disregarded entity for U.S. federal income tax purposes.
- PHHLLC distributes the KFCH Preferred Stock to Yum! Brands, Inc. (“YUM”), a North Carolina corporation.
- YUM contributes the KFCH Preferred Stock to the capital of KFCH.
- Kentucky Fried Chicken International Holdings, Inc. (“KFCIH”), a Delaware LLC that is treated as a disregarded entity for U.S. federal income tax purposes, distributes its voting preferred stock in KFC Corporation (“KFCC”), a Delaware corporation, to KFCC.
- The US branch of Yum! International Finance Company S.à r.l. (“YIFCO”), a Luxembourg S.à r.l. that is treated as a corporation for U.S. federal income tax purposes, allocates its ownership in (i) Yum! Franchise China Trust IV (“CBT IV”), a Chinese Business Trust organized under the laws of China that is treated as a corporation for U.S. federal income tax purposes, and (ii) YIF US LLC (“YIF US”), a Delaware LLC that is treated as a disregarded entity for U.S. federal income tax purposes, to YIFCO.
- YIFCO transfers its interest in CBT IV, YIF US, and YRI Hong Kong IV Ltd. (“YRI HK IV”), a Hong Kong limited company that is treated as a disregarded entity for U.S. federal income tax purposes, to Yum! China Finance S.à r.l. (“Yum! China Finance”), an “off the shelf” Luxembourg S.à r.l. that is treated as a disregarded entity for U.S. federal income tax purposes, in exchange for two shares and share premium.
- Yum! China Finance allocates its interest in CBT IV and YIF US to its U.S. branch, Yum! China Finance S.à r.l., LLC.
- YIFCO distributes all of the outstanding stock of Yum! China Finance and cash to Yum! Restaurants International Management LLC (“YRIM”), as trustee of Yum! Franchise China Trust (“CBT I”), a Chinese Business Trust organized under the laws of China that is treated as a corporation for U.S. federal income tax purposes, through a distribution of interim dividend and profit brought forward.
- YRIM, as trustee of CBT I and Yum! Franchise China Trust III (“CBT III”), a Chinese Business Trust organized under the laws of China that is treated as a corporation for U.S. federal income tax purposes, transfers its legal title in the underlying trust property of

CBT I and CBT III to YRI Hong Kong I Ltd. (“YRI HK I”), a Hong Kong limited company that is treated as a disregarded entity for U.S. federal income tax purposes.

- YRIM contributes all of the stock of YRI HK I to Yum China Holdings, Inc., (“SpinCo”), a Delaware corporation, solely in exchange for SpinCo common shares.
- YRIM contributes all of the stock of Yum! Restaurants International S.à r.l. (“YRI Sarl”), a Luxembourg S.à r.l. that is treated as a disregarded entity for U.S. federal income tax purposes, and Kentucky Fried Chicken Global B.V. (“KFC Global BV”), a *Besloten Vennootschap* organized under the laws of the Netherlands that is treated as a disregarded entity for U.S. federal income tax purposes, to SpinCo solely in exchange for SpinCo common shares.

14. YRIM contributes all of the stock of Wandle Investments Limited (“Wandle”), a limited company organized under the laws of Hong Kong that is treated as a disregarded entity for U.S. federal income tax purposes, to SpinCo solely in exchange for SpinCo common shares.
15. YRIM transfers all issued and outstanding stock of SpinCo to Yum! International Participations (“YIP”), a Delaware LLC that is treated as a disregarded entity for U.S. federal income tax purposes, as a repurchase of one YRIM limited liability company membership interest unit, followed by the cancellation of such repurchased membership interest unit.
16. YIP transfers all issued and outstanding stock of SpinCo to Yum! Luxembourg Investments (“YLI”), a Delaware LLC that is treated as a corporation for U.S. federal income tax purposes, as a repurchase of one YIP limited liability company membership interest unit, followed by the cancellation of such repurchased membership interest unit.
17. YLI transfers all issued and outstanding stock of SpinCo to Yum! Restaurants International Holdings, Ltd. (“YRIHL”), a Delaware limited liability company that is treated as a disregarded entity for U.S. federal income tax purposes, as a repurchase of one YLI limited liability company membership interest unit, followed by the cancellation of such repurchased membership interest unit.
18. YRIHL transfers all issued and outstanding stock of SpinCo to KFCIH as a repurchase of one YRIHL limited liability company membership interest unit, followed by the cancellation of such repurchased membership interest unit.
19. KFCIH transfers all issued and outstanding stock of SpinCo to KFCC as a repurchase of one KFCIH limited liability company membership interest unit, followed by the cancellation of such repurchased membership interest unit.
20. KFCC transfers all issued and outstanding stock of SpinCo to KFCH as a repurchase of one share of KFCC common stock, followed by the retiring of such repurchased share.
21. KFCH transfers all issued and outstanding stock of SpinCo to YUM as a repurchase of one share of KFCH common stock, followed by the retiring of such repurchased share.

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#### SCHEDULE C

##### Regarded Internal Distributions

1. YRI Hong Kong II Ltd. (“YRI HK II”), a Hong Kong limited company that is treated as a disregarded entity for U.S. federal income tax purposes, as trustee of Yum! Franchise China Trust II (“CBT II”), a Chinese Business Trust organized under the laws of China that is treated as a corporation for U.S. federal income tax purposes, distributes all of the issued and outstanding shares of Yum! Asia Holdings S.à r.l. (“Yum! Asia Holdings”), an “off the shelf” Luxembourg S.à r.l. that is treated as a corporation for U.S. federal income tax purposes, pro rata to Yum! Global Investments I B.V. (“YGI I BV”) and Yum! Global Investments II B.V. (“YGI II BV”), each of which is a *Besloten Vennootschap* organized under the laws of the Netherlands that is treated as a disregarded entity for U.S. federal income tax purposes.
2. YRIM, as trustee of CBT I, distributes all of its stock in Yum! Asia Holdings pro rata to YRI Sarl and Yum! Franchise China Trust I S.à r.l. (“YF China I Sarl”), a Luxembourg S.à r.l. that is treated as a disregarded entity for U.S. federal income tax purposes.
3. YRIM transfers all issued and outstanding stock of SpinCo to YIP as a repurchase of one YRIM limited liability company membership interest unit, followed by the cancellation of such repurchased membership interest unit.
4. YLI transfers all issued and outstanding stock of SpinCo to YRIHL as a repurchase of one YLI limited liability company membership interest unit, followed by the cancellation of such repurchased membership interest unit.
5. KFCC transfers all issued and outstanding stock of SpinCo to KFCH as a repurchase of one share of KFCC common stock, followed by the retiring of such repurchased share.
6. KFCH transfers all issued and outstanding stock of SpinCo to YUM as a repurchase of one share of KFCH common stock, followed by the retiring of such repurchased share.

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#### SCHEDULE D

##### Intermediate Entities

<u>Entity Name</u>	<u>Country in which Organized</u>
Kentucky Fried Chicken Global B.V.	Netherlands
YIF US LLC	U.S. (DE)
YRI Hong Kong I Limited	Hong Kong
YRI Hong Kong II Limited	Hong Kong
YRI Hong Kong IV Limited	Hong Kong
Yum! Asia Holdings Pte. Ltd.	Singapore
Yum! China Finance S.à r.l.	Luxembourg
Yum! Franchise China IV S.à r.l.	Luxembourg
Yum! Franchise China Trust I S.à r.l.	Luxembourg
Yum! Franchise China Trust III S.à r.l.	Luxembourg
Yum! Global Investments I B.V.	Netherlands

Yum! Global Investments II B.V.  
Yum! Global Investments III LLC  
Yum! Restaurants International S.a.r.l.

Netherlands  
U.S. (DE)  
Luxembourg

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## EMPLOYEE MATTERS AGREEMENT

BY AND BETWEEN

YUM! BRANDS, INC.

AND

YUM CHINA HOLDINGS, INC.

DATED AS OF , 2016

## EMPLOYEE MATTERS AGREEMENT

This EMPLOYEE MATTERS AGREEMENT (this "Agreement"), dated as of [:], 2016, is by and between Yum! Brands, Inc., a North Carolina corporation ("YUM"), and Yum China Holdings, Inc., a Delaware corporation ("SpinCo").

RECITALS

WHEREAS, the board of directors of YUM (the "YUM Board") has determined that it is in the best interests of YUM and its shareholders to create a new publicly traded company that shall operate the SpinCo Business;

WHEREAS, in furtherance of the foregoing, the YUM Board has determined that it is appropriate and desirable to separate the SpinCo Business from the YUM Business (the "Separation") and, following the Separation, make a distribution, on a pro rata basis and in accordance with a distribution ratio to be determined by the YUM Board, to the shareholders of YUM of all the outstanding SpinCo Shares owned by YUM (the "Distribution");

WHEREAS, YUM and SpinCo are entering into the Separation and Distribution Agreement (the "Separation and Distribution Agreement"), dated as of the date hereof, in order to carry out, effect and consummate the Separation and the Distribution and set forth the principal arrangements between them regarding the terms of the Separation and the Distribution; and

WHEREAS, the Parties desire to provide for and agree upon the allocation between the Parties of the principal employment, compensation, equity plan, and other benefit plan arrangements of each of the Parties and their respective affiliates arising prior to, as a result of, and subsequent to the Separation and the Distribution, and to provide for and agree upon other matters relating to such matters.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

## ARTICLE I

## DEFINITIONS

Section 1.01. Defined Terms. For the purpose of this Agreement, the following terms shall have the following meanings, and capitalized terms used herein and not otherwise defined in this Article I shall have the respective meanings assigned to them in the Separation and Distribution Agreement.

- (a) "Action" has the meaning set forth in the Separation and Distribution Agreement.
- (b) "Adjusted YUM Award" means an Adjusted YUM Option, Adjusted YUM SAR, Adjusted YUM RSU Award, or Adjusted YUM PSU Award.
- (c) "Adjusted YUM Option" means a stock option granted pursuant to a YUM Equity Plan to purchase one or more YUM Shares as adjusted in accordance with Section 6.01.
- (d) "Adjusted YUM Option Value" means the Pre-Distribution Stock Value minus the exercise price of the YUM Option immediately prior to the Distribution Date.
- (a) "Adjusted YUM RSU Award" means a restricted stock unit award granted pursuant to a YUM Equity Plan as adjusted in accordance with Section 6.01.
- (b) "Adjusted YUM PSU Award" means a performance share unit award granted pursuant to a YUM Equity Plan as adjusted in accordance with Section 6.01.
- (c) "Adjusted YUM SAR" means a stock appreciation rights award granted pursuant to a YUM Equity Plan as adjusted in accordance with Section 6.01.

(d) “Adjusted YUM SAR Value” means the Pre-Distribution Stock Value minus the exercise price of the YUM SAR immediately prior to the Distribution Date.

(e) “Affiliate” has the meaning set forth in the Separation and Distribution Agreement. It is expressly agreed that, prior to, at and after the Effective Time, for purposes of this Agreement, (a) no member of the SpinCo Group will be deemed to be an Affiliate of any member of the YUM Group, and (b) no member of the YUM Group will be deemed to be an Affiliate of any member of the SpinCo Group.

(f) “Agreement” has the meaning set forth in the Preamble.

(g) “Ancillary Agreements” has the meaning set forth in the Separation and Distribution Agreement.

(h) “Approvals or Notifications” has the meaning set forth in the Separation and Distribution Agreement.

(i) “Benefit Plan” means any (i) “employee benefit plan,” as defined in ERISA Section 3(3) (whether or not such plan is subject to ERISA); and (ii) employment, compensation, severance, salary continuation, bonus, thirteenth month, incentive, retirement, thrift, superannuation, savings, pension, workers’ compensation, termination benefit (including termination notice requirements), termination indemnity, other indemnification, supplemental unemployment benefit, redundancy pay, profit sharing, deferred compensation, stock ownership, stock purchase, stock option, stock appreciation right, restricted stock, “phantom” stock, performance share, restricted stock unit, other stock-based incentive, change in control, paid time off, perquisite, fringe benefit, vacation, disability, life, or other insurance, death benefit, hospitalization, medical, or other compensatory or benefit plan, program, fund, agreement,

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arrangement, or policy of any kind (whether written or oral, qualified or nonqualified, funded or unfunded, foreign or domestic, currently effective or terminated), and any trust, escrow or similar agreement related thereto, whether or not funded, excluding any plan, program, fund, agreement, arrangement, or policy (other than for workers’ compensation liabilities) that is mandated by and maintained solely pursuant to applicable Law.

(j) “COBRA” means coverage required by Section 4980B of the Code or ERISA Section 601 et. seq.

(k) “Code” means the U.S. Internal Revenue Code of 1986, as amended.

(l) “Distribution” has the meaning set forth in the Recitals.

(m) “Distribution Date” has the meaning set forth in the Separation and Distribution Agreement.

(n) “Distribution Ratio” means the number of SpinCo Shares distributed in the Distribution in respect of one YUM Share.

(o) “Effective Time” has the meaning set forth in the Separation and Distribution Agreement.

(p) “EIDP Special Conversion Employee” means any Person who is a participant in the YUM EIDP as of the Distribution Date and who was living or working in Australia at any time at which such participant made a deferral under the YUM EIDP.

(q) “Employee” means, as applicable, an employee on the payroll of YUM or any other member of the YUM Group or SpinCo or any other member of the SpinCo Group, including any employee absent from work on account of vacation, jury duty, funeral leave, personal leave, sickness, short-term disability, long-term disability or workers’ compensation leave (in each case, unless treated as a separated employee for employment purposes), military leave, family leave, pay continuation leave, or other approved leave of absence or for whom an obligation to recall, rehire or otherwise return to employment exists under a contractual obligation or Law. A Former Employee is not considered an “Employee” for purposes of this Agreement.

(r) “Employee Recoupment Asset” means an employer’s right to repayment from an employee or former employee in respect of a tax equalization payment, sign-on bonus payment, relocation expense payment, tuition payment, reimbursement, loan, or other similar item, including any agreement related thereto.

(s) “Employment Agreement” means an employment contract between a member of the YUM Group or the SpinCo Group, as applicable, and an Employee.

(t) “ERISA” means the U.S. Employee Retirement Income Security Act of 1974, as amended.

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(u) “First Post-Distribution Trading Day” means, with respect to YUM Shares, the first day on or following the Distribution Date on which “regular-way” trading in YUM Shares is reported on the NYSE and, with respect to SpinCo Shares, the first day on or following the Distribution Date on which “regular way” trading in SpinCo Shares is reported on the NYSE.

(v) “Former Employee” means any individual whose employment with YUM and all of its Subsidiaries (including SpinCo and any other member of the SpinCo Group) terminated on or prior to the Distribution Date and for whom no obligation to recall, rehire or otherwise return to employment exists under a contractual obligation or applicable Law.

(w) “Governmental Authority” has the meaning set forth in the Separation and Distribution Agreement.

(x) “Group” has the meaning set forth in the Separation and Distribution Agreement.

(y) “Health and Welfare Plan” means any Benefit Plan established or maintained to provide Employees or Former Employees or their beneficiaries, through the purchase of insurance or otherwise, medical, dental, prescription, vision, short-term disability, long-term disability, death benefits,

life insurance, accidental death and dismemberment insurance, business travel accident insurance, employee assistance program, group legal services, wellness, cafeteria (including premium payment, health care flexible spending account, and dependent care flexible spending account components), travel reimbursement, transportation, vacation benefits, apprenticeship or other training programs, day care centers, or prepaid legal services benefits, including any “employee welfare benefit plan” (as defined in ERISA Section 3(1)), whether or not subject to ERISA, that is not a severance plan.

(z) “Incurred Claim” means a Liability related to services or benefits provided under a Benefit Plan, which will be deemed to be incurred: (i) with respect to medical, dental, vision, and prescription drug benefits, upon the rendering of services giving rise to such Liability; (ii) with respect to death benefits, life insurance, accidental death and dismemberment insurance, and business travel accident insurance, upon the occurrence of the event giving rise to such Liability; (iii) with respect to disability benefits, upon the date of disability, as determined by the applicable disability benefit insurance carrier or claim administrator; (iv) with respect to a period of continuous hospitalization, upon the date of admission to the hospital; and (v) with respect to tuition reimbursement or adoption assistance, upon completion of the requirements for such reimbursement or assistance, whichever is applicable.

(aa) “Indemnifying Party” means a Party required to indemnify any Person hereunder.

(bb) “Indemnitee” means a Party entitled to indemnification hereunder.

(cc) “Intrinsic Value of the Pre-Distribution YUM Option” shall mean the product of (i) the number of YUM Shares subject to the corresponding YUM Option immediately prior to the Distribution Date, multiplied by (ii) the Adjusted YUM Option Value, rounded to the nearest cent.

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(dd) “Intrinsic Value of the Pre-Distribution YUM RSU Award” shall mean the product of (i) the number of YUM Shares (including those attributable to dividend equivalent units) subject to the corresponding YUM RSU immediately prior to the Distribution Date, multiplied by (ii) the Pre-Distribution Stock Value.

(ee) “Intrinsic Value of the Pre-Distribution YUM SAR” shall mean the product of (i) the number of YUM Shares subject to the corresponding YUM SAR immediately prior to the Distribution Date, multiplied by (ii) the Adjusted YUM SAR Value, rounded to the nearest cent.

(ff) “Law” has the meaning set forth in the Separation and Distribution Agreement.

(gg) “Liabilities” has the meaning set forth in the Separation and Distribution Agreement.

(hh) “Notice” means any written notice, request, demand or other communication specifically referencing this Agreement and given in accordance with Section 7.08.

(ii) “NYSE” means the New York Stock Exchange.

(jj) “Party” or “Parties” means a party or the parties to this Agreement.

(kk) “Person” has the meaning set forth in the Separation and Distribution Agreement.

(ll) “Pre-Distribution Stock Value” means the volume weighted average per share price of one YUM Share, trading “regular-way,” as reported on the NYSE on the day immediately prior to the Distribution Date (or if such day is not an NYSE trading day, on the next preceding NYSE trading day).

(mm) “Pre-Spin Price Ratio” means the quotient of (i) the exercise price of the YUM Option or YUM SAR, as applicable, immediately prior to the Distribution Date, divided by (ii) the Pre-Distribution Stock Value, rounded to the nearest fourth decimal place.

(nn) “Prime Rate” has the meaning set forth in the Separation and Distribution Agreement.

(oo) “Restaurant Deferred Compensation Plan” means the Tricon Restaurant Deferred Compensation Plan, as effective October 7, 1997, as amended.

(pp) “Retained Employee” means any Employee other than a SpinCo Employee.

(qq) “Securities Act” means the U.S. Securities Act of 1933, as amended.

(rr) “Separation” has the meaning set forth in the Recitals.

(ss) “Separation and Distribution Agreement” has the meaning set forth in the Recitals.

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(tt) “Special Conversion Employee” means any Person who holds any outstanding YUM Award(s) as of the Distribution Date and who meets one or more of the following:

(i) the Person is a Chinese National who is working in China on the Distribution Date;

(ii) the Person is living or working in Thailand on the Distribution Date;

(iii) the Person was living or working in Australia or the Netherlands when any outstanding YUM Award held by the Person as of the Distribution Date vested, in whole or in part; and/or

(iv) the Person is a SpinCo Employee or a SpinCo Former Employee that received a grant of YUM RSUs in January 2016; provided, however, that this clause shall apply solely with respect to the grant of the YUM RSUs to such Person in January 2016.

(uu) “SpinCo” has the meaning set forth in the Preamble.

(vv) “SpinCo Award” means a SpinCo Option, SpinCo SAR or SpinCo RSU Award, as applicable, issued pursuant to Section 6.01.

(ww) “SpinCo Benefit Plan” means each Benefit Plan sponsored by, maintained by, or contributed to by any member of the SpinCo Group and that covers only SpinCo Employees and/or SpinCo Former Employees.

(xx) “SpinCo Business” has the meaning set forth in the Separation and Distribution Agreement.

(yy) “SpinCo Change of Control” has the meaning set forth in Section 6.01(b).

(zz) “SpinCo Employee” means any Employee who is (i) employed by any member of the SpinCo Group immediately prior to the Distribution Date and who continues in employment with the SpinCo Group from and after the Distribution Date, or (ii) hired by any member of the SpinCo Group on or after the Distribution Date.

(aaa) “SpinCo Equity Plan” means the Yum China Holdings, Inc. Long Term Incentive Plan.

(bbb) “SpinCo Former Employee” means a Former Employee who was primarily employed or engaged in the SpinCo Business immediately prior to such individual’s termination of employment.

(ccc) “SpinCo Group” has the meaning set forth in the Separation and Distribution Agreement.

(ddd) “SpinCo Health and Welfare Plan” means a SpinCo Benefit Plan that is a Health and Welfare Plan.

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(eee) “SpinCo Leadership Retirement Plan” means the Yum China Holdings, Inc. Leadership Retirement Plan.

(fff) “SpinCo Option” means a stock option issued under a SpinCo Equity Plan to purchase one or more SpinCo Shares in accordance with Section 6.01.

(ggg) “SpinCo Percentage” means the quotient of (i) the SpinCo Post-Distribution Stock Value, divided by (ii) the Total Post-Distribution Stock Value, rounded to the nearest cent.

(hhh) “SpinCo Post-Distribution Stock Value” means the volume weighted average per share price of one SpinCo Share, trading “regular-way,” as reported on the NYSE on the First Post-Distribution Trading Day.

(iii) “SpinCo Retirement Plan” means any SpinCo Benefit Plan that is a retirement or pension plan.

(jjj) “SpinCo RSU Award” means a restricted stock unit award issued by SpinCo in accordance with Section 6.01.

(kkk) “SpinCo SAR” means a stock appreciation rights award issued by SpinCo in accordance with Section 6.01.

(lll) “SpinCo Shares” has the meaning set forth in the Separation and Distribution Agreement.

(mmm) “Subsidiary” has the meaning set forth in the Separation and Distribution Agreement.

(nnn) “Tax” has the meaning set forth in the Tax Matters Agreement.

(ooo) “Tax Authority” has the meaning set forth in the Tax Matters Agreement.

(ppp) “Tax Matters Agreement” means the Tax Matters Agreement entered into between the Parties in connection with the Distribution.

(qqq) “Third Party” has the meaning set forth in the Separation and Distribution Agreement.

(rrr) “Third Party Claim” has the meaning set forth in Section 7.09(a).

(sss) “Total Post-Distribution Stock Value” means the sum of (i) the YUM Post-Distribution Stock Value plus (ii) the SpinCo Post-Distribution Stock Value.

(ttt) “YUM” has the meaning set forth in the first paragraph of this Agreement.

(uuu) “YUM 1997 LTIP” means the Yum 1997 Long Term Incentive Plan, as effective October 7, 1997.

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(vvv) “YUM 1999 LTIP” means the YUM! Brands, Inc. 1999 Long Term Incentive Plan, as effective May 20, 1999, as amended.



- (www) “YUM 401(k) Plan” means the YUM! Brands 401(k) Plan, as effective January 1, 2013, as amended October 21, 2015.
- (xxx) “YUM Award” means a YUM Option, YUM SAR, YUM RSU Award or YUM PSU Award, as applicable, which are subject to adjustment in accordance with Section 6.01 and/or with respect to which corresponding SpinCo Awards will be issued pursuant to Section 6.01.
- (yyy) “YUM Benefit Plan” means a Benefit Plan sponsored by, maintained by, or contributed to by any member of the YUM Group, other than a SpinCo Benefit Plan.
- (zzz) “YUM Board” has the meaning set forth in the Recitals.
- (aaaa) “YUM Change of Control” has the meaning set forth in Section 6.01(b).
- (bbbb) “YUM Compensation Committee” means the Management Planning and Development Committee of the YUM Board.
- (cccc) “YUM Director Deferred Compensation Plan” means, collectively, the YUM Director Deferred Compensation 409A Plan and the YUM Director Deferred Compensation Pre-409A Plan.
- (dddd) “YUM Director Deferred Compensation 409A Plan” means the YUM! Brands Director Deferred Compensation Plan, as effective January 1, 2005, and as amended through November 14, 2008.
- (eeee) “YUM Director Deferred Compensation Pre-409A Plan” the Yum (f/k/a Tricon) Director Deferred Compensation Plan, as effective October 7, 1997.
- (ffff) “YUM EICP” means the YUM! Brands, Inc. Executive Incentive Compensation Plan, as effective May 20, 2004, and as Amended through the Second Amendment, as effective May 21, 2009.
- (gggg) “YUM EIDP” means, collectively, the YUM EIDP Pre-409A Program and the YUM EIDP 409A Program.
- (hhhh) “YUM EIDP Pre-409A Program” means the YUM! Brands Executive Income Deferral Program, as effective October 7, 1997, and as amended through May 16, 2002.
- (iiii) “YUM EIDP 409A Program” means the YUM! Brands Executive Income Deferral Program, as effective January 1, 2005, and as amended through June 30, 2009.
- (jjjj) “YUM Equity Plan” means, collectively, the YUM 1997 LTIP, the YUM 1999 LTIP, the YUM GM Stock Plan, the YUM SharePower Plan, the YUM Performance Share Plan, and any incentive compensation program or arrangement that governs the terms of equity-

based incentive awards assumed by the YUM Group in connection with a corporate transaction and that is maintained by the YUM Group immediately prior to the Distribution Date (excluding the SpinCo Equity Plan and any other plan maintained solely by SpinCo or any other member of the SpinCo Group), and any sub-plans established under those programs.

- (kkkk) “YUM Former Employee” means a Former Employee who is not a SpinCo Former Employee.
- (llll) “YUM GM Stock Plan” means the YUM! Brands, Inc. Restaurant General Manager Stock Plan, as effective April 1, 1999, and as amended through June 23, 2003.
- (mmmm) “YUM Group” has the meaning set forth in the Separation and Distribution Agreement.
- (nnnn) “YUM Health and Welfare Plan” means a Health and Welfare Plan sponsored by, maintained by, or contributed to by any member of the YUM Group.
- (oooo) “YUM Non-U.S. Retirement Plan” means any Benefit Plan that is a pension or retirement plan (other than a severance plan) that is maintained by any member of the YUM Group for the benefit of Employees employed outside the U.S., other than a SpinCo Benefit Plan.
- (pppp) “YUM Option” means a stock option to purchase one or more YUM Shares granted under a YUM Equity Plan and outstanding immediately prior to the Distribution Date.
- (qqqq) “YUM Pension Equalization Plans” means, collectively, the YUM! Brands Pension Equalization Plan, as effective January 2005, and as Amended through December 31, 2010, and the YUM! Brands, Inc. Pension Equalization Plan, as effective January 2005, and as Amended through December 30, 2008, and as Amended effective January 1, 2012 and January 1, 2013, respectively.
- (rrrr) “YUM Percentage” means the quotient of (i) the YUM Post-Distribution Stock Value, divided by (ii) the Total Post-Distribution Stock Value, rounded to the nearest fourth decimal place.
- (ssss) “YUM Performance Share Plan” means the YUM! Brands, Inc. Performance Shares Plan, as amended and restated January 1, 2013.
- (tttt) “YUM Post-Distribution Stock Value” means the volume weighted average per share price of one YUM Share, trading “regular-way,” as reported on the NYSE on the First Post-Distribution Trading Date.
- (uuuu) “YUM PSU Award” means a performance stock unit award granted pursuant to a YUM Equity Plan and outstanding immediately prior to the Distribution Date.

(vvvv) “YUM RSU Award” means a restricted stock unit award granted pursuant to a YUM Equity Plan and outstanding immediately prior to the Distribution Date.

(www) “YUM Retirement Plan” means the YUM! Brands Retirement Plan, a defined benefit plan.

(xxxx) “YUM SAR” means a stock appreciation right award granted pursuant to a YUM Equity Plan and outstanding immediately prior to the Distribution Date.

(yyyy) “YUM SharePower Plan” means the YUM SharePower Plan, as effective October 7, 1997, and as amended through June 23, 2003.

(zzzz) “YUM Shares” has the meaning set forth in the Separation and Distribution Agreement.

## ARTICLE II

### GENERAL PRINCIPLES

#### Section 2.01. Allocation of Liabilities.

(a) *SpinCo Liabilities.* Effective as of the Effective Time (but in any case prior to the Distribution), and except as expressly provided in this Agreement, SpinCo hereby assumes (or retains) or will cause any other member of the SpinCo Group to assume (or retain) and agrees to (or to cause another member of the SpinCo Group to) pay, perform, fulfill, and discharge, all Liabilities (i) to the extent relating to, arising out of, or resulting from the employment (or termination of employment) of any SpinCo Employee or any SpinCo Former Employee, whether such Liabilities relate to or arise out of periods on, prior to or after the Distribution Date or (ii) which are expressly assumed or retained by the SpinCo Group pursuant to this Agreement.

(b) *YUM Liabilities.* Effective as of the Effective Time (but in any case prior to the Distribution), and except as expressly provided in this Agreement, YUM hereby assumes (or retains) or will cause any other member of the YUM Group to assume (or retain) and agrees to (or to cause another member of the YUM Group to) pay, perform, fulfill, and discharge, all Liabilities (i) to the extent relating to, arising out of, or resulting from the employment (or termination of employment) of any Retained Employee or any YUM Former Employee, whether such Liabilities relate to or arise out of periods on, prior to or after the Distribution Date or (ii) which are expressly assumed or retained by the YUM Group pursuant to this Agreement.

(c) *Intended Effect; Other Liabilities.* The intended effect of this Agreement, except to the extent expressly provided herein, is that (i) the SpinCo Group (or a member thereof) will assume or retain all Liabilities to or related to SpinCo Employees and SpinCo Former Employees and all Liabilities under or with respect to any SpinCo Benefit Plan or any Employment Agreement with any SpinCo Employee, and (ii) the YUM Group (or a member thereof) will assume and retain all Liabilities to or related to Employees and Former Employees other than SpinCo Employees and SpinCo Former Employees and all Liabilities under the YUM Benefit Plans (including those with respect to SpinCo Employees and SpinCo Former Employees) and any Employment Agreement with any Retained Employee. To the extent that this Agreement does not address particular Liabilities and the Parties later determine that such Liabilities should be allocated in connection with the Separation, the Parties will agree in good faith on the allocation, taking into account the handling of comparable Liabilities under this Agreement.

#### Section 2.02. Employment with SpinCo.

(a) *Retention of Employees.* From and after the Effective Time, the Parties intend for SpinCo Employees to remain employed by the SpinCo Group on a basis consistent with Section 2.02(b). The Parties will cooperate in good faith to identify clearly the SpinCo Employees. SpinCo will be responsible for, and will indemnify the YUM Group from and against, any Liabilities incurred (including any severance payments made): (i) in connection with the termination of a SpinCo Employee on or after the Distribution Date, (ii) arising from or in connection with a failure or refusal by any SpinCo Employee to continue in employment from and after the Distribution Date, and (iii) any other Liabilities retained or assumed by SpinCo (or any other member of the SpinCo Group) under this Agreement.

(b) *Compensation and Benefits.* Except as expressly provided in this Agreement, the SpinCo Group will provide to each SpinCo Employee as of the Distribution Date (i) base salary at the same rate as provided to that SpinCo Employee immediately prior to the Distribution Date, (ii) cash incentive compensation opportunities that are substantially similar to those offered to such SpinCo Employee immediately prior to the Distribution Date, and (iii) benefits under SpinCo Benefit Plans other than those specified in clause (ii) that are determined in the sole discretion of SpinCo (or the applicable member of the SpinCo Group) or otherwise as required by applicable Law, including the SpinCo Equity Plan and the SpinCo Leadership Retirement Plan. Nothing in the preceding sentence will prevent the SpinCo Group from modifying the compensation and benefits of a SpinCo Employee after the Distribution Date.

Section 2.03. Establishment of SpinCo Plans. From and after the Distribution Date, SpinCo will (or will cause another member of the SpinCo Group to) adopt or continue in effect the SpinCo Benefit Plans (and related trusts, if applicable, as determined by the Parties) that were in effect prior to the Distribution Date and such other SpinCo Benefit Plans as determined in the discretion of the SpinCo Group (or any member thereof), subject to the terms and conditions of Section 2.02(b). Notwithstanding the foregoing or any other provision of this Agreement, SpinCo will adopt the SpinCo Equity Plan and the SpinCo Leadership Retirement Plan prior to the Distribution Date.

Section 2.04. Transfers by Mutual Agreement. The Parties recognize that, prior to and/or for a period of twelve (12) months from the Distribution Date, they may determine it to be in their mutual best interests to transfer an individual classified (or who would otherwise be classified) as a Retained Employee to the SpinCo Group or to transfer an individual classified (or who would otherwise be classified) as a SpinCo Employee to the YUM Group. With the express written consent of each Party, such individual’s employment will be terminated by the YUM Group or the SpinCo Group, as applicable, and such Employee will be immediately hired by the other Party (such terminations and hires are referred to in this Section 2.04 as “transfers”). Retained Employees (or a person who would otherwise be classified as a Retained Employee, in any case with such status being determined as of the date of transfer) who are subsequently transferred to the SpinCo Group pursuant to this Section 2.04 will be treated as Retained Employees for all purposes hereof

during their time as Employees of the YUM Group until their actual transfer to the SpinCo Group, upon and following which the Parties will use commercially reasonable efforts to provide that they are treated as SpinCo Employees for all purposes hereof. SpinCo Employees (or a person who would otherwise be classified as a SpinCo Employee, with

such status being determined as of the date of transfer) who are subsequently transferred to the YUM Group pursuant to this Section 2.04 will be treated as SpinCo Employees for all purposes hereof during their time as Employees of the SpinCo Group until their actual transfer to the YUM Group, upon and following which the Parties will use commercially reasonable efforts to provide that they are treated as Retained Employees for all purposes hereof.

### ARTICLE III

#### YUM U.S. QUALIFIED AND NON-QUALIFIED RETIREMENT AND DEFERRED COMPENSATION PLANS

Section 3.01. YUM Retirement Plan. From and after the Distribution Date, the YUM Retirement Plan will continue to be responsible for all Liabilities thereunder and no assets or Liabilities of the YUM Retirement Plan will be transferred to any SpinCo Benefit Plan and the SpinCo Group will not assume any Liabilities under or with respect to the YUM Retirement Plan. Without limiting the generality of the foregoing, SpinCo Employees will cease to be active participants in the YUM Retirement Plan effective as of the Distribution Date and no SpinCo Employee will accrue any benefits under the YUM Retirement Plan for periods after the Distribution Date. All SpinCo Employees will be fully vested in their accrued benefits under the YUM Retirement Plan effective as of the Distribution Date.

Section 3.02. 401(k) Plan. From and after the Distribution Date, the YUM 401(k) Plan will continue to be responsible for all Liabilities thereunder and no assets or Liabilities of the YUM 401(k) Plan will be transferred to any SpinCo Benefit Plan and SpinCo will not assume any Liabilities under or with respect to the YUM 401(k) Plan. Without limiting the generality of the foregoing, SpinCo Employees will cease to be active participants in the YUM 401(k) Plan effective as of the Distribution Date and no SpinCo Employee will accrue any benefits under the YUM 401(k) Plan for periods after the Distribution Date. All SpinCo Employees will be fully vested in their benefits under the YUM 401(k) Plan effective as of the Distribution Date.

Section 3.03. YUM Pension Equalization Plans. From and after the Distribution Date, the YUM Group will continue to be responsible for all Liabilities under and with respect to the YUM Pension Equalization Plans and SpinCo will not assume any Liabilities under or with respect to the YUM Pension Equalization Plans. Without limiting the generality of the foregoing, SpinCo Employees will cease to be active participants in the YUM Pension Equalization Plans effective as of the Distribution Date and no SpinCo Employee will accrue any benefits under the YUM Pension Equalization Plans for periods after the Distribution Date. All SpinCo Employees will be fully vested in their accrued benefits under the YUM Pension Equalization Plans effective as of the Distribution Date. Except to the extent provided by the terms of the applicable YUM Pension Equalization Plan, no SpinCo Employee will be entitled to a distribution from any of the YUM Pension Equalization Plans effective as of the Distribution Date solely as a result of the Distribution.

Section 3.04. YUM EIDP. From and after the Distribution Date, the YUM Group will continue to be responsible for all Liabilities under and with respect to the YUM EIDP and SpinCo will not assume any Liabilities under or with respect to the YUM EIDP. Without limiting the generality of the foregoing, SpinCo Employees will cease to be active participants in

the YUM EIDP effective as of the Distribution Date and no SpinCo Employee will accrue any benefits under the YUM EIDP for periods after the Distribution Date except in accordance with the express terms and conditions of the YUM EIDP. Except to the extent provided by the terms of the YUM EIDP, no SpinCo Employee will be entitled to a distribution from the YUM EIDP effective as of the Distribution Date solely as a result of the Distribution.

Section 3.05. YUM EICP. From and after the Distribution Date, the YUM Group will continue to be responsible for all Liabilities under and with respect to the YUM EICP and SpinCo will not assume any Liabilities under or with respect to the YUM EICP. Without limiting the generality of the foregoing, SpinCo Employees will cease to be active participants in the YUM EICP effective as of the Distribution Date and no SpinCo Employee will accrue any benefits under the YUM EICP for periods after the Distribution Date except in accordance with the express terms and conditions of the YUM EICP. Except to the extent provided by the terms of the YUM EICP, no SpinCo Employee will be entitled to a distribution from the YUM EICP effective as of the Distribution Date solely as a result of the Distribution.

Section 3.06. YUM Director Deferred Compensation Plan. From and after the Distribution Date, the YUM Group will continue to be responsible for all Liabilities under and with respect to the YUM Director Deferred Compensation Plan and SpinCo will not assume any Liabilities under or with respect to the YUM Director Deferred Compensation Plan. Except to the extent provided by the terms of the YUM Director Deferred Compensation Plan, no participant will be entitled to a distribution from the YUM Director Deferred Compensation Plan effective as of the Distribution Date solely as a result of the Distribution.

### ARTICLE IV

#### YUM NON-U.S. RETIREMENT PLANS AND SPINCO RETIREMENT PLANS

Section 4.01. YUM Non-U.S. Retirement Plans. From and after the Distribution Date, each member of the YUM Group will continue to be responsible for all Liabilities under and with respect to any YUM Non-U.S. Retirement Plan to the extent that it was responsible for such Liabilities immediately prior to the Distribution Date, no assets or Liabilities of any such YUM Non-U.S. Retirement Plan will be transferred to SpinCo or any SpinCo Benefit Plan, and the SpinCo Group will not assume any Liabilities under or with respect to any such YUM Non-U.S. Retirement Plan for which the YUM Group was responsible immediately prior to the Distribution Date. Without limiting the generality of the foregoing, SpinCo Employees will cease to be active participants in the YUM Non-U.S. Retirement Plans effective as of the Distribution Date and no SpinCo Employee will accrue any benefits under any YUM Non-U.S. Retirement Plan for periods after the Distribution Date.

Section 4.02. SpinCo Retirement Plans. From and after the Distribution Date, each member of the SpinCo Group will continue to be responsible for all Liabilities under and with respect to any SpinCo Retirement Plan, no assets or Liabilities of any SpinCo Retirement Plan will be transferred

to any YUM Benefit Plan or any member of the YUM Group and no member of the YUM Group will assume or otherwise have any Liabilities under or with respect to any SpinCo Retirement Plan. Without limiting the generality of the foregoing, Retained Employees will cease to be active participants in any SpinCo Retirement Plan effective as of the Distribution

Date and no Retained Employee will accrue any benefits under any SpinCo Retirement Plan for periods after the Distribution Date except in accordance with the express terms and conditions of and applicable SpinCo Retirement Plan. All Retained Employees are currently, and will remain, fully vested in their accrued benefits under the YUM Retirement Plan from and after the Distribution Date.

## ARTICLE V

### WELFARE AND FRINGE BENEFIT PLANS

#### Section 5.01. Health and Welfare Plans.

##### (a) *Allocation of Liabilities; Generally.*

(i) Except as otherwise provided in this Agreement, from and after the Distribution Date, (A) the YUM Group and the YUM Health and Welfare Plans, as applicable, will continue to be responsible for all Liabilities under and with respect to the YUM Health and Welfare Plans (including all Incurred Claims, regardless of when the Incurred Claim arose or was incurred), (B) the YUM Group and the YUM Health and Welfare Plans, as applicable, will retain all assets relating to or associated with the YUM Health and Welfare Plans and Incurred Claims (including Medicare reimbursements, insurance payments and reimbursements, pharmaceutical rebates, and similar items), and (C) no assets or Liabilities of the YUM Health and Welfare Plans will be transferred to any SpinCo Benefit Plan and the SpinCo Group will not assume any Liabilities under or with respect to the YUM Health and Welfare Plans. Without limiting the generality of the foregoing, SpinCo Employees will cease to be active participants in the YUM Health and Welfare Plans effective as of the Distribution Date and no SpinCo Employee will be entitled to any benefits under the YUM Health and Welfare Plans for periods on or after the Distribution Date except as required by applicable Law.

(ii) Except as otherwise provided in this Agreement, from and after the Distribution Date, (A) the SpinCo Group and the SpinCo Health and Welfare Plans, as applicable, will continue to be responsible for all Liabilities under and with respect to the SpinCo Health and Welfare Plans (including all Incurred Claims, regardless of when the Incurred Claim arose or was incurred), (B) the SpinCo Group and the SpinCo Health and Welfare Plans, as applicable, will retain all assets relating to or associated with the SpinCo Health and Welfare Plans and Incurred Claims (including Medicare reimbursements, insurance payments and reimbursements, pharmaceutical rebates, and similar items), and (C) no assets or Liabilities of the SpinCo Health and Welfare Plans will be transferred to any YUM Benefit Plan and the YUM Group will not assume any Liabilities under or with respect to the SpinCo Health and Welfare Plans. Without limiting the generality of the foregoing, YUM Employees will cease to be active participants in the SpinCo Health and Welfare Plans effective as of the Distribution Date and no YUM Employee will be entitled to any benefits under the SpinCo Health and Welfare Plans for periods on or after the Distribution Date except as required by applicable Law.

(b) *COBRA.* Without limiting the generality of Section 5.01(a), the YUM Group will continue to be responsible for compliance with the health care continuation requirements of COBRA, and the corresponding provisions of the YUM Health and Welfare Plans with respect to any (i) Retained Employees and any Former Employees (and their covered dependents) who incur a qualifying event under COBRA on, prior to, or following the Distribution Date, and (ii) any SpinCo Employees (and their covered dependents) who incur a qualifying event under COBRA on or prior to the Distribution Date.

Section 5.02. Vacation, Holidays and Leaves of Absence. Effective as of the Distribution Date, SpinCo will (or will cause any other member of the SpinCo Group to) retain (or assume) all Liabilities of the YUM Group with respect to vacation, holiday, annual leave or other leave of absence, and required payments related thereto, for each SpinCo Employee and each SpinCo Former Employee. YUM will (or will cause any other member of the YUM Group to) retain all Liabilities with respect to vacation, holiday, annual leave or other leave of absence, and required payments related thereto, for all Retained Employees and YUM Former Employees.

Section 5.03. Severance and Unemployment Compensation. Effective as of the Distribution Date, SpinCo will (or will cause another member of the SpinCo Group to) retain (or assume) all Liabilities to, or relating to, SpinCo Employees and SpinCo Former Employees in respect of severance and unemployment compensation. The YUM Group will be responsible for any and all Liabilities to, or relating to, Retained Employees and YUM Former Employees in respect of severance and unemployment compensation.

Section 5.04. Workers' Compensation. With respect to claims for workers' compensation in the United States, (a) the SpinCo Group will be responsible for claims in respect of SpinCo Employees and SpinCo Former Employees, whether occurring or related to events occurring prior to, on or following the Distribution Date, and (b) the YUM Group will be responsible for all claims in respect of Retained Employees and YUM Former Employees, whether occurring or related to events occurring prior to, on or following the Distribution Date.

## ARTICLE VI

### EQUITY AND INCENTIVE PROGRAMS

#### Section 6.01. Equity Plans.

(a) The Parties will use commercially reasonable efforts to take all actions necessary or appropriate so that each outstanding YUM Option, YUM SAR, YUM RSU Award, and YUM PSU Award granted under a YUM Equity Plan will be adjusted as set forth in this Section 6.01.

(i) *YUM Options.* As determined by the YUM Compensation Committee pursuant to its authority under the applicable YUM Equity Plan, each YUM Option, regardless of by whom held, whether vested or unvested, will be converted effective as of the Distribution Date as

(A) Each YUM Option held by a Special Conversion Employee will be converted effective as of the Distribution Date into either an Adjusted YUM Option (for Retained Employees and YUM Former Employees) or a SpinCo

Option (for SpinCo Employees and SpinCo Former Employees). Except as otherwise provided in this Section 6.01, each Adjusted YUM Option and each SpinCo Option will be subject to the same terms and conditions (including with respect to vesting and termination) after the conversion as applied to such YUM Option immediately prior to the conversion; provided, however, that:

- (1) the per share exercise price of each Adjusted YUM Option subject to this Section 6.01(a)(i)(A) will be equal to the product of (I) the YUM Post-Distribution Stock Value, multiplied by (II) the Pre-Spin Price Ratio, rounded up to the nearest cent;
- (2) the number of YUM Shares subject to each Adjusted YUM Option subject to this Section 6.01(a)(i)(A) will be equal to the quotient of (I) the Intrinsic Value of the Pre-Distribution YUM Option; divided by (II) the difference between (A) the YUM Post-Distribution Stock Value and (B) the exercise price calculated pursuant to Section 6.01(a)(i)(A)(1), rounded down to the nearest whole share;
- (3) the per share exercise price of each SpinCo Option subject to this Section 6.01(a)(i)(A) will be equal to the product of (I) the SpinCo Post-Distribution Stock Value, multiplied by (II) the Pre-Spin Price Ratio, rounded up to the nearest cent;
- (4) the number of SpinCo Shares subject to each SpinCo Option subject to this Section 6.01(a)(i)(A) will be equal to the quotient of (I) the Intrinsic Value of the Pre-Distribution YUM Option; divided by (II) the difference between (A) the SpinCo Post-Distribution Stock Value and (B) the exercise price calculated pursuant to Section 6.01(a)(i)(A)(3), rounded down to the nearest whole share;

provided, however, that the exercise price, the number of YUM Shares and the number of SpinCo Shares subject to such awards, and the terms and conditions of exercise of such awards will be determined (x) in a manner that is consistent with Code Section 409A and, (y) in the case of any YUM Option to which Code Section 421 applies by reason of its qualification under Code Section 422 immediately prior to the Distribution Date, in a manner consistent with the requirements of Code Section 424(a).

(5) Except where prohibited by local law, if the sum of the differences between (I) the Intrinsic Value of the Pre-Distribution YUM Option, minus (II) the Intrinsic Value of the Post-Distribution Adjusted YUM Option for all Adjusted YUM Options subject to this Section 6.01(a)(i)(A) held by the same holder is \$20.00 or more, then the holder of such Adjusted YUM Options will receive payment in respect of each such Adjusted YUM Option in an amount equal to such difference, calculated separately for each such Adjusted YUM Option.

(6) Except where prohibited by local law, if the sum of the differences between (I) the Intrinsic Value of the Pre-Distribution YUM Option, minus (II) the Intrinsic Value of the Post-Distribution SpinCo Option for all SpinCo Options subject to this Section 6.01(a)(i)(A) held by the same holder is \$20.00 or more, then the holder of such SpinCo Options will receive payment in respect of each such SpinCo Option in an amount equal to such difference, calculated separately for each such SpinCo Option.

(7) For purposes of this Section 6.01(a)(i)(A) only, the following terms shall have the following meanings:

(I) “Intrinsic Value of the Post-Distribution Adjusted YUM Option” shall mean, rounded to the nearest cent, the product of (A) the number of YUM Shares subject to Adjusted YUM Options issued pursuant to Section 6.01(a)(i)(A)(2), multiplied by (B) the difference between (x) the YUM Post-Distribution Stock Value minus (y) the per share exercise price calculated pursuant to Section 6.01(a)(i)(A)(1); and

(II) “Intrinsic Value of the Post-Distribution SpinCo Option” shall mean, rounded to the nearest cent, the product of (A) the number of SpinCo Shares subject to SpinCo Options issued pursuant to Section 6.01(a)(i)(A)(4), multiplied by (B) the difference between (x) the SpinCo Post-Distribution Stock Value minus (y) the per share exercise price calculated pursuant to Section 6.01(a)(i)(A)(3).

(B) Each YUM Option other than those described in Section 6.01(a)(i)(A) will be converted effective as of the Distribution Date into both an Adjusted YUM Option and a SpinCo Option. Except as otherwise provided in this Section 6.01, each Adjusted YUM Option and each SpinCo Option will be subject to the same terms and conditions (including with respect to vesting and termination) after the conversion as applied to such YUM Option immediately prior to the conversion; provided, however, that:

- (1) the per share exercise price of each Adjusted YUM Option subject to this Section 6.01(a)(i)(B), will be equal to the product of (I) the YUM Post-Distribution Stock Value, multiplied by (II) the Pre-Spin Price Ratio, rounded up to the nearest cent;
- (2) the number of YUM Shares subject to each Adjusted YUM Option subject to this Section 6.01(a)(i)(B), rounded down to the nearest whole share, will be equal to the quotient of (I) the product of (A) the Intrinsic Value of the Pre-Distribution YUM Option, multiplied by (B) the YUM Percentage, divided by (II) the difference between (A) the YUM

Post-Distribution Stock Value, minus (B) the per share exercise price calculated pursuant to Section 6.01(a)(i)(B)(1);

(3) the per share exercise price of each SpinCo Option issued pursuant to this Section 6.01(a)(i)(B) will be equal to the product of (I) the SpinCo Post-Distribution Stock Value, multiplied by (II) the Pre-Spin Price Ratio, rounded up to the nearest cent; and

(4) the number of SpinCo Shares subject to each SpinCo Option issued pursuant to this Section 6.01(a)(i)(B), rounded down to the nearest whole share, will be equal to the quotient of (I) the product of (A) the Intrinsic Value of the Pre-Distribution YUM Option, multiplied by (B) the SpinCo Percentage, divided by (II) the difference between (A) the SpinCo Post-Distribution Stock Value, minus (B) the per share exercise price calculated pursuant to Section 6.01(a)(i)(B)(3);

provided, however, that the exercise price, the number of YUM Shares and the number of SpinCo Shares subject to such awards, and the terms and conditions of exercise of such awards will be determined (x) in a manner that is consistent with Code Section 409A, and (y) in the case of any YUM Option to which Code Section 421 applies by reason of its qualification under Code Section 422 immediately prior to the Distribution Date, in a manner consistent with the requirements of Code Section 424(a).

(5) Except where prohibited by local law, if the sum of the differences between (I) the Intrinsic Value of the Pre-Distribution YUM Option and (II) the Intrinsic Value of the Post-Distribution Option for all YUM Options subject to this Section 6.01(a)(i)(B) held by the same holder is \$20.00 or more, then the holder of such YUM Options will receive payment in respect of each such YUM Option in an amount equal to such difference, calculated separately for each such YUM Option.

(6) For purposes of this Section 6.01(a)(i)(B) only, the following terms shall have the following meanings:

(I) “Intrinsic Value of the Post-Distribution Adjusted YUM Option” shall mean, rounded to the nearest cent, the product of (A) the number of YUM Shares subject to Adjusted YUM Options issued pursuant to Section 6.01(a)(i)(B)(2), multiplied by (B) the difference between (x) the YUM Post-Distribution Stock Value, minus (y) the per share exercise price calculated pursuant to Section 6.01(a)(i)(B)(1).

(II) “Intrinsic Value of the Post-Distribution SpinCo Option” shall mean, rounded to the nearest cent, the product of (A) the number of SpinCo Shares subject to SpinCo Options issued pursuant to Section 6.01(a)(i)(B)(4), multiplied by (B) the difference between (x) the SpinCo Post-Distribution Stock Value,

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minus (y) the per share exercise price calculated pursuant to Section 6.01(a)(i)(B)(3).

(III) “Intrinsic Value of the Post-Distribution Option” shall mean, rounded to the nearest cent, the sum of (A) the Intrinsic Value of the Post-Distribution Adjusted YUM Option plus (B) the Intrinsic Value of the Post-Distribution SpinCo Option.

(ii) **YUM SARs.** As determined by the YUM Compensation Committee pursuant to its authority under the applicable YUM Equity Plan, each YUM SAR, regardless of by whom held, whether vested or unvested, will be converted effective as of the Distribution Date as described in this Section 6.01(a)(ii).

(A) Each YUM SAR held by a Special Conversion Employee will be converted effective as of the Distribution Date into either an Adjusted YUM SAR (for Retained Employees and YUM Former Employees) or a SpinCo SAR (for SpinCo Employees and SpinCo Former Employees). Except as otherwise provided in this Section 6.01, each Adjusted YUM SAR and each SpinCo SAR will be subject to the same terms and conditions (including with respect to vesting and termination) after the conversion as applied to such YUM SAR immediately prior to the conversion; provided, however, that:

(1) the per share exercise price of each Adjusted YUM SAR subject to this Section 6.01(a)(ii)(A) will be equal to the product of (I) the YUM Post-Distribution Stock Value, multiplied by (II) the Pre-Spin Price Ratio, rounded up to the nearest cent;

(2) the number of YUM Shares subject to each Adjusted YUM SAR subject to this Section 6.01(a)(ii)(A) will be equal to the quotient of (I) the Intrinsic Value of the Pre-Distribution YUM SAR; divided by (II) the difference between (A) the YUM Post-Distribution Stock Value and (B) the exercise price calculated pursuant to Section 6.01(a)(ii)(A)(1), rounded down to the nearest whole share;

(3) the per share exercise price of each SpinCo SAR subject to this Section 6.01(a)(ii)(A) will be equal to the product of (I) the SpinCo Post-Distribution Stock Value, multiplied by (II) the Pre-Spin Price Ratio, rounded up to the nearest cent;

(4) the number of SpinCo Shares subject to each SpinCo SAR subject to this Section 6.01(a)(ii)(A) will be equal to the quotient of (I) the Intrinsic Value of the Pre-Distribution YUM SAR; divided by (II) the difference between (A) the SpinCo Post-Distribution Stock Value and (B) the exercise price calculated pursuant to Section 6.01(a)(ii)(A)(3), rounded down to the nearest whole share;

provided, however, that the exercise price, the number of YUM Shares and the number of SpinCo Shares subject to such awards, and the terms and conditions of exercise of such awards

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will be determined (x) in a manner that is consistent with Code Section 409A, and (y) in the case of any YUM SAR to which Code Section 421 applies by reason of its qualification under Code Section 422 immediately prior to the Distribution Date, in a manner consistent with the requirements of Code Section 424(a).

(5) Except where prohibited by local law, if the sum of the differences between (I) the Intrinsic Value of the Pre-Distribution YUM SAR, minus (II) the Intrinsic Value of the Post-Distribution Adjusted YUM SAR for all Adjusted YUM SARs subject to this Section 6.01(a)(ii)(A) held by the same holder is \$20.00 or more, then the holder of such Adjusted YUM SARs will receive payment in respect of each such Adjusted YUM SAR in an amount equal to such difference, calculated separately for each such Adjusted YUM SAR.

(6) Except where prohibited by local law, if the sum of the differences between (I) the Intrinsic Value of the Pre-Distribution YUM SAR, minus (II) the Intrinsic Value of the Post-Distribution SpinCo SAR for all SpinCo SARs subject to this Section 6.01(a)(ii)(A) held by the same holder is \$20.00 or more, then the holder of such SpinCo SARs will receive payment in respect of each such SpinCo SAR in an amount equal to such difference, calculated separately for each such SpinCo SAR.

(7) For purposes of this Section 6.01(a)(ii)(A) only, the following terms shall have the following meanings:

(I) “Intrinsic Value of the Post-Distribution Adjusted YUM SAR” shall mean, rounded to the nearest cent, the product of (A) the number of YUM Shares subject to Adjusted YUM SARs issued pursuant to Section 6.01(a)(ii)(A) (2), multiplied by (B) the difference between (x) the YUM Post-Distribution Stock Value, minus (y) the per share exercise price calculated pursuant to Section 6.01(a)(ii)(A)(1); and

(II) “Intrinsic Value of the Post-Distribution SpinCo SAR” shall mean, rounded to the nearest cent, the product of (A) the number of SpinCo Shares subject to SpinCo SARs issued pursuant to Section 6.01(a)(ii)(A)(4), multiplied by (B) the difference between (x) the SpinCo Post-Distribution Stock Value, minus (y) the per share exercise price calculated pursuant to Section 6.01(a)(ii)(A)(3).

(B) Each YUM SAR other than those described in Section 6.01(a)(ii)(A) will be converted effective as of the Distribution Date into both an Adjusted YUM SAR and a SpinCo SAR. Except as otherwise provided in this Section 6.01, each Adjusted YUM SAR and each SpinCo SAR will be subject to the same terms and conditions (including with respect to vesting and termination)

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after the conversion as applied to such YUM SAR immediately prior to the conversion; provided, however, that:

(1) the per share exercise price of each Adjusted YUM SAR subject to this Section 6.01(a)(ii)(B) will be equal to the product of (I) the YUM Post-Distribution Stock Value, multiplied by (II) the Pre-Spin Price Ratio, rounded up to the nearest cent;

(2) the number of YUM Shares subject to each Adjusted YUM SAR subject to this Section 6.01(a)(ii)(B), rounded down to the nearest whole share, will be equal to the quotient of (I) the product of (A) the Intrinsic Value of the Pre-Distribution YUM SAR, multiplied by (B) the YUM Percentage, divided by (II) the difference between (A) the YUM Post-Distribution Stock Value, minus (B) the per share exercise price calculated pursuant to Section 6.01(a)(ii)(B)(1);

(3) the per share exercise price of each SpinCo SAR issued pursuant to this Section 6.01(a)(ii)(B) will be equal to the product of (I) the SpinCo Post-Distribution Stock Value, multiplied by (II) the Pre-Spin Price Ratio, rounded up to the nearest cent; and

(4) the number of SpinCo Shares subject to each SpinCo SAR issued pursuant to this Section 6.01(a)(ii)(B), rounded down to the nearest whole share, will be equal to the quotient of (I) the product of (A) the Intrinsic Value of the Pre-Distribution YUM SAR, multiplied by (B) the SpinCo Percentage, divided by (II) the difference between (A) the SpinCo Post-Distribution Stock Value, minus (B) the per share exercise price calculated pursuant to Section 6.01(a)(ii)(B)(3);

provided, however, that the exercise price, the number of YUM Shares and the number of SpinCo Shares subject to such awards, and the terms and conditions of exercise of such awards will be determined (x) in a manner that is consistent with Code Section 409A, and (y) in the case of any YUM SAR to which Code Section 421 applies by reason of its qualification under Code Section 422 immediately prior to the Distribution Date, in a manner consistent with the requirements of Code Section 424(a).

(5) Except where prohibited by local law, if the sum of the differences between (I) the Intrinsic Value of the Pre-Distribution YUM SAR and (II) the Intrinsic Value of the Post-Distribution SAR for all YUM SARs subject to this Section 6.01(a)(ii)(B) held by the same holder is \$20.00 or more, then the holder of such YUM SARs will receive payment in respect of each such YUM SAR in an amount equal to such difference, calculated separately for each such YUM SAR.

(6) For purposes of this Section 6.01(a)(ii)(B) only, the following terms shall have the following meanings:

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(I) “Intrinsic Value of the Post-Distribution Adjusted YUM SAR” shall mean, rounded to the nearest cent, the product of (A) the number of YUM Shares subject to Adjusted YUM SARs issued pursuant to Section 6.01(a)(ii)(B) (2), multiplied by (B) the difference between (x) the YUM Post-Distribution Stock Value, minus (y) the per share exercise price calculated pursuant to Section 6.01(a)(ii)(B)(1).

(II) “Intrinsic Value of the Post-Distribution SpinCo SAR” shall mean, rounded to the nearest cent, the product of (A) the number of SpinCo Shares subject to SpinCo SARs issued pursuant to Section 6.01(a)(ii)(B)(4), multiplied by (B) the difference between (x) the SpinCo Post-Distribution Stock Value, minus (y) the per share exercise price calculated pursuant to Section 6.01(a)(ii)(B)(3).

(III) “Intrinsic Value of the Post-Distribution SAR” shall mean, rounded to the nearest cent, the sum of (A) the Intrinsic Value of the Post-Distribution Adjusted YUM SAR plus (B) the Intrinsic Value of the Post-Distribution SpinCo SAR.

(iii) *YUM RSU Awards.* As determined by the YUM Compensation Committee pursuant to its authority under the applicable YUM Equity Plan, each YUM RSU Award, regardless of by whom held, whether vested or unvested, will be converted effective as of the Distribution Date as described in this Section 6.01(a)(iii).

(A) Except as otherwise provided in the Employment Agreement or offer letter of a holder of a YUM RSU Award, each YUM RSU Award held by a Special Conversion Employee will be converted effective as of the Distribution Date into either an Adjusted YUM RSU Award (for Retained Employees and YUM Former Employees) or a SpinCo RSU Award (for SpinCo Employees and SpinCo Former Employees). Except as otherwise provided in this Section 6.01, each Adjusted YUM RSU Award and each SpinCo RSU Award be subject to the same terms and conditions (including with respect to vesting, settlement and termination) after the conversion as applied to such YUM RSU Award immediately prior to the conversion; provided, however, that:

(1) the number of YUM Shares (including those attributable to dividend equivalent units) subject to each Adjusted YUM RSU Award subject to this Section 6.01(a)(iii)(A) will be equal to the quotient of (I) the product of (a) the number of YUM Shares (including those attributable to dividend equivalent units) subject to the corresponding YUM RSU Award immediately prior to the Distribution Date, multiplied by (b) the Pre-Distribution Stock Value, rounded to the nearest cent; divided by (II) the YUM Post-Distribution Stock Value, rounded down to the nearest whole number;

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(2) the number of SpinCo Shares subject to each SpinCo RSU Award (including those attributable to dividend equivalent units) subject to this Section 6.01(a)(iii)(A) will be equal to the quotient of (I) the product of (a) the number of YUM Shares (including those attributable to dividend equivalent units) subject to the corresponding YUM RSU Award immediately prior to the Distribution Date, multiplied by (b) the Pre-Distribution Stock Value, rounded to the nearest cent; divided by (II) the SpinCo Post-Distribution Stock Value, rounded down to the nearest whole number.

(3) Except where prohibited by local law, if the sum of the differences between (I) the Intrinsic Value of the Pre-Distribution YUM RSU Award, minus (II) the Intrinsic Value of the Post-Distribution SpinCo RSU Award for all SpinCo RSUs subject to this Section 6.01(a)(iii)(A) held by the same holder is \$20.00 or more, then the holder of such SpinCo RSUs will receive payment in respect of each such SpinCo RSU in an amount equal to such difference, calculated separately for each such SpinCo RSU.

(4) For purposes of this Section 6.01(a)(iii)(A) only, the following terms shall have the following meanings:

(I) “Intrinsic Value of the Post-Distribution Adjusted YUM RSU” shall mean, rounded to the nearest cent, the product of (A) the number of YUM Shares subject to Adjusted YUM RSUs issued pursuant to Section 6.01(a)(iii)(A) (1), multiplied by (B) the YUM Post-Distribution Stock Value; and

(II) “Intrinsic Value of the Post-Distribution SpinCo RSU” shall mean, rounded to the nearest cent, the product of (A) the number of SpinCo Shares subject to SpinCo RSUs issued pursuant to Section 6.01(a)(iii)(A)(2), multiplied by (B) the SpinCo Post-Distribution Stock Value.

(B) Except as otherwise provided in the Employment Agreement or offer letter of a holder of a YUM RSU Award, effective as of the Distribution Date, each holder of an outstanding YUM RSU Award other than those described in Section 6.01(a)(iii)(A) will receive an Adjusted YUM RSU Award and a SpinCo RSU Award. Except as otherwise provided in this Section 6.01, each Adjusted YUM RSU Award and each SpinCo RSU Award will be subject to the same terms and conditions (including with respect to vesting, settlement and termination) after the conversion as applied to such YUM RSU Award immediately prior to the conversion; provided, however, that:

(1) the number of YUM Shares (including those attributable to dividend equivalent units) subject to each Adjusted YUM RSU Award subject to this Section 6.01(a)(iii)(B) will be equal to the product of (I) the

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number of YUM Shares (including those attributable to dividend equivalent units) subject to the corresponding YUM RSU Award immediately prior to the Distribution Date, multiplied by (II) the Distribution Ratio, rounded down to the nearest whole number;

(2) the number of SpinCo Shares (including those attributable to dividend equivalent units) subject to each SpinCo RSU Award subject to this Section 6.01(a)(iii)(B) will be equal to the quotient of (I) the number of YUM Shares (including those attributable to dividend equivalent units) subject to the corresponding YUM RSU Award immediately prior to the Distribution Date, divided by (II) the Distribution Ratio, rounded down to the nearest whole number.

(3) Except where prohibited by local law, if the sum of the differences between (I) the Intrinsic Value of the Pre-Distribution YUM RSU Award, minus (II) the Intrinsic Value of the Post-Distribution RSU for all YUM RSUs subject to this



Section 6.01(a)(iii)(A) held by the same holder is \$20.00 or more, then the holder of such YUM RSUs will receive payment in respect of each such YUM RSU in an amount equal to such difference, calculated separately for each such YUM RSU.

(4) For purposes of this Section 6.01(a)(iii)(B), only, the following terms shall have the following meanings:

(I) “Intrinsic Value of the Post-Distribution Adjusted YUM RSU” shall mean, rounded to the nearest cent, the product of (A) the number of YUM Shares subject to Adjusted YUM RSU issued pursuant to Section 6.01(a)(iii)(B)(1), multiplied by (B) the YUM Post-Distribution Stock Value.

(II) “Intrinsic Value of the Post-Distribution SpinCo RSU” shall mean, rounded to the nearest cent, the product of (A) the number of SpinCo Shares subject to SpinCo RSU issued pursuant to Section 6.01(a)(iii)(B)(2), multiplied by (B) the SpinCo Post-Distribution Stock Value.

(III) “Intrinsic Value of the Post-Distribution RSU” shall mean, rounded to the nearest cent, the sum of (A) the Intrinsic Value of the Post-Distribution Adjusted YUM RSU plus (B) the Intrinsic Value of the Post-Distribution SpinCo RSU.

(iv) *YUM PSU Awards.* Each YUM PSU Award outstanding on the Distribution Date will be converted effective as of the Distribution Date into an Adjusted YUM PSU Award. Except as otherwise provided in this Section 6.01, each Adjusted YUM PSU Award will be subject to the same terms and conditions (including with respect to vesting, settlement and termination) after the conversion as applied to the

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corresponding YUM PSU Award immediately prior to the conversion; provided, however, that:

(A) the number of YUM Shares subject to each Adjusted YUM PSU Award subject to this Section 6.01(a)(iv) will be equal to the quotient of (I) the product of (a) the number of YUM Shares subject to the corresponding YUM PSU Award immediately prior to the Distribution Date, multiplied by (b) the Pre-Distribution Stock Value, rounded to the nearest cent; divided by (II) the YUM Post-Distribution Stock Value, rounded to four decimal places; and

(B) the performance criteria and performance targets under each Adjusted YUM PSU Award subject to this Section 6.01(a)(iv) will be equitably adjusted prior to the Distribution as determined appropriate or required in the sole discretion of the YUM Compensation Committee.

(b) *Miscellaneous Award Terms.* After the Distribution Date, Adjusted YUM Awards, regardless of by whom held, will be settled by YUM, and SpinCo Awards, regardless of by whom held, will be settled by SpinCo. Except as otherwise provided in this Agreement, with respect to grants described in this Section 6.01, (i) no SpinCo Employee will be treated as having incurred a termination of employment with respect to any YUM Award solely by reason of the transfer of employment, (ii) employment with the YUM Group will be treated as employment with SpinCo with respect to SpinCo Awards held by Retained Employees, and (iii) employment with the SpinCo Group will be treated as employment with YUM with respect to Adjusted YUM Awards held by SpinCo Employees. In addition, none of the Separation, the Distribution, or any employment transfer described in Section 2.04 will constitute a termination of employment for any Employee for purposes of any Adjusted YUM Award or any SpinCo Award. Following the Distribution Date, for any award adjusted under this Section 6.01, any reference to a “change in control,” “change of control” or similar definition in an award agreement, Employment Agreement or YUM Equity Plan applicable to such award (A) with respect to Adjusted YUM Awards, will be deemed to refer to a “change in control,” “change of control” or similar definition as set forth in the applicable award agreement, Employment Agreement or YUM Equity Plan (a “YUM Change of Control”), and (B) with respect to SpinCo Awards, will be deemed to refer to a “Change in Control” as defined in the SpinCo Equity Plan (a “SpinCo Change of Control”). Without limiting the foregoing, with respect to provisions related to vesting of awards (including lapse of performance conditions, if applicable), a YUM Change of Control will be treated as a SpinCo Change of Control for purposes of SpinCo Awards held by Retained Employees and YUM Former Employees, and a SpinCo Change of Control will be treated as a YUM Change of Control for purposes of Adjusted YUM Awards held by SpinCo Employees and SpinCo Former Employees.

(c) *Tax Reporting and Withholding.* Following the Distribution Date, it is expected that: (i) YUM will be responsible for all income, payroll and other tax remittance and reporting related to income of Retained Employees, YUM Former Employees, and individuals who are or were YUM non-employee directors in respect of Adjusted YUM Awards and SpinCo Awards; and (ii) SpinCo will be responsible for all income, payroll and other tax remittance and reporting related to income of SpinCo Employees and SpinCo Former Employees in respect of Adjusted YUM Awards and SpinCo Awards. YUM or SpinCo, as applicable, will facilitate performance

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by the other Party of its obligations hereunder by promptly remitting amounts or shares withheld in conjunction with a transfer of shares or cash, either (as mutually agreed by the Parties) directly to the applicable taxing authority or to the other Party for remittance to such taxing authority. The Parties will cooperate and communicate with each other and with third-party providers to effectuate withholding and remittance of taxes, as well as required tax reporting, in a timely, efficient and appropriate manner.

(d) *Registration and Other Regulatory Requirements.* Prior to the Distribution Date (and in any case before the date of issuance of any SpinCo Shares pursuant to the SpinCo Equity Plan), SpinCo agrees to file a Form S-8 registration statement (or an S-1 or S-3 if a Form S-8 Registration Statement is not then available for any such awards to be granted in accordance with the terms of this Agreement) with respect to, and to cause to be registered pursuant to the Securities Act, the SpinCo Shares authorized for issuance under the SpinCo Equity Plan, as required pursuant to the Securities Act. The Parties will take such additional actions as are deemed necessary or advisable to effectuate the foregoing provisions of this Section 6.01, including compliance with securities Laws and other legal requirements associated with equity compensation awards in affected non-U.S. jurisdictions. YUM agrees to facilitate the adoption and approval of the SpinCo Equity Plan consistent with the requirements of Treasury Regulations Section 1.162-27(f)(4)(iii).

(e) *YUM Equity-Based Awards in Certain Non-U.S. Jurisdictions.* Notwithstanding the foregoing provisions of this Section 6.01, the Parties may mutually agree, in their sole discretion, not to adjust certain outstanding YUM equity-based awards pursuant to the foregoing provisions of this Section 6.01 where those actions would create or trigger adverse legal, accounting or tax consequences for YUM, SpinCo and/or the affected non-U.S. award holders. In such circumstances, YUM and/or SpinCo may take any action necessary or advisable to prevent any such adverse legal, accounting or tax consequences, including agreeing that the outstanding YUM equity-based awards of the affected non-U.S. award holders will terminate in accordance with the terms of the YUM Equity Plans and the underlying award agreements, in which case SpinCo or YUM, as applicable, will equitably compensate the affected non-U.S. award holders in an alternate manner determined by SpinCo or YUM, as applicable, in its sole discretion, or apply an alternate adjustment method. Where and to the extent required by applicable Law or tax considerations outside the United States, the adjustments described in this Section 6.01 will be deemed to have been effectuated immediately prior to the Distribution Date.

(f) *Limitations on Value After Conversion of Awards.* Notwithstanding any other provision of this Agreement to the contrary, in the case of any YUM Option or YUM SAR, all conversions and adjustments pursuant to this Section 6.01 will be made in accordance with Code Sections 409A and 424. Without limiting the generality of the preceding sentence, in no event shall the excess of the aggregate fair market value of the YUM Shares and/or SpinCo Shares subject to any Adjusted YUM Option or Adjusted YUM SAR and a corresponding SpinCo Option or SpinCo SAR, as applicable, plus the value of any cash payment to be made pursuant to the individual pursuant to Sections 6.01(a)(i)(A)(5), 6.01(a)(i)(A)(6), 6.01(a)(i)(B)(5), 6.01(a)(ii)(A)(5), 6.01(a)(ii)(A)(6) or 6.01(a)(ii)(B)(5) exceed the fair market value of the number of YUM Shares subject to the corresponding YUM Option or YUM SAR immediately prior to the Distribution Date. In addition, following the conversion or adjustment, the ratio of the exercise price to the fair market value of the YUM Shares or SpinCo Shares, as applicable,

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subject to the Adjusted YUM Option, Adjusted YUM SAR and corresponding SpinCo Option or SpinCo SAR, as applicable, shall not exceed the ratio of the exercise price to the fair market value of the shares subject to the YUM Option or YUM SAR, as applicable, immediately before the Distribution Date. For purposes of this Section 6.01(f), the fair market value of YUM Shares or SpinCo Shares, as of any date, will be equal to the volume weighted average per share price of one YUM Share or SpinCo Share, as applicable, trading “regular-way,” as reported on the NYSE on the applicable date (or if such day is not a NYSE trading day, on the next preceding NYSE trading day) or, for periods on or after the Distribution Date, on the First Post-Distribution Trading Day.

Section 6.02. Bonus and Incentive Plans.

(a) *Generally.* The SpinCo Group will be responsible for all annual bonus payments and other cash incentive payments to SpinCo Employees in respect of any plan year, the payment date for which occurs on or after the applicable SpinCo Employee’s Distribution Date.

(b) *YUM EIDP.* Effective as of the Distribution Date, the YUM EIDP will be amended to provide for (i) a SpinCo common stock account with respect to the YUM EIDP Pre-409A Program and (ii) a Phantom SpinCo common stock fund with respect to the YUM EIDP 409A Program. Effective as of the Distribution Date:

(i) For each YUM Common Stock Account (as such term is used under the YUM EIDP Pre-409A Program) held by an EIDP Special Conversion Employee under the YUM EIDP Pre-409A Program, such YUM Common Stock Account will be converted effective as of the Distribution Date into an Adjusted YUM Common Stock Account. The Adjusted YUM Common Stock Account will be credited with that number of phantom YUM Shares equal to the quotient of (A) the product of (1) the number of phantom YUM Shares credited to the YUM Common Stock Account under the YUM EIDP Pre-409A Program immediately prior to the Distribution Date, multiplied by (2) the Pre-Distribution Stock Value; divided by (B) the YUM Post-Distribution Stock Value, rounded to four decimal places.

(ii) For each YUM Common Stock Account under the YUM EIDP Pre-409A Program other than those described in Section 6.02(b)(i), such YUM Common Stock Account will be converted effective as of the Distribution Date into an Adjusted YUM Common Stock Account and a SpinCo Common Stock Account. The Adjusted YUM Common Stock Account will be credited with that number of phantom YUM Shares equal to the product of (A) the number of phantom YUM Shares credited to the YUM Common Stock Account under the YUM EIDP Pre-409A Program immediately prior to the Distribution Date, multiplied by (B) the Distribution Ratio, rounded to four decimal places. The SpinCo Common Stock Account will be credited with that number of phantom SpinCo Shares equal to the quotient of (A) the number of phantom YUM Shares credited to the YUM Common Stock Account under the YUM EIDP Pre-409A Program immediately prior to the Distribution Date, divided by (B) the Distribution Ratio, rounded to four decimal places.

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(iii) For each Phantom Yum! Brands Common Stock Fund (as such term is used under the YUM EIDP 409A Program) held by an EIDP Special Conversion Employee under the YUM EIDP 409A Program, such Phantom Yum! Brands Common Stock Fund will be converted effective as of the Distribution Date into an Adjusted Phantom YUM Common Stock Fund. The Adjusted Phantom YUM Common Stock Fund will be credited with that number of phantom YUM Shares equal to the quotient of (A) the product of (1) the number of phantom YUM Shares credited to the Phantom Yum! Brands Common Stock Fund under the YUM EIDP 409A Program immediately prior to the Distribution Date, multiplied by (2) the Pre-Distribution Stock Value; divided by (B) the YUM Post-Distribution Stock Value, rounded to four decimal places.

(iv) For each Phantom Yum! Brands Common Stock Fund under the YUM EIDP 409A Program other than those described in Section 6.02(b)(iii), such Phantom Yum! Brands Common Stock Fund will be converted effective as of the Distribution Date into an Adjusted Phantom YUM Common Stock Fund and a Phantom SpinCo Common Stock Fund. The Adjusted Phantom YUM Common Stock Fund will be credited with that number of phantom YUM Shares equal to the product of (A) the number of phantom YUM Shares credited to the Phantom Yum! Brands Common Stock Fund under the YUM EIDP 409A Program immediately prior to the Distribution Date, multiplied by (B) the Distribution Ratio, rounded to four decimal places. The Phantom SpinCo Common Stock Fund will be credited with that number of phantom SpinCo Shares equal to the quotient of (A) the number of phantom YUM Shares credited to the Phantom Yum! Brands Common Stock Fund under the YUM EIDP 409A Program immediately prior to the Distribution Date, divided by (B) the Distribution Ratio, rounded to four decimal places.

Except as otherwise provided under the YUM EIDP, any amounts credited to the SpinCo Common Stock Account and the Phantom SpinCo Common Stock Fund will be settled in cash (and not in SpinCo Shares).

(c) *Restaurant Deferred Compensation Plan.* Effective as of the Distribution Date, the Restaurant Deferred Compensation Plan will be amended to provide for a Phantom SpinCo Common Stock Account. Effective as of the Distribution Date for each Account (as such term is used under the Restaurant Deferred Compensation Plan) under the Restaurant Deferred Compensation Plan, any portion of such Account deemed invested in YUM Shares will be converted effective as of the Distribution Date into an Adjusted YUM Common Stock Account and a SpinCo Common Stock Account. The Adjusted YUM Common Stock Account will be credited with that number of phantom YUM Shares equal to the product of (A) the number of phantom YUM Shares credited to the Account under the Restaurant Deferred Compensation Plan immediately prior to the Distribution Date, multiplied by (B) the Distribution Ratio, rounded to four decimal places. The SpinCo Common Stock Account will be credited with that number of phantom SpinCo Shares equal to the quotient of (A) the number of phantom YUM Shares credited to the Account under the Restaurant Deferred Compensation Plan immediately prior to the Distribution Date, divided by (B) the Distribution Ratio, rounded to four decimal places.

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(d) *YUM Director Deferred Compensation Plan.* Effective as of the Distribution Date, the YUM Director Deferred Compensation Plan will be amended to provide for a Phantom SpinCo Common Stock Account. Effective as of the Distribution Date:

(i) For each participant Account (as such term is used under the YUM Director Deferred Compensation Pre-409A Plan) under the YUM Director Deferred Compensation Pre-409A Plan, such participant Account will be converted effective as of the Distribution Date into an Adjusted Phantom YUM Common Stock Account and a Phantom SpinCo Common Stock Account. The Adjusted Phantom YUM Common Stock Account will be credited with that number of phantom YUM Shares equal to the product of (A) number of phantom YUM Shares credited to participant Account under the YUM Director Deferred Compensation Pre-409A Plan immediately prior to the Distribution Date, multiplied by (B) the Distribution Ratio, rounded to four decimal places. The Phantom SpinCo Common Stock Account will be credited with that number of phantom SpinCo Shares equal to the quotient of (A) number of phantom YUM Shares credited to the participant Account under the YUM Director Deferred Compensation Pre-409A Plan immediately prior to the Distribution Date, divided by (B) the Distribution Ratio, rounded to four decimal places.

(ii) For each phantom Yum! Brands Common Stock Fund (as such term is used under the YUM Director Deferred Compensation 409A Plan) under the YUM Director Deferred Compensation 409A Plan, such phantom Yum! Brands Common Stock Fund will be converted effective as of the Distribution Date into an Adjusted Phantom YUM Common Stock Account and a Phantom SpinCo Common Stock Account. The Adjusted Phantom YUM Common Stock Account will be credited with that number of phantom YUM Shares equal to the product of (A) number of phantom YUM Shares credited to the phantom Yum! Brands Common Stock Fund under the YUM Director Deferred Compensation 409A Plan immediately prior to the Distribution Date, multiplied by (B) the Distribution Ratio, rounded to four decimal places. The Phantom SpinCo Common Stock Account will be credited with that number of phantom SpinCo Shares equal to the quotient of (A) number of phantom YUM Shares credited to the phantom Yum! Brands Common Stock Fund under the YUM Director Deferred Compensation 409A Plan immediately prior to the Distribution Date, divided by (B) the Distribution Ratio, rounded to four decimal places.

Except as otherwise provided under the YUM Director Deferred Compensation Plan, any amounts credited to the Phantom SpinCo Common Stock Account will be settled in cash (and not in SpinCo Shares).

## ARTICLE VII

### MISCELLANEOUS

Section 7.01. Transfer of Records. YUM will transfer to SpinCo any and all employment records and information (including any Form 1-9, Form W-2 or other Internal Revenue Service forms, personnel files, performance reviews and other employment related information) with respect to SpinCo Employees and other records reasonably required by SpinCo

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to enable SpinCo properly to carry out its obligations under this Agreement. Such transfer of records generally will occur as soon as administratively practicable on or after the Distribution Date. Each Party will permit the other Party reasonable access to Employee records to the extent reasonably necessary for such accessing Party to carry out its obligations hereunder. Any transfer required hereunder will be required only to the extent required or permitted by applicable local Law.

Section 7.02. Cooperation. Each Party will upon reasonable request provide the other Party and the other Party's respective Affiliates, agents and vendors all information reasonably necessary to the other Party's performance of its obligations hereunder. The Parties agree to use commercially reasonable efforts and to cooperate with each other to carry out their obligations hereunder and to effectuate the terms of this Agreement. Without limiting the generality of the foregoing, no later than January 15, 2017, (a) YUM shall provide to SpinCo all information relating to the performance of the YUM Group following the Distribution that is necessary for SpinCo to calculate any performance bonuses (including any leadership bonuses) payable to any SpinCo Employee or SpinCo Former Employee for the 2016 calendar year and (b) SpinCo shall provide to YUM all information relating to the performance of the SpinCo Group following the Distribution that is necessary for YUM to calculate any performance bonuses (including any leadership bonuses) payable to any YUM Employee or YUM Former Employee for the 2016 calendar year.

Section 7.03. Tax Benefits. If any member of the YUM Group remits a payment to a Tax Authority for Taxes for any SpinCo Employee or a SpinCo Former Employee, SpinCo shall remit to YUM the amount for which it is liable within thirty (30) days after receiving written notification requesting such amount. If any member of the SpinCo Group remits a payment to a Tax Authority for Taxes for any Retained Employee or any YUM Former Employee, YUM shall remit to SpinCo the amount for which it is liable within thirty (30) days after receiving written notification requesting such amount. Effective as of the Distribution Date, the YUM Group will be entitled to all Employee Recoupment Assets in respect of all Employees and Former Employees to the extent that the Employee Recoupment Asset relates to a payment made prior to the Distribution Date and shall be entitled to all Employee Recoupment Assets in respect of all Employees and Former Employees regardless of when (or by whom) the payment to which the Employee Recoupment Asset was made. The SpinCo Group will be entitled all Employee Recoupment Assets in respect of SpinCo Employees and SpinCo Former Employees to the extent that the Employee Recoupment Asset relates to a payment made by the SpinCo Group after the Distribution Date. Without limiting the generality of the foregoing, the SpinCo Group shall assume all liabilities and obligations for tax equalization payments payable to the individuals set forth on Schedule 7.03 and, to the

extent necessary, the YUM Group shall be entitled to reimbursement from the SpinCo group with respect to any tax equalization payments made after the Distribution Date to any individual listed in Schedule 7.03.

Section 7.04. Compliance. The agreements and covenants of the Parties hereunder will at all times be subject to the requirements and limitations of applicable Law (including local Laws, rules and customs relating to the treatment of benefit plans) and collective bargaining agreements. Where an agreement or covenant of a Party hereunder cannot be effected in compliance with applicable Law or an applicable collective bargaining agreement, the Parties agree to negotiate in good faith to modify such agreement or covenant to the least extent possible

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in keeping with the original agreement or covenant in order to comply with applicable Law or such applicable collective bargaining agreement. Each provision of this Agreement is subject to and qualified by this Section 7.04, whether or not such provision expressly states that it is subject to or limited by applicable Law or by applicable collective bargaining agreements. Each reference to the Code, ERISA, or the Securities Act or any other Law will be deemed to include the rules, regulations, and guidance issued thereunder.

Section 7.05. Preservation of Rights. Unless expressly provided otherwise in this Agreement, nothing herein will be construed as a limitation on the right of the YUM Group or the SpinCo Group to (a) amend or terminate any Benefit Plan or (b) terminate the employment of any Employee.

Section 7.06. Not a Change in Control. The Parties acknowledge and agree that the Separation, Distribution and other transactions contemplated by the Separation and Distribution Agreement and this Agreement do not constitute a “change in control” or a “change of control” for purposes of any Benefit Plan, any Employment Agreement or any other agreement or arrangement.

Section 7.07. Reimbursements; Interest on Late Payments. The Parties acknowledge and agree that the YUM Group, on one hand, and the SpinCo Group, on the other hand, may incur costs and expenses (including payment of compensation) which are the responsibility of the other Party as set forth in this Agreement. Accordingly, the Parties agree to reimburse each other for Liabilities and obligations for which such Party is responsible, and will provide such reimbursement reasonably promptly and in accordance with the terms of any agreement between the Parties or their Affiliates addressing such matters. Payments pursuant to this Agreement that are not made by the date prescribed in this Agreement or, if no such date is prescribed, within thirty (30) days after written demand for payment is made, shall accrue interest for the period from and including the date immediately following the due date therefor through and including the date of payment at a rate per annum equal to the Prime Rate plus three percent (3%). Such rate shall be redetermined at the beginning of each calendar quarter following such due date. Such interest will be payable at the same time as the payment to which it relates and shall be calculated on the basis of a year of three hundred sixty-five (365) days and the actual number of days for which due.

Section 7.08. Notices. Unless expressly provided herein, all notices, requests, claims, demands or other communications under this Agreement shall be delivered in accordance with the requirements for the provision of notice set forth in Section 10.5 of the Separation and Distribution Agreement.

Section 7.09. Procedures for Indemnification of Third-Party Claims.

(a) Notice of Claims. If, at or following the Effective Time, an Indemnitee shall receive notice or otherwise learn of the assertion by a Person (including any Governmental Authority) who is not a member of the YUM Group or the SpinCo Group of any claim or of the commencement by any such Person of any Action (collectively, a “Third-Party Claim”) with respect to which an Indemnifying Party may be obligated to provide indemnification to such Indemnitee pursuant to or any Section of this Agreement, such Indemnitee shall give such

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Indemnifying Party written notice thereof as soon as practicable, but in any event no later than fourteen (14) days after becoming aware of such Third-Party Claim. Any such notice shall describe the Third-Party Claim in reasonable detail, including the facts and circumstances giving rise to such claim for indemnification, and include copies of all notices and documents (including court papers) received by the Indemnitee relating to the Third-Party Claim. Notwithstanding the foregoing, the failure of an Indemnitee to provide notice in accordance with this Section 7.09(a) shall not relieve an Indemnifying Party of its indemnification obligations under this Agreement, except to the extent (if any) to which the Indemnifying Party is actually prejudiced by the Indemnitee’s failure to provide notice in accordance with this Section 7.09(a).

(b) Control of Defense. An Indemnifying Party may elect to defend (and seek to settle or compromise, subject to Section 7.09(e)), at its own expense and with its own counsel, any Third-Party Claim; provided that, prior to the Indemnifying Party assuming and controlling defense of such Third-Party Claim, it shall first confirm to the Indemnitee in writing that, assuming the facts presented to the Indemnifying Party by the Indemnitee being true, the Indemnifying Party shall indemnify the Indemnitee for any Liabilities to the extent resulting from, or arising out of, such Third-Party Claim. Notwithstanding the foregoing, if the Indemnifying Party assumes such defense and, in the course of defending such Third-Party Claim, (i) the Indemnifying Party discovers that the facts presented at the time the Indemnifying Party acknowledged its indemnification obligation in respect of such Third-Party Claim were not true in all material respects and (ii) such untruth provides a reasonable basis for asserting that the Indemnifying Party does not have an indemnification obligation in respect of such Third-Party Claim, then (A) the Indemnifying Party shall not be bound by such acknowledgment, (B) the Indemnifying Party shall promptly thereafter provide the Indemnitee written notice of its assertion that it does not have an indemnification obligation in respect of such Third-Party Claim and (C) the Indemnitee shall have the right to assume the defense of such Third-Party Claim. Within thirty (30) days after the receipt of a notice from an Indemnitee in accordance with Section 7.09(a) (or sooner, if the nature of the Third-Party Claim so requires), the Indemnifying Party shall provide written notice to the Indemnitee indicating whether the Indemnifying Party shall assume responsibility for defending the Third-Party Claim. If an Indemnifying Party elects not to assume responsibility for defending any Third-Party Claim or fails to notify an Indemnitee of its election within thirty (30) days after receipt of the notice from an Indemnitee as provided in Section 7.09(a), then the Indemnitee that is the subject of such Third-Party Claim shall be entitled to continue to conduct and control the defense of such Third-Party Claim.

(c) Allocation of Defense Costs. If an Indemnifying Party has elected to assume the defense of a Third-Party Claim, then such Indemnifying Party shall be solely liable for all fees and expenses incurred by it in connection with the defense of such Third-Party Claim and shall not be entitled to seek any indemnification or reimbursement from the Indemnitee for any such fees or expenses incurred by the Indemnifying Party during the course of the defense of such Third-Party Claim by such Indemnifying Party, regardless of any subsequent decision by the Indemnifying Party to reject or otherwise abandon its assumption of such defense. If an Indemnifying Party elects not to assume responsibility for defending any Third-Party Claim or fails to notify an Indemnitee

of its election within thirty (30) days after receipt of a notice from an Indemnitee as provided in Section 7.09(a), and the Indemnitee conducts and controls the defense of such Third-Party Claim and the Indemnifying Party has an indemnification obligation with respect to such Third-Party Claim, then the Indemnifying Party shall be liable for all

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reasonable fees and expenses incurred by the Indemnitee in connection with the defense of such Third-Party Claim.

(d) Right to Monitor and Participate. An Indemnitee that does not conduct and control the defense of any Third-Party Claim, or an Indemnifying Party that has failed to elect to defend any Third-Party Claim as contemplated hereby, nevertheless shall have the right to employ separate counsel (including local counsel, as necessary) of its own choosing to monitor and participate in (but not control) the defense of any Third-Party Claim for which it is a potential Indemnitee or Indemnifying Party, but the fees and expenses of such counsel shall be at the expense of such Indemnitee or Indemnifying Party, as the case may be, and the provisions of Section 7.09(c) shall not apply to such fees and expenses. Notwithstanding the foregoing, but subject to Sections 6.7 and 6.8 of the Separation and Distribution Agreement, such Indemnitee or Indemnifying Party shall cooperate with the Party entitled to conduct and control the defense of such Third-Party Claim in such defense and make available to the controlling Party, at the non-controlling Party's expense, all witnesses, information and materials in such Party's possession or under such Party's control relating thereto as are reasonably required by the controlling Party. In addition to the foregoing, if any Indemnitee shall in good faith determine that such Indemnitee and the Indemnifying Party have actual or potential differing defenses or conflicts of interest between them that make joint representation inappropriate, then the Indemnitee shall have the right to employ separate counsel (including local counsel, as necessary) and to participate in (but not control) the defense, compromise, or settlement thereof, and the Indemnifying Party shall bear the reasonable fees and expenses of such counsel for all Indemnitees.

(e) No Settlement. Neither Party may settle or compromise any Third-Party Claim for which either Party is seeking to be indemnified hereunder without the prior written consent of the other Party, which consent may not be unreasonably withheld, conditioned or delayed, unless such settlement or compromise is solely for monetary damages that are fully payable, and are capable of being paid in full, by the settling or compromising Party, does not involve any admission, finding or determination of wrongdoing or violation of Law by the other Party (or any other member of its Group or any of their respective past, present or future directors, officers or employees) and provides for a full, unconditional and irrevocable release of the other Party (and each other relevant member of its Group and any of its or their relevant past, present, or future directors, officers or employees) from all Liability in connection with the Third-Party Claim. The Parties hereby agree that if a Party presents the other Party with a written notice containing a proposal to settle or compromise a Third-Party Claim for which either Party is seeking to be indemnified hereunder and the Party receiving such proposal does not respond in any manner to the Party presenting such proposal within thirty (30) days (or within any such shorter time period that may be required by applicable Law or court order) of receipt of such proposal, then the Party receiving such proposal shall be deemed to have consented to the terms of such proposal.

Section 7.10. Limitation on Enforcement. This Agreement is an agreement solely between the Parties. Nothing in this Agreement, whether express or implied, will be construed to: (a) confer upon any current or former Employee of the YUM Group or the SpinCo Group, or any other person any rights or remedies, including to any right to (i) employment or recall; (ii) continued employment or continued service for any specified period; or (iii) claim any particular compensation, benefit or aggregation of benefits, of any kind or nature; or (b) create, modify, or amend any Benefit Plan.

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Section 7.11. Disputes. The procedures for discussion, negotiation, mediation and arbitration set forth in Article VII of the Separation and Distribution Agreement shall apply to all disputes, controversies or claims (whether sounding in contract, tort or otherwise) that may arise out of or relate to, or arise under or in connection with, this Agreement.

Section 7.12. Schedules. The Schedules referenced in this Agreement are attached hereto and incorporated herein and form a part of this Agreement. From time to time, the Parties may add Schedules to this Agreement, which Schedules, if added, will be incorporated herein and will form a part of this Agreement.

Section 7.13. Third Party Consents. Without limiting or otherwise modifying the provisions regarding Approvals or Notifications set forth in the Separation and Distribution Agreement, if the obligation of any Party under this Agreement depends upon the Approval or Notification of a Third Party, such as a vendor or insurer, and that Approval or Notification is withheld, the Parties will use commercially reasonable efforts to implement the affected provisions of this Agreement to the fullest extent practicable; provided that, except to the extent expressly provided in this Agreement or any of the Ancillary Agreements or as otherwise agreed between YUM and SpinCo, neither YUM nor SpinCo shall be obligated to contribute capital or pay any consideration in any form (including providing any letter of credit, guaranty or other financial accommodation) to any Person in order to obtain or make such Approvals or Notifications. If any provision of this Agreement cannot be implemented due to the failure of a Third Party to provide a required Approval or Notification, the Parties will negotiate in good faith to implement the provision in a mutually satisfactory manner, taking into account the original purpose of the affected provision.

Section 7.14. Further Assurances and Consents. Without limiting or otherwise modifying the provisions of Article VIII of the Separation and Distribution Agreement, in addition to the actions specifically provided for in this Agreement, each of the Parties will use commercially reasonable efforts to (a) execute and deliver such further instruments and documents and take such other actions as the other Party may reasonably request to effectuate the purposes of this Agreement and to carry out the terms hereof, and (b) take, or cause to be taken, all actions and do, or cause to be done, all things, reasonably necessary, proper or advisable under applicable Law and agreements or otherwise to consummate and make effective the transactions contemplated by this Agreement, including using commercially reasonable effort to obtain any required consents and approvals and to make any filings and applications necessary or desirable to consummate the transactions contemplated by this Agreement; provided, that, except to the extent expressly provided in this Agreement or any of the Ancillary Agreements or as otherwise agreed between YUM and SpinCo, no Party will be obligated to contribute capital or pay any consideration in any form therefor.

Section 7.15. Effect if Distribution Does Not Occur. If the Distribution does not occur, then all actions and events that are to be taken under this Agreement, or otherwise in connection with the Distribution, will not be taken or occur, except to the extent specifically provided by YUM.

Section 7.16. Counterparts; Entire Agreement; Authority; Facsimile Signatures.

(a) *Counterparts.* This Agreement may be executed in one (1) or more counterparts, all of which shall be considered one (1) and the same agreement, and shall become effective when one (1) or more counterparts have been signed by each of the Parties and delivered to the other Party. The provisions of Section 10.1(d) of the Separation and Distribution Agreement shall, for the avoidance of doubt, apply to the execution of this Agreement.

(b) *Entire Agreement.* This Agreement, together with the Separation and Distribution Agreement and the other Ancillary Agreements, contain the entire agreement between the Parties with respect to the subject matter hereof, and supersede all previous agreements, negotiations, discussions, writings, understandings, commitments and conversations with respect to such subject matter, and there are no agreements or understandings between the Parties other than those set forth or referred to herein or therein.

(c) *Authority.* YUM represents on behalf of itself, and SpinCo represents on behalf of itself, as follows:

(i) it has the requisite corporate or other power and authority and has taken all corporate or other action necessary in order to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby; and

(ii) this Agreement has been duly executed and delivered by it and constitutes a valid and binding agreement of it enforceable against it in accordance with the terms hereof.

Section 7.17. Governing Law. This Agreement (and any claims or disputes arising out of or related hereto or to the transactions contemplated hereby or to the inducement of any Party to enter herein, whether for breach of contract, tortious conduct or otherwise and whether predicated on common law, statute or otherwise) shall be governed by and construed and interpreted in accordance with the Laws of the State of Delaware irrespective of the choice of laws principles of the State of Delaware including all matters of validity, construction, effect, enforceability, performance and remedies.

Section 7.18. Binding Effect; Assignability. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns; provided, that neither Party may assign any of its rights or assign or delegate any of its obligations under this Agreement without the express prior written consent of the other Party.

Section 7.19. No Third Party Beneficiaries. The provisions of this Agreement are solely for the benefit of the Parties and do not and are not intended to confer upon any Person except the Parties any rights or remedies hereunder, and there are no Third Party beneficiaries of this Agreement and this Agreement shall not provide any Third Party with any remedy, claim, Liability, reimbursement or other right in excess of those existing without reference to this Agreement.

Section 7.20. Severability. If any provision of this Agreement or the application thereof to any Person or circumstance is determined by an arbitrator or by a court of competent

jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances or in jurisdictions other than those as to which it has been held invalid, void or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby. Upon such determination, the Parties shall negotiate in good faith in an effort to agree upon such a suitable and equitable provision to effect, as closely as possible, the original intent of the Parties.

Section 7.21. No Set Off. Except as mutually agreed to in writing by the Parties, neither Party nor any other member of such Party's Group shall have any right of set-off or other similar rights with respect to (a) any amounts payable pursuant to this Agreement or (b) any other amounts claimed to be owed to the other Party or any other member of its Group arising out of this Agreement.

Section 7.22. Survival of Covenants. Except as expressly set forth in this Agreement, the covenants and agreements contained in this Agreement, and Liability for the breach of any such obligations contained herein, shall survive the Separation and the Distribution and shall remain in full force and effect.

Section 7.23. Waivers of Default; Remedies Cumulative. Waiver by a Party of any default by the other Party of any provision of this Agreement shall not be deemed a waiver by the waiving Party of any subsequent or other default, nor shall it prejudice the rights of the other Party. No failure or delay by a Party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall a single or partial exercise thereof prejudice any other or further exercise thereof or the exercise of any other right, power or privilege. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

Section 7.24. Amendments. No provisions of this Agreement may be deemed waived, amended, supplemented or modified by a Party, unless such waiver, amendment, supplement or modification is in writing and signed by the authorized representative of the Party against whom it is sought to enforce such waiver, amendment, supplement or modification.

Section 7.25. Specific Performance. Subject to the provisions of Article VII of the Separation and Distribution Agreement, in the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Agreement, the Party or Parties who are, or are to be, thereby aggrieved shall have the right to specific performance and injunctive or other equitable relief in respect of its or their rights under this Agreement, in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative. The Parties agree that the remedies at law for any breach or threatened breach, including monetary damages, are inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at law would be adequate is waived. Any requirements for the securing or posting of any bond with such remedy are waived by each of the Parties.

Section 7.26. Mutual Drafting. This Agreement shall be deemed to be the joint work product of the Parties, and any rule of construction that a document shall be interpreted or construed against a drafter of such document shall not be applicable.

Section 7.27. Predecessors or Successors. Any reference to YUM, SpinCo, a Person or a Subsidiary in this Agreement shall include any predecessors or successors (e.g., by merger or other reorganization, liquidation or conversion) of YUM, SpinCo, such Person or such Subsidiary, respectively.

Section 7.28. Change in Law. Any reference to a provision of the Code or any other Tax Law shall include a reference to any applicable successor provision or Law.

Section 7.29. Limitations of Liability. Notwithstanding anything in this Agreement or the Separation and Distribution Agreement to the contrary, neither SpinCo or any other member of the SpinCo Group, on the one hand, nor YUM or any other member of the YUM Group, on the other hand, shall be liable under this Agreement to the other for any indirect, punitive, exemplary, remote, speculative or similar damages in excess of compensatory damages of the other (other than any such damages awarded to a Third Party with respect to a Third-Party Claim).

Section 7.30. Performance. YUM shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth in this Agreement to be performed by any member of the YUM Group. SpinCo shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth in this Agreement to be performed by any member of the SpinCo Group.

Section 7.31. Incorporation. Sections 10.10 (Headings) and 10.15 (Interpretation) of the Separation and Distribution Agreement are hereby incorporated in this Agreement as if fully set forth herein.

[Signatures set forth on following page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their authorized representatives.

YUM! BRANDS, INC.

YUM CHINA HOLDINGS, INC.

By: /s/ \_\_\_\_\_  
Name:  
Title:

By: /s/ \_\_\_\_\_  
Name:  
Title:

## TRANSITION SERVICES AGREEMENT

BY AND BETWEEN

YUM! BRANDS, INC.

AND

YUM CHINA HOLDINGS, INC.

DATED AS OF [·], 2016

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TRANSITION SERVICES AGREEMENT

This TRANSITION SERVICES AGREEMENT (this "Agreement"), dated as of [·], 2016 is by and between Yum! Brands, Inc., a North Carolina corporation ("YUM") and Yum China Holdings, Inc., a Delaware corporation ("SpinCo").

RECITALS

WHEREAS, the board of directors of YUM (the "YUM Board") has determined that it is in the best interests of YUM and its shareholders to create a new publicly traded company that shall operate the SpinCo Business;

WHEREAS, in furtherance of the foregoing, the YUM Board has determined that it is appropriate and desirable to separate the SpinCo Business from the YUM Business (the "Separation") and, following the Separation, make a distribution, on a pro rata basis and in accordance with a distribution ratio to be determined by the YUM Board, to holders of YUM Shares on the Record Date of all the outstanding SpinCo Shares owned by YUM (the "Distribution");

WHEREAS, YUM, SpinCo and Yum Restaurants Consulting (Shanghai) Company Limited are entering into a Separation and Distribution Agreement (the "Separation and Distribution Agreement"), dated as of the date hereof, in order to carry out, effect and consummate the Separation and the Distribution and set forth the principal arrangements between them regarding the terms of the Separation and the Distribution, and are entering into certain other agreements that will govern certain matters relating to the Separation and the Distribution and the relationship of YUM, SpinCo and the members of their respective Groups following the Distribution; and

WHEREAS, the Parties have agreed that, after the Separation and Distribution, YUM will provide certain services to SpinCo and its Affiliates and that SpinCo will provide certain services to YUM and its Affiliates, each on a transitional basis following the Separation and in accordance with the terms and conditions set forth herein.

**AGREEMENT**

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I

DEFINITIONS

For the purpose of this Agreement, the following terms shall have the following meanings, and capitalized terms used herein and not otherwise defined in this Article I shall have the respective meanings assigned to them in the Separation and Distribution Agreement.

"Actual Cost" shall have the meaning set forth in Section 4.4.

"Additional Services" shall have the meaning set forth in Section 3.1(b).

"Agreement" shall have the meaning set forth in the Preamble.

"Confidential Information" shall have the meaning set forth in Section 5.1(a).

"Consents" shall have the meaning set forth in Section 3.1(g).

“Control”, when used with respect to SpinCo, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of SpinCo, whether through the ownership of voting securities or other interests, by Contract, agreement, obligation, indenture, instrument, lease, promise, arrangement, release, warranty, commitment, undertaking or otherwise.

“Current Capacity” shall have the meaning set forth in Section 3.1(c).

“Distribution” shall have the meaning set forth in the Recitals.

“Due Date” shall have the meaning set forth in Section 4.2(b).

“Fiscal Quarter” shall mean each of the three-month periods ending March, June, September and December.

“Initial Services” shall have the meaning set forth in Section 3.1(a).

“Invoice” shall have the meaning set forth in Section 4.1.

“Party” or “Parties” shall mean a party or the parties to this Agreement.

“Project Manager” shall have the meaning set forth in Section 3.5.

“Provider” shall mean, with respect to any particular Transition Service, the Party identified on the applicable Schedule as the Party to provide such Transition Service.

“Recipient” shall mean, with respect to any particular Transition Service, the Party identified on the applicable Schedule as the Party to receive such Transition Service.

“Recipient Business” shall mean (i) with respect to SpinCo as the Recipient, the SpinCo Business and (ii) with respect to YUM as the Recipient, the YUM Business.

“Related Parties” shall mean, as to either Party, that Party’s Affiliates, directors, officers employees, counsel, accountants, advisors, representatives and agents and, as to Provider, Third Parties engaged by Provider to provide Transition Services.

“Schedule” or “Schedules” shall mean any Schedule annexed hereto or all of the Schedules collectively (in each case including any Exhibit thereto).

“Separation” shall have the meaning set forth in the Recitals.

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“Separation and Distribution Agreement” shall have the meaning set forth in the Recitals.

“Service Termination Date” shall mean, with respect to any Transition Service, the earlier of (i) the date Recipient terminates the provision of such Transition Service pursuant to Section 2.2 and (ii) the termination date specified with respect to such Transition Service on the Schedule applicable to such Transition Service, as such date may be extended or modified in accordance with the terms of this Agreement.

“SpinCo” shall have the meaning set forth in the Preamble.

“Term” shall have the meaning set forth in Section 2.1(b).

“Termination Notice” shall have the meaning set forth in Section 2.2(e).

“Transition Services” shall have the meaning set forth in Section 3.1(b).

“YUM” shall have the meaning set forth in the Preamble.

“YUM Board” shall have the meaning set forth in the Recitals.

## ARTICLE II

### TERM AND TERMINATION

2.1 Term and Termination. Unless otherwise terminated pursuant to Section 2.2, this Agreement shall commence on the date hereof and shall terminate:

(a) with respect to any Transition Service, at the close of business on the Service Termination Date for such Transition Service; and

(b) with respect to this Agreement, on the earlier of (i) the close of business on the final Service Termination Date or (ii) one (1) year after the date hereof (the period commencing on the date hereof and ending on the earlier of (i) and (ii), the “Term”), unless the Parties have agreed in writing to an extension of the Term.

2.2 Early Termination. Without limiting the rights of the Parties under any other provision of this Agreement, this Agreement may be terminated by YUM, on the one hand, or SpinCo, on the other hand, as follows:

(a) in the event that either YUM or SpinCo sends to the other Party initial written notice of a material breach of this Agreement by such other Party and the breaching Party fails to cure such material breach within twenty (20) days of receipt of such initial notice, by written notice by the non-

breaching Party to the breaching Party;

(b) by written notice by either YUM, on the one hand, or SpinCo, on the other hand, as applicable, in the event that SpinCo or YUM (i) becomes insolvent or admits in writing its inability to pay its debts as they become due, (ii) has instituted against it a proceeding seeking a judgment of insolvency, suspension of payments or bankruptcy, or a petition is presented

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against it for its winding up or liquidation, in each case that is not dismissed within sixty (60) days, (iii) institutes a proceeding seeking a judgment of insolvency, suspension of payments or bankruptcy, or files a petition for its winding up or liquidation, (iv) makes a general assignment for the benefit of its creditors, (v) seeks or becomes subject to the appointment of a receiver over all or substantially all of its assets or (vi) any analogous procedure or step is taken in any jurisdiction;

(c) by written notice of YUM to SpinCo in the event of a change in the Person who has Control of SpinCo following the Distribution;

(d) by the mutual written consent of the Parties; or

(e) with respect to all or any one or more of the Transition Services provided to Recipient, and in accordance with the terms set forth in the Schedules (including, if set forth on the related Schedule, the required number of days for written notice), Recipient may terminate this Agreement with respect to all or any one or more of the Transition Services provided to Recipient, at any time and from time to time (except in the event such termination will constitute a breach by Provider of a third party agreement related to providing such Transition Services), by giving written notice to Provider of such termination (each, a "Termination Notice").

2.3 Effect of Termination. Upon expiration of the Term or other termination of this Agreement, there shall be no liability on the part of either Party with respect to this Agreement, other than that such expiration or termination shall not (a) relieve a Party of any liabilities resulting from any breach hereof by such Party on or prior to the date of such expiration or termination, (b) relieve a Party of any payment obligation arising prior to the date of such expiration or termination or (c) affect any rights arising as a result of such a breach or such expiration or termination. The provisions of this Section 2.3 and Articles V, VI, VII and X shall survive any expiration or termination hereof. In the event of any termination with respect to one or more, but less than all, of the Transition Services, this Agreement will continue in full force and effect with respect to any Transition Services not so terminated. Upon the termination of any or all of the Transition Services, Provider will cease, or will cause its applicable Affiliates or third party service providers to cease, providing the terminated Transition Services. Upon each such termination, Recipient will promptly pay to Provider all fees accrued through the effective date of the Termination Notice.

### ARTICLE III

#### TRANSITION SERVICES

##### 3.1 Provision of Transition Services.

(a) Transition Services. Provider shall use commercially reasonable efforts to provide, or to cause to be provided, to Recipient, or to an Affiliate of Recipient, the transition services set forth in the Schedules (collectively, the "Initial Services"), in each case for the period beginning on the date hereof and ending on the applicable Service Termination Date. Each Party acknowledges and agrees that neither Party shall have any obligation under this Agreement to provide any transition support or other services other than the Initial Services.

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Each Initial Service required to be delivered under this Agreement, and any Additional Service (as defined below) as may be mutually agreed upon by the Parties from time to time, shall be provided in the English language, unless otherwise expressly set forth on the related Schedule.

(b) Additional Services. From time to time prior to the expiration of the Term, the Parties may identify additional services to be provided in accordance with the terms of this Agreement (the "Additional Services" and, together with the Initial Services, the "Transition Services"). If the Parties mutually agree to add any Additional Service, the Parties will mutually create a Schedule or amend an existing Schedule for each such Additional Service setting forth a description of such Additional Service, the term during which such Additional Service will be provided, the price for such Additional Service and any other provisions applicable thereto. In order to become a part of this Agreement, such new Schedule or amendment to an existing Schedule must be in writing and signed by a duly authorized representative of each Party, at which time such Additional Service will, together with the Initial Services, be deemed to constitute a "Transition Service" for purposes of this Agreement and will be subject to the terms and conditions hereof. The Parties may, but are not required to, agree on Additional Services, and neither Party will have any obligation to agree to provide or receive any Additional Services.

(c) Amount of Service. Except as set forth in the Schedules, Provider shall use commercially reasonable efforts to provide or cause to be provided to Recipient the Transition Services in an amount up to the amount necessary for Recipient to (i) operate the Recipient Business at the level and capacity at which Recipient operated during the twelve-month period immediately prior to the date hereof ("Current Capacity," and (ii) effect the Separation.

(d) Level of Service. Provider shall use commercially reasonable efforts to furnish or cause to be furnished to Recipient the Transition Services substantially in the manner in which they were provided to the Recipient Business immediately prior to the date hereof; provided, that nothing in this Agreement will require Provider to prioritize or otherwise favor Recipient over any third parties or any of Provider's or Provider's Affiliates' business operations. The Parties acknowledge and agree that nothing contained in any Schedule will be deemed to (i) increase the level of service or standard of care required of Provider, (ii) expand the scope of the Transition Services to be provided as set forth in this Section 3.1 or (iii) limit Section 6.2 or 6.3, it being understood and agreed that Provider is not a commercial provider of any of the Transition Services and shall not be held to the same service standard as would a professional service provider with respect to such Transition Services.

(e) Errors or Omissions. Except as provided in Article VI, Provider's sole responsibility to Recipient for errors or omissions committed by Provider in performing the Transition Services will be to correct such errors or omissions in the Transition Services at no additional cost to

Recipient.

(f) *Means of Provision of Transition Services.* Provider shall have the sole responsibility and right to determine the personnel, assets and other resources used to provide the Transition Services, as well as the manner in which Provider provides the Transition Services, provided that the Transition Services are otherwise in compliance with the express requirements of this Agreement. Except as set forth in a Schedule, Provider shall have the right to arrange for any of the Transition Services to be provided to Recipient directly or indirectly through any

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Affiliate of Provider or third party and, subject to Section 10.6, to assign its obligation to supply any specific Transition Service to any Affiliate or third party. The Transition Services provided by Provider through any Affiliate or third party, or use of intellectual property, services or other assets owned by, licensed from or purchased from any Affiliate or third party, will be subject to the terms and conditions of any agreements with such Affiliates or third parties, and each Party will comply with such terms and conditions of such agreements to the extent applicable to such Party in connection with this Agreement. If Provider is unable to provide a Transition Service because it does not have the necessary assets because such asset was transferred from Provider to Recipient, the Parties will determine a mutually acceptable arrangement to provide the necessary access to such asset and, until such time as access is provided, Provider's failure to provide such Transition Service will not constitute a breach of this Agreement.

(g) *Cooperation in Connection with Performance of Transition Services.* Recipient shall, and shall cause its Affiliates to, use commercially reasonable efforts to cooperate with Provider (and its Affiliates and third party service providers) in connection with the performance of the Transition Services, including producing on a timely basis all information that is reasonably requested with respect to the performance of Transition Services; provided, that such cooperation does not unreasonably disrupt the normal operations of Recipient and its Affiliates. Such cooperation will include exchanging information, providing electronic access to systems used in connection with the Transition Services and obtaining or granting all consents, licenses, sublicenses, permits, registrations, authorizations or approvals (collectively, "Consents") necessary to permit Provider to perform its obligations hereunder. Recipient will be solely responsible for paying for the costs of providing such cooperation and obtaining such Consents, including reasonable legal fees and expenses. The Parties shall reasonably cooperate to obtain any Consents that may be required from third parties in order for Provider to provide any of the Transition Services hereunder. Either Party providing electronic access to systems used in connection with Transition Services may limit the scope of access to the applicable requirements of the relevant matter through any reasonable means available, and any such access will be subject to the terms of Section 5.1. The exchange of information related to the provision of Transition Services hereunder will be made to the extent that (A) such information exists and is created in the ordinary course, (B) does not involve the incurrence of any material expense, and (C) is reasonably necessary for Provider to comply with its obligations hereunder. For the avoidance of doubt, and without limiting any privilege or protection that now or hereafter may be shared by Provider and Recipient, neither Party will be required to provide any document if the Party who would provide such document reasonably believes that so doing would waive any privilege or protection (e.g., attorney-client privilege) applicable to such document. If Provider reasonably believes it is unable to provide any Transition Service because of a failure to obtain necessary Consents contemplated by this Section 3.1(g), such failure shall not constitute a breach hereof by Provider and the Parties will cooperate to determine the best alternative approach; provided, that in no event will Provider be required to provide such Transition Service until an alternative approach reasonably satisfactory to Provider is found or the Consents have been obtained.

(h) *Modification of Transition Services.* The Parties agree and acknowledge that Provider may make changes from time to time in the manner of performing the applicable Transition Services if Provider is making similar changes in performing similar services for itself, its Affiliates or other Third Parties, if any, and if Provider furnishes to Recipient

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substantially the same notice (in content and timing) as Provider provides to its Affiliates or other third parties, if any, respecting such changes. Without limiting the foregoing, and notwithstanding anything to the contrary in this Agreement, Provider may make any of the following changes without obtaining the prior consent of, and without prior notice to, Recipient: (i) changes to the process of performing a particular Transition Service that do not adversely affect the benefits to Recipient of Provider's provision or quality of such Transition Service in any material respect or materially increase the charge for such Transition Service; (ii) emergency changes on a temporary and short-term basis; and (iii) changes to a particular Transition Service in order to comply with applicable Law or regulatory requirements.

3.2 Use of Transition Services. Recipient shall and shall cause its Affiliates to use or permit to be used the Transition Services (a) only in a manner consistent with the current use of such Transition Services in the operation of the Recipient Business and (b) only to the extent necessary to (i) operate the Recipient Business at the Current Capacity and (ii) effect the Separation.

3.3 Right to Suspend Transition Services. Notwithstanding anything to the contrary in this Agreement, Provider shall not be required to provide, and will incur no liability for not providing, all or any part of any Transition Service to the extent: (i) the performance of such Transition Service would require Provider to violate any applicable Law or Contract and (ii) a third party service provider or third party intellectual property or other asset used to provide any Transition Service ceases to be, or otherwise is not, available to Provider on commercially reasonable terms. Any such non-provision of Transition Services will apply in each of clauses (i) and (ii): (a) only to the extent reasonably necessary for Provider to address the issue raised; (b) to the extent practicable, only after Provider has applied commercially reasonable efforts to reduce the amount or effect of any such restrictions; and (c) if Provider has delivered written notice thereof to Recipient.

3.4 Access. Recipient shall provide Provider, and any Affiliate or Third Party who provides the Transition Services on behalf of Provider, reasonable access to Recipient's premises, or to the premises of any Affiliate of Recipient receiving the applicable Transition Services, during regular business hours and at such other times as are reasonably requested by Provider or such Affiliate or Third Party, for the purpose of providing the Transition Services. Subject to obtaining any required consents, Recipient hereby grants to Provider during the Term, to the extent required, a non-exclusive license to use or access, as the case may be, all software, equipment, space and other items owned or leased by or licensed to Recipient or any of Recipient's Affiliates, which are required for Provider, Provider's Affiliates or a Third Party, as applicable, to perform the Transition Services.

3.5 Project Managers. Each of YUM, on the one hand, and SpinCo, on the other hand, shall designate in writing one or more individuals with all the requisite power and authority, in each such individual's sole discretion, to authorize, approve and otherwise act on its behalf with respect to the Transition Services and other matters contained in this Agreement (each, a "Project Manager"). Each of YUM and SpinCo may change its Project Manager

or Project Managers, as the case may be, from time to time by written notice to the other Party. Each Project Manager shall be authorized to receive on behalf of YUM or SpinCo, as the case may be, notices required or permitted herein other than with respect to notices of breach, claims

or disputes, which notices shall be provided in accordance with Section 10.1. Each of YUM, on the one hand, and SpinCo, on the other hand, may rely and shall be protected in acting or refraining from acting in reliance upon any oral or written statement, notice, request, direction, consent or other document or instrument delivered to it by the other Party's Project Manager, or by any of the other Party's Project Managers, as the case may be. Each of YUM, on the one hand, and SpinCo, on the other hand, agrees to make its Project Manager or Project Managers, as the case may be, reasonably available to the other Party during regular business hours for consultation regarding any matters for which such Project Manager has responsibility under this Agreement. The Project Managers of each of YUM and SpinCo shall meet from time to time to review and discuss matters relating to the performance of the Parties' obligations under this Agreement.

### 3.6 Security; Systems Compliance.

(a) Without limiting or modifying (i) any maintenance obligations of a Party or other Person under the Separation and Distribution Agreement or any other Ancillary Agreement or (ii) any right of a Party or other Person under any such agreement (including YUM's and its Affiliates' rights to modify its practices and policies), during the Term, each Party shall, and shall cause its Affiliates to, maintain (and may reasonably upgrade or otherwise modify without adversely affecting the connectivity with, functionality of or compatibility with the systems of the other Party) its existing physical, information and other security practices and policies, except that, if an addition or change to such practices or policies is either (i) required by Provider's outside auditors or (ii) required to be implemented by Provider by Law or a Governmental Authority, then each Party will implement the required changes as soon as practicable to the extent necessary to perform or receive Transition Services, but no later than the last day Provider has implemented such changes with respect to restaurants operated by it or its Affiliates that receive services similar to the Transition Service affected by such addition or change. The Parties will reasonably cooperate in maintaining reasonable security measures with respect to any interfaces required between Provider and Recipient (and their respective Affiliates) in connection with the Transition Services.

(b) At all times during the Term, each Party shall not, and shall cause its Affiliates not to, introduce, and shall take, and shall cause its Affiliates to take, commercially reasonable measures to prevent the introduction, into the other Party's (or its Affiliates') computer systems, networks, databases, or software any viruses or any other contaminants (including, but not limited to, codes, commands, instructions, devices, techniques, bugs, web bugs, or design flaws) that (or that are intended to) access (without authorization), alter, delete, threaten, infect, assault, vandalize, defraud, disrupt, damage, disable, inhibit or shut down such other Party's (or its Affiliates') computer systems, networks, databases, software, or other information or property. Each Party shall not, and shall cause its Affiliates not to, tamper with, compromise or attempt to circumvent any physical or electronic security or audit measures employed by the other Party (or its Affiliates) in the course of its business operations or compromise the security of the other Party's (or its Affiliates') computer systems, networks, databases, or software.

## ARTICLE IV

### COMPENSATION

4.1 Fees for Transition Services. Recipient shall pay, or shall cause its Affiliates to pay, for Transition Services provided to Recipient and its Affiliates pursuant to the terms of this Agreement at the prices set forth for such Transition Services on the applicable Schedule. On or before the twentieth (20<sup>th</sup>) day of each month following the end of a month or Fiscal Quarter (at Provider's discretion) during the Term, or following the month during which a Service Termination Date for particular Transition Services occurs, Provider shall prepare and deliver (or cause its applicable Affiliate to prepare and deliver) to Recipient an invoice or invoices, as applicable (each, an "Invoice"), setting forth the amounts payable by Recipient, or by an Affiliate of Recipient, if applicable, for the Transition Services during the preceding month, Fiscal Quarter or portion of a Fiscal Quarter, as the case may be. Such amounts shall be calculated in accordance with the prices set forth in the applicable Schedules. The first Fiscal Quarter shall be deemed to be the period beginning on the date of this Agreement and ending on December 31, 2016.

### 4.2 Payment.

(a) Amounts payable by Recipient, or an Affiliate of Recipient, as set forth in an Invoice are due no later than twenty (20) days from the date of the Invoice.

(b) All payments hereunder shall be in United States dollars and shall be made by wire transfer to the account of Provider, as specified in writing by Provider from time to time. Payments pursuant to this Agreement that are not made by the date prescribed in this Agreement (the "Due Date") shall accrue interest for the period from and including the date immediately following the Due Date through and including the date of payment at a rate per annum equal to the Prime Rate plus three percent (3%). Such rate shall be redetermined at the beginning of each calendar quarter following such Due Date. Such interest will be payable at the same time as the payment to which it relates and shall be calculated on the basis of a year of three hundred sixty-five (365) days and the actual number of days for which due.

4.3 Taxes. Recipient shall pay Provider, in addition to the amounts calculated in accordance with Section 4.1, the amount of all Taxes in respect of the sale and delivery of any of the Transition Services; provided, that Recipient shall not be required to pay any Tax assessed on or measured by Provider's net income. All fees and other consideration with respect to Transition Services will be paid free and clear of and without deduction or withholding for or on account of any Tax, except as may be required by applicable Law. If Recipient shall be required by applicable Law to deduct or withhold any Taxes from such payments, then (i) Recipient shall make such deductions or withholdings as are required by applicable Law, (ii) Recipient shall timely pay the full amount deducted or withheld to the applicable taxing authorities and provide Provider with receipts or other proof of such payment promptly upon receipt, and (iii) Recipient shall gross up its payment to Provider so that the net amount that Provider receives is the same that it would have received had the deductions or withholding taxes (including such deductions and withholding taxes applicable to additional sums payable under this Section) imposed by the applicable tax authorities not applied.

4.4 Adjustment to Prices for Transition Services. Unless a different time period is agreed to in writing by the Parties, at the end of each twelve (12) months during the Term, Provider will review the charges, costs and expenses actually incurred by Provider in providing any Transition Service (collectively, "Actual Cost") during the previous twelve (12) months. In the event Provider determines that the Actual Cost for any Transition Service materially differs from the anticipated costs that were used by Provider to calculate the price for that Transition Service on the applicable Schedule, Provider will deliver to Recipient documentation for such Actual Cost and anticipated costs and the Parties will renegotiate in good faith to adjust the prices charged to Recipient for the applicable Transition Services prospectively.

## ARTICLE V

### CONFIDENTIALITY

#### 5.1 Confidentiality.

(a) Each Party shall hold, and shall cause its Related Parties to hold, in strict confidence, with at least the same degree of care and confidentiality that applies to such Party's own confidential and proprietary information pursuant to policies in effect as of the Effective Time, all proprietary and confidential information of the other Party or any of such other Party's Affiliates received by such Party or any of its Related Parties at any time pursuant to this Agreement or otherwise (collectively, "Confidential Information") and shall not disclose the same to any third party which is not its Related Party nor use the same, except as expressly permitted by the terms hereof. A Party's or its Affiliate's information shall not constitute Confidential Information for purposes of this Section 5.1(a) if such information is not subject to the protections on confidential and proprietary information set forth in Section 6.9 of the Separation and Distribution Agreement. The provisions of Section 6.9 of the Separation and Distribution Agreement shall govern the confidentiality, disclosure and use of all Confidential Information.

(b) Without limiting any confidentiality, disclosure or use obligations set forth in the Separation and Distribution Agreement or any other Ancillary Agreement, the obligations of confidentiality under this Section 5.1 (i) with respect to Confidential Information that embodies trade secrets, know-how or similar Intellectual Property, shall indefinitely survive the expiration of the Term or other termination of this Agreement and (ii) with respect to all other Confidential Information, shall survive for a period of five (5) years from the date of the expiration of the Term or other termination of this Agreement.

## ARTICLE VI

### LIMITED WARRANTY; LIABILITY; RELATED MATTERS

6.1 Limited Warranty. Provider represents and warrants that it shall furnish or cause to be furnished all of the Transition Services only to the standard set forth in Section 3.1(d).

6.2 Disclaimer of Implied Warranties. EXCEPT AS SET FORTH IN SECTION 6.1, PROVIDER MAKES NO AND DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED,

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INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGEMENT, WITH RESPECT TO THE TRANSITION SERVICES. PROVIDER MAKES NO REPRESENTATIONS OR WARRANTIES AS TO THE QUALITY, SUITABILITY OR ADEQUACY OF THE TRANSITION SERVICES FOR ANY PURPOSE OR USE.

#### 6.3 Limitations on Liability.

(a) Each Party acknowledges and agrees that the obligations of the other Party hereunder are exclusively the obligations of such other Party and are not guaranteed directly or indirectly by such other Party's Affiliates, directors, officers, managers, employees or agents or any other Person.

(b) Notwithstanding anything to the contrary in this Agreement, Recipient acknowledges and agrees that performance by Provider of the Transition Services pursuant to this Agreement will not subject Provider or any of its Related Parties to any liability whatsoever, except as directly caused by gross negligence or willful misconduct on the part of Provider or any of its Related Parties in providing the Transition Services; provided, that Provider's liability as a result of any such gross negligence or willful misconduct will be limited to an amount not to exceed the lesser of (i) the price paid for the particular Transition Service, (ii) Recipient's, or its Affiliate's, cost of performing the Transition Service itself until the applicable Service Termination Date, (iii) Recipient's cost of obtaining the Transition Service from a third party until the applicable Service Termination Date; provided further that Recipient will, and will cause its Affiliates to, exercise its commercially reasonable efforts to minimize the cost of any such alternatives to the Transition Services by selecting the most cost effective alternatives which provide the functional equivalent of the Transition Services replaced.

(c) NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, IN NO EVENT WILL EITHER PARTY OR ANY OF ITS RELATED PARTIES BE LIABLE FOR ANY SPECIAL, INCIDENTAL, INDIRECT, COLLATERAL, CONSEQUENTIAL, EXEMPLARY, REMOTE, SPECULATIVE OR PUNITIVE DAMAGES, LOST PROFITS OR SIMILAR DAMAGES SUFFERED BY THE OTHER PARTY OR ANY OF ITS AFFILIATES, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE), IN CONNECTION WITH ANY BREACH OR OTHER MATTER ARISING HEREUNDER OR ARISING IN ANY WAY OUT OF THIS AGREEMENT. Notwithstanding anything to the contrary in this Agreement, Provider shall have no liability to Recipient to the extent any failure to provide to Recipient, or defect in, any Transition Service is caused by Recipient's failure to comply with Section 3.1(g) or 3.4.

(d) Each Party agrees that it shall, in all circumstances, use commercially reasonable efforts to mitigate, and to otherwise minimize, its damages, and those of its Related Parties, whether direct or indirect, resulting from, or arising in connection with, any failure by the other Party to comply fully with its obligations under this Agreement.

6.4 Compliance with Law and Governmental Regulations. Recipient will be solely responsible for (a) compliance with all Laws affecting the Recipient Business and (b) any use Recipient may make of the Transition Services to assist it in complying with such Laws. Without

limiting any other provisions of this Agreement, the Parties agree and acknowledge that Provider has no responsibility or liability for advising Recipient with respect to, or ensuring Recipient's compliance with, any public disclosure, compliance or reporting obligations of Recipient (including under the Securities Act of 1933, the Securities Exchange Act of 1934 and the Sarbanes-Oxley Act of 2002), regardless of whether any failure to comply relates to information or Transition Services provided hereunder.

## ARTICLE VII

### INDEMNIFICATION

7.1 Indemnification. Subject to the limitations set forth in Article 6, Provider shall indemnify, defend and hold harmless Recipient and each of its Related Parties from and against any and all Liabilities directly arising or resulting from any gross negligence or willful misconduct by Provider or any of its Related Parties in providing the Transition Services. Recipient shall indemnify, defend and hold harmless Provider and each of its Related Parties from and against any and all Liabilities arising or resulting from the provision by Provider or any of its Related Parties of the Transition Services, excluding (i) any costs or expenses incurred by Provider or any of its Related Parties to provide the Transition Services in the ordinary course or (ii) Liabilities directly arising or resulting from Provider's, or any of its Related Parties', gross negligence or willful misconduct in performing the Transition Services.

7.2 Treatment of the Indemnification Claims. The procedures for indemnification pursuant to this Article 7 shall be the same as the procedures set forth in Sections 4.5 and 4.6 of the Separation and Distribution Agreement.

## ARTICLE VIII

### INDEPENDENT CONTRACTOR

8.1 Independent Contractor. The relationship of Provider and Recipient is that of vendor and customer, and this Agreement does not, and shall not be deemed or construed to, create any partnership or joint venture relationship between the Parties or any of their respective Affiliates, successors or assigns. Each Party understands and agrees that this Agreement does not make it or any of its Related Parties an agent or legal representative of the other Party or any of its Affiliates for any purpose whatsoever. No Party is granted, by this Agreement or otherwise, any right or authority to assume or create any obligation or responsibilities, express or implied, on behalf of or in the name of any other Party or any of its Affiliates, or to bind the other Party or any of its Affiliates in any manner whatsoever. The Parties expressly acknowledge that Provider is an independent contractor with respect to Recipient in all respects, including with respect to the provision of the Transition Services.

## ARTICLE IX

### FORCE MAJEURE

9.1 Force Majeure. No Party shall be deemed in default of this Agreement for any delay or failure to fulfill any obligation (other than a payment obligation) hereunder so long as and to the extent to which any delay or failure in the fulfillment of such obligation is prevented, frustrated, hindered or delayed as a consequence of circumstances of Force Majeure. In the event of any such excused delay, the time for performance of such obligation (other than a payment obligation) shall be extended for a period equal to the time lost by reason of the delay. A Party claiming the benefit of this provision shall, as soon as reasonably practicable after the occurrence of any such event, (a) provide written notice to the other Party of the nature and extent of any such Force Majeure condition and (b) use commercially reasonable efforts to remove any such causes and resume performance under this Agreement, as applicable, as soon as reasonably practicable.

## ARTICLE X

### MISCELLANEOUS

10.1 Notices. Unless otherwise expressly provided herein, all notices, requests, claims, demands or other communications under this Agreement shall be delivered in accordance with the requirements for the provision of notice set forth in Section 10.5 of the Separation and Distribution Agreement.

10.2 Amendments. No provision of this Agreement may be waived, amended, supplemented or modified, unless such waiver, amendment, supplement or modification is in writing and signed by the authorized representative of the Party against whom it is sought to enforce such waiver, amendment, supplement or modification.

10.3 Non-Exclusivity. Provider and its Affiliates may provide services of a nature similar to the Transition Services to any other Person. There is no obligation for Provider to provide the Transition Services to Recipient on an exclusive basis.

10.4 Expenses. Except as otherwise expressly provided for herein, or as otherwise agreed to in writing by the Parties, all out-of-pocket fees, costs and expenses incurred prior to the Effective Time in connection with the preparation, execution, delivery and implementation of this Agreement will be borne by the Party or the applicable member of such Party's Group incurring such fees, costs or expenses.

10.5 Waivers of Default; Remedies Cumulative. Waiver by a Party of any default by the other Party of any provision of this Agreement shall not be deemed a waiver by the waiving Party of any subsequent or other default, nor shall it prejudice the rights of the other Party. No failure or delay by a Party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall a single or partial exercise thereof prejudice any other or further exercise thereof or the exercise of any other right, power or privilege. All rights and

remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

10.6 **Binding Effect; Assignability.** This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns, provided, that neither Party may assign any of its rights or assign or delegate any of its obligations under this Agreement without the express prior written consent of the other Party, except that (a) Recipient may assign its rights under this Agreement to any Affiliate or Affiliates of Recipient without the prior written consent of Provider, (b) Provider may assign or delegate any rights and obligations hereunder to (i) any Affiliate or Affiliates of Provider capable of providing such Transition Services hereunder or (ii) Third-Parties to the extent such Third-Parties are used to provide the Transition Services, in either case without the prior written consent of Recipient, and (c) an assignment by operation of Law in connection with a merger or consolidation will not require the consent of the other Party. Notwithstanding the foregoing, each Party will remain liable for all of its respective obligations under this Agreement.

10.7 **No Third Party Beneficiaries.** Except as provided in Articles 6 and 7, (a) the provisions of this Agreement are solely for the benefit of the Parties and do not and are not intended to confer upon any Person except the Parties any rights or remedies hereunder, and (b) there are no Third Party beneficiaries of this Agreement, and this Agreement shall not provide any Third Party with any remedy, claim, Liability, reimbursement or other right in excess of those existing without reference to this Agreement.

10.8 **Severability.** If any provision of this Agreement is determined by an arbitrator or by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances or in jurisdictions other than those as to which it has been held invalid, void or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby. Upon such determination, the Parties shall negotiate in good faith in an effort to agree upon such a suitable and equitable provision to effect, as closely as possible, the original intent of the Parties.

10.9 **Entire Agreement.** This Agreement, together with the Separation and Distribution Agreement and the other Ancillary Agreements, contain the entire agreement between the Parties with respect to the subject matter hereof, and supersede all previous agreements, negotiations, discussions, writings, understandings, commitments and conversations with respect to such subject matter, and there are no agreements or understandings between the Parties other than those set forth or referred to herein or therein.

10.10 **Governing Law.** This Agreement (and any claims or disputes arising out of or related hereto or to the transactions contemplated hereby or to the inducement of either Party to enter herein, whether for breach of contract, tortious conduct or otherwise and whether predicated on common law, statute or otherwise) shall be governed by and construed and interpreted in accordance with the Laws of the State of Delaware irrespective of the choice of laws principles of the State of Delaware including all matters of validity, construction, effect, enforceability, performance and remedies.

10.11 **Disputes.** The procedures for discussion, negotiation, mediation and arbitration set forth in Article VII of the Separation and Distribution Agreement shall apply to all disputes, controversies or claims that may arise out of or relate to this Agreement.

10.12 **Counterparts.** This Agreement may be executed in one (1) or more counterparts, all of which shall be considered one (1) and the same agreement, and shall become effective when one (1) or more counterparts have been signed by each of the Parties and delivered to the other Party. The provisions of Section 10.1(d) of the Separation and Distribution Agreement shall, for the avoidance of doubt, apply to the execution of this Agreement.

10.13 **Authority.** YUM represents on behalf of itself, and SpinCo represents on behalf of itself, as follows:

(a) it has the requisite corporate or other power and authority and has taken all corporate or other action necessary in order to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby; and

(b) this Agreement has been duly executed and delivered by it and constitutes a valid and binding agreement of it enforceable against it in accordance with the terms hereof.

10.14 **Incorporation.** Sections 10.8 (No Set-Off), 10.10 (Headings), 10.15 (Interpretation) and 10.18 (Mutual Drafting) of the Separation and Distribution Agreement are hereby incorporated in this Agreement as if fully set forth herein.

[Signatures set forth on following page]

IN WITNESS WHEREOF, this Agreement has been executed as of the date first above written.

YUM! BRANDS, INC.

By: \_\_\_\_\_

Name:

Title:



By: \_\_\_\_\_  
Name:  
Title:

*[Signature Page to Transition Services Agreement]*

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## NAME LICENSE AGREEMENT

THIS NAME LICENSE AGREEMENT (this “Agreement”) is made effective as of [ ], 2016 (the “Effective Date”) by and between Yum! Brands, Inc., a North Carolina corporation having its principal place of business at 1441 Gardiner Lane, Louisville, Kentucky 40213 (“Licensor”), and Yum China Holdings, Inc., a Delaware corporation having its principal place of business at [ ] (“Licensee”) (each, a “Party,” and collectively, the “Parties”).

## RECITALS

WHEREAS, Licensor owns rights to the name and mark “YUM!” in various countries throughout the world, including, without limitation, the People’s Republic of China (the “PRC”);

WHEREAS, under the Master License Agreement dated [ ], 2016 between Yum! Restaurants Asia Pte. Ltd., a wholly-owned indirect subsidiary of Licensor (“YRAPL”), and Yum Restaurants Consulting (Shanghai) Company Ltd., a wholly-owned indirect subsidiary of Licensee (“YCCL”) (as such Master License Agreement may be amended from time to time in accordance with its terms, the “MLA”), YRAPL granted YCCL a license to the Brand System IP owned by Licensor and its subsidiaries to operate Brand Restaurant Businesses and to grant Sublicenses to others to operate Restaurants under the Brands in the Territory;

WHEREAS, Licensee was formed as a result of a spin-off of Licensor’s business division with primary responsibility for the conduct of the Brand Restaurant Businesses in the PRC; and

WHEREAS, Licensee is incorporated under the corporate name Yum China Holdings, Inc. (the “Licensee Name”) and would like to formalize, and Licensor is willing to formally grant to Licensee, the right and license to use (i) the name and mark “YUM” (without the exclamation mark) (the “Licensed Mark”) as part of the Licensee Name and, on letterhead or business cards of Licensee, in conjunction with the Yum! Bubble Logo as shown in Schedule 1 and as may be amended by Licensor from time to time (the “Licensed Logo”); (ii) the Licensed Mark as part of the domain name “yumchina.com” (the “Domain Name”); and (iii) the Licensed Mark as part of its stock identification symbol “YUMC” (the “Licensee Ticker Symbol”) on any stock exchange on which the Licensee’s common stock is listed (each, an “Applicable Exchange”), and to permit those subsidiaries of Licensee established under the law of the PRC and identified on Schedule 2 to this Agreement (each, a “Subsidiary”) to use as a part of such Subsidiary’s corporate name the Licensed Mark, as such corporate name has been approved in advance in writing by Licensor to Licensee (each, a “Subsidiary Name”).

NOW, THEREFORE, the Parties agree, in consideration for the mutual promises herein, as follows:

- Definitions.** Any capitalized term used in this Agreement and not defined in this Agreement (including, without limitation, the term “Territory”) shall have the meaning given to such term in the MLA. In addition, the word “Term” means the period of time commencing on the Effective Date and ending upon the termination of this Agreement.
- Licensee Name, Licensed Logo, Domain Name, and Licensee Ticker Symbol.** Subject to the terms and conditions of this Agreement, Licensor hereby grants to Licensee during the Term a non-exclusive, non-transferable, non-sublicensable (except by Licensee to the Subsidiaries under Section 3), royalty-free right to use (i) the Licensed Mark solely as part of the Licensee Name as approved in advance in writing by Licensor to Licensee, (ii) the Licensed Logo on letterhead or business cards of Licensee, (iii) the Licensed Mark as part of the Domain Name, and (iv) the Licensed Mark as part of the Licensee Ticker Symbol, all only in connection with, and while, operating one or more Brand Restaurant Businesses in the Territory, always subject to and in compliance with the terms and conditions of this Agreement. Without Licensor’s express prior written consent, Licensee shall not and shall cause its Affiliates not to: (i) use the Licensee Name, or the Licensee Ticker Symbol as or in or directly with a logo (including the Licensed Logo) or in a stylized form or appearance; (ii) use the Licensed Mark or a variation thereof in any domain name, or obtain a registration for a domain name

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using the Licensed Mark or a variation thereof, other than the Domain Name; (iii) use any translation or transliteration of the Licensed Mark, Licensee Name, Domain Name, or Licensee Ticker Symbol; or (iv) make any use the Licensed Mark standing alone or otherwise apart from the Licensee Name, the Licensed Logo on letterhead or business cards of Licensee, the Domain Name, or the Licensee Ticker Symbol. For the avoidance of doubt, Licensor does not grant or give, and Licensor shall not be deemed in this Section 2 or otherwise under this Agreement to grant or give, any license or permission for any sublicensee or franchisee of Licensee or any Subsidiary to use, or for Licensee or any Subsidiary to grant any such sublicensee or franchisee the right to use, any Licensed Mark or any translation or transliteration thereof (other than Licensee’s right to grant rights to the Subsidiaries under Section 3). For the purpose of clarification, the “□□” term is not a translation or transliteration of the Licensed Mark. Licensee agrees that it shall and that it shall cause its Subsidiaries to refer to Licensor solely as “Yum! Brands, Inc.” (and not, for the avoidance of doubt, as any Chinese transliteration thereof), unless otherwise consented to in advance in writing by Licensor.

- Subsidiary Names.** Subject to the terms and conditions of this Agreement, Licensor hereby grants to Licensee during the Term a non-exclusive, non-transferable, royalty-free right to sublicense to each Subsidiary the right to use in the Subsidiary Name of such Subsidiary the Licensed Mark as approved in advance in writing by Licensor to Licensee for such Subsidiary Name, subject to, and on the condition that, such Subsidiary complies with all provisions in this Agreement with regard to such Subsidiary Name to the same extent as they apply to the Licensee Name, always subject to and in compliance with the terms and conditions of this Agreement. Without Licensor’s express prior written consent, Licensee shall cause each Subsidiary not to: (i) use its Subsidiary Name as or in or directly with a logo or in a stylized form or appearance; or (ii) use any translation or transliteration of the Licensed Mark or Subsidiary Name.

- Change of Licensee Name, Licensed Logo, Domain Name, or Licensee Ticker Symbol or Subsidiary Name.** Licensee may not change, amend, alter, or replace all or any part of the Licensee Name, the Domain Name, or the Licensee Ticker Symbol, if the amended Licensee Name, Domain Name, or Licensee Ticker Symbol still incorporates the Licensed Mark or anything similar, without an amendment to this Agreement in accordance with Section 13(h). Licensee may not change, amend, or alter the Licensed Logo. In the event that Licensee is required, by applicable law, regulation, rule, or order of a court or governmental agency, or the applicable rules governing the listing of stock on any Applicable Exchange, to change, amend, alter, or replace all or any part of the Licensee Name, the Domain Name, or the Licensee Ticker Symbol, Licensee shall promptly notify Licensor of such requirement in writing. Licensee

shall cause each Subsidiary not to change, amend, alter, or replace all or any part of its Subsidiary Name, if the amended Subsidiary Name still incorporates the Licensed Mark or anything similar, without Licensor's express prior written consent to Licensee. In the event that a Subsidiary is required, by applicable law, regulation, rule, or order of a court or governmental agency, to change, amend, alter, or replace all or any part of its Subsidiary Name, Licensee shall promptly notify Licensor of such requirement in writing. Licensor shall have the discretionary right to refuse to agree to any change, amendment, alteration, or replacement of the Licensee Name, the Domain Name, the Licensee Ticker Symbol, or any Subsidiary Name, if the amended Licensee Name, Domain Name, or Licensee Ticker Symbol still incorporates the Licensed Mark or anything similar.

**5. Limitations.** Other than the limited rights under Sections 2 and 3 during the Term, Licensee does not have a license or right to, and Licensee shall not and shall cause each Subsidiary not to: (i) transfer, assign, sublicense, or grant the right to sublicense, or otherwise grant others, the right to use the Licensed Mark (or any other mark or name confusingly similar to the Licensed Mark or any translation or transliteration of the Licensed Mark or any other mark or name confusingly similar to the Licensed Mark) in any manner or for any purpose; (ii) register or list securities or apply to register or list securities with any stock exchange, or any exchange of stock, equity, bonds, or other publicly traded instruments, anywhere in the world other than an Applicable Exchange, without the express prior approval of Licensor; (iii) use, adopt, register, seek registration of, obtain a domain name registration for, or assert ownership or rights to any trademark, service mark, tradename, corporate name, business name, domain name, social media name or handle, or other source identifier that consists of or includes the Licensed Mark, or any other mark or name proprietary to Licensor, or any mark or name confusingly similar to, or any translation or transliteration of the Licensed Mark; (iv) challenge Licensor's ownership or rights in or to, or challenge the validity or enforceability of, the Licensed Mark or any other mark or name proprietary to Licensor anywhere in the world; or (v) cause or assist with any

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activity by a third party that would violate the foregoing provisions of this Section 5 if such activity had been that of Licensee or a Subsidiary.

**6. Quality Control; Use.** Licensee shall, at all times, cause the Brand Restaurant Businesses to be operated in accordance with the requirements, including, without limitation, the quality control requirements, under the MLA. Licensee shall and shall cause the Subsidiaries to comply with any standards for use of the Licensed Mark, as notified in writing by Licensor to Licensee from time to time. Licensee shall and shall cause the Subsidiaries to at all times conduct business and operations in compliance with all applicable laws and maintain a good reputation. Upon Licensor's request from time to time, Licensee shall promptly provide Licensor with documentary evidence showing Licensee's and each Subsidiary's representative use of the Licensed Mark. Licensor and/or its representatives shall be entitled to audit and inspect Licensee's and each Subsidiary's records related to the use of the Licensed Mark during Licensee's or such Subsidiary's ordinary business hours, as applicable.

**7. Ownership and Reservation of Rights.** Licensor is and shall be and remain the sole owner of all rights, title, and interest in and to the Licensed Mark and all goodwill represented thereby or arising or resulting from the Licensed Mark. Any and all use of the Licensed Mark will inure to the sole benefit of Licensor, and all goodwill in or accruing in, or arising or resulting from any use of, the Licensed Mark shall belong to, and all value and benefits arising therefrom, shall be owned solely by Licensor without any claim thereto, or for any compensation in connection with same, by Licensee, a Subsidiary, or any third party. Licensor reserves all rights to the Licensed Mark. Licensor does not grant or give to Licensee, a Subsidiary, or any third party any ownership, right, title, interest, license (with the sole exception of the limited rights to use the Licensed Mark under Sections 2 and 3 during the Term), or encumbrance, or any claim or right to any ownership, right, title, interest, license, or encumbrance, in or to the Licensed Mark or any other name, mark, or intellectual property in or under this Agreement. Licensor shall have the sole discretionary right to file and prosecute any application for, and to seek and obtain and maintain any registration, for the Licensed Mark anywhere in the world. If Licensor decides to file any application or to seek or obtain any registration for the Licensed Mark, Licensee agrees to assist Licensor in connection therewith. In the event that Licensee or a Subsidiary acquires, obtains, or owns any right, title, interest, license (with the sole exception of the limited rights to use the Licensed Mark under Sections 2 and 3 during the Term), or encumbrance, or any claim or right thereto, in or to, or owns an application or a registration for, or a domain name registration (other than the Domain Name) including the Licensed Mark, or any other mark or name of Licensor or any of its Affiliates, or any mark or name confusingly similar to the Licensed Mark, or such other mark or name of Licensor or any of its Affiliates, or any translation or transliteration of the Licensed Mark, any such other mark or name, or any such confusingly similar mark or name, Licensee hereby assigns, transfers, and conveys, and shall cause such Subsidiary to assign, transfer, and convey, to Licensor all such right, title, interest, license, encumbrance, claim, application, and/or registration, free of any payment or payment obligation by Licensor. If and to the extent requested by Licensor, Licensee agrees to assist with any recordation, action, or step necessary to secure the continued ownership pursuant to this Section 7, to otherwise implementing and effecting the provisions of this Section 7, and to assist Licensor with enforcing any of its rights in and to the Licensed Mark, including, without limitation, by executing and filing any document, giving any statement or testimony, and provide any other assistance.

**8. Warranties; Liability.** Each Party represents and warrants that it has the full power and corporate authority to enter into and perform its obligations under this Agreement. WITH THE SOLE EXCEPTION OF THE FOREGOING REPRESENTATION AND WARRANTY OF A PARTY SET FORTH ABOVE IN THIS SECTION 8, NEITHER PARTY MAKES ANY, AND EACH PARTY DISCLAIMS ALL, REPRESENTATIONS, WARRANTIES, AND CONDITIONS OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY RELATED TO MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT, OR TITLE. IN NO EVENT SHALL LICENSOR BE LIABLE FOR ANY DAMAGES RELATED TO THE LICENSED MARK, THE LICENSEE NAME, THE LICENSED LOGO, THE DOMAIN NAME, THE LICENSEE TICKER SYMBOL, A SUBSIDIARY NAME, OR ANY USE THEREOF, INCLUDING, WITHOUT LIMITATION, ANY INFRINGEMENT OR CLAIM OR ALLEGATION OF INFRINGEMENT.

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**9. Term.** This Agreement, and the rights granted in Sections 2 and 3, shall be effective as of the Effective Date and continue until this Agreement is terminated pursuant to Section 10 or applicable law.

**10. Termination.**

a. Termination of Agreement (Other than Right to Use Domain Name and Licensee Ticker Symbol), Licensor may terminate this Agreement and the rights and licenses granted herein (other than Licensee's right to use the Domain Name and Licensee Ticker Symbol), at any time by written notice of termination to Licensee:

- (i) in the event of a material breach of this Agreement by Licensee, which material breach shall be identified in such written notice, and which termination shall become effective at the end of thirty (30) days of such written notice of termination unless Licensee fully cures

such material breach within such thirty (30) day period; or

(ii) in the event of a termination of the license under the MLA for one or more of the Brands (other than the termination of the MLA resulting in the termination of this Agreement under Section 10(c)(i)); or

(iii) in the event of a material breach of the MLA as set forth in Sections 14.1.1 through 14.1.4 of the MLA; or

(iv) in the event of a non-curable material breach of the MLA as set forth in and determined in accordance with Sections 14.1.5.C (Failure to Comply with Brand Standards or Enforce the Sublicenses), .D (Loss of Rights in Brand System IP), .F (Failure to Meet Sales Growth Metric) or .G (Failure to Meet the Taco Bell Brand Development Initiative) of the MLA; or

(v) as provided in Section 12; or

(vi) if Licensor assigns its rights to the “YUM” mark to a third party that is not an Affiliate of Licensor; or

(vii) if Licensee discontinues its business operations, is dissolved or suspended from operating, takes steps to dissolve or cease to exist, admits its inability to pay its debts as they become due, files or is or becomes subject to a petition in bankruptcy (or similar reorganization proceeding) or makes a general assignment for the benefit of its creditors, or becomes subject to the appointment of a receiver.

b. Termination of Agreement in Its Entirety by Licensor. By written notice of termination to Licensee, Licensor may terminate this Agreement in its entirety, and the rights and licenses granted herein, including without limitation with respect to the Domain Name and the Licensee Ticker Symbol, following the a non-curable material breach of the MLA as set forth in and determined in accordance with Sections 14.1.5.A (Criminal Conviction/Adverse Publicity), .B (Unauthorized Disclosure of Confidential Information; Violation of Non-Compete), or .E (Threat or Danger to Public Health or Safety) of the MLA, subject to Section 10(e).

c. Automatic Termination of Agreement in Its Entirety. This Agreement, and the rights and licenses granted herein, shall terminate automatically, without need for any additional or other notice or action, subject to Section 10(e), upon the earliest of the following events:

(i) the termination, expiration, or cancellation of the MLA; or

(ii) Licensor’s written notice under Section 4 refusing to agree to any change, amendment, alteration, or replacement of the Licensee Name and/or the Licensee Ticker

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Symbol required by applicable law, regulation, rule, or court order, or the applicable rules governing the listing of stock on any Applicable Exchange

d. Actions Following Termination Under Section 10(a) or Section 12. In the event of a termination pursuant to Section 10(a) or Section 12, Licensee shall discontinue use of the Licensed Logo and modify or replace its corporate name such that it does not include the Licensed Mark or any variation, translation, or transliteration thereof, which modification or replacement shall be legally effective and complete at the end of sixty (60) days from such termination or at the end of any longer period of time that is required or necessary to legally effect such modification or replacement in accordance with all applicable laws, regulations, rules, or orders of a court or governmental agency, provided that Licensee pursues such modification or replacement in good faith with all deliberate effort and speed; and Licensee shall cause each Subsidiary to modify or replace its corporate name such that it does not include the Licensed Mark, or any variation, translation, or other transliteration thereof, which modification or replacement shall be legally effective and complete at the end of sixty (60) days from such termination or at the end of any longer period of time that is required or necessary to legally effect such modification or replacement in accordance with all applicable laws, regulations, rules, or orders of a court or governmental agency, provided that such Subsidiary shall pursue such modification or replacement in good faith with all deliberate effort and speed. Upon Licensor’s request, Licensee shall, at Licensee’s cost, provide copies of all filings or submissions made for effecting the relevant corporate name changes.

e. Actions Following Termination Under Section 10(b) or (c). In the event of a termination pursuant to Section 10(b) or (c) (including without limitation to the extent not already implemented in connection with a termination under Section 10(a)): (i) Licensee shall discontinue use of the Licensed Logo and modify or replace its corporate name and its stock identification symbol such that it does not include the Licensed Mark or any variation, translation, or transliteration thereof, which modification or replacement shall be legally effective and complete at the end of thirty (30) days from this Agreement’s termination or at the end of any longer period of time that is required or necessary to legally effect such modification or replacement in accordance with all applicable laws, regulations, rules, or orders of a court or governmental agency, or the applicable rules governing the listing of stock on any Applicable Exchange, provided that Licensee pursues such modification or replacement in good faith with all deliberate effort and speed; (ii) Licensee shall transfer the registration of the Domain Name free-of-charge to Licensor; and (iii) Licensee shall cause each Subsidiary to modify or replace its corporate name such that it does not include the Licensed Mark, or any variation, translation, or other transliteration thereof, which modification or replacement shall be legally effective and complete at the end of thirty (30) days from this Agreement’s termination or at the end of any longer period of time that is required or necessary to legally effect such modification or replacement in accordance with all applicable laws, regulations, rules, or orders of a court or governmental agency, provided that such Subsidiary shall pursue such modification or replacement in good faith with all deliberate effort and speed.. Upon Licensor’s request, Licensee shall, at Licensee’s cost, provide copies of all filings or submissions made for effecting the relevant corporate name and stock identification symbol changes.

f. Notwithstanding the termination of this Agreement, all rights and remedies accrued under this Agreement theretofore, the provisions in Sections 7, 10(d) and 10(e), and this Section 10(f), and Sections 1, 11, and 13 as applicable to Sections 7, 10(d), 10(e) and 10(f), shall survive the termination of this Agreement.

**11. Governing Law; Disputes.** This Agreement, its interpretation and construction, its enforcement, and the resolution of any dispute under this Agreement will be governed by and in accordance with the laws of the State of Texas, United States of America, without regard to conflict of laws principles that may require the application of the laws of any other jurisdiction. The procedures for discussion, negotiation, mediation and arbitration set forth in Article 17 of the Master License Agreement shall apply to all disputes, controversies or claims (whether sounding in contract, tort or otherwise) that may arise out of or relate to, or arise under or in connection with, this Agreement.

**12. Acquisition or Operation of Other Brands.** If Licensee or any of its Affiliates acquires, adopts, operates, licenses or franchises a brand (other than Little Sheep or East Dawning, or a homegrown brand that operates only in the Territory) that is not a Brand and that at any time comprises more than one hundred (100) restaurants or other outlets (such acquisition, adoption, operation, licensing or franchising, a “New Business”),

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Licensee shall give prompt written notice of the New Business to Licensor, including such information as would be reasonably necessary for Licensor to assess the size, scope and nature of the New Business (the “New Business Notice”). If Licensee or any of its Affiliates acquires, adopts, operates, licenses or franchises a New Business, Licensor shall have the right to terminate this Agreement and the rights and licenses granted herein (other than Licensee’s right to use the Domain Name and Licensee Ticker Symbol), subject to Section 10(d), upon written notice of termination to Licensee delivered at any time prior to the date which is thirty (30) days after Licensor’s receipt of the New Business Notice.

**13. General Provisions.**

a. All notices, demands, or other communications to be given or delivered to a Party under or by reason of a provision of this Agreement shall be in writing and shall be deemed to have been given to such Party when delivered personally to such Party at, or sent to such Party by reputable express courier service (charges prepaid) to, such Party’s address set forth in the caption of this Agreement or another address notified hereunder in writing at least thirty (30) days before such notice, demand, or other communication by such Party to the other Party, addressed to the attention of [ ] if to Licensor or [ ] if to Licensee.

b. A reference in this Agreement to “including” (or “include” or like term) will not be construed restrictively but will mean “including (or “include” or like term) without prejudice to the generality of the foregoing” and “including (or “include” or like term) but without limitation”. The term “shall” is a term of obligation. References to this Agreement will include any Recitals and Exhibits to it, and references to Sections are (unless otherwise indicated) to the sections of this Agreement. The headings are for convenience only and will not affect the interpretation of this Agreement. Unless the context otherwise requires or permits, references to the singular number will include references to the plural number and *vice versa*; references to a “person” will include any company, limited liability partnership, association, partnership, business trust, unincorporated association or other entity; references to a company will include any company, corporation or any body corporate, wherever incorporated; and words denoting any gender will include all genders.

c. Licensee recognizes that any violation, breach, or non-performance of, or default under, any provision in this Agreement may cause irreparable injury to Licensor for which Licensor may have no adequate remedy at law. Therefore, Licensor shall be entitled to injunctive relief or specific performance, without need or obligation to post any bond, to enforce any obligation, agreement, covenant, and provision of this Agreement in the event of any actual or impending violation, breach, or non-performance of, or default under, any provision of this Agreement by Licensee, in addition to any other rights and remedies available to Licensor as Licensor elects in its sole discretion. In the event that Licensor enforces any right or remedy under or related to this Agreement or any right herein against Licensee and prevails, Licensor shall be entitled to recover from Licensee all reasonable attorneys’ fees and other legal costs incurred or accrued in connection with such enforcement, whether in or outside any judicial or governmental forum.

d. Licensor and Licensee are independent contractors. Neither Party shall hold itself out as a partner, joint-venturer, affiliate, associate, agent, employee, or legal representative of the other. Neither Party shall have any right to obligate or bind the other Party in any manner whatsoever, and nothing herein contained shall give or is intended to give any rights of any kind to any third persons.

e. The Parties do not intend any third party to be, and no third party is, a third party beneficiary under or in connection with this Agreement.

f. Licensor may transfer, assign, or extend this Agreement, without requirement for consent by or notice to Licensee. Licensee may not transfer this Agreement or assign any of its rights, or assign or delegate any of its obligations, in or under this Agreement to any third party without express prior written consent of the Licensor. The terms of this Agreement shall inure to the benefit of and be binding upon each Party and each Party’s permitted successors and assigns.

g. Licensee shall and shall cause each Subsidiary to, at all times, strictly comply with all applicable laws and governmental orders, now or hereafter in effect, relating to the performance of its

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activities, and not engage in any practices or activities that are prohibited or in violation of any such law or governmental order. Section 19.7 of the MLA is hereby incorporated by reference and shall apply between Licensor and Licensee to the same extent as between “Licensor” and “Licensee” under the MLA as if expressly set forth in this Section 13(g).

h. This Agreement constitutes the entire understanding and agreement between the Parties hereto related to the Licensee Name, the Licensed Mark, the Licensed Logo, the Domain Name, the Licensee Ticker Symbol, and the related rights and obligations of Licensee and Licensor in addition to provisions of the MLA included by reference herein.

(i) Neither this Agreement nor any term or provision hereof may be waived except by an instrument in writing signed by the person against whom the enforcement of any waiver is sought. A failure of a Party to exercise any right provided for herein shall not be deemed to be a waiver of any right hereunder, and the selection of any right or remedy shall not be deemed to be a waiver of any other right or remedy.

(ii) Other than a waiver of this Agreement or any term or provision hereof as provided under Section 13(h)(i), no modification, amendment, or supplement to this Agreement will be binding upon the Parties unless made in a writing identifying the relevant provisions and signed by each Party through its authorized representative. A transfer or assignment permitted under Section 13(f) shall not constitute any modification, amendment, variation, or extension under the immediately preceding sentence if this Agreement does not change as a result of such assignment (other than the identity and contact information of the assignor to the assignee).

i. If any provision of this Agreement is held to be invalid or unenforceable, the meaning of said provision will be construed, to the extent feasible, so as to render the provision valid and enforceable, and if no feasible interpretation shall save such provision, it will be severed from the remainder of this Agreement, as appropriate. The remainder of this Agreement shall remain in full force and effect unless the severed provision is essential and material to the rights or benefits received by a Party. In such event, the Parties will use their best efforts to negotiate, in good faith, a substitute, valid and enforceable provision or agreement, which most nearly effects the Parties' intent in entering into this Agreement, as appropriate.

j. This Agreement may be executed in one or more counterparts (any one of which may be by facsimile or PDF), all of which shall constitute one and the same agreement.

[Signature page follows.]

IN WITNESS WHEREOF, each Party has signed this Agreement through its duly authorized representative as of the Effective Date.

**Licensor:**

Yum! Brands, Inc.,  
a North Carolina corporation

**Licensee:**

Yum China Holdings, Inc.,  
a Delaware corporation

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**GUARANTY FOR MLA**

Yum China Holdings, Inc., a Delaware corporation (“Guarantor”), hereby executes this Guaranty (this “Guaranty”), which shall be deemed a part of the Master License Agreement (including, for the avoidance of doubt, the Exhibits thereto, the “Agreement”) between Yum! Restaurants Asia Pte. Ltd., a private limited company organized and existing under the laws of Singapore (“YRAPL”), and Yum Restaurants Consulting (Shanghai) Company Limited, a company organized under the laws of the People’s Republic of China (“YCCL”), for purposes of making the following guaranty in favor, and for the benefit, of YRAPL.

Capitalized terms used herein without definition shall have the meaning ascribed thereto in the Agreement.

**A. Guaranty**

Guarantor, intending to be legally bound, hereby absolutely, irrevocably and unconditionally guarantees, as primary obligor and not merely as a surety, to YRAPL the prompt and complete performance of each and all of the obligations of YCCL under the Agreement, including prompt payment when due, whether at stated maturity, by required prepayment, upon acceleration, upon demand or otherwise, and at all times thereafter, of any and all of the payment obligations, whether for principal, interest, premiums, fees, indemnities, damages, costs, expenses or otherwise, of YCCL to YRAPL under the Agreement (each such obligation, a “Guarantee Obligation,” and collectively, the “Guarantee Obligations”). Upon failure by YCCL to perform any Guarantee Obligation, Guarantor shall forthwith without demand perform such obligation in the manner specified herein. Guarantor hereby agrees that its obligations hereunder shall be an absolute, irrevocable and unconditional guarantee of payment and performance and not merely a guaranty of collection.

All payments made of a Guarantee Obligation will be paid free and clear of and without deduction or withholding for or on account of any Tax (as defined in the Tax Matters Agreement), except as may be required by Law. If Guarantor shall be required by Applicable Law to deduct or withhold any Taxes from such payments, then (i) Guarantor shall make such deductions or withholdings as are required by Applicable Law, (ii) Guarantor shall timely pay the full amount deducted or withheld to the applicable Tax Authority (as defined in the Tax Matters Agreement) and provide YRAPL with receipts or other proof of such payment promptly upon receipt, and (iii) if the amount received by YRAPL is less than the amount it would have received had the applicable payment been made by YCCL (after making any deductions or withholdings as YCCL would have been required to make under Applicable Law), Guarantor shall gross up the payment to YRAPL so that the net amount that YRAPL receives is the same as the amount it would have received (after making any deductions or withholdings) had the applicable payment been made by YCCL.

Guarantor hereby agrees that its obligations hereunder shall not be released, diminished, impaired, reduced or affected by any renewal, extension, adjustment or modification of any of the Guarantee Obligations, including the time, place or manner of payment or performance thereof, and Guarantor hereby consents to any changes in the terms of any of the Guarantee Obligations as agreed to by YRAPL and YCCL, and to any settlement or adjustment with respect to any of the Guarantee Obligations entered into between YRAPL and YCCL.

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Guarantor hereby acknowledges that it will receive substantial benefits from the transactions contemplated by the Agreement, and this Guaranty, including the waivers set forth herein, is knowingly made in contemplation of such benefits. The Guarantee Obligations shall conclusively be deemed to have been created, contracted or incurred in reliance on this Guaranty.

No failure or delay on the part of YRAPL in the exercise of any right or remedy with respect to any of the Guarantee Obligations shall operate as a waiver thereof or any obligations of Guarantor hereunder, and no single or partial exercise by YRAPL of any right or remedy with respect to any of the Guarantee Obligations shall preclude any other or further exercise thereof or the exercise of any other right or remedy. YRAPL shall not have any obligation to proceed at any time or in any manner against, or to exhaust any or all of YRAPL’s rights against, YCCL or any other Person liable for any of the Guarantee Obligations prior to proceeding against Guarantor hereunder. Without limiting the foregoing, YRAPL shall not be obligated to file any claim relating to the Guarantee Obligations in the event that YCCL becomes subject to a bankruptcy, reorganization or similar proceeding, and the failure of YRAPL to so file shall not affect the Guarantee Obligations or the obligations of Guarantor. Guarantor’s obligations hereunder shall remain in full force and effect until all Guarantee Obligations shall have been performed in full. If at any time any performance of any Guarantee Obligation is rescinded or must be otherwise restored or returned upon YCCL’s insolvency, bankruptcy or reorganization or otherwise, Guarantor’s obligations hereunder with respect to such performance shall be reinstated as though such performance had been due but not made at such time.

Guarantor hereby acknowledges and agrees that its obligations hereunder shall not be released, discharged or affected by (a) any change in corporate existence, structure or ownership of YCCL or any other Person, (b) any insolvency, bankruptcy, reorganization or similar proceeding affecting YCCL or any other Person, (c) the addition, substitution or release of any Person now or hereafter liable with respect to the Guarantee Obligations, (d) any rescission, waiver or amendment of the Agreement, (e) the existence of any claim, set-off or other right that Guarantor may have against any Person, (f) the adequacy of any other means of YRAPL obtaining payment or performance related to any of the Guarantee Obligations, (g) the validity or enforceability of the Agreement, or (h) any other act or omission to act or delay of any kind by YRAPL, YCCL or any other Person or any other circumstance which might, but for the provisions hereof, constitute a legal or equitable discharge of or defense to Guarantor’s obligations hereunder (other than to the extent such act, omission, delay or circumstance gives rise to a defense available to YCCL under the Agreement to performance of the Guarantee Obligations).

Guarantor hereby waives any and all rights or defenses which would otherwise require an election of remedies by YRAPL, and further waives promptness, diligence, presentment, demand for payment, default, dishonor and protest, notice of any Guarantee Obligations incurred and all other notices of any kind (other than those expressly required by the Agreement), all defenses that may be available by virtue of any valuation, stay, moratorium or similar Applicable Law now or hereafter in effect, any right to require the marshalling of assets of YCCL or any other Person and all suretyship defenses generally (other than fraud and defenses that are available to YCCL under the Agreement to performance of the Guarantee Obligations). Guarantor hereby waives and agrees not to exercise any rights that it may have or acquire against YCCL that arise from the existence, payment, performance or enforcement of the Guarantee Obligations (other than any such rights that YCCL has against YRAPL under the

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Agreement), including any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of YRAPL against YCCL, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including the right to take or receive from YCCL, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right, unless and until the Guarantee Obligations shall have been performed in full (including, with respect to any payment obligations, all such amounts due having been paid to YRAPL in cash in full). If any amount shall be paid to Guarantor in violation of the immediately preceding sentence at any time prior to the performance in full of the Guarantee Obligations, such amount shall be received and held in trust for the benefit of YRAPL, shall be segregated from other property and funds of Guarantor and shall forthwith be paid or delivered to YRAPL in the same form as so received (with any necessary endorsement or assignment) to be credited and applied to the Guarantee Obligations.

Guarantor hereby acknowledges and agrees that this Guaranty is a primary obligation of Guarantor, and that YRAPL shall be entitled to make a demand hereunder, and pursue all of its rights and remedies against Guarantor, whether or not YRAPL has made any demand or pursued any remedies, or during the pendency of any demand made or remedies pursued, against YCCL or any other Person. Guarantor represents and warrants to YRAPL that (a) Guarantor has the financial capacity to pay and perform the Guarantee Obligations, (b) Guarantor has all requisite power and authority to execute, deliver and perform this Guaranty, (c) the execution, delivery and performance of this Guaranty has been duly authorized by all necessary action by Guarantor, (d) this Guaranty constitutes the legal, valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms, (e) this Guaranty does not contravene any provision of Guarantor's organizational documents or violate, in any material respect, any Applicable Laws or contractual restriction binding on Guarantor or any of its assets and (f) all consents, approvals, authorizations and permits of, and all filings with and notifications to, any Governmental Authority necessary for the due execution, delivery and performance of this Guaranty by Guarantor have been obtained or made and all conditions thereof have been duly complied with, and no other action by, and no notice to or filing with, any Governmental Authority is required in connection with the execution, delivery or performance of this Guaranty.

## **B. Dispute Resolution**

- (1) Certain Definitions. For purposes of this Guaranty, the term "Parties" means YRAPL, YCCL and Guarantor and the term "Party" means any of them.
- (2) Governing Law. This Guaranty shall be interpreted and construed under the laws of the United States of America and the State of Texas, U.S.A. (without regard to, and without giving effect to, their conflict of laws rules).
- (3) Pre-Arbitration Dispute Resolution. Subject to Section 14.1.6.C. of the Agreement,
  - (a) Prior to submitting any dispute under the Agreement (with the exception of any disputes concerning breaches thereof which YRAPL has determined not to be curable) or this Guaranty to mediation, arbitration or any court or other tribunal, YRAPL or YCCL (in the case of the Agreement) or YRAPL or Guarantor (in

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the case of this Guaranty) shall provide written notice of the dispute to the other Parties. Upon such notice appropriate executives of YCCL and YRAPL who have authority to resolve the dispute will meet either in person or by video conference or similar means and shall discuss and use good faith efforts to resolve the dispute. If the dispute cannot be resolved within thirty (30) days of such notice, then the Parties shall submit the claim for resolution to non-binding mediation in accordance with Section B(3)(b).

- (b) If the Parties are unable to resolve a dispute under the Agreement or this Guaranty accordance with Section B(3)(a), the Parties agree to submit the dispute (with the exception of any disputes concerning breaches of the Agreement which YRAPL has determined not to be curable) to non-binding mediation before bringing such dispute to arbitration in accordance with Section B(4). The Parties shall select a mediator within twenty (20) days of the date the dispute is submitted to mediation by a Party. The mediation shall be conducted in English by a mediator mutually and jointly approved by YRAPL, on the one hand, and YCCL and Guarantor, on the other hand, and failing agreement of the Parties within the twenty (20) day period, by a mediator appointed by the International Institute for Conflict Prevention and Resolution ("CPR") in accordance with its mediation rules. The mediation shall be conducted at a location mutually and jointly selected by YRAPL, on the one hand, and YCCL and Guarantor, on the other hand, within ten (10) days following the date on which the mediator is appointed, and failing agreement of the Parties within such time period, then the mediation will be held in Dallas, Texas, U.S.A. The costs and expenses of any such mediation, including compensation and expenses of the mediator (and except for the lawyers' fees incurred by any Party), shall be borne by YRAPL, on the one hand, and YCCL and Guarantor, on the other hand, equally.
- (4) Arbitration. If the Parties are unable to resolve a dispute under the Agreement or this Guaranty by mediation in accordance with Section B(3)(b), then such dispute and any other controversy or claim arising out of or relating to the Agreement or this Guaranty, or the breach hereof, including without limitation the determination of the scope or applicability of this agreement to arbitrate, shall, upon written request of a Party (the "Arbitration Request"), be determined by arbitration administered by CPR in accordance with the CPR Rules for Administered Arbitration ("Administered Rules"). Subject to Section 14.1.6.C of the Agreement, details of the arbitration are as follows:
  - (a) There shall be three (3) arbitrators. The panel of three (3) arbitrators will be chosen as follows: (i) within fifteen (15) days from the date of the receipt of the Arbitration Request, each of YRAPL, on the one hand, and YCCL and Guarantor, on the other hand, will name an arbitrator; and (ii) the two (2) arbitrators so appointed will thereafter name a third, independent arbitrator who will act as chairperson of the arbitral tribunal. In the event that YRAPL, on the one hand, or YCCL and Guarantor, on the other, fails to name an arbitrator within fifteen (15) days following the date of receipt of the Arbitration Request, then upon written application by a Party, that arbitrator shall be appointed pursuant to the Administered Rules. In the event that, within thirty (30) days from

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the date on which the second of the two (2) arbitrators was named, the two (2) appointed arbitrators fail to appoint the third, then the third arbitrator will be appointed pursuant to the Administered Rules.

- (b) The arbitration shall be conducted in English. Any document that a Party seeks to use that is not in English shall be provided along with an English translation.
  - (c) The place of arbitration shall be Dallas, Texas, U.S.A.
  - (d) The arbitrators shall establish procedures under which each Party will be entitled to conduct discovery.
  - (e) The arbitrators shall award to the substantially prevailing Party (as determined by the arbitrators) the costs and expenses of the proceeding, including reasonable attorneys' and experts' fees.
  - (f) The arbitrators will issue a reasoned award.
  - (g) Notwithstanding any language herein to the contrary, the Parties agree that the award rendered by the arbitrators (the "Original Award") may be appealed under the CPR Arbitration Appeal Procedure ("Appeal Procedure"). Appeals must be initiated within thirty (30) days of receipt of an Original Award, in accordance with Rule 2 of the Appeal Procedure, by filing a written notice with CPR. The Original Award shall not be considered final until after the expiration of the time for filing the notice of appeal pursuant to the Appeal Procedure. Following the appeal process, either (i) the Original Award, if no changes have been made by the appellate Tribunal, or (ii) the appellate award, if the Original Award has been changed by the appellate tribunal, may be entered in any court having jurisdiction thereof. Unless otherwise agreed by the Parties, the appeal shall be conducted at the place of the original arbitration.
  - (h) Any award rendered by the arbitrators that is not appealed in accordance with the foregoing provisions or that is not modified by the appeal tribunal, and any award as modified or established by the appeal tribunal, shall be final and judgment may be entered thereon in any court having jurisdiction thereof.
  - (i) Each Party retains the right to apply to any court of competent jurisdiction for provisional and/or conservatory relief, including prearbitral attachments or injunctions, and any such request shall not be deemed incompatible with the agreement to arbitrate or a waiver of the right to arbitrate.
  - (j) The existence and content of the arbitral proceedings and any rulings or award shall be kept confidential by the Parties and members of the arbitral tribunal except (i) to the extent that disclosure may be required of a Party to comply with Applicable Laws or the rules of any applicable stock exchange, protect or pursue a contractual right or perform a contractual obligation, or enforce or challenge an award in bona fide legal proceedings before a court or other judicial authority, (ii) with the consent of all Parties, (iii) where needed for the preparation or presentation of a claim or defense in arbitration, (iv) where such information is already in the public domain other than as a result of a breach of this Section, or (v) by order of the arbitral tribunal upon application of a Party.
- (6) Limitations Period. Any claim arising out of or relating to the Agreement or this Guaranty shall be governed by the statute of limitations under the governing law set forth in Section B(2).

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- (6) Enforcement Costs. Each Party shall bear its own legal costs (including attorneys' and experts' fees, and all other expenses) incurred in enforcing the Agreement or this Guaranty or in otherwise pursuing, or defending against, a claim, demand, action, or proceeding under or in connection with the Agreement or this Guaranty.

### C. Miscellaneous

If any term or other provision of this Guaranty is determined by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other terms, provisions and conditions of this Guaranty shall nevertheless remain in full force and effect. No Party hereto shall assert, and each Party shall cause its respective Affiliates not to assert, that this Guaranty or any part hereof is invalid, illegal or unenforceable. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties hereto shall negotiate in good faith to modify this Guaranty so as to effect the original intent of the Parties as closely as possible to the fullest extent permitted by Applicable Law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

This Guaranty, together with the Agreement, constitutes the entire agreement, and supersedes all other prior agreements and understandings, both written and oral, among the Parties with respect to the subject matter hereof. No amendment, modification or waiver of any provision hereof shall be enforceable unless approved by each Party in writing.

The provisions of this Guaranty are solely for the benefit of the Parties and do not and are not intended to confer upon any Person except the Parties any rights or remedies hereunder, and there are no third-party beneficiaries of this Guaranty and this Guaranty shall not provide any third Person with any remedy, claim, liability, reimbursement or other right in excess of those existing without reference to this Guaranty.

This Guaranty shall remain in full force and effect and shall be binding on Guarantor, and its successors and assigns, until all the Guarantee Obligations have been performed in full.

Section 19.10 (Construction) of the Agreement is hereby incorporated in this Guaranty as if fully set forth herein. This Guaranty may be executed in one (1) or more counterparts, all of which shall be considered one (1) and the same agreement, and shall become effective when one (1) or more counterparts have been signed by each of the Parties and delivered to the other Parties (it being agreed that delivery of a manual, stamp or mechanical signature, whether in person, by courier, by facsimile or by email in portable document format, shall be effective).

*[Signatures to Follow]*

IN WITNESS WHEREOF, Guarantor has caused this Guaranty to be executed and delivered as of the date first written above by its officer thereunto duly authorized.

YUM CHINA HOLDINGS, INC.

By: \_\_\_\_\_

Name:

Title:

[address]

[Signature Pages to Guaranty]

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Accepted and agreed to by:

YUM! RESTAURANTS ASIA PTE. LTD.

\_\_\_\_\_  
Name:

Title:

[address]

YUM RESTAURANTS CONSULTING (SHANGHAI) COMPANY LIMITED

\_\_\_\_\_  
Name:

Title:

[address]

[Signature Pages to Guaranty]

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Exhibit 99.1



[ · ], 2016

Dear Yum! Brands, Inc. Shareholder:

We are pleased to inform you of the separation of our world-class China business from Yum! Brands, Inc. ("YUM") into a newly formed public company named Yum China Holdings, Inc. (the "Company").

We expect that the separation of the Company from YUM will result in two powerful, best-in-class companies, each with a separate strategic focus. The Company, a market leader with decades of accumulated consumer loyalty and world-class operations in China, will become a licensee of YUM in China with an attractive investment profile and significant opportunity for growth, while YUM, one of the world's largest restaurant companies with three iconic brands, will focus on expanding the presence and performance of KFC, Pizza Hut and Taco Bell around the world outside of China. The separation reinforces our strong commitment to creating value for our shareholders.

The separation will be completed by way of a pro rata distribution of Company common stock to our shareholders of record as of 5:00 p.m., Eastern Time, on [ · ], the record date. Each YUM shareholder will receive [ · ] shares of Company common stock for each share of YUM common stock held on the record date.

We expect your receipt of shares of Company common stock in the distribution to be tax-free for U.S. federal income tax purposes, except for cash received in lieu of fractional shares. You should consult your own tax advisor as to the particular tax consequences of the distribution to you, including potential tax consequences under state, local and non-U.S. tax laws.

The distribution does not require YUM shareholder approval, nor do you need to take any action to receive your shares of Company common stock. Immediately following the separation, you will own common stock in YUM and the Company. The Company's common stock will be listed on the New York Stock Exchange under the symbol "YUMC," while YUM's common stock will continue to trade on the New York Stock Exchange under the symbol "YUM."

The enclosed Information Statement, which is being made available to all YUM shareholders as of the record date for the distribution, describes the separation and distribution in detail and contains important information about the Company, including its business, financial condition and operations. We urge you to carefully read this Information Statement in its entirety.

Sincerely,

Greg Creed  
*Chief Executive Officer*  
Yum! Brands, Inc.

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[ · ], 2016

Dear Future Yum China Holdings, Inc. Stockholder:

It is our pleasure to welcome you as a shareholder of our company, Yum China Holdings, Inc. (the "Company"). Following the distribution of shares of our common stock to shareholders of Yum! Brands, Inc. ("YUM"), we will be a newly listed, publicly traded business that is expected to be China's largest independent restaurant company.

The Company will initially have over 7,200 restaurants across China, one of the world's largest and fastest growing economies. Our relationship with YUM will allow us to leverage well-known brands and build on decades of experience in the Chinese market. The Company is well-positioned for future growth, with extensive opportunities to expand within China through new unit development.

We invite you to learn more about the Company by reviewing the enclosed Information Statement. We urge you to read the Information Statement carefully and in its entirety. We are excited by our future prospects, and look forward to your support as a holder of shares of the Company's common stock.

Sincerely,

Micky Pant  
*Chief Executive Officer*  
*Yum China Holdings, Inc.*

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PRELIMINARY AND SUBJECT TO COMPLETION, DATED AUGUST 31, 2016

INFORMATION STATEMENT

## Yum China Holdings, Inc.

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This Information Statement is being furnished to the shareholders of Yum! Brands, Inc. ("YUM") in connection with the distribution by YUM to its shareholders of all of the outstanding shares of common stock of Yum China Holdings, Inc., a wholly owned subsidiary of YUM, that will hold, directly or indirectly, the assets and liabilities associated with YUM's operations in China<sup>(1)</sup> (the "Company"). To implement the distribution, YUM will distribute all of the shares of Company common stock owned by YUM on a pro rata basis to YUM shareholders in a distribution that is intended to be tax-free to YUM shareholders for U.S. federal income tax purposes. Please refer to the "Presentation of Information" below for how we refer to Yum! Brands, Inc., YUM, Yum China Holdings, Inc. and the Company in this Information Statement.

You will receive [ · ] share[s] of Company common stock for each share of YUM common stock held of record by you as of 5:00 p.m., Eastern Time, on [ · ], 2016, the record date for the distribution. You will receive cash in lieu of any fractional shares of Company common stock that you would otherwise have received after application of the above distribution ratio. As discussed herein under "The Separation and Distribution—Trading Between the Record Date and Distribution Date," if you sell your shares of YUM common stock "regular-way" after the record date and before the distribution, you will also be selling your right to receive shares of Company common stock in connection with the separation. We expect that shares of Company common stock will be distributed by YUM to you on [ · ], 2016. We refer to the date on which YUM commences distribution of the Company common stock to the holders of shares of YUM common stock as the "distribution date."

No vote of YUM shareholders is required for the distribution. Therefore, you are not being asked for a proxy, and you are requested not to send YUM a proxy, in connection with the distribution. You do not need to pay any consideration, exchange or surrender your existing YUM shares or take any other action to receive your shares of Company common stock.

There is currently no trading market for Company common stock, although we expect that a limited market, commonly known as a "when-issued" trading market, will develop on or shortly before the record date for the distribution. We expect "regular-way" trading of Company common stock to begin on the first trading day following the distribution. The Company intends to file an application to have its common stock authorized for listing on the New York Stock Exchange under the symbol "YUMC." Following the distribution, YUM will continue to trade on the NYSE under the symbol "YUM."

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**In reviewing this Information Statement, you should carefully consider the matters described under the caption "Risk Factors" beginning on page 11.**

**Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this Information Statement is truthful or complete. Any representation to the contrary is a criminal offense.**

**This Information Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities.**

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The date of this Information Statement is [ · ], 2016.

This Information Statement was first made available to YUM shareholders on or about [ · ], 2016.

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(1) As used herein, unless the context otherwise requires, references to "China" mean the "People's Republic of China" or "mainland China," excluding Hong Kong, Taiwan and Macau.

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## Presentation of Information

Except as otherwise indicated or unless the context otherwise requires, the information included in this Information Statement about the Company assumes the completion of all of the transactions referred to in this Information Statement in connection with the separation and distribution. Unless the context otherwise requires, references in this Information Statement to "the Company," "we," "us," "our," "our company" and "the company" refer to Yum China Holdings, Inc., a Delaware corporation, and its consolidated subsidiaries. References to the Company's historical business and operations refer to all of YUM's China business which will be transferred to the Company in connection with the separation and distribution. Unless the context otherwise requires, references in this Information Statement to "YUM" refer to Yum! Brands, Inc., a North Carolina corporation, and its consolidated subsidiaries other than the Company, which will continue to operate as YUM following the distribution and separation. Unless the context otherwise requires, references to "China" mean the "People's Republic of China" or "mainland China," excluding Hong Kong, Taiwan and Macau.

## Trademarks, Trade Names, Service Marks and Restaurants

The Company owns or has rights to use the trademarks, service marks and trade names that it uses in conjunction with the operation of its business. Some of the more important trademarks that the Company owns or has rights to use that appear in this Information Statement include: "KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, Taco Bell, Little Sheep and East Dawning," which may be registered or trademarked in the United States or other jurisdictions. Each trademark, trade name or service mark of any other company appearing in this Information Statement is, to our knowledge, owned by such other company. We license the KFC, Pizza Hut, and Taco Bell brands and related intellectual property under a master license agreement with YUM and, unless the context otherwise requires, references herein to "our" or "the Company's" brands or other intellectual property rights include references to the brands and other intellectual property rights we license from YUM. Unless the context otherwise requires, references to "our" or "the Company's" restaurants or restaurant system include references to restaurants owned or franchised by us and references to "YUM's" restaurants or restaurant systems include restaurants owned or franchised by YUM (excluding our restaurants). Unless the context otherwise requires, references to our "franchisees" are references to third parties to whom we have granted the right to operate under intellectual property owned by us or the intellectual property we license from YUM and have the right to sublicense under the master license agreement and a "franchise" is the grant of such a third party right.

## Market and Industry Data

Although we are responsible for all of the disclosure contained in this Information Statement, this Information Statement contains industry, market and competitive position data that are based on industry publications and studies conducted by third parties. The industry publications and third-party studies generally state that the information that they contain has been obtained from sources believed to be reliable.

## QUESTIONS AND ANSWERS ABOUT THE SEPARATION AND DISTRIBUTION

***What is Yum China Holdings, Inc. and why is YUM separating the Company's business and distributing Company stock?***

Yum China Holdings, Inc., which is currently a wholly owned subsidiary of YUM, was formed to own and operate YUM's China business. The separation of the Company from YUM and the distribution of Company common stock are intended to provide you with equity ownership in two separate, publicly traded companies that will be able to focus exclusively on each of their respective businesses. YUM and the Company expect that the separation will result in enhanced long-term performance of each business for the reasons discussed in the section entitled "The Separation and Distribution—Reasons for the Separation."

<b><i>Why am I receiving this document?</i></b>	YUM is delivering this document to you because you are a holder of YUM common stock. Each holder of YUM common stock as of 5:00 p.m., Eastern Time, on the record date will be entitled to receive [·] share[s] of Company common stock for each share of YUM common stock held at such time on such date. This document will help you understand how the separation and distribution will affect your post-separation ownership in YUM and the Company, respectively.
<b><i>How will the separation of the Company from YUM work?</i></b>	To accomplish the separation, YUM will distribute all of the outstanding shares of Company common stock owned by YUM to YUM shareholders on a pro rata basis in a distribution intended to be tax-free to YUM shareholders for U.S. federal income tax purposes except to the extent of any cash received in lieu of fractional shares of Company common stock.
<b><i>Why is the separation of the Company structured as a distribution?</i></b>	YUM believes that a distribution of the shares of Company common stock to YUM shareholders is an efficient way to separate its China business in a manner that will create long-term value for YUM and its shareholders.
<b><i>What is the record date for the distribution?</i></b>	The record date for the distribution is [·], 2016.
<b><i>When will the separation and the distribution occur?</i></b>	It is expected that all of the shares of Company common stock will be distributed by YUM on [·], 2016 to holders of record of shares of YUM common stock as of 5:00 p.m., Eastern Time, on the record date for the distribution. The separation will become effective at the time of the distribution. However, no assurance can be provided as to the timing of the separation and the distribution or that all conditions to the distribution will be met. See "The Separation and Distribution—Conditions to the Distribution."
<b><i>What do shareholders need to do to participate in the distribution?</i></b>	Shareholders of YUM as of 5:00 p.m., Eastern Time, on the record date for the distribution will not be required to take any action to receive Company common stock in the distribution, but you are urged to read this entire Information Statement carefully. No shareholder approval of the distribution is required. You are not being asked for a proxy. You do not need to pay any consideration, exchange or surrender your existing shares of YUM common stock or take any other action to receive your shares of Company common stock. Please do not send in your YUM stock certificates. The distribution will not affect the number of outstanding YUM shares or any rights of YUM shareholders, although it will affect the market value of each outstanding share of YUM common stock.



***How will shares of Company common stock be issued?***

You will receive shares of Company common stock through the same channels that you currently use to hold or trade shares of YUM common stock, whether through a brokerage account, 401(k) plan or other channel. Receipt of shares of Company common stock will be documented for you in the same manner that you typically receive shareholder updates, such as monthly broker statements and 401(k) statements.

If you own shares of YUM common stock as of 5:00 p.m., Eastern Time, on the record date for the distribution, YUM, with the assistance of [·], the settlement and distribution agent, will electronically distribute shares of Company common stock to you or to your brokerage firm on your behalf in book-entry form. [·] will mail you a book-entry account statement that reflects your shares of Company common stock, or your bank or brokerage firm will credit your account for the shares.

***How many shares of Company common stock will I receive in the distribution?***

YUM will distribute to you [·] share[s] of Company common stock for every share of YUM common stock held by you as of 5:00 p.m., Eastern Time, on the record date for the distribution. Based on the number of shares of YUM common stock outstanding as of [·], 2016, a total of approximately [·] shares of Company common stock are expected to be distributed. For additional information on the distribution, see "The Separation and Distribution."

***Will the Company issue fractional shares of its common stock in the distribution?***

No. The Company will not issue fractional shares of its common stock in the distribution. Fractional shares that YUM shareholders would otherwise have been entitled to receive will be aggregated and sold in the public market by the distribution agent. The aggregate net cash proceeds of these sales will be distributed pro rata (based on the fractional shares such holder would otherwise have been entitled to receive) to those shareholders who would otherwise have been entitled to receive fractional shares. Recipients of cash in lieu of fractional shares will not be entitled to any interest on the amounts of payments made in lieu of fractional shares. The receipt of cash in lieu of fractional shares generally will be taxable, for U.S. federal income tax purposes, to the recipient YUM shareholders. See "Material U.S. Federal Income Tax Consequences."

***What are the conditions to the distribution?***

The distribution is subject to final approval by the board of directors of YUM, as well as to a number of conditions, including:

- the transfer of assets and liabilities to the Company in accordance with the separation and distribution agreement will have been completed, other than assets and liabilities intended to be transferred after the distribution;

- YUM will have received (i) an opinion of each of Mayer Brown LLP and PricewaterhouseCoopers LLP, satisfactory to YUM's board of directors, regarding the qualification of the distribution as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 361 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), and (ii) one or more opinions of YUM's external tax advisors, in each case satisfactory to YUM's board of directors, regarding certain other tax matters relating to the distribution and related transactions;
- the U.S. Securities and Exchange Commission ("SEC") will have declared effective the registration statement of which this Information Statement forms a part, no stop order suspending the effectiveness of the registration statement will be in effect and no proceedings for such purpose will be pending before or threatened by the SEC;
- this Information Statement shall have been made available to the YUM shareholders;
- all actions or filings necessary or appropriate under applicable U.S. federal, U.S. state or other securities laws will have been taken and, where applicable, have become effective or been accepted by the applicable governmental entity;
- any approvals of any governmental entities required for the consummation of the separation and distribution will have been obtained;
- no order, injunction or decree issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the separation, the distribution or any of the related transactions will be in effect;
- the shares of Company common stock to be distributed will have been approved for listing on the New York Stock Exchange, subject to official notice of issuance;
- the receipt of an opinion from an independent advisory firm confirming the solvency and financial viability of each of the Company and YUM after the distribution that is in form and substance acceptable to YUM in its sole discretion; and
- no other event or development will have occurred or exist that, in the judgment of YUM's board of directors, in its sole discretion, makes it inadvisable to effect the separation, the distribution or the other related transactions.

YUM and the Company cannot assure you that any or all of these conditions will be met and YUM may also waive any of the conditions to the distribution. For a complete discussion of all of the conditions to the distribution, see "The Separation and Distribution—Conditions to the Distribution."

<b><i>What is the anticipated cost of the Separation?</i></b>	We estimate that the one-time costs of the separation will be approximately \$60 million, and we anticipate that substantially all of such one-time costs will be borne by YUM. Following the separation, in general, YUM and the Company will be responsible for the costs incurred by YUM or the Company, as applicable (which, in the case of the Company, will include costs incurred in connection with the transition to being an independent public company).
<b><i>How will the one-time costs of the separation be allocated between YUM and the Company?</i></b>	We anticipate that substantially all of the one-time costs of the separation will be borne by YUM.
<b><i>Can YUM decide to cancel the distribution of the Company common stock even if all the conditions have been met?</i></b>	Yes. Until the distribution has occurred, YUM has the right to terminate the distribution, even if all of the conditions are satisfied. See "Certain Relationships and Related Person Transactions—The Separation and Distribution Agreement—Termination."
<b><i>What if I want to sell my YUM common stock or my Company common stock?</i></b>	You should consult with your financial advisors, such as your stockbroker, bank or tax advisor.
<b><i>What is "regular-way" and "ex-distribution" trading of YUM stock?</i></b>	Beginning on or shortly before the record date for the distribution and continuing up to and through the distribution date, it is expected that there will be two markets in YUM common stock: a "regular-way" market and an "ex-distribution" market. Shares of YUM common stock that trade in the "regular-way" market will trade with an entitlement to shares of Company common stock distributed pursuant to the distribution. Shares that trade in the "ex-distribution" market will trade without an entitlement to shares of Company common stock distributed pursuant to the distribution. If you hold shares of YUM common stock as of 5:00 p.m., Eastern Time, on the record date and then decide to sell any shares of YUM common stock before the distribution date, you should make sure your stockbroker, bank or other nominee understands whether you want to sell your shares of YUM common stock with or without your entitlement to shares of Company common stock distributed pursuant to the distribution.

<b><i>Where will I be able to trade shares of Company common stock?</i></b>	The Company intends to file an application to list its common stock on the New York Stock Exchange under the symbol "YUMC." The Company anticipates that trading in shares of its common stock will begin on a "when-issued" basis on or shortly before the record date for the distribution and will continue up to the distribution date, and that "regular-way" trading in Company common stock will begin on the first trading day following the distribution. If trading begins on a "when-issued" basis, you may purchase or sell Company common stock up to the distribution date, but your transaction will not settle until after the distribution date. The Company cannot predict the trading prices for its common stock before, on or after the distribution date.
<b><i>What will happen to the listing of shares of YUM common stock?</i></b>	YUM common stock will continue to trade on the NYSE after the distribution under the symbol "YUM."
<b><i>Will the number of shares of YUM common stock that I own change as a result of the distribution?</i></b>	No. The number of shares of YUM common stock that you own will not change as a result of the distribution.
<b><i>Will the distribution affect the market price of shares of my YUM common stock?</i></b>	Yes. As a result of the distribution, it is expected that the trading price of shares of YUM common stock immediately following the distribution will be lower than the "regular-way" trading price of such shares immediately prior to the distribution because the trading price will no longer reflect the value of the China business to be held by the Company. The combined trading prices of one share of YUM common stock and [-] share[s] of Company common stock after the distribution (representing the number of shares of Company common stock to be received per share of YUM common stock in the distribution) may be equal to, greater than or less than the trading price of one YUM common share before the distribution.
<b><i>What are the material U.S. federal income tax consequences of the distribution?</i></b>	It is a condition to the distribution that YUM receive (i) an opinion of each of Mayer Brown LLP and PricewaterhouseCoopers LLP, satisfactory to YUM's board of directors, regarding the qualification of the distribution as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 361 of the Code and (ii) one or more opinions of YUM's external tax advisors, in each case satisfactory to YUM's board of directors, regarding certain other tax matters relating to the distribution and related transactions. Assuming that the distribution qualifies as tax-free under Sections 355 and 361 of the Code, for U.S. federal income tax purposes, no gain or loss will be recognized by you, and no amount will be included in your income, upon the receipt of shares of Company common stock pursuant to the distribution. You will, however, recognize gain or loss for U.S. federal income tax purposes with respect to cash received in lieu of a fractional share of Company common stock.

You should consult your own tax advisor as to the particular consequences of the distribution to you, including the applicability and effect of any U.S. federal, state and local tax laws, as well as any foreign tax laws. For more information regarding the material U.S. federal income tax consequences of the distribution, see the section entitled "Material U.S. Federal Income Tax Consequences."

***What will the Company's relationship be with YUM following the separation?***

The Company will enter into a separation and distribution agreement with YUM to effect the separation and provide a framework for the Company's relationship with YUM after the separation. In addition, a subsidiary of the Company will enter into a master license agreement with a subsidiary of YUM providing the exclusive right to use and sublicense the use of intellectual property owned by YUM and its affiliates for the development and operation of KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, and Taco Bell restaurants in China, and for the conduct of all related development, promotional and support activities. The Company and YUM will also enter into certain other agreements, including, among others, a tax matters agreement and an employee matters agreement. These agreements will provide for the allocation between the Company and YUM of YUM's assets, employees, liabilities and obligations (including its investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after the separation and will govern certain relationships between the Company and YUM after the separation. For additional information regarding the separation and distribution agreement and other transaction agreements, see the sections entitled "Risk Factors—Risks Related to the Separation" and "Certain Relationships and Related Person Transactions."

***Who will manage the Company after the separation?***

The Company will benefit from a management team with an extensive background in the China business. Led by Micky Pant, who will be the Company's Chief Executive Officer after the separation, the Company's management team will possess deep knowledge of, and extensive experience in, its business, geography and industry. For more information regarding the Company's management, see "Management of the Company."

***Are there risks associated with owning Company common stock?***

Yes. Ownership of Company common stock will be subject to both general and specific risks, including those relating to the Company's business, the industry and geography in which it operates, its separation from YUM and ongoing contractual relationships with YUM and its status as a separate, publicly traded company. These risks are described in the "Risk Factors" section of this Information Statement. You are encouraged to read that section carefully.

***Does the Company plan to pay dividends?***

We anticipate that following the separation, our board of directors will adopt a program of returning capital to stockholders, which may take the form of establishing a regular dividend and/or engaging in share repurchases. However, we also intend to retain a significant portion of our earnings to finance the operation, development and growth of our business. Any future determination to declare and pay cash dividends or engage in share repurchases will be at the discretion of our board of directors following the separation and will depend on, among other things, our financial condition, results of operations, actual or anticipated cash requirements, contractual or regulatory restrictions, tax considerations and such other factors as our board of directors deems relevant. See "Dividend Policy."

***Will the Company incur any indebtedness prior to or at the time of the distribution?***

No. The Company does not plan to incur any indebtedness in connection with the distribution, other than indebtedness incurred in the ordinary course of its operations.

***Who will be the distribution agent, transfer agent, registrar and information agent for the Company common stock?***

The distribution agent, transfer agent, registrar and information agent for Company common stock will be American Stock Transfer & Trust Company, LLC.

***Where can I find more information about YUM and the Company?***

Before the distribution, if you have any questions relating to YUM's China business, you should contact:

Yum! Brands, Inc.  
1441 Gardiner Lane  
Louisville, Kentucky 40213  
Attention: Investor Relations  
Telephone: 1 (888) 298-6986  
Email: yum.investor@yum.com

After the distribution, Company stockholders who have any questions relating to the Company should contact the Company at:

Yum China Holdings, Inc.  
[Address Line 1]  
[Address Line 2]  
Telephone: [·] or [·]  
Email: [·]  
The Company's investor website is [·].

## INFORMATION STATEMENT SUMMARY

*The following is a summary of certain material information discussed in this Information Statement. This summary may not contain all of the details concerning the separation or other information that may be important to you. To better understand the separation and the Company's business and financial position, you should carefully review this entire Information Statement.*

*This Information Statement describes the China business of YUM to be transferred to the Company by YUM in the separation as if the transferred business were the Company's business for all historical periods described. References in this Information Statement to the Company's historical assets, liabilities, products, business or activities are generally intended to refer to the assets, liabilities, products, business or activities of the China business of YUM prior to the distribution.*

### **Our Company**

Yum China Holdings, Inc. is the largest restaurant company in China with approximately 7,200 restaurants, \$6.9 billion of revenue, net income of \$323 million and \$998 million of adjusted EBITDA in 2015. Our growing restaurant base consists of China's leading restaurant brands, including KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, East Dawning and Little Sheep. Following our separation from Yum! Brands, we will have the exclusive right to operate and sub-license the KFC, Pizza Hut and Taco Bell brands in China, and will own the East Dawning and Little Sheep concepts outright. We were the first major global restaurant brand to enter China in 1987 and have developed deep experience operating in the market. We have since grown to become one of China's largest retail developers covering over 1,100 cities and opening an average of two new locations per day over the past five years.

KFC is the leading Quick-Service Restaurant ("QSR") brand in China. Today, KFC operates over 5,000 restaurants in over 1,100 cities across China. Measured by number of restaurants, KFC has a two-to-one lead over the nearest Western QSR competitor and continues to grow in both large and small cities. Similarly, Pizza Hut Casual Dining is the leading Casual Dining Restaurant ("CDR") brand in China. Today, Pizza Hut Casual Dining, with nearly 1,600 restaurants in over 400 cities, has a seven-to-one lead in terms of restaurants over its nearest Western CDR competitor.

Over the past three decades, we have built a significant lead not just in number of restaurants, but also in brand awareness and loyalty, proprietary consumer know-how in individual provinces and city tiers, a national supply-chain network, product innovation and quality processes, a motivated and highly-educated workforce and a long-tenured and passionate local management team. We believe that these competitive strengths are difficult to replicate.

We generate strong consumer regard and loyalty by developing menus that cater to local tastes in addition to offering global favorites like KFC's Original Recipe chicken. Each of our brands has proprietary menu items, many developed in China, and emphasizes the preparation of food with high-quality ingredients, as well as unique recipes and special seasonings to provide appealing, tasty and convenient food at competitive prices. Most of our restaurants offer consumers the ability to dine in and/or order delivery or carry-out food. With decades of accumulated consumer know-how and loyalty in China, we believe our brands are integrated into Chinese popular culture and consumers' daily lives based on our extensive history in China and substantial presence there.

We opened nearly 750 new restaurants in 2015 and more than 3,000 over the past four years—the equivalent of two new restaurant openings per day. While we may either operate, franchise and/or license restaurant brands, we currently have ownership in and operate approximately 90% of our restaurants, and this high ownership percentage has driven our historically attractive return on investment.

Given the strong competitive position of the KFC and Pizza Hut brands, China's growing economy and population of over 1.3 billion, we expect to continue growing our system sales by adding KFC and Pizza Hut Casual Dining restaurants and through growing same-store sales.

## **Industry Backdrop**

The development and growth of our restaurants has benefited from China's rapidly growing middle class and increasing urbanization. Although changes in consumer taste are possible, the expansion of China's middle class has generally been correlated with an increase in eating outside of the home, which is in part driven by higher discretionary income associated with this demographic group. According to McKinsey, middle class and affluent households are expected to continue to grow, increasing from 116 million people in 2016 to an estimated 315 million by 2030. The number of working-age consumers is expected to increase by 100 million during the same period as their average per capita consumption doubles. By 2030, spending by this group is expected to account for an estimated 12 cents for every \$1 of worldwide urban consumption. With this, annual household spending on dining out in China may double. The Company will continue to focus on this core consumer segment and on serving China's growing middle class.

In 2002 87% of the middle class lived in coastal China and only 13% of the middle class lived in inland provinces. According to macroeconomic models prepared by McKinsey in 2012, by 2022 it is expected that only 61% of the middle class will live in coastal cities as the middle class expands more rapidly in inland cities. Likewise, according to the same models, by 2022 it is expected that 39% of the middle class will live in cities with a population of more than one million. This is consistent with the Company's development plans which have focused on entering new trade zones and building new restaurants further inland.

## **Restaurant Concepts**

### KFC

KFC is the largest restaurant brand in China in terms of system sales and number of restaurants. Founded in Corbin, Kentucky by Colonel Harland D. Sanders in 1939, KFC opened its first restaurant in Beijing, China in 1987. Today, almost 30 years later, there are over 5,000 KFCs in China, and the Company plans to continue adding new units. In addition to Original Recipe chicken, KFC in China has an extensive menu featuring pork, beef, seafood, rice dishes, fresh vegetables, soups, breakfast, desserts, and many other products, including premium coffee. The KFC brand is also seeking to increase revenues from its restaurants throughout the day with breakfast, delivery and 24-hour operations in many of its locations.

### Pizza Hut Casual Dining

Pizza Hut Casual Dining is the largest Western CDR brand in China as measured by system sales and number of restaurants. It operates in over 400 cities and offers multiple dayparts, including breakfast and afternoon tea. The first Pizza Hut in China opened in 1990, and as of 2015 year-end there were nearly 1,600 Pizza Hut Casual Dining restaurants. Pizza Hut Casual Dining has an extensive menu offering a broad variety of pizzas, entrees, pasta, rice dishes, appetizers, beverages and desserts. In 2015, Pizza Hut Casual Dining was ranked the "Most Preferred Western Casual Dining Restaurant" by The Nielsen Corporation.

### Other Concepts

*Pizza Hut Home Service.* The Company introduced pizza delivery to China in 2001, and today there are over 300 Pizza Hut Home Service units in nearly 50 cities, specializing in professional and convenient delivery of Chinese food as well as pizza. Over 70% of the brand's orders come through



online or mobile channels. Its professional service and diverse menu provide a strong platform for continued growth in the future.

*Little Sheep.* A casual-dining brand with its roots in Inner Mongolia, China, Little Sheep specializes in "Hot Pot" cooking, which is very popular in China particularly during the winter months. Little Sheep has approximately 250 units in both China and international markets today. Of these, over 200 units are franchised.

*East Dawning.* East Dawning is a Chinese food quick-service restaurant brand, primarily located in large coastal cities. There were 15 restaurants as of 2015 year end. This brand is not viewed as a significant growth engine for the Company.

*Taco Bell.* Taco Bell is the world's leading QSR brand specializing in Mexican-style food, including tacos, burritos, quesadillas, salads, nachos and similar items. While there are over 6,400 Taco Bell units globally, currently no locations exist in China. The Company plans to open its first Taco Bell restaurant in 2016.

### **Competitive Strengths**

We believe the following strengths, developed over our almost 30-year operating history, differentiate us and serve as a platform for future growth.

- Unique Company culture based on global systems and local spirit.
- Category-leading brands in one of the world's fastest growing economies.
- High-quality, great-tasting food, including local favorites with compelling value and a Western experience.
- Strong unit economics.
- Extensive experience in developing new restaurants.
- Knowledge and understanding of Chinese consumers and versatile approach to marketing.
- Supply chain management with a focus on food safety and quality.
- Internal people development culture and training systems.
- World class operations led by certified restaurant managers.
- Digital and technology capability, especially in mobile and social media.
- Experienced senior management team.

### **Our Strategies**

The Company's primary strategy is to grow sales and profits across its portfolio of brands through increased brand relevance, new store development and enhanced unit economics. Other areas of investment include store remodels; product innovation and quality; improved operating platforms leading to improved service; store-level human resources, including recruiting and training; creative marketing programs; and product testing.

#### **New-Unit Growth**

Rapidly growing consumer class. Given the rapidly expanding middle class, we believe that there is significant opportunity to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new markets. We expanded our restaurant count from

3,906 units in 2010 to approximately 7,200 as of the end of 2015, representing a compounded annual growth rate ("CAGR") of 13%.

**Franchise opportunity.** Currently, only 9% of our restaurants are operated by franchisees. Going forward, we anticipate high franchisee demand for our brands, supported by strong unit economics, operational consistency and simplicity, and multiple store types to drive restaurant growth. While the franchise market in China is still in its early stages compared to developed markets, the Company plans to continue to increase its franchise-owned store percentage over time.

**Development pipeline.** We consider our development pipeline to be robust, and believe we have an opportunity to grow our restaurant count three times over the next two to three decades. For additional information on the risks associated with this growth strategy, see the section entitled "Risk Factors," including the risk factor entitled—"We may not attain our target development goals, aggressive development could cannibalize existing sales and new restaurants may not be profitable." We also believe the opportunity to add Taco Bell restaurants as well as other concepts could further increase our total unit count.

### **Same-Store Sales Growth**

**Flavor innovation.** We are keenly aware of the strength of our core menu items but we also seek to continue to introduce innovative items to meet evolving consumer preferences and local tastes, while simultaneously maintaining brand relevance and broadening brand appeal. For example, KFC offers soy bean milk, fried dough sticks, and congee for breakfast. Outside of breakfast, KFC has introduced rice dishes, Peking style chicken twistlers, roasted chicken products, egg tarts and fresh lemon/calamansi tea.

**Daypart opportunities.** We believe there are significant daypart opportunities across our brands. For example, at KFC we recently introduced premium coffee to expand our breakfast and afternoon dayparts. Pizza Hut Casual Dining has focused on breakfast and afternoon tea to further grow same-store sales.

**Customer frequency through mobile connectivity.** KFC is rolling out its K-Gold loyalty program in 2016 with the eventual goal of a fully digitized customer experience. The brand will also improve the customer experience through ease of ordering and speed of service, supported by innovative technology. Pizza Hut Casual Dining is a leader in providing a digital experience with free in-store Wi-Fi, queue ticketing and pre-ordering, partnering with Alipay and WeChat to receive cashless payments, and introducing a loyalty program.

**Best in-store experience.** The Company continuously looks for ways to improve the customer experience. For example, starting in 2015, KFC revamped its remodel strategy to accelerate restaurant upgrades. Pizza Hut Casual Dining is also well regarded for offering consumers a contemporary casual dining setting. Our brands also look to improve efficiency to drive sales growth. For example, we are simplifying menu boards and fine-tuning our digital menu boards and in-store self-service order devices. We are also exploring expansion of our delivery business through online-to-offline, or O2O, aggregators.

**Value innovation.** KFC will continue to focus on value with product offerings such as the bucket and increased combo options throughout the day. Pizza Hut Casual Dining will leverage past innovations like business lunch set and breakfast.

**O2O and home delivery.** China is a world leader in the emerging online-to-offline or O2O market. This is where digital online ordering technologies interact with traditional brick and mortar retail to enhance the shopping experience. In the restaurant sector, KFC and Pizza Hut Home Service are already leading brands in home delivery. We see considerable further growth potential in the rapidly growing in-home consumption market by aligning our proven restaurant operation capabilities with

emerging specialized O2O firms (known as aggregators) that offer consumers the ability to order any restaurant food at home. This could be an exciting new business opportunity with potential to create substantial stockholder value.

### **Enhanced Profitability**

We focus on improving our unit-level economics and overall profits while also making the necessary investments to support our future growth. Since we increased our focus on restaurant margin improvement in late 2013, restaurant margins at KFC improved two percentage points from 2013 to 2015. We will pursue additional opportunities to improve profits over the long-term by continuing our focus on fiscal discipline and leveraging fixed costs, while maintaining the quality customer experience for which our brands are known.

### **The Separation and Distribution**

On October 20, 2015, YUM announced that it intended to separate into two publicly traded companies: one comprising YUM's world-class operations in China, which will do business as the Company, and one that will comprise YUM's remaining operations (including franchising) around the world, which will continue to do business as YUM and retain YUM's current logo.

On [ · · ], 2016, YUM's board of directors approved the distribution of all of the Company's issued and outstanding shares of common stock on the basis of [ · · ] share[s] of Company common stock for each share of YUM common stock held as of 5:00 p.m., Eastern Time, on [ · · ], 2016, the record date for the distribution.

### ***The Company's Post-Separation Relationship with YUM***

After the distribution, YUM and the Company will be separate companies with separate management teams and separate boards of directors. The Company will enter into a separation and distribution agreement with YUM, which is referred to in this Information Statement as the "separation and distribution agreement." In addition, a subsidiary of the Company will enter into a master license agreement with a subsidiary of YUM providing the exclusive right to use and sublicense the use of intellectual property owned by YUM and its affiliates for the development and operation of KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, and Taco Bell restaurants in China and for the conduct of all related development, promotional and support activities. In connection with the separation, the Company will also enter into various other agreements with YUM to effect the separation and provide a framework for its relationship with YUM after the separation, such as a tax matters agreement and an employee matters agreement. These agreements will provide for the allocation between the Company and YUM of YUM's assets, employees, liabilities and obligations (including its investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after the separation of the Company from YUM and will govern certain relationships between the Company and YUM after the separation. For additional information regarding the separation and distribution agreement and other transaction agreements, see the sections entitled "Risk Factors—Risks Related to the Separation" and "Certain Relationships and Related Person Transactions."

### ***Reasons for the Separation***

YUM's board of directors and management believe that the creation of two independent public companies, with the Company operating the China business, and YUM operating its remaining

businesses (including franchising) throughout the rest of the world, is in the best interests of YUM and its shareholders for a number of reasons, including:

- *Enhanced strategic and management focus.* The separation will allow each company to focus on and more effectively pursue its own distinct operating priorities and strategies, and will enable the management of each company to concentrate efforts on the unique needs of each business and pursue distinct opportunities for long-term growth and profitability. Specifically, YUM will pursue its strategy of developing its brands and expanding its franchise operations globally outside of China and expects to own less than 4% of the restaurants within its system by the end of 2017. The Company, on the other hand, will pursue its strategy of owning and operating restaurants in China and plans to own and operate a substantial majority of its restaurants in China;
- *More efficient allocation of capital.* The separation will permit each company to concentrate its financial resources solely on its own operations, providing greater flexibility to invest capital in its business in a time and manner appropriate for its distinct strategy and business needs and facilitating a more efficient allocation of capital;
- *Direct access to capital markets.* The separation will create an independent equity structure that will afford the Company direct access to capital markets and facilitate the ability of the Company to capitalize on its unique growth opportunities and effect future acquisitions utilizing its common stock;
- *Alignment of incentives with performance objectives.* The separation will facilitate incentive compensation arrangements for employees more directly tied to the performance of the relevant company's business, and may enhance employee hiring and retention by, among other things, improving the alignment of management and employee incentives with performance and growth objectives;
- *Investor choice.* The separation will allow investors to separately value YUM and the Company based on their unique investment identities, including the merits, performance and future prospects of their respective businesses. The separation will also provide investors with two distinct and targeted investment opportunities; and
- *Optimized Capital Structure.* As a result of the separation, YUM expects to be more highly franchised, more geographically diversified and less volatile in terms of profit and to have lower ongoing capital expenditures. This business model is expected to enable YUM to take on additional leverage, optimize its capital structure and return cash to shareholders. The Company will have no material debt immediately following the separation.

Neither the Company nor YUM can assure you that, following the separation, any of the benefits described above or otherwise will be realized to the extent anticipated or at all.

#### **Risks Associated with the Company and the Separation**

The YUM board of directors also considered a number of potentially negative factors in evaluating the creation of two independent public companies, including, among others, risks relating to the loss of benefits arising from YUM and the Company operating within one company and increased operating costs and one-time separation costs relating to the creation of a new public company, but concluded that the potential benefits from separation outweighed these factors. For more information, see the sections entitled "The Separation and Distribution—Reasons for the Separation" and "Risk Factors" included elsewhere in this Information Statement.

## **Risks Related to Our Business and the Separation and Distribution**

An investment in Company common stock is subject to a number of risks, including risks relating to our business and the separation and distribution. The following list of certain significant risk factors is a high-level summary and is not exhaustive. Please read the information in the section captioned "Risk Factors" for a more thorough description of these and other risks.

### **Risks Related to Our Business and Industry**

- Food safety and food-borne illness concerns may have an adverse effect on our business.
- Any failure to maintain effective quality control systems for our restaurants could have a material adverse effect on our reputation, results of operations and financial condition.
- Any significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering could adversely affect our reputation, business and operations.
- Health concerns arising from outbreaks of viruses or other diseases may have an adverse effect on our business.
- We derive all of our revenue from our operating entities in China and our business is highly exposed to all of the risks of doing business there.
- The operation of our restaurants and our ability to expand our operations are subject to the terms of the master license agreement.
- Our business will be materially harmed if we breach the master license agreement or if it is terminated.
- Our success is tied to the success of YUM's brand strength, marketing campaigns and product innovation.
- Shortages or interruptions in the availability and delivery of food and other supplies may increase costs or reduce revenues.
- We may not attain our target development goals, aggressive development could cannibalize existing sales and new restaurants may not be profitable.

### **Risks Related to Doing Business in China**

- Changes in Chinese political policies and economic and social policies or conditions may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.
- Uncertainties with respect to the interpretation and enforcement of China laws, rules and regulations could have a material adverse effect on us.
- Fluctuation in the value of Chinese Renminbi ("RMB") may have a material adverse effect on your investment.
- We expect to rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries in China to fund offshore cash and financing requirements, and such distributions may be subject to certain taxes and legal and contractual restrictions.
- Under the China Enterprise Income Tax Law (the "EIT Law"), if we are classified as a China resident enterprise for China enterprise income tax purposes such classification would likely result in unfavorable tax consequences to us and our non-China stockholders.

### **Risks Related to the Separation**

- The combined post-separation value of YUM and the Company's common stock may not equal or exceed the pre-separation value of YUM common stock.
- The separation may not achieve some or all of the anticipated benefits.
- If the distribution does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, the Company and YUM shareholders could be subject to significant tax liabilities, and, in certain circumstances, the Company and Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL") could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement.
- Our ability to engage in strategic transactions following the separation may be limited. In addition, we could be liable for adverse tax consequences resulting from engaging in such transactions.

### **Risks Related to Our Common Stock**

- The Company cannot be certain that an active trading market for its common stock will develop or be sustained after the distribution, and following the distribution, the Company's stock price may fluctuate significantly.
- There may be substantial changes in the Company's stockholder base.
- The Company cannot guarantee the timing, amount or payment of dividends on its common stock.
- Your percentage of ownership in the Company may be diluted in the future.

### **Corporate Information**

The Company was incorporated in Delaware on April 1, 2016 for the purpose of holding YUM's China business in connection with the separation and distribution. Until the business was transferred to us in connection with the separation, we had no operations. The address of our principal executive offices is [ · ]. Our telephone number is [ · ].

The Company maintains an Internet site at [ · ]. The Company's website, and the information contained therein, or connected thereto, is not incorporated by reference into this Information Statement or the registration statement of which this Information Statement forms a part.

### **Reason for Furnishing This Information Statement**

This Information Statement is being furnished solely to provide information to shareholders of YUM who will receive shares of Company common stock in the distribution. It is not, and is not to be construed as, an inducement or encouragement to buy or sell any of the Company's securities. The information contained in this Information Statement is believed by the Company to be accurate as of the date set forth on its cover. Changes may occur after that date, and neither YUM nor the Company will update the information except in the normal course of their respective disclosure obligations and practices or as otherwise required by law.

## SUMMARY SELECTED HISTORICAL AND UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The following table presents the summary selected historical and unaudited pro forma combined financial information of the Company. The selected historical combined financial data includes all revenues, costs, assets and liabilities directly attributable to the Company and which have been used in managing and operating the Company business as part of YUM. We derived the combined statements of income data for the three years ended December 31, 2015, and the combined balance sheets data as of December 31, 2015 and December 31, 2014, as set forth below, from our audited combined financial statements, which are included elsewhere in this Information Statement. We derived the condensed combined statement of income data for the year to date ended May 31, 2016 and the condensed combined balance sheet data as of May 31, 2016 from our unaudited condensed combined financial statements, which are included elsewhere in this Information Statement. We derived the combined balance sheet data as of December 31, 2013 from the Company's unaudited combined financial statements that are not included in this Information Statement.

The unaudited pro forma combined statement of income for the fiscal year ended December 31, 2015 reflects our results as if the separation and related transactions described below had occurred on January 1, 2015. The unaudited pro forma combined balance sheet as of December 31, 2015 reflects our financial position as if the separation and related transactions described below had occurred as of such date. The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and we believe such assumptions are reasonable under the circumstances. Please see the notes to the unaudited pro forma combined financial statements included elsewhere in this Information Statement for a discussion of adjustments reflected in the unaudited pro forma combined financial statements.

The unaudited pro forma combined financial information presented below is not necessarily indicative of our results of operations or financial condition had the separation and distribution and our anticipated post-separation capital structure been completed on the dates assumed. Also, they may not reflect the results of operations or financial condition that would have resulted had we been operating as an independent, publicly traded company during such periods. In addition, they are not necessarily indicative of our future results of operations or financial condition.

You should read this summary financial and operating data together with "Unaudited Pro Forma Combined Financial Statements," "Capitalization," "Selected Historical Combined Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the combined financial statements included elsewhere in this Information Statement. Among other things,

the combined financial statements included in this Information Statement include more detailed information regarding the basis of presentation for the information in the following table.

(Dollars in millions, except per share data)	Pro Forma for the Fiscal Year Ended December 31, 2015	Historical for the Year to date Ended May 31, 2016	Historical for the Fiscal Years Ended		
			December 31, 2015	December 31, 2014	December 31, 2013
<b>Combined Statements of Income</b>					
<b>(Loss) Data:</b>					
<b>Revenues</b> (Unaudited)					
Company sales	6,789	2,836	6,789	6,821	6,800
Franchise fees and income	120	55	120	113	105
Total revenues	6,909	2,891	6,909	6,934	6,905
<b>Costs and Expenses, Net</b>					
Company restaurants					
Food and paper	2,159	847	2,159	2,207	2,258
Payroll and employee benefits	1,386	587	1,386	1,407	1,360
Occupancy and other operating expenses	2,368	960	2,386	2,415	2,347
Company restaurant expenses	5,913	2,394	5,931	6,029	5,965
General and administrative expenses	395	170	395	389	356
Franchise expenses	63	31	70	64	60
Closures and impairment expenses, net	64	31	64	517	325
Refranchising gain, net	(13)	(4)	(13)	(17)	(5)
Other income, net	(26)	(27)	(26)	(51)	(25)
Total costs and expenses, net	6,396	2,595	6,421	6,931	6,676
<b>Operating Profit(a)</b>	513	296	488	3	229
Interest income, net	8	4	8	14	5
<b>Income Before Income Taxes</b>	521	300	496	17	234
Income tax provision	(174)	(78)	(168)	(54)	(135)
Net Income (loss)—including noncontrolling interests	347	222	328	(37)	99
Net Income (loss)—noncontrolling interests	5	—	5	(30)	(27)
<b>Net Income (loss)—Yum China Holdings, Inc.(a)</b>	342	222	323	(7)	126
<b>Pro Forma net earnings per share:</b> (Unaudited)					
Basic	[·]	N/A	N/A	N/A	N/A
Diluted	[·]	N/A	N/A	N/A	N/A
<b>Combined Balance Sheets Data</b> (Unaudited)					
Cash and cash equivalents	N/A	508	425	238	300
Total assets	N/A	3,293	3,201	3,257	3,750

- (a) Operating Profit for 2014 and 2013, respectively, includes \$463 million and \$295 million of expense associated with non-cash impairment of our investment in Little Sheep. After considering the tax benefit associated with these losses and the portion of the net losses allocated to noncontrolling interests, Net Income (loss)—Yum China Holdings, Inc., was negatively impacted by these impairments by \$361 million and \$258 million in 2014 and 2013, respectively. Excluding these impairments, Net income (loss)—Yum China Holdings, Inc. was income of \$354 million and \$384 million in 2014 and 2013, respectively.



## RISK FACTORS

*You should carefully consider each of the following risks, which we believe are the principal risks that we face and of which we are currently aware, in addition to considering all of the other information in this Information Statement. The risk factors have been separated into four general groups: risks related to our business and industry, risks related to doing business in China, risks related to the separation and risks related to our common stock. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our company in each of these categories of risk. However, the risks and uncertainties our company faces are not limited to those set forth in the risk factors described below. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business, financial condition, or results of operations. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. If any of the following risks and uncertainties develops into actual events, these events could have a material adverse effect on our business, financial condition or results of operations. In such case, the trading price of our common stock could decline.*

### **Risks Related to Our Business and Industry**

***Food safety and food-borne illness concerns may have an adverse effect on our business.***

Food-borne illnesses, such as E. coli, hepatitis A, trichinosis and salmonella, occur or may occur within our system from time to time. In addition, food safety issues such as food tampering, contamination and adulteration occur or may occur within our system from time to time. Any report or publicity linking us, our competitors, our restaurants, including restaurants operated by us or our franchisees, or any of YUM's restaurants, to instances of food-borne illness or food safety issues could adversely affect our restaurants' brands and reputations as well as our revenues and profits and possibly lead to product liability claims, litigation and damages. If a customer of our restaurants becomes ill from food-borne illnesses or as a result of food safety issues, restaurants in our system may be temporarily closed, which would decrease our revenues. In addition, instances or allegations of food-borne illness or food safety issues, real or perceived, involving our or YUM's restaurants, restaurants of competitors, or suppliers or distributors (regardless of whether we use or have used those suppliers or distributors), or otherwise involving the types of food served at our restaurants, could result in negative publicity that could adversely affect our sales. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, which could result in disruptions in our supply chain and/or lower margins for us and our franchisees.

***Any failure to maintain effective quality control systems for our restaurants could have a material adverse effect on our business, reputation, results of operations and financial condition.***

The quality and safety of the food we serve is critical to our success. Maintaining consistent food quality depends significantly on the effectiveness of our and our franchisees' quality control systems, which in turn depends on a number of factors, including the design of our quality control systems and employee implementation and compliance with those quality control policies and guidelines. Our quality control systems consist of (i) supplier quality control, (ii) logistics quality control, (iii) food processing plants' quality control, and (iv) restaurant quality control. There can be no assurance that our and our franchisees' quality control systems will prove to be effective. Any significant failure or deterioration of these quality control systems could have a material adverse effect on our business, reputation, results of operations and financial condition.

***Any significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering could adversely affect our reputation, business and operations.***

Being in the restaurant industry, we face an inherent risk of food contamination and liability claims. Our food quality depends partly on the quality of the food ingredients and raw materials provided by our suppliers, and we may not be able to detect all defects in our supplies. Any food contamination occurring in raw materials at our suppliers' food processing plants or during the transportation from food processing plants to our restaurants that we fail to detect or prevent could adversely affect the quality of the food served in our restaurants. Due to the scale of our and our franchisees' operations, we also face the risk that certain of our and our franchisees' employees may not adhere to our mandated quality procedures and requirements. Any failure to detect defective food supplies, or observe proper hygiene, cleanliness and other quality control requirements or standards in our operations could adversely affect the quality of the food we offer at our restaurants, which could lead to liability claims, complaints and related adverse publicity, reduced customer traffic at our restaurants, the imposition of penalties against us or our franchisees by relevant authorities and compensation awards by courts. Our sales have been significantly impacted by adverse publicity relating to supplier actions over the past decade. For example, our sales and perception of our brands were significantly impacted following adverse publicity relating to the failure of certain upstream poultry suppliers to meet our standards in late 2012 as well as adverse publicity relating to improper food handling practices by a separate, small upstream supplier in mid-2014. There can be no assurance that similar incidents will not occur again in the future or that we will not receive any food contamination claims or defective products from our suppliers in the future. Any such incidents could materially harm our reputation, results of operations and financial condition.

***Health concerns arising from outbreaks of viruses or other diseases may have an adverse effect on our business.***

Our business could be materially and adversely affected by the outbreak of a widespread health epidemic, such as avian flu, or H1N1, or "swine flu." The occurrence of such an outbreak of an epidemic illness or other adverse public health developments in China could materially disrupt our business and operations. Such events could also significantly impact our industry and cause a temporary closure of restaurants, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations.

Our operations could be disrupted if any of our employees or employees of our business partners were suspected of having the swine flu or avian flu, since this could require us or our business partners to quarantine some or all of such employees or disinfect our restaurant facilities. Outbreaks of avian flu occur from time to time around the world, including in China where our restaurants are located, and such outbreaks have resulted in confirmed human cases. It is possible that outbreaks in China and elsewhere could reach pandemic levels. Public concern over avian flu generally may cause fear about the consumption of chicken, eggs and other products derived from poultry, which could cause customers to consume less poultry and related products. This would likely result in lower revenues and profits. Avian flu outbreaks could also adversely affect the price and availability of poultry, which could negatively impact our profit margins and revenues.

Furthermore, other viruses may be transmitted through human contact, and the risk of contracting viruses could cause employees or guests to avoid gathering in public places, which could adversely affect restaurant guest traffic or the ability to adequately staff restaurants. We could also be adversely affected if jurisdictions in which we have restaurants impose mandatory closures, seek voluntary closures or impose restrictions on operations of restaurants. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or health risk may affect our business.

***We derive all of our revenue from our operations in China.***

All of our restaurants are located, and our revenues and profits originate, in China. As a consequence, our financial results are entirely dependent on our results in China, and our business is highly exposed to all of the risks of doing business there. These risks are described further under the section "Risks Related to Doing Business in China."

***The operation of our restaurants is subject to the terms of the master license agreement.***

Under the master license agreement with YUM, we are required to comply with certain brand standards established by YUM in connection with the licensed business. If our failure to comply with YUM's standards of operations results in a material adverse effect on any of the Brand business, YUM has various rights, including the right to terminate the applicable license or eliminate the exclusivity of our license in China.

Additionally, the master license agreement will require that we pay a license fee to YUM of 3% of gross revenue from Company and franchise restaurant sales, net of certain taxes and surcharges (referred to in this Information Statement as "net sales") of all restaurants of the licensed brands in China. We have historically not considered such license fee in the evaluation of which Company assets should be tested for impairment. Whether Company store-level assets are impaired will be determined by the overall business performance of the store at that time which will require an assessment of many operational factors. Nonetheless, it is possible that our impairment expense could increase going forward as a result of the inclusion of this license fee. While there may be other considerations that mitigate this expense, it is possible that the imposition of the license fee could impact our unit-level results, which could result in additional Company restaurant closures and/or lower new-unit development.

The master license agreement may also be terminated upon the occurrence of certain events, such as the insolvency or bankruptcy of the Company. If the master license agreement were terminated, or any of our license rights were limited, our business, financial condition and results of operations would be adversely affected. The master license agreement with YUM is further described under the section "Certain Relationships and Related Person Transactions—The Master License Agreement."

***Our success is tied to the success of YUM's brand strength, marketing campaigns and product innovation.***

The KFC, Pizza Hut Casual Dining, Pizza Hut Home Service and Taco Bell trademarks and related intellectual property are owned by YUM and licensed to us in China. The value of these marks depends on the enforcement of YUM's trademark and intellectual property rights, as well as the strength of YUM's brands. Due to the nature of licensing and our agreements with YUM, our success is, to a large extent, directly related to the success of the YUM restaurant system, including the management, marketing success and product innovation of YUM. Further, if YUM were to reallocate resources away from the KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, or Taco Bell brands, these brands and the license rights that have been granted to us could be harmed globally or regionally, which could have a material adverse effect on our operating results and our competitiveness in China. In addition, strategic decisions made by YUM management related to its brands, marketing and restaurant systems may not be in our best interests and may conflict with our strategic plans.

***Shortages or interruptions in the availability and delivery of food and other supplies may increase costs or reduce revenues.***

The products sold by us and our franchisees are sourced from a wide variety of suppliers inside and outside of China. We are also dependent upon third parties to make frequent deliveries of food products and supplies that meet our specifications at competitive prices. Shortages or interruptions in the supply of food items and other supplies to our restaurants could adversely affect the availability, quality and cost of items we use and the operations of our restaurants. Such shortages or disruptions could be caused by

inclement weather, natural disasters such as floods, drought and hurricanes, increased demand, problems in production or distribution, restrictions on imports or exports, political instability in the countries in which suppliers and distributors are located, the financial instability of suppliers and distributors, suppliers' or distributors' failure to meet our standards, product quality issues, inflation, other factors relating to the suppliers and distributors and the countries in which they are located, food safety warnings or advisories or the prospect of such pronouncements or other conditions beyond our control. Despite our efforts in developing multiple suppliers for the same items, a shortage or interruption in the availability of certain food products or supplies could still increase costs and limit the availability of products critical to restaurant operations, which in turn could lead to restaurant closures and/or a decrease in sales. In addition, failure by a principal supplier or distributor for us and/or our franchisees to meet its service requirements could lead to a disruption of service or supply until a new supplier or distributor is engaged, and any disruption could have an adverse effect on our business.

***We may not attain our target development goals, aggressive development could cannibalize existing sales and new restaurants may not be profitable.***

Our growth strategy depends on our ability to build new restaurants in China. The successful development of new units depends in large part on our ability to open new restaurants and to operate these restaurants profitably. We cannot guarantee that we, or our franchisees, will be able to achieve our expansion goals or that new restaurants will be operated profitably. Further, there is no assurance that any new restaurant will produce operating results similar to those of our existing restaurants. Other risks which could impact our ability to increase the number of our restaurants include prevailing economic conditions and our or our franchisees' ability to obtain suitable restaurant locations, negotiate acceptable lease or purchase terms for the locations, obtain required permits and approvals in a timely manner, hire and train qualified restaurant crews and meet construction schedules.

In addition, the new restaurants could impact the sales of our existing restaurants nearby. There can be no assurance that sales cannibalization will not occur or become more significant in the future as we increase our presence in existing markets in China.

Our growth strategy includes expanding our ownership and operation of restaurant units through organic growth by developing new restaurants that meet our investment objectives. We may not be able to achieve our growth objectives and these new restaurants may not be profitable. The opening and success of restaurants we may open in the future depends on various factors, including:

- our ability to obtain or self-fund adequate development financing;
- competition from other quick service restaurants ("QSRs") in current and future markets;
- our degree of penetration in existing markets;
- the identification and availability of suitable and economically viable locations;
- sales and margin levels at existing restaurants;
- the negotiation of acceptable lease or purchase terms for new locations;
- regulatory compliance regarding restaurant opening and operation;
- the ability to meet construction schedules;
- our ability to hire and train qualified restaurant crews; and
- general economic and business conditions.

***The prices of raw materials fluctuate.***

Our restaurant business depends on reliable sources of large quantities of raw materials such as protein (including poultry, pork, beef and seafood), cheese, oil, flour and vegetables (including potatoes and lettuce). Our raw materials are subject to price volatility caused by any fluctuation in aggregate

supply and demand, or other external conditions, such as climate and environmental conditions where weather conditions or natural events or disasters may affect expected harvests of such raw materials. As a result, the historical prices of raw materials consumed by us have fluctuated. We cannot assure you that we will continue to purchase raw materials at reasonable prices, or that our raw materials prices will remain stable in the future. In addition, because we and our franchisees provide competitively priced food, our ability to pass along commodity price increases to our customers is limited. If we are unable to manage the cost of our raw materials or to increase the prices of our products, it may have an adverse impact on our future profit margin.

***We are subject to all of the risks associated with leasing real estate, and any adverse developments could harm our results of operations and financial condition.***

As a significant number of our restaurants are operating on leased properties, we are exposed to the market conditions of the retail rental market. As of year-end 2015, we leased the land and/or building for approximately 5,770 restaurants in China. Accordingly, we are subject to all of the risks generally associated with leasing real estate, including changes in the investment climate for real estate, demographic trends, trade zone shifts, central business district relocations, and supply or demand for the use of the restaurants, as well as potential liability for environmental contamination.

We generally enter into lease agreements with initial terms of 10 to 20 years. Less than 5% of our existing leases expire before the end of 2017. Most of our lease agreements contain an early termination clause that permits 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 and need to negotiate the terms of renewal with the lessor, who may insist on a significant modification to the terms and conditions of the lease agreement.

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 annual sales revenue, subject to adjustment; or (iii) a percentage of the restaurant's annual sales revenue, subject to adjustment. Adjustments to rent calculated as a percentage of the restaurant's annual sales revenue generally correspond to the level of annual sales revenue as specified in the agreement. In addition to increases in rent resulting from fluctuations in annual sales revenue, certain of our lease agreements include provisions specifying fixed increases in rental payments over the respective terms of the lease agreements. While these provisions have been negotiated and are specified in the lease agreement, they will increase our costs of operation and therefore may materially and adversely affect our business, results of operation and financial position if we are not able to pass on the increased costs to our customers. Certain of our lease agreements also provide for the payment of a management fee at either a fixed rate or fixed amount per square meter of the relevant leased property.

Where we do not have an option to renew a lease agreement, we must negotiate the terms of renewal with the lessor, who may insist on a significant modification to the terms and conditions of the lease agreement. If a lease agreement is renewed at a rate substantially higher than the existing rate, or if any existing favorable terms granted by the lessor are not extended, we must determine whether it is desirable to renew on such modified terms. If we are unable to renew leases for our restaurant sites on acceptable terms or at all, we will have to close or relocate the relevant restaurants, which would eliminate the sales that those restaurants would have contributed to our revenues during the period of closure, and could subject us to construction, renovation and other costs and risks. In addition, the revenue and any profit generated after relocation may be less than the revenue and profit previously generated before such relocation. As a result, any inability to obtain leases for desirable restaurant locations or renew existing leases on commercially reasonable terms could have a material adverse effect on our business and results of operations.

For details of information regarding our leased properties, please refer to the section entitled "Business—Properties."

***We may not be able to obtain desirable restaurant locations on commercially reasonable terms.***

We compete with other retailers and restaurants for suitable locations, and the market for retail premises is very competitive in China. Our competitors may negotiate more favorable lease terms than our lease terms, and some landlords and developers may offer priority or grant exclusivity to some of our competitors for desirable locations for various reasons beyond our control. We cannot assure you that we will be able to enter into new lease agreements for prime locations on commercially reasonable terms, if at all. If we cannot obtain desirable restaurant locations on commercially reasonable terms, our business, results of operations and ability to implement our growth strategy may be materially and adversely affected.

***Labor shortages or increases in labor costs could slow our growth, harm our business and reduce our profitability.***

Restaurant operations are highly service-oriented and our success depends in part upon our ability to attract, retain and motivate a sufficient number of qualified employees, including restaurant managers, and other crew members. The market for qualified employees in our industry is very competitive. Any future inability to recruit and retain qualified individuals may delay the planned openings of new restaurants and could adversely impact our existing restaurants. Any such delays, material increases in employee turnover rate in existing restaurants or widespread employee dissatisfaction could have a material adverse effect on our business and results of operations. In addition, competition for qualified employees could also compel us to pay higher wages to attract or retain key crew members, which could result in higher labor costs.

The Chinese Labor Contract Law that became effective on January 1, 2008 formalizes workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions, and provides for specific standards and procedures for employees' protection. Moreover, minimum wage requirements in China have increased and could continue to increase our labor costs in the future. The salary level of employees in the restaurant industry in China has been increasing in the past several years. We may not be able to increase our product prices enough to pass these increased labor costs on to our customers, in which case our business and results of operations would be materially and adversely affected.

***Our success depends substantially on our corporate reputation and on the value and perception of our brands.***

One of our primary assets is the exclusive right to use the KFC, Pizza Hut Casual Dining, Pizza Hut Home Service and Taco Bell trademarks in restaurants in China. Our success depends in large part upon our ability and our franchisees' ability to maintain and enhance the value of these brands and our customers' loyalty to these brands in China. Brand value is based in part on consumer perceptions on a variety of subjective qualities. Business incidents, whether isolated or recurring, and whether originating from us, our franchisees, competitors, suppliers and distributors or YUM and its other licensees or franchisees, competitors, suppliers and distributors outside China can significantly reduce brand value and consumer trust, particularly if the incidents receive considerable publicity or result in litigation. For example, our brands could be damaged by claims or perceptions about the quality or safety of our products or the quality of our suppliers and distributors, regardless of whether such claims or perceptions are true. Any such incidents (even if resulting from the actions of a competitor) could cause a decline directly or indirectly in consumer confidence in, or the perception of, our brands and/or our products and reduce consumer demand for our products, which would likely result in lower revenues and profits. Additionally, our corporate reputation could suffer from a real or perceived failure of corporate governance or misconduct by a company officer, employee or representative.

***Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our business.***

In recent years, there has been a marked increase in the use of social media platforms, including weblogs (blogs), mini-blogs, chat platforms, social media websites, and other forms of Internet-based communications which allow individuals access to a broad audience of consumers and other interested persons. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and/or may be inaccurate. The dissemination of inaccurate or irresponsible information online could harm our business, reputation, prospects, financial condition, and results of operations, regardless of the information's accuracy. The damage may be immediate without affording us an opportunity for redress or correction.

Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our brands, exposure of personally identifiable information, fraud, hoaxes or malicious exposure of false information. The inappropriate use of social media by our customers or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation and adversely affect our results of operations.

***We could be party to litigation that could adversely affect us by increasing our expenses, diverting management attention or subjecting us to significant monetary damages and other remedies.***

We are involved in legal proceedings from time to time. These proceedings do or could include consumer, employment, real-estate related, tort, intellectual property, breach of contract, and other litigation. As a public company, we may in the future also be involved in legal proceedings alleging violation of securities laws or derivative litigation. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may not be accurately estimated. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, such litigation may be expensive to defend and may divert resources and management attention away from our operations and negatively impact reported earnings. With respect to insured claims, a judgment for monetary damages in excess of any insurance coverage could adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also adversely affect our reputation, which in turn could adversely affect our results of operations.

In addition, the restaurant industry around the world has been subject to claims that relate to the nutritional content of food products, as well as claims that the menus and practices of restaurant chains have led to customer health issues, including weight gain and other adverse effects. We may also be subject to these types of claims in the future and, even if we are not, publicity about these matters (particularly directed at the quick service and fast-casual segments of the retail food industry) may harm our reputation and adversely affect our business, financial condition and results of operations.

***Failure to comply with anti-bribery or anti-corruption laws could adversely affect our business operations.***

The U.S. Foreign Corrupt Practices Act and similar Chinese laws and other similar applicable laws prohibiting bribery of government officials and other corrupt practices are the subject of increasing emphasis and enforcement around the world. Although we are in the process of implementing policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors, agents or other third parties will not take actions in violation of our policies or applicable law, particularly as we expand our operations through organic growth and acquisitions. Any such violations or suspected violations could subject us to civil or criminal penalties, including substantial fines and significant investigation costs, and could also materially damage the KFC, Pizza Hut Casual Dining, Pizza Hut Home Service and Taco Bell brands, as well as our reputation and

prospects, business and operating results. Publicity relating to any noncompliance or alleged noncompliance could also harm our reputation and adversely affect our revenues and results of operations.

***As a U.S. company, we will be subject to U.S. federal income tax on our worldwide income, which could result in material taxes in addition to the taxes on our China business.***

We are a U.S. corporation that will indirectly own the subsidiaries that conduct our business in China. As a U.S. corporation, we will be subject to U.S. federal income tax on our worldwide income, including certain income that is distributed or deemed distributed to us by our subsidiaries operating in China. As a result, although substantially all of our profit is anticipated to be earned outside the U.S. and taxed at local tax rates that may be lower than the U.S. statutory tax rate, our after-tax income is expected to be determined based on U.S. tax rates, except with respect to any portion of our income that is permanently reinvested outside the U.S., thus reducing our after-tax profit.

In addition, as a holding company our ability to make distributions to our stockholders generally will be based on our ability to receive distributions from our subsidiaries. As a U.S. company, our receipt of any such distributions from our subsidiaries may result in the current recognition of U.S. taxable income and could cause our effective tax rate to increase to the extent such U.S. income taxes had not already been taken into account in such determination. This incremental U.S. tax cost could affect the amount of distributions we are able to make to our stockholders. For more information regarding our plans to pay dividends, see "Dividend Policy."

***Tax matters, including changes in tax rates, disagreements with taxing authorities and imposition of new taxes could impact our results of operations and financial condition.***

We are subject to income taxes as well as non-income based taxes, such as payroll, turnover, use, value-added, import, property and withholding taxes, in China and income and other taxes in the U.S. and other jurisdictions. We are also subject to reviews, examinations and audits by Chinese tax authorities, the U.S. Internal Revenue Service (the "IRS"), and other taxing authorities with respect to income and non-income based taxes. If Chinese tax authorities, the IRS, or another taxing authority disagrees with our tax positions, we could face additional tax liabilities, including interest and penalties. Payment of such additional amounts upon final settlement or adjudication of any disputes could have a material impact on our results of operations and financial position.

In addition, we are directly and indirectly affected by new tax legislation and regulation and the interpretation of tax laws and regulations worldwide. Recently, the U.S. government has made public statements indicating that it has made international tax reform a priority, and key members of the U.S. Congress have conducted hearings and proposed new legislation. Certain changes to U.S. tax laws currently proposed by lawmakers would impact the ability of U.S. taxpayers to defer U.S. taxation of foreign earnings and to claim and utilize foreign tax credits. These proposals would also eliminate certain tax deductions until earnings are repatriated to the United States. Moreover, the tax regime in China is rapidly evolving and there can be significant uncertainty for taxpayers in China as Chinese tax laws may change significantly or be subject to uncertain interpretations. Changes in legislation, regulation or interpretation of existing laws and regulations in the U.S., China, and other jurisdictions where we are subject to taxation could increase our taxes and have an adverse effect on our operating results and financial condition.

***Our business may be adversely impacted by changes in consumer discretionary spending and general economic conditions.***

Purchases at our restaurants are discretionary for consumers and, therefore, our results of operations are susceptible to economic slowdowns and recessions. Our results of operations are



dependent upon discretionary spending by consumers, which may be affected by general economic conditions in China. Some of the factors that impact discretionary consumer spending include unemployment rates, fluctuations in the level of disposable income, the price of gasoline, stock market performance and changes in the level of consumer confidence. These and other macroeconomic factors could have an adverse effect on our sales, profitability or development plans, which could harm our financial condition and operating results.

***The retail food industry in which we operate is highly competitive.***

The retail food industry in which we operate is highly competitive with respect to price and quality of food products, new product development, advertising levels and promotional initiatives, customer service, reputation, restaurant location, and attractiveness and maintenance of properties. If consumer or dietary preferences change, or our restaurants are unable to compete successfully with other retail food outlets in new and existing markets, our business could be adversely affected. We also face growing competition as a result of convergence in grocery, convenience, deli and restaurant services, including the offering by the grocery industry of convenient meals, including pizzas and entrees with side dishes. Competition from delivery aggregators and other food delivery services in China has also increased in recent years, particularly in urbanized areas. Increased competition could have an adverse effect on our sales, profitability or development plans, which could harm our financial condition and operating results.

Any inability to successfully compete with the other restaurants and catering services in our markets may prevent us from increasing or sustaining our revenues and profitability and could have a material adverse effect on our business, financial condition, results of operations and/or cash flows. We may also need to modify or refine elements of our restaurant system in order to compete with popular new restaurant styles or concepts, including delivery aggregators, that develop from time to time. There can be no assurance that we will be successful in implementing any such modifications or that such modifications will not reduce our profitability.

***We require various approvals, licenses and permits to operate our business and the loss of or failure to obtain or renew any or all of these approvals, licenses and permits could materially and adversely affect our business and results of operations.***

In accordance with the laws and regulations of China, we are required to maintain various approvals, licenses and permits in order to operate our restaurant business. Each of our restaurants in China is required to obtain the relevant food hygiene license or food service license, public assembly venue hygiene license, environmental protection assessment and inspection approval and fire safety design approval and fire prevention inspection report, and some of our restaurants which sell alcoholic beverages are required to make further registrations or obtain additional approvals. These licenses and registrations are achieved upon satisfactory compliance with, among other things, the applicable food safety, hygiene, environmental protection, fire safety, and alcohol laws and regulations. Most of these licenses are subject to periodic examinations or verifications by relevant authorities and are valid only for a fixed period of time and subject to renewal and accreditation. There is no assurance that all of our franchisees will be able to obtain or maintain any of these licenses.

***We may not be able to adequately protect the intellectual property we own or have the right to use, which could harm the value of our brands and adversely affect our business and operations.***

We believe that our brands are essential to our success and our competitive position. Although the trademarks we use in China are duly registered, these steps may not be adequate to protect these intellectual property rights. See "Certain Relationships and Related Person Transactions—Master License Agreement." In addition, third parties may infringe upon the intellectual property rights we own or have the right to use or misappropriate the proprietary knowledge we use in our business,

primarily our proprietary recipes, which could have a material adverse effect on our business, financial condition or results of operations. The laws of China may not offer the same protection for intellectual property rights as the U.S. and other jurisdictions with more robust intellectual property laws.

We are required under the master license agreement with YUM to police, protect and enforce the trademarks and other intellectual property rights used by us, and to protect trade secrets. Such actions to police, protect, or enforce could result in substantial costs and diversion of resources, which could negatively affect our sales, profitability and prospects. Furthermore, the application of laws governing intellectual property rights in China is uncertain and evolving, and could involve substantial risks to us. Even if actions to police, protect, or enforce are resolved in our favor, we may not be able to successfully enforce the judgment and remedies awarded by the court and such remedies may not be adequate to compensate us for our actual or anticipated losses.

In addition, we may face claims of infringement that could interfere with the use of the proprietary know-how, concepts, recipes or trade secrets we use in our business. Defending against such claims may be costly and, if we are unsuccessful, we may be prohibited from continuing to use such proprietary information in the future or be forced to pay damages, royalties or other fees for using such proprietary information, any of which could negatively affect our sales, profitability and prospects.

***Our licensor may not be able to adequately protect its intellectual property, which could harm the value of the KFC, Pizza Hut Casual Dining, Pizza Hut Home Service and Taco Bell brands and branded products and adversely affect our business.***

The success of our business depends in large part on our continued ability to use the trademarks, service marks, recipes and other components of the KFC, Pizza Hut Casual Dining, Pizza Hut Home Service and Taco Bell branded systems that we license from YUM pursuant to the master license agreement.

We are not aware of any assertions that the trademarks, menu offerings or other intellectual property rights we license from YUM infringe upon the proprietary rights of third parties, but third parties may claim infringement by us or YUM in the future. Any such claim, whether or not it has merit, could be time-consuming, result in costly litigation, cause delays in introducing new menu items in the future or require us to enter into additional royalty or licensing agreements with third parties. As a result, any such claims could have a material adverse effect on our business, financial condition and results of operations.

***Our results of operations may fluctuate due to seasonality and certain major events in China.***

Our sales are subject to seasonality. For example, we typically experience higher sales during traditional Chinese festivals and holiday seasons and lower sales and lower operating profit during the second and fourth quarters. As a result of these fluctuations, softer sales during a period in which we have historically experienced higher sales could have a disproportionately negative effect on our full-year results, and comparisons of sales and operating results within a financial year may not be able to be relied on as indicators of our future performance. Any seasonal fluctuations reported in the future may differ from the expectations of our investors.

***Our information systems may fail or be damaged, which could harm our operations and our business.***

Our operations are dependent upon the successful and uninterrupted functioning of our computer and information systems. Our systems could be exposed to damage or interruption from fire, natural disaster, power loss, telecommunications failure, unauthorized entry and computer viruses. System defects, failures, interruptions, unauthorized entries or viruses could result in:

- additional computer and information security and systems development costs;

- diversion of technical and other resources;
- loss of customers and sales;
- loss or theft of customer, employee or other data;
- negative publicity;
- harm to our business and reputation; and
- exposure to litigation claims, government investigations and enforcement actions, fraud losses or other liabilities.

To the extent we rely on the systems of third parties in areas such as credit card processing, telecommunications and wireless networks, any defects, failures and interruptions in such systems could result in similar adverse effects on our business. Sustained or repeated system defects, failures or interruptions could materially impact our operations and operating results. Also, if we are unsuccessful in updating, upgrading and expanding our systems, our ability to increase comparable store sales, improve operations, implement cost controls and grow our business may be constrained.

Despite the implementation of security measures, our infrastructure may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems.

***We may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties.***

As we operate in the restaurant industry, we usually receive and handle relatively large amounts of cash in our daily operations. Instances of fraud, theft or other misconduct with respect to cash can be difficult to detect, deter and prevent, and could subject us to financial losses and harm our reputation.

We may be unable to prevent, detect or deter all such instances of misconduct. Any such misconduct committed against our interests, which may include past acts that have gone undetected or future acts, may have a material adverse effect on our business and results of operations.

***Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial condition and results of operations.***

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including, but not limited to, revenue recognition, long-lived asset impairment, impairment of goodwill and other intangible assets, and share-based compensation, are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. New accounting guidance may require systems and other changes that could increase our operating costs and/or change our financial statements. For example, implementing future accounting guidance related to leases and other areas impacted by the convergence project between the Financial Accounting Standards Board and the International Accounting Standards Board could require us to make significant changes to our lease management system or other accounting systems, and will result in changes to our financial statements.

***Our insurance policies may not provide adequate coverage for all claims associated with our business operations.***

By the distribution date, we expect to have obtained insurance policies that we believe are customary for businesses of our size and type and in line with the standard commercial practice in China. However, there are types of losses we may incur that cannot be insured against or that we believe are not cost effective to insure, such as loss of reputation. If we were held liable for uninsured losses or amounts or claims for insured losses exceeding the limits of our insurance coverage, our business and results of operations may be materially and adversely affected.

***Failure to protect the integrity and security of personal information of our customers and employees could result in substantial costs, expose us to litigation and damage our reputation.***

We receive and maintain certain personal financial and other information about our customers and employees when, for example, we accept credit cards or smart cards for payment. The use and handling of this information is regulated by evolving and increasingly demanding laws and regulations, as well as by certain third-party contracts. If our security and information systems are compromised as a result of data corruption or loss, cyber-attack or a network security incident or our employees, franchisees or vendors fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could subject us to litigation and government enforcement actions, damage our reputation, cause us to incur substantial costs, liabilities and penalties and/or result in a loss of customer confidence, any and all of which could adversely affect our business, financial condition and results of operations.

***Failure by us to maintain effective disclosure controls and procedures and internal control over financial reporting in accordance with the rules of the SEC could harm our business and operating results and/or result in a loss of investor confidence in our financial reports, which could have a material adverse effect on our business.***

We will be required to maintain effective disclosure controls and procedures and effective internal control over financial reporting in connection with our filing of periodic reports with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Failure to maintain effective disclosure controls and procedures and internal control over financial reporting or to comply with Section 404 of the Sarbanes-Oxley Act of 2002, or any report by us of a material weakness in such controls, may cause investors to lose confidence in our combined financial statements. If we fail to remedy any material weakness, our combined financial statements may be inaccurate and we may face restricted access to the capital markets, which could adversely affect our business, financial condition and results of operations.

***Unforeseeable business interruptions could adversely affect our business.***

Our operations are vulnerable to interruption by fires, floods, earthquakes, power failures and power shortages, hardware and software failures, computer viruses and other events beyond our control. In particular, our business is dependent on prompt delivery and reliable transportation of our food products by our logistics partners. Unforeseeable events, such as adverse weather conditions, natural disasters, severe traffic accidents and delays, non-cooperation of our logistics partners, and labor strikes, could lead to delay or lost deliveries to our restaurants, which may result in the loss of revenue or in customer claims. There may also be instances where the conditions of fresh, chilled or frozen food products, being perishable goods, deteriorate due to delivery delays, malfunctioning of refrigeration facilities or poor handling during transportation by our logistics partners. This may result in a failure by us to provide quality food and services to customers, thereby affecting our business and potentially damaging our reputation. Any such events experienced by us could disrupt our operations.

#### **Risks Related to Doing Business in China**

***Changes in Chinese political policies and economic and social policies or conditions may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.***

Substantially all of our assets and business operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally, and by continued economic growth in China as a whole. The Chinese economy, markets and levels of consumer spending are

influenced by many factors beyond our control, including current and future economic conditions, political uncertainty, unemployment rates, inflation, fluctuations in the level of disposable income, taxation, foreign exchange control, and changes in interest and currency exchange rates.

The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, foreign exchange control and fiscal measures and allocation of resources. Although the Chinese government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the restructuring of state assets and state owned enterprises, and the establishment of improved corporate governance in business enterprises, a significant portion of productive assets in China is still owned or controlled by the Chinese government. The Chinese government also exercises significant control or influence over Chinese economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary and fiscal policies, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth in recent decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy but may also have a negative effect on us. Our financial condition and results of operations could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China. Since 2012, Chinese economic growth has slowed and any prolonged slowdown in the Chinese economy may reduce the demand for our products and adversely affect our business, financial condition and results of operations. Restaurant dining, and specifically casual dining, is discretionary for customers and tends to be higher during periods in which favorable economic conditions prevail. Customers' tendency to become more cost-conscious as a result of an economic slowdown or decreases in disposable income may reduce our customer traffic or average revenue per customer, which may adversely affect our revenues.

***Uncertainties with respect to the interpretation and enforcement of Chinese laws, rules and regulations could have a material adverse effect on us.***

Substantially all of our operations are conducted in China, and are governed by Chinese laws, rules and regulations. Our subsidiaries are subject to laws, rules and regulations applicable to foreign investment in China. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which legal cases may be cited for reference but have limited value as precedents. In the late 1970s, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. However, since these laws and regulations are relatively new and the Chinese legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties.

From time to time, we may have to resort to administrative and court proceedings to interpret and/or enforce our legal rights. However, since Chinese administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings, and the level of legal protection we enjoy, than in more developed legal systems. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Furthermore, the Chinese legal system is based in part on government policies and internal

rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially adversely affect our business and impede our ability to continue our operations.

***Fluctuation in the value of the RMB may have a material adverse effect on your investment.***

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China ("PBOC"). The Chinese government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, the exchange rate between the RMB and the U.S. dollar remained within a narrow range. After June 2010, the Chinese government allowed the RMB to appreciate slowly against the U.S. dollar again. On August 11, 2015, however, the PBOC allowed the RMB to depreciate by approximately 2% against the U.S. dollar. Changes in the value of the RMB against the U.S. dollar may occur relatively suddenly, as was the case, for example, in August 2015. It is difficult to predict how market forces or Chinese or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

Substantially all of our revenues and costs are denominated in RMB. As a Delaware holding company, we may rely on dividends and other fees paid to us by our subsidiaries in China. Any significant revaluation of the RMB may materially affect our cash flows, net revenues, earnings and financial position, and the value of, and any dividends payable on, our common stock in U.S. dollars. For example, an appreciation of the RMB against the U.S. dollar would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. Conversely, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our common stock. If we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our common stock, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us.

Very few hedging options are available in China to reduce our exposure to exchange rate fluctuations. In addition, our currency exchange loss may be magnified by Chinese exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates and restrictions on exchange may have a material adverse effect on your investment.

***Changes in the laws and regulations of China or non-compliance with applicable laws and regulations may have a significant impact on our business, financial condition and results of operations.***

Our business and operations are subject to the laws and regulations of China. The continuance of our operations depends upon compliance with, *inter alia*, applicable Chinese environmental, health, safety, labor, social security, pension and other laws and regulations. Failure to comply with such laws and regulations could result in fines, penalties or lawsuits. In addition, there is no assurance that we will be able to comply fully with applicable laws and regulations should there be any amendment to the existing regulatory regime or implementation of any new laws and regulations.

Furthermore, our business and operations in China entail the procurement of licenses and permits from the relevant authorities. Difficulties or failure in obtaining the required permits, licenses and certificates could result in our inability to continue our business in China in a manner consistent with past practice. In such an event, our business, financial condition and results of operations may be adversely affected.

***We expect to rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries in China to fund offshore cash requirements.***

We are a holding company and conduct all of our business through our operating subsidiaries. We expect to rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries for our cash requirements. As noted above, distributions to us from our subsidiaries may result in incremental tax costs.

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. In addition, 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. Any limitation on the ability of our Chinese subsidiaries to pay dividends or make other distributions to us could limit our ability to make investments or acquisitions outside of China that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, China Enterprise Income Tax Law (the "EIT Law") and its implementation rules provide that a withholding tax at a rate of 10% will be applicable to dividends payable by Chinese companies to companies that are not China resident enterprises unless otherwise reduced according to treaties or arrangements between the Chinese central government and the governments of other countries or regions where the non-China resident enterprises are incorporated. Although a foreign tax credit is generally available against our U.S. federal income taxes for such withholding taxes, the ability to utilize foreign tax credits is subject to complex limitations and as such we may be limited in our ability to offset any such Chinese withholding tax against our U.S. federal income tax liabilities.

Restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to pay dividends or make distributions or remittances to us. These restrictions could reduce the amount of dividends or other distributions we receive from our subsidiaries, which in turn could restrict our ability to return capital to our stockholders in the future.

***Under the EIT Law, if we are classified as a China resident enterprise for Chinese enterprise income tax purposes such classification would likely result in unfavorable tax consequences to us and our non-Chinese stockholders.***

Under the EIT Law and its implementation rules, an enterprise established outside China with a "de facto management body" within China is considered a China resident enterprise for Chinese enterprise income tax purposes. A China resident enterprise is generally subject to certain Chinese tax reporting obligations and a uniform 25% enterprise income tax rate on its worldwide income. Furthermore, under the EIT Law, if we are a China resident enterprise (i) dividends paid by us to our non-Chinese stockholders would be subject to a 10% dividend withholding tax or a 20% individual income tax if the stockholder is an individual and (ii) such non-Chinese stockholders may become subject to Chinese tax and filing obligations as well as withholding with respect to any disposition of our stock, subject to certain treaty or other exemptions or reductions.

The Company and each Company subsidiary that is organized outside of China intend to conduct their management functions in a manner that does not cause them to be China resident enterprises,

including by carrying on their day-to-day management activities and maintaining their key assets and records, such as resolutions of their board of directors and resolutions of stockholders, outside of China. As such, we do not believe that the Company or any of its non-Chinese subsidiaries should be considered a China resident enterprise for purposes of the EIT Law. However, given the uncertainty regarding the application of the EIT Law to the Company and its future operations, there can be no assurance that the Company or any of its non-Chinese subsidiaries will not be treated as a China resident enterprise now or in the future for Chinese tax law purposes.

For details of certain Chinese tax considerations related to the distribution and ownership of our common stock, see "Material Chinese Tax Consequences."

***We and our stockholders face uncertainty with respect to indirect transfers of equity interests in China resident enterprises through transfer of non-Chinese holding companies. Enhanced scrutiny by the Chinese tax authorities may have a negative impact on potential acquisitions and dispositions we may pursue in the future.***

In February 2015, the Chinese State Administration of Taxation ("SAT") issued the SAT's Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises ("Bulletin 7"). Pursuant to Bulletin 7, an "indirect transfer" of Chinese taxable assets, including equity interests in a China resident enterprise ("Chinese interests"), 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. Where a non-resident enterprise conducts an "indirect transfer" of Chinese interests by disposing of equity interests in an offshore holding company that directly or indirectly owns Chinese interests, the transferor, transferee, and/or the China resident enterprise may report such indirect transfer to the relevant Chinese tax authority, which in turn reports to the SAT. Using general anti-tax avoidance provisions, the SAT may treat such indirect transfer as a direct transfer of Chinese interests if the transfer has avoided Chinese tax by way of an arrangement without reasonable commercial purpose. As a result, gains derived from such indirect transfer may be subject to Chinese enterprise income tax, and the transferee or other person who is obligated to pay for the transfer would be obligated to withhold the applicable taxes, currently at a rate of up to 10% of the capital gain in the case of an indirect transfer of equity interests in a China resident enterprise. Both the transferor and the party obligated to withhold the applicable taxes may be subject to penalties under Chinese tax laws if the transferor fails to pay the taxes and the party obligated to withhold the applicable taxes fails to withhold the taxes. However, the above regulations do not apply if either (i) the selling non-resident enterprise recognizes the relevant gain by purchasing and selling equity of the same listed enterprise in the open market (the "listed enterprise exception"); or (ii) the selling non-resident enterprise would have been exempted from enterprise income tax in China if it had directly held and transferred such Chinese interests that were indirectly transferred. Under current law, the China indirect transfer rules do not apply to gains recognized by individual stockholders, regardless of whether or not they acquire or transfer our stock in open market transactions. However, in practice there have been a few reported cases of individuals being taxed on the indirect transfer of Chinese interests and the law could be changed so as to apply to individual stockholders, possibly with retroactive effect.

It is unclear whether Company stockholders that acquire Company stock through the distribution will be treated as acquiring Company stock in an open market purchase. If such Company stock is not treated as acquired in an open market purchase, the listed transaction exception will not be available for transfers of such stock. Following the distribution, we expect that transfers in open market transactions of our stock by corporate or other non-individual stockholders that have purchased our stock in open market transactions will not be taxable under the China indirect transfer rules due to the listed enterprise exception. Transfers, whether in the open market or otherwise, of our stock by



corporate and other non-individual stockholders that acquired our stock in the distribution or in non-open market transactions may be taxable under the China indirect transfer rules and our China subsidiaries may have filing obligations in respect of such transfers. Transfers of our stock in non-open market transactions by corporate and other non-individual stockholders may be taxable under the China indirect transfer rules, whether or not such stock was acquired in open market transactions, and our China subsidiaries may have filing obligations in respect of such transfers. Corporate and other non-individual stockholders may be exempt from taxation under the China indirect transfer rules with respect to transfers of our stock if they are tax resident in a country or region that has a tax treaty or arrangement with China that provides for a capital gains tax exemption and they qualify for that exemption. For example, under the U.S.-China double tax treaty, a stockholder that is a U.S. tax resident and that disposes of stock representing less than 25% of our outstanding stock should be exempt from Chinese capital gains tax. However, we face uncertainties with respect to the reporting and tax treatment of transactions involving the transfer of equity interests in our company by investors that are non-China resident enterprises.

In addition, we may be subject to these indirect transfer rules in the event of any future sale of a China resident enterprise through the sale of a non-Chinese holding company, or the purchase of a China resident enterprise through the purchase of a non-Chinese holding company. Our company and other non-resident enterprises in our group may be subject to filing obligations or taxation if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions.

***You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us and our management.***

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, some of our directors and executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China upon these persons, including with respect to matters arising under applicable U.S. federal and state securities laws. It may also be difficult for investors to bring an original lawsuit against us or our directors or executive officers based on U.S. federal securities laws in a Chinese court. Moreover, China does not have treaties with the United States providing for the reciprocal recognition and enforcement of judgments of courts. Therefore, even if a judgment were obtained against us or our management for matters arising under U.S. federal or state securities laws or other applicable U.S. federal or state law, it may be difficult to enforce such a judgment.

***Certain defects caused by non-registration of our lease agreements related to certain properties occupied by us in China may materially and adversely affect our ability to use such properties.***

As of December 31, 2015, we leased approximately 5,770 properties in China, and to our knowledge, the lessors of most properties leased by us, most of which are used as premises for our restaurants, had not registered the lease agreements with government authorities in China.

According to Chinese laws, a lease agreement is generally required to be registered with the relevant land and real estate administration bureau. However, the enforcement of this legal requirement varies depending on the local regulations and practices and, in cities where we operate a significant number of restaurants, the local land and real estate administration bureaus no longer require registration or no longer impose fines for failure to register the lease agreements. In addition, our standard lease agreements require the lessors to make such registration and, although we have proactively requested that the applicable lessors complete or cooperate with us to complete the registration in a timely manner, we are unable to control whether and when such lessors will do so.

A failure to register a lease agreement will not invalidate the lease agreement but may subject the parties to a fine. Depending on the local regulations, the lessor alone or both the lessor and lessee are under the obligation to register a lease agreement with the relevant land and real estate administration bureau. In the event that a fine is imposed on both the lessor and lessee, and if we are unable to recover from the lessor any fine paid by us based on the terms of the lease agreement, such fine will be borne by us.

To date, the operation of our restaurants has not been disrupted due to the non-registration of our lease agreements. No fines, actions or claims have been instituted against us or, to our knowledge, the lessors with respect to the non-registration of our lease agreements. However, we cannot assure you that our lease agreements relating to, and our right to use and occupy, our premises will not be challenged in the future.

***Our restaurants are susceptible to risks in relation to unexpected land acquisitions, building closures or demolitions.***

The Chinese government has the statutory power to acquire any land use rights of land plots and the buildings thereon in China in the public interest subject to certain legal procedures. Under the Regulations for the Expropriation of and Compensation for Housing on State-owned Land, issued by the State Council, which became effective as of January 21, 2011, there is no legal provision that the tenant of an expropriated property is entitled to compensation. Generally speaking, only the owner of such property is entitled to compensation from the government. The claims of the tenant against the landlord will be subject to the terms of the lease agreement. In the event of any compulsory acquisition, closure or demolition of any of the properties at which our restaurants or facilities are situated, we may not receive any compensation from the government or the landlord. In such event, we may be forced to close the affected restaurant(s) or relocate to other locations, which may have an adverse effect on our business and results of operations.

***Governmental control of currency conversion may limit our ability to utilize our cash balances effectively and affect the value of your investment.***

The Chinese government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Under our current corporate structure as a Delaware holding company, our income is primarily derived from the earnings from our Chinese subsidiaries. Substantially all revenues of our Chinese subsidiaries are denominated in RMB. Shortages in the availability of foreign currency may restrict the ability of our Chinese subsidiaries to remit sufficient foreign currency to pay dividends or to make other payments to us, or otherwise to satisfy their foreign currency-denominated obligations. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from China's State Administration of Foreign Exchange ("SAFE") by complying with certain procedural requirements. However, for any Chinese company, dividends can be declared and paid only out of the retained earnings of that company under Chinese law. Furthermore, approval from SAFE or its local branch is required where RMB are to be converted into foreign currencies and remitted out of China to pay capital expenses, such as the repayment of loans denominated in foreign currencies. Specifically, under the existing exchange restrictions, without a prior approval of SAFE, cash generated from the operations of our subsidiaries in China may not be used to pay dividends by our Chinese subsidiaries to our company and pay employees of our Chinese subsidiaries who are located outside China in a currency other than the RMB. With a prior approval from SAFE, cash generated from the operations of our Chinese subsidiaries and consolidated affiliated entities may not be used to pay off debt in a currency other than the RMB owed by our subsidiaries and consolidated affiliated entities to entities outside China, or make other capital expenditures outside China in a currency other than the RMB.

The Chinese government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in currencies other than RMB to our stockholders or service and repay our indebtedness when due.

Furthermore, because repatriation of funds of our Chinese subsidiaries requires the prior approval of SAFE, such repatriation could be delayed, restricted or limited. There can be no assurance that the rules and regulations pursuant to which SAFE grants or denies such approval will not change in a way that adversely affects the ability of our Chinese subsidiaries to repatriate funds out of China. Any limitation on the ability of our Chinese subsidiaries to repatriate funds from China could materially and adversely affect our ability to pay dividends or otherwise fund and conduct our business.

***Any failure to comply with Chinese regulations regarding our employee equity incentive plans may subject Chinese plan participants or us to fines and other legal or administrative sanctions.***

Pursuant to SAFE Circular 37, China residents who participate in share incentive plans in overseas non-publicly listed companies may submit applications to SAFE or its local branches for foreign exchange registration with respect to offshore special purpose companies. Our directors, executive officers and other employees who are Chinese citizens or who have resided in China for a continuous period of not less than one year and who have been granted restricted shares, RSUs, SARs, or options may follow SAFE Circular 37 to apply for foreign exchange registration before our company becomes an overseas listed company. After our company becomes an overseas listed company upon completion of the distribution, we and our directors, executive officers and other employees who are Chinese citizens or who have resided in China for a continuous period of not less than one year and who have been granted restricted shares, RSUs, SARs, or options will be subject to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, according to which, employees, directors, supervisors and other management members participating in any stock incentive plan of an overseas publicly-listed company who are Chinese citizens or who are non-Chinese citizens residing in China for a continuous period of not less than one year, subject to limited exceptions, are required to register with SAFE through a domestic qualified agent, which could be a Chinese subsidiary of such overseas listed company, and complete certain other procedures. Failure to complete SAFE registrations may result in fines and legal sanctions and may also limit our ability to make payments under our equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprises in China and limit our wholly-foreign owned enterprises' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our directors and employees under Chinese law.

In addition, the SAT has issued circulars concerning employee SARs, share options and restricted shares. Under these circulars, employees working in China who exercise share options, or whose restricted shares or RSUs vest, will be subject to Chinese individual income tax. The Chinese subsidiaries of an overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees related to their share options, restricted shares, SARs, or RSUs. Although we currently intend to withhold income tax from our Chinese employees in connection with their exercise of options and the vesting of their restricted shares and RSUs, if the employees fail to pay, or Chinese subsidiaries fail to withhold, their income taxes according to relevant laws, rules and regulations, Chinese subsidiaries may face sanctions imposed by the tax authorities or other Chinese government authorities.

***Failure to make adequate contributions to various employee benefit plans as required by Chinese regulations may subject us to penalties.***

Companies operating in China are required to participate in various government-sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their businesses. While we believe we comply with all material aspects of relevant regulations, the requirements governing employee benefit plans have not been implemented consistently by the local governments in China given the different levels of economic development in different locations. If we are subject to late fees or fines in relation to the underpaid employee benefits, our financial condition and results of operations may be adversely affected.

***The audit report included in this Information Statement is 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.***

As an auditor of companies that are publicly traded in the United States and a firm registered with the Public Company Accounting Oversight Board ("PCAOB"), our independent registered public accounting firm is required under the laws of the United States to undergo regular inspections by the PCAOB. However, because we have substantial operations within China, our independent registered public accounting firm's audit documentation related to their audit report included in this Information Statement is located in China. The PCAOB is currently unable to conduct inspections in China or review audit documentation located within China without the approval of Chinese authorities.

Inspections of other auditors conducted by the PCAOB outside of China have at times identified deficiencies in those auditors' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections of audit work undertaken in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, stockholders may be deprived of the benefits of PCAOB inspections, and may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***Proceedings instituted by the SEC against five 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.***

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese member firms of the "big four" accounting firms, including our independent registered public accounting firm. The Rule 102(e) proceedings initiated by the SEC relate to the failure of these firms to produce certain documents, including audit work papers, in response to a request from the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002. The auditors located in China claim they are not in a position lawfully to produce such documents directly to the SEC because of restrictions under Chinese law and specific directives issued by the China Securities Regulatory Commission ("CSRC"). The issues raised by the proceedings are not specific to our auditor or to us, but potentially affect equally all PCAOB-registered audit firms based in China and all businesses based in China (or with substantial operations in China) with securities listed in the United States. In addition, auditors based outside of China are subject to similar restrictions under Chinese law and CSRC directives in respect of audit work that is carried out in China which supports the audit opinions issued on financial statements of entities with substantial China operations.

In January 2014, the administrative judge reached an initial decision that the Chinese member firms of the "big four" accounting firms should be barred from practicing before the SEC for a period of six months. In February 2014, the accounting firms filed a petition for review of the initial decision. In February 2015, the Chinese member firms of the "big four" accounting firms reached a settlement with the SEC. As part of the settlement, each of the "big four" accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute with the SEC. The settlement stays the current proceeding for four years, during which time the firms are required to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC. If a firm does not follow the procedures, the SEC may impose penalties such as suspensions, or commence a new, expedited administrative proceeding against any non-compliant firm. The SEC could also restart administrative proceedings against all four firms.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC, and we are unable to timely find another independent registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to delisting of our common stock from the New York Stock Exchange. Moreover, any negative news about the proceedings against these audit firms may adversely affect investor confidence in companies with substantial China based operations listed in on securities exchanges in the United States. All of these factors could materially and adversely affect the market price of our common stock and our ability to access the capital markets.

***Chinese regulation of loans to, and direct investment in, Chinese entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from making loans to our Chinese entities or making additional capital contributions to our Chinese subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business.***

We are a Delaware holding company conducting our operations in China through our Chinese subsidiaries. We may make loans to our Chinese subsidiaries, or we may make additional capital contributions to our Chinese subsidiaries, or we may establish new Chinese subsidiaries and make capital contributions to these new Chinese subsidiaries, or we may acquire offshore entities with business operations in China in an offshore transaction.

Most of these uses are subject to Chinese regulations and approvals. For example, loans by us to our wholly-owned Chinese subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. If we decide to finance our wholly-owned Chinese subsidiaries by means of capital contributions, these capital contributions must be approved by the China Ministry of Commerce ("MOFCOM") or its local counterpart.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 142 provides that RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within China with limited exceptions (*e.g.*, by holding companies, venture capital or private equity firms). In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from the foreign currency registered capital of a foreign-invested company. The use of such RMB capital may not be altered without SAFE approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Such requirements are also known as the "payment-based foreign currency settlement system" established under SAFE Circular 142. Violations of SAFE Circular 142 could result in monetary or other penalties. Furthermore, SAFE promulgated a

circular on November 9, 2010, known as Circular 59, and another supplemental circular on July 18, 2011, known as Circular 88, which both tighten the examination of the authenticity of settlement of foreign currency capital or net proceeds from overseas listings. SAFE further promulgated the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45, on November 9, 2011, which expressly prohibits foreign-invested enterprises from using registered capital settled in RMB converted from foreign currencies to grant loans through entrustment arrangements with a bank, repay inter-company loans or repay bank loans that have been transferred to a third party. Circular 142, Circular 59, Circular 88 and Circular 45 may significantly limit our ability to make loans or capital contributions to our Chinese subsidiaries and to convert such proceeds into RMB, which may adversely affect our liquidity and our ability to fund and expand our business in China.

Furthermore, on April 8, 2015, SAFE promulgated the Circular on the Reform of the Administrative Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 19, which became effective as of June 1, 2015. This Circular 19 is to implement the so-called "conversion-at-will" of foreign currency in capital account, which was established under a circular issued by SAFE on August 4, 2014, or Circular 36, and was implemented in 16 designated industrial parks as a reform pilot. The Circular 19 now implements the conversion-at-will of foreign currency settlement system nationally, and it abolishes the application of Circular 142, Circular 88 and Circular 36 starting from June 1, 2015. Among other things, under Circular 19, foreign-invested enterprises may either continue to follow the payment-based foreign currency settlement system or elect to follow the conversion-at-will of foreign currency settlement system. Where a foreign-invested enterprise follows the conversion-at-will of foreign currency settlement system, it may convert any or 100% of the amount of the foreign currency in its capital account into RMB at any time. The converted RMB will be kept in a designated account known as "Settled but Pending Payment Account," and if the foreign-invested enterprise needs to make further payment from such designated account, it still needs to provide supporting documents and go through the review process with its bank. If under special circumstances the foreign-invested enterprise cannot provide supporting documents in time, Circular 19 grants the banks the power to provide a grace period to the enterprise and make the payment before receiving the supporting documents. The foreign-invested enterprise will then need to submit the supporting documents within 20 working days after payment. In addition, foreign-invested enterprises are now allowed to use their converted RMB to make equity investments in China under Circular 19. However, foreign-invested enterprises are still required to use the converted RMB in the designated account within their approved business scope under the principle of authenticity and self-use. It remains unclear whether a common foreign-invested enterprise, other than such special types of enterprises as holding companies, venture capital or private equity firms, can use the converted RMB in the designated account to make equity investments if equity investment or similar activities are not within their approved business scope.

In light of the various requirements imposed by Chinese regulations on loans to and direct investment in Chinese entities by offshore holding companies as discussed above, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, or at all, with respect to future loans by us to our Chinese subsidiaries or with respect to future capital contributions by us to our Chinese subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our Chinese operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

## Risks Related to the Separation

***The combined post-separation value of YUM and the Company's common stock may not equal or exceed the pre-separation value of YUM common stock.***

As a result of the distribution, YUM expects the trading price of YUM common stock immediately following the distribution to be lower than the "regular-way" trading price of such common stock immediately prior to the distribution because the trading price will no longer reflect the value of the business held by the Company. The aggregate market value of YUM common stock and Company common stock following the separation may be higher or lower than the market value of YUM common stock immediately prior to the separation.

***The separation may not achieve some or all of the anticipated benefits.***

We may not realize some or all of the anticipated strategic, financial, operational or other benefits from the separation. The separation and distribution is expected to provide the following benefits, among others:

- allowing each company to focus on and more effectively pursue its own distinct operating priorities and strategies, and enabling the management of each company to concentrate efforts on the unique needs of each business and pursue distinct opportunities for long-term growth and profitability;
- permitting each company to concentrate its financial resources solely on its own operations, providing greater flexibility to invest capital in its business in a time and manner appropriate for its distinct strategy and business needs and facilitating a more efficient allocation of capital;
- creating an independent equity structure that will afford the Company direct access to capital markets and facilitating the ability of the Company to capitalize on its unique growth opportunities and effect future acquisitions utilizing its common stock;
- facilitating incentive compensation arrangements for employees more directly tied to the performance of the relevant company's business, and enhancing employee hiring and retention by, among other things, improving the alignment of management and employee incentives with performance and growth objectives;
- allowing investors to separately value YUM and the Company based on their unique investment identities, including the merits, performance and future prospects of their respective businesses, and providing investors with two distinct and targeted investment opportunities; and
- optimizing the capital structure of both YUM and the Company, enabling YUM to take on additional leverage, optimize its capital structure and return cash to stockholders, and allowing the Company to have no material debt immediately following the separation.

We may not achieve these and other anticipated benefits for a variety of reasons, including, among others:

- the separation will require significant amounts of Company management's time and effort, which may divert Company management's attention from operating and growing the Company's business;
- following the separation, the Company may be more susceptible to market fluctuations and other adverse events than if it were still a part of YUM;
- following the separation, the Company's business will be less diversified than YUM's business prior to the separation; and

- the other actions required to separate YUM's and the Company's respective businesses could disrupt the Company's operations.

As independent publicly traded companies, the Company and YUM will be smaller than the combined companies pre-separation and the Company will be less diversified with business operations almost entirely in China. As a result, each company may be more vulnerable to changing market conditions, which could materially and adversely affect their respective business, financial condition and results of operations.

***If the distribution does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, the Company and YUM shareholders could be subject to significant tax liabilities, and, in certain circumstances, the Company could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement.***

As discussed above, the distribution will be conditioned on YUM's receipt of opinions of outside advisors regarding the tax-free treatment of the distribution for U.S. federal income tax purposes. The opinions will rely on various assumptions and representations as to factual matters made by YUM and us which, if inaccurate or incomplete in any material respect, would jeopardize the conclusions reached by such counsel in its opinion. The opinions will not be binding on the IRS or the courts, and there can be no assurance that the IRS or the courts will not challenge the conclusions stated in the opinions or that any such challenge would not prevail.

If, notwithstanding receipt of the opinions, the distribution were determined to be a taxable transaction, YUM would be treated as having sold shares of the Company in a taxable transaction, likely resulting in a significant taxable gain. Furthermore, YUM shareholders who receive shares of Company common stock in the distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares. Pursuant to the tax matters agreement, the Company and Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL") will agree to indemnify YUM for any taxes and related losses resulting from any breach of covenants regarding the preservation of the tax-free status of the distribution, certain acquisitions of our equity securities or assets, or those of certain of our subsidiaries, and any breach by us or any member of our group of certain representations in the documents delivered by us in connection with the distribution. Therefore, if the distribution fails to qualify as a transaction that is generally tax-free as a result of one of these actions or events, we may be required to make material payments to YUM under this indemnity.

***YUM may be subject to Chinese indirect transfer tax with respect to the distribution, in which event the Company could be required to indemnify YUM for material taxes and related amounts pursuant to indemnification obligations under the tax matters agreement.***

As noted above, Bulletin 7 provides that in certain circumstances a non-resident enterprise may be subject to Chinese enterprise income tax on an "indirect transfer" of Chinese interests. YUM has informed us that it believes that the distribution has reasonable commercial purpose and that it is more likely than not that YUM will not be subject to this tax with respect to the distribution. However, there are significant uncertainties regarding the circumstances in which the tax will apply, and there can be no assurances that the Chinese tax authorities will not seek to impose this tax on YUM.

Pursuant to the tax matters agreement, the Company and YCCL will indemnify YUM for a portion (tied to the relative market capitalization of YUM and the Company) of any taxes and related losses resulting from the application of Bulletin 7 to the distribution. Alternatively, if Bulletin 7 applies to the distribution as a result of a breach by the Company or Company group members of certain representations or covenants, or due to certain actions of the Company or Company group members following the distribution, the Company and YCCL generally will indemnify YUM for all such taxes and related losses. Therefore, if YUM is subject to such Chinese tax with respect to the distribution,



we may be required to make material payments to YUM under this indemnity. Such payments could have a material adverse effect on our financial condition.

***Our ability to engage in strategic transactions following the separation may be limited. In addition, we could be liable for adverse tax consequences resulting from engaging in such transactions.***

To preserve the tax-free treatment to YUM and its shareholders of the separation and the distribution for U.S. federal income tax purposes, under the tax matters agreement that we will enter into with YUM, for a period of time following the distribution, we generally will be prohibited from taking certain actions that prevent the distribution and related transactions from qualifying as a transaction that is generally tax-free, for U.S. federal income tax purposes under Sections 355 and 361 of the Code. Under the tax matters agreement, for the two-year period following the distribution, it is expected that the Company will be prohibited, except in certain circumstances, from:

- facilitating, permitting, or participating in any transaction or transactions resulting in the acquisition of 40% or more of its stock;
- entering into any transaction or transactions resulting in the acquisition of 50% or more of its assets, whether by merger or otherwise;
- merging, consolidating, or liquidating;
- issuing equity securities other than pursuant to certain employment related issuances;
- redeeming or repurchasing its capital stock other than in certain open market transactions;
- ceasing to actively conduct its business; and
- taking any action that, or failing to take any action the failure of which to take, would be inconsistent with the tax-free treatment of the distribution and related transactions.

These restrictions may limit our ability to pursue certain strategic transactions or other transactions that may maximize the value of our business.

***Our accounting and other management systems and resources may not be adequately prepared to meet the financial reporting and other requirements to which we will be subject following the separation and the distribution.***

Our financial results previously were included within the consolidated results of YUM, and our reporting and control systems were appropriate for those of a subsidiary of a public company. Prior to the distribution, we are not directly subject to reporting and other requirements of the Exchange Act, and Section 404 of the Sarbanes-Oxley Act of 2002. As an independent company, we will be subject to additional reporting and other requirements, which may require, among other things, annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments. These and other obligations may place significant demands on our management, administrative and operational resources, including accounting and IT resources.

To comply with these requirements, we may, in the foreseeable future, need to implement additional financial and management controls, reporting systems and procedures, and hire additional staff. We expect to incur additional annual expenses related to these steps, which expenses may be significant. If we are unable to upgrade our financial and management controls, reporting systems and procedures in a timely and effective fashion, our ability to comply with our financial reporting requirements and other rules that apply to reporting companies could be impaired. Any failure to achieve and maintain effective internal controls could have a material adverse effect on our business, results of operations and financial condition.

We also expect that being a public company subject to additional laws, rules and regulations will require the investment of additional resources to comply with these laws, rules and regulations. In this regard, we will incur expenses related to, among other things, director and officer liability insurance, director fees, expenses associated with our SEC reporting obligations, transfer agent fees, increased auditing and legal fees and similar expenses, which expenses may be significant.

***Our management does not have experience managing a public company, our current resources may not be sufficient to fulfill our public company obligations and regulatory compliance may divert management's attention from the day-to-day management of our business.***

Our management team does not have experience managing a publicly traded company, interacting with public company investors or complying with the increasingly complex laws and requirements pertaining to public companies. These requirements include record keeping, financial reporting and corporate governance rules and regulations. Our management team may not successfully or efficiently manage our transition to becoming a public company that will be subject to significant regulatory oversight and reporting obligations under U.S. federal securities laws and the scrutiny of securities analysts and investors. These new obligations will require substantial attention from our management team and could divert its attention away from the day-to-day management of our business, which could adversely affect our business, financial condition and operating results.

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

From time to time, we may need to access the long-term and short-term capital markets to obtain financing. Although we believe that the sources of capital in place at the time of the distribution will permit us to finance our operations for the foreseeable future on acceptable terms and conditions, 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 or absence of a credit rating;
- the liquidity of the overall capital markets; and
- the state of the Chinese, U.S. and global economies.

There can be no assurance, particularly as a new company that currently has no credit rating, that we will have access to the capital markets on terms acceptable to us or at all.

***We have no history of operating as an independent company and we expect to incur increased administrative and other costs following the separation by virtue of our status as an independent public company. Our historical and pro forma financial information is not necessarily representative of the results that we would have achieved as a separate, publicly traded company and may not be a reliable indicator of our future results.***

Our historical information provided in this Information Statement refers to our business as operated by and integrated with YUM. Our historical and pro forma financial information included in this Information Statement is derived from or based on the consolidated financial statements and accounting records of YUM. Accordingly, our historical and pro forma financial information included in this Information Statement does not necessarily reflect the financial condition, results of operations or cash flows that we would have achieved as a separate, publicly traded company during the periods

presented or those that we will achieve in the future primarily as a result of the following factors, among others:

- Prior to the separation, our business has been operated by YUM as part of its broader corporate organization, rather than as an independent company. YUM or one of its affiliates performed various corporate functions for us such as legal, treasury, accounting, internal auditing, human resources and public affairs. Our historical and pro forma financial results reflect allocations of corporate expenses from YUM for such functions which are likely to be less than the expenses we would have incurred had we operated as a separate publicly traded company. Following the separation, our costs related to such functions previously performed by YUM may increase.
- Currently, our business is integrated with the other businesses of YUM. Historically, we have shared economies of scope and scale in costs, employees, and vendor relationships. Although we will enter into certain agreements with YUM in connection with the separation, these arrangements may not fully capture the benefits that we enjoyed as a result of being integrated with YUM and may result in us paying higher charges than in the past for these services. These circumstances could have an adverse effect on our results of operations and financial condition following the completion of the separation.
- Generally, our working capital requirements and capital for our general corporate purposes, including acquisitions and capital expenditures, have historically been satisfied as part of the corporate-wide cash management policies of YUM. Following the completion of the separation, we may need to obtain additional financing from banks, through public offerings or private placements of debt or equity securities, through strategic relationships or from other arrangements, which may or may not be available and may be more costly.
- After the completion of the separation, the cost of capital for our business may be higher than YUM's cost of capital prior to the separation.

Other significant changes may occur in our cost structure, management, financing and business operations as a result of operating as a company separate from YUM. For additional information about the past financial performance of our business and the basis of presentation of the historical combined financial statements and the unaudited pro forma combined financial statements of our business, see "Unaudited Pro Forma Combined Financial Statements," "Selected Historical Combined Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical combined and condensed combined financial statements and accompanying notes included elsewhere in this Information Statement.

***As we build our information technology infrastructure and transition our data to our own systems, we could incur substantial additional costs and experience temporary business interruptions.***

After the distribution, the Company will continue to install and implement information technology infrastructure to support its critical business functions, including accounting and reporting, inventory control and distribution. We may incur temporary interruptions in business operations if we cannot transition effectively from YUM's existing transactional and operational systems and data centers. We may not be successful in implementing new systems and transitioning data, and we may incur substantially higher costs for implementation than currently anticipated. Operational interruptions that result from the implementation of these new systems and replacement of YUM's information technology services, or our failure to implement the new systems and replace YUM's services successfully, could disrupt our business and have a material adverse effect on our profitability. In addition, if we are unable to replicate or transition certain systems, our ability to comply with regulatory requirements could be impaired.

***The master license agreement that we will enter into with YUM will limit our ability to compete with YUM following the separation and will contain other restrictions on our operations.***

The master license agreement will include non-compete provisions pursuant to which we will generally agree to not compete with YUM. See "Certain Relationships and Related Person Transactions—The Master License Agreement—Non-Competition." The master license agreement will also contain other restrictions on the operations of the Company, including restrictions on us or our affiliates from engaging in a "competing business" in China and other countries in which YUM operates its brands during the term of the agreement and for twelve months following the expiration, termination or transfer of the agreement or an interest in the agreement.

These factors could materially and adversely affect our business, financial condition and results of operations.

***The Company or YUM may fail to perform under certain transaction agreements that are executed as part of the separation, and we may not have necessary systems and services in place when these transaction agreements expire.***

In connection with the separation, the Company and YUM will enter into several agreements, including among others a master license agreement, a separation and distribution agreement, a tax matters agreement, an employee matters agreement, a transition services agreement and a name license agreement. The master license agreement will establish a bilateral relationship between YUM and us for an initial term of fifty (50) years subject to renewal as described in "Certain Relationships and Related Person Transactions—The Master License Agreement—Term." The separation and distribution agreement, tax matters agreement, employee matters agreement, transition services agreement and name license agreement will determine, among other things, the allocation of assets and liabilities between the companies following the separation for those respective areas and include any necessary indemnifications related to liabilities and obligations. If YUM is unable to satisfy its obligations under these agreements, we could incur operational difficulties or losses that could have a material and adverse effect on our business, financial condition and results of operations. See "Certain Relationships and Related Person Transactions."

***Potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement could materially and adversely affect our business, financial condition and results of operations.***

The separation and distribution agreement will provide for, among other things, indemnification obligations generally designed to make us financially responsible for (i) certain liabilities associated with the Company business; (ii) our failure to pay, perform or otherwise promptly discharge any such liabilities or contracts, in accordance with their respective terms, whether prior to, at or after the distribution; (iii) any guarantee, indemnification obligation, surety bond or other credit support agreement, arrangement, commitment or understanding by YUM for our benefit, unless related to liabilities primarily associated with the YUM business; (iv) certain tax liabilities; (v) any breach by us of the separation and distribution agreement or any of the ancillary agreements or any action by us in contravention of our amended and restated certificate of incorporation or amended and restated bylaws; and (vi) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the registration statement of which this Information Statement forms a part (as amended or supplemented) or any other disclosure document that describes the separation or the distribution or the Company and its subsidiaries or primarily relates to the transactions contemplated by the separation and distribution agreement, subject to certain exceptions. If we are required to indemnify YUM under the circumstances set forth in the separation and distribution agreement, we may be subject to substantial

liabilities. See "Certain Relationships and Related Person Transactions—The Separation and Distribution Agreement—Indemnification."

***In connection with the separation, YUM will indemnify us for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to insure us against the full amount of such liabilities, or that YUM's ability to satisfy its indemnification obligation will not be impaired in the future.***

Pursuant to the separation and distribution agreement and certain other agreements we will enter into with YUM, YUM will indemnify the Company for certain liabilities as discussed further in "Certain Relationships and Related Person Transactions—The Separation and Distribution Agreement—Indemnification." However, third parties could also seek to hold us responsible for any of the liabilities that YUM has agreed to retain, and there can be no assurance that the indemnity from YUM will be sufficient to protect us against the full amount of such liabilities, or that YUM will be able to fully satisfy its indemnification obligations. In addition, YUM's insurers may attempt to deny us coverage for liabilities associated with certain occurrences of indemnified liabilities prior to the separation. Moreover, even if we ultimately succeed in recovering from YUM or such insurance providers any amounts for which we are held liable, we may be temporarily required to bear these losses. Each of these risks could negatively affect our business, financial position, results of operations and cash flows.

***A court could require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement.***

Under the separation and distribution agreement and related ancillary agreements, from and after the separation, each of YUM and the Company will be generally responsible for the debts, liabilities and other obligations related to the business or businesses which they own and operate following the consummation of the separation. Although we do not expect to be liable for any obligations that are not allocated to us under the separation and distribution agreement, a court could disregard the allocation agreed to between the parties, and require that we assume responsibility for obligations allocated to YUM (for example, tax and/or environmental liabilities), particularly if YUM were to refuse or were unable to pay or perform the allocated obligations.

***Potential liabilities may arise due to fraudulent transfer considerations, which would adversely affect our financial condition and results of operations.***

In connection with the separation and distribution, YUM has undertaken and will undertake several corporate reorganization transactions involving its subsidiaries which, along with the separation and distribution, may be subject to federal and state fraudulent conveyance and transfer laws. If, under these laws, a court were to determine that, at the time of the separation and distribution, any entity involved in these reorganization transactions or the separation and distribution:

- was insolvent;
- was rendered insolvent by reason of the separation and distribution or a related transaction;
- had remaining assets constituting unreasonably small capital; or
- intended to incur, or believed it would incur, debts beyond its ability to pay these debts as they matured,

then the court could void the separation and distribution, in whole or in part, as a fraudulent conveyance or transfer. The court could then require our stockholders to return to YUM some or all of the shares of Company common stock issued in the distribution, or require YUM or the Company, as the case may be, to fund liabilities of the other company for the benefit of creditors. The measure of insolvency will vary depending upon the jurisdiction whose law is being applied. Generally, however, an

entity would be considered insolvent if the fair value of its assets was less than the amount of its liabilities, or if it was unable to pay its liabilities as they mature.

***After the separation, certain of our executive officers and directors may have actual or potential conflicts of interest because of their previous or continuing positions at YUM.***

Because of their current or former positions with YUM, certain of our expected executive officers and directors own YUM common stock and hold YUM equity awards. Following the separation, even though our board of directors will consist of a majority of directors who are independent, and our executive officers who are currently employees of YUM will cease to be employees of YUM, some of our executive officers and directors will continue to have a financial interest in YUM common stock and equity awards. Such ownership of YUM common stock or holding of YUM equity awards could create, or appear to create, potential conflicts of interest if the Company and YUM pursue the same corporate opportunities, have disagreements about the contracts between them or face decisions that could have different implications for the Company and YUM.

***No vote of the YUM shareholders is required in connection with this distribution. As a result, if the distribution occurs and shareholders do not want to receive Company common stock in the distribution, the sole recourse of any shareholder will be to divest all ownership of such shareholder's YUM common stock prior to the record date.***

No vote of the YUM shareholders is required in connection with the distribution. Accordingly, if a shareholder does not want to receive Company common stock in the distribution, the only recourse will be to divest all ownership of YUM common stock prior to 5:00 p.m., Eastern Time, on the record date for the distribution.

#### **Risk Related to Our Common Stock**

***The Company cannot be certain that an active trading market for its common stock will develop or be sustained after the distribution, and following the distribution, the Company's stock price may fluctuate significantly.***

Although we expect that Company common stock will be listed on the New York Stock Exchange, a public market for Company common stock does not currently exist. The Company anticipates that on or prior to the record date for the distribution, trading of shares of its common stock will begin on a "when-issued" basis which will continue through the distribution date. However, the Company cannot guarantee that an active trading market will develop or be sustained for its common stock after the distribution. Nor can the Company predict the prices at which shares of its common stock may trade after the distribution. Similarly, the Company cannot predict the effect of the distribution on the trading prices of its common stock or whether the combined market value of the shares of Company common stock and YUM common stock will be less than, equal to or greater than the market value of YUM common stock prior to the distribution.

The market price of Company common stock may decline or fluctuate significantly due to a number of factors, some of which may be beyond the Company's control, including:

- actual or anticipated fluctuations in the Company's operating results;
- significant liability claims, health concerns, food contamination complaints from our customers, shortages or interruptions in the availability of food or other supplies, or reports of incidents of food tampering;
- foreign exchange issues;
- the operating and stock price performance of comparable companies;

- changes in the Company's stockholder base due to the separation;
- changes in the regulatory and legal environment in which the Company operates; or
- market conditions in the restaurant industry and the domestic and worldwide economies as a whole.

***There may be substantial changes in the Company's stockholder base.***

Many investors holding YUM common stock may hold that stock because of a decision to invest in a company with YUM's profile. Following the distribution, the shares of Company common stock held by those investors will represent an investment in a company with a different profile. This may not be aligned with a holder's investment strategy and may cause the holder to sell the shares. As a result, the Company's stock price may decline or experience volatility as the Company's stockholder base changes.

***The Company cannot guarantee the timing, amount or payment of dividends on its common stock.***

We anticipate that following the separation, our board of directors will adopt a program of returning capital to stockholders, which may take the form of establishing a regular dividend and/or engaging in share repurchases. However, we also intend to retain a significant portion of our earnings to finance the operation, development and growth of our business. Any future determination to declare and pay cash dividends or engage in share repurchases will be at the discretion of our board of directors following the separation and will depend on, among other things, our financial condition, results of operations, actual or anticipated cash requirements, tax considerations, contractual or regulatory restrictions and such other factors as our board of directors deems relevant. For more information, see "Dividend Policy."

***Your percentage of ownership in the Company may be diluted in the future.***

In the future, your percentage ownership in the Company may be diluted because of equity awards that the Company will be granting to the Company's directors, officers and employees or otherwise as a result of equity issuances for acquisitions or capital market transactions. The Company's and certain of YUM's employees will have equity awards with respect to Company common stock after the distribution as a result of conversion of their YUM equity awards (in whole or in part) to Company equity awards. The Company anticipates its executive compensation committee will grant additional stock-based awards to its employees after the distribution. Such awards will have a dilutive effect on the Company's earnings per share, which could adversely affect the market price of Company common stock. From time to time, the Company will issue additional stock-based awards to its employees under the Company's employee benefits plans. See "Certain Relationships and Related Person Transactions—Employee Matters Agreement—Equity-Based Compensation and Certain Executive Compensation Arrangements."

In addition, the Company's amended and restated certificate of incorporation will authorize the Company to issue, without the approval of the Company's stockholders, one or more classes or series of preferred stock that have such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over Company common stock respecting dividends and distributions, as the Company's board of directors generally may determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of Company common stock. Similarly, the repurchase or redemption rights or liquidation preferences the Company could assign to holders of preferred stock could affect the residual value of the common stock. See "Description of Capital Stock."

## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Information Statement and other materials YUM and the Company have filed or will file with the SEC contain, or will contain, "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," "ongoing" or other similar terminology. Forward-looking statements are based on our current expectations, estimates, assumptions or projections concerning future results or events. 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 to differ materially from those indicated by those statements. We cannot assure you that any of our expectations, estimates or projections will be achieved. Factors that could cause actual results and events to differ materially from our expectations and forward-looking statements include the matters described in this Information Statement. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. The forward-looking statements included in this Information Statement are only made as of the date of this Information Statement and we disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances.



## **DIVIDEND POLICY**

We anticipate that following the separation, our board of directors will adopt a program of returning capital to stockholders, which may take the form of establishing a regular dividend and/or engaging in share repurchases. However, we also intend to retain a significant portion of our earnings to finance the operation, development and growth of our business. Any future determination to declare and pay cash dividends or engage in share repurchases will be at the discretion of our board of directors following the separation and will depend on, among other things, our financial condition, results of operations, actual or anticipated cash requirements, contractual or regulatory restrictions, tax considerations and such other factors as our board of directors deems relevant.

## CAPITALIZATION

The following table sets forth our capitalization on a historical basis and on a pro forma basis to give effect to the separation and distribution and the transactions related to the separation and distribution as if they occurred on May 31, 2016.

The table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Unaudited Pro Forma Combined Financial Statements" and the historical combined financial statements and accompanying notes included elsewhere in this Information Statement.

The historical financial information may not necessarily reflect what our capitalization would have been had we been an independent, publicly traded company during the period presented and is not necessarily indicative of our future capitalization.

(in millions)	Historical	Pro Forma
Cash and cash equivalents	\$ 508	508
<b>Equity</b>		
Common stock, \$0.01 par value	—	[·]
Additional paid-in capital	—	[·]
Parent Company investment	1,900	—
Accumulated other comprehensive income (loss)	100	100
<b>Total Equity—Yum China Holdings, Inc.</b>	<b>2,000</b>	<b>2,000</b>
Noncontrolling interests	58	58
<b>Total Equity</b>	<b>2,058</b>	<b>2,058</b>
<b>Total Capitalization</b>	<b>\$ 2,058</b>	<b>\$ 2,058</b>

We have not yet finalized our post-separation capitalization. We intend to update and include pro forma financial information reflecting our post-separation capitalization in an amendment to this Information Statement.

## UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The unaudited pro forma combined financial statements of the Company consist of the unaudited pro forma condensed combined statement of income for the year to date ended May 31, 2016, the unaudited pro forma combined statement of income for the fiscal year ended December 31, 2015 and an unaudited pro forma condensed combined balance sheet as of May 31, 2016. The unaudited pro forma combined financial statements should be read in conjunction with "Capitalization," "Selected Historical Combined Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Certain Relationships and Related Person Transactions" and our historical combined financial statements included elsewhere in this Information Statement.

The unaudited pro forma combined financial statements have been prepared based on our historical combined financial statements included in this Information Statement and are not intended to be a complete presentation of our financial position or results of operations had the transactions contemplated by the separation and distribution agreement and related agreements occurred as of and for the periods indicated. In addition, they are provided for illustrative and informational purposes only and are not necessarily indicative of our future results of operations or financial condition as an independent, publicly traded company. The pro forma adjustments are based upon available information and assumptions that management believes are reasonable, that reflect the expected impacts of events directly attributable to the separation and related transactions described below, and that are factually supportable, and for purposes of the pro forma combined statement of income, are expected to have a continuing impact on us. However, such adjustments are subject to change based on the finalization of the terms of the separation and related agreements.

The unaudited pro forma condensed combined statement of income for the year to date ended May 31, 2016 and unaudited pro forma combined statement of income for the fiscal year ended December 31, 2015 reflect our results of operations as if the separation and related transactions described below had occurred on January 1, 2015. The unaudited pro forma condensed combined balance sheet as of May 31, 2016 reflects our financial position as if the separation and related transactions described below had occurred as of such date.

The unaudited pro forma combined financial statements give effect to the following:

- the contribution to us, pursuant to the separation, of substantially all assets and certain liabilities of the Company's business;
- the distribution of shares of our common stock by YUM to its shareholders and the elimination of historical parent company investment;
- our anticipated post-distribution capital structure, including the issuance of up to approximately [ · ] shares of our common stock to holders of shares of YUM common stock (this number of shares is based upon the number of shares of YUM common stock outstanding on [ · ] and an assumed distribution ratio of [ · ] shares of Company common stock for each share of YUM common stock held on the record date); and
- the impact of, and transactions contemplated by, the separation and distribution agreement, the master license agreement, the tax matters agreement, and other agreements described under "Certain Relationships and Related Person Transactions" between us and YUM and the provisions contained therein.

The operating expenses reported in our historical combined statements of income include allocations of certain YUM costs. These costs include allocation of certain YUM costs for centralized corporate functions performed on our behalf.

These historical allocations may not be indicative of our future costs and we have not adjusted the accompanying unaudited pro forma combined financial statements to reflect any independent public company costs as such amounts are estimates and not factually supportable.

**Unaudited Pro Forma Condensed Combined Statement of Income**  
**Yum China Holdings, Inc.**  
**For the year to date ended May 31, 2016**  
**(in millions, except per share data)**

	Historical	Pro Forma Adjustments	Pro Forma
<b>Revenues</b>			
Company sales	\$ 2,836		\$ 2,836
Franchise fees and income	55		55
Total revenues	2,891		2,891
<b>Costs and Expenses, Net</b>			
Company restaurants			
Food and paper	847		847
Payroll and employee benefits	587		587
Occupancy and other operating expenses	960	(4)(a)	956
Company restaurant expenses	2,394	(4)	2,390
General and administrative expenses	170		170
Franchise expenses	31	(3)(a)	28
Closures and impairment expenses, net	31		31
Refranchising gain, net	(4)		(4)
Other income, net	(27)		(27)
Total costs and expenses, net	2,595	(7)	2,588
<b>Operating Profit</b>	296	7	303
Interest income, net	4		4
<b>Income Before Income Taxes</b>	300	7	307
Income tax provision	(78)	(2)(b)	(80)
Net Income (loss)—including noncontrolling interests	222	5	227
Net Income (loss)—noncontrolling interests	—		—
<b>Net Income (loss)—Yum China Holdings, Inc.</b>	<u>\$ 222</u>	<u>5</u>	<u>\$ 227</u>
<b>Pro Forma net earnings per share:</b>			
Basic	N/A		[·](c)
Diluted	N/A		[·](c)
<b>Shares used to calculate Pro Forma net earnings per share</b>			
Basic	N/A		[·](c)
Diluted	N/A		[·](c)

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

**Unaudited Pro Forma Combined Statement of Income**  
**Yum China Holdings, Inc.**  
**For the year ended December 31, 2015**  
**(in millions, except per share data)**

	Historical	Pro Forma Adjustments	Pro Forma
<b>Revenues</b>			
Company sales	\$ 6,789		\$ 6,789
Franchise fees and income	120		120
Total revenues	6,909		6,909
<b>Costs and Expenses, Net</b>			
Company restaurants			
Food and paper	2,159		2,159
Payroll and employee benefits	1,386		1,386
Occupancy and other operating expenses	2,386	(18)(a)	2,368
Company restaurant expenses	5,931	(18)	5,913
General and administrative expenses	395		395
Franchise expenses	70	(7)(a)	63
Closures and impairment expenses, net	64		64
Refranchising gain, net	(13)		(13)
Other income, net	(26)		(26)
Total costs and expenses, net	6,421	(25)	6,396
<b>Operating Profit</b>	488	25	513
Interest income, net	8		8
<b>Income Before Income Taxes</b>	496	25	521
Income tax provision	(168)	(6)(b)	(174)
Net Income (loss)—including noncontrolling interests	328	19	347
Net Income (loss)—noncontrolling interests	5		5
<b>Net Income (loss)—Yum China Holdings, Inc.</b>	<u>\$ 323</u>	<u>19</u>	<u>\$ 342</u>
<b>Pro Forma net earnings per share:</b>			
Basic	N/A		[·](c)
Diluted	N/A		[·](c)
<b>Shares used to calculate Pro Forma net earnings per share</b>			
Basic	N/A		[·](c)
Diluted	N/A		[·](c)

See accompanying Notes to the Unaudited Pro Forma Combined Financial Statements

**Unaudited Pro Forma Condensed Combined Balance Sheet**  
**Yum China Holdings, Inc.**  
**As of May 31, 2016**  
**(in millions)**

	Historical	Pro Forma Adjustments	Pro Forma
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 508		\$ 508
Accounts receivable, net	117		117
Inventories	216		216
Prepaid expenses and other current assets	151		151
<b>Total Current Assets</b>	<u>992</u>		<u>992</u>
Property, plant and equipment, net	1,742		1,742
Goodwill	83		83
Intangible assets, net	101		101
Investments in unconsolidated affiliates	46		46
Other assets	187		187
Deferred income taxes	142		142
<b>Total Assets</b>	<u>\$ 3,293</u>		<u>\$ 3,293</u>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other current liabilities	\$ 921		\$ 921
Income taxes payable	47		47
<b>Total Current Liabilities</b>	<u>968</u>		<u>968</u>
Capital lease obligations	31		31
Other liabilities and deferred credits	236		236
<b>Total Liabilities</b>	<u>1,235</u>		<u>1,235</u>
<b>Equity</b>			
Common stock, \$0.01 par value	—	(d)	[·]
Additional paid-in capital	—	(d)	[·]
Parent Company investment	1,900	(1,900)(d)	—
Accumulated other comprehensive income (loss)	100		100
<b>Total Equity—Yum China Holdings, Inc.</b>	<u>2,000</u>		<u>2,000</u>
Noncontrolling interests	58		58
<b>Total Equity</b>	<u>2,058</u>		<u>2,058</u>
<b>Total Liabilities and Equity</b>	<u>\$ 3,293</u>		<u>\$ 3,293</u>

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

## NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(a) Per the terms of the Master License Agreement ("MLA"), the license fee paid to YUM after the separation will equal 3% of net sales from the operations of KFC, Pizza Hut Casual Dining and Pizza Hut Home Service. This adjustment reflects the impact of the MLA for (i) the exclusion of initial fees from the Company's license fee paid to YUM; and (ii) the change in license fee related to the entities that own and operate KFCs in Hangzhou, Suzhou and Wuxi in which we have non-controlling ownership.

(b) Adjustment reflects the tax effects of the pro forma adjustments at the applicable China statutory rate of 25%.

(c) For the year ended December 31, 2015 and year to date ended May 31, 2016, the number of shares presented are based on the number of shares of YUM common stock outstanding on December 31, 2015 and May 31, 2016 respectively. The Company will base its number of shares used to compute basic and diluted earnings per share on the number of shares of YUM common stock assumed to be outstanding as of the record date, assuming a distribution ratio of [ · ] share[s] of the Company's common stock for each share of YUM common stock. The Company's and certain of YUM's employees will have equity awards with respect to Company common stock after the distribution as a result of conversion of a portion of their YUM equity awards to Company equity awards. The Company's outstanding pro forma diluted shares reflect the Company's best estimate of the dilutive impact of this conversion.

(d) On the distribution date, YUM's net investment in the Company will be re-designated as the Company's Stockholders' Equity and will be allocated between common stock and additional paid-in capital based on the number of shares of the Company's common stock outstanding at the distribution date. The pro forma adjustment reflects the re-designation of YUM's net investment in the Company and the impact of the pro forma adjustments described above.

## SELECTED HISTORICAL COMBINED FINANCIAL DATA

The following table presents our selected historical combined financial data. We derived the combined statements of income data for the three years ended December 31, 2015, and the combined balance sheets data as of December 31, 2015 and December 31, 2014, as set forth below, from our audited combined financial statements, which are included elsewhere in this Information Statement. We derived the condensed combined statements of income data for the years to date ended May 31, 2016 and May 31, 2015, and the condensed combined balance sheets data as of May 31, 2016 from our unaudited condensed combined financial statements, which are included elsewhere in this Information Statement. We derived the combined statements of income for the years ended December 31, 2012 and December 31, 2011, and the combined balance sheets data as of December 31, 2013, December 31, 2012, and December 31, 2011, from our unaudited combined financial statements that are not included in this Information Statement.

Our combined financial information may not necessarily reflect our financial position, results of operations or cash flows as if we had operated as an independent public company during all periods presented, including changes that will occur in our operations and capitalization as a result of the separation from YUM and the distribution. Accordingly, our historical results should not be relied upon as an indicator of our future performance.

The following tables should be read together with, and are qualified in their entirety by reference to, the historical combined financial statements and the related notes included elsewhere in this Information Statement. Among other things, the historical combined financial statements include more detailed information regarding the basis of presentation for the information in the following table. The tables should also be read together with the sections entitled "Capitalization," "Unaudited Pro Forma Combined Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."



(in millions, except for unit data)	For the Years to date Ended		For the Fiscal Years Ended				
	May 31, 2016	May 31, 2015	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
<b>Combined Statements of Income (Loss) Data:</b>							
<b>Revenues</b>							
Company sales	\$ 2,836	\$ 2,843	\$ 6,789	\$ 6,821	\$ 6,800	\$ 6,797	\$ 5,487
Franchise fees and income	55	49	120	113	105	101	79
Total revenues	<u>2,891</u>	<u>2,892</u>	<u>6,909</u>	<u>6,934</u>	<u>6,905</u>	<u>6,898</u>	<u>5,566</u>
<b>Costs and Expenses, Net</b>							
<b>Company restaurants</b>							
Food and paper	847	907	2,159	2,207	2,258	2,312	1,947
Payroll and employee benefits	587	577	1,386	1,407	1,360	1,259	890
Occupancy and other operating expenses(a)	960	982	2,386	2,415	2,347	2,210	1,747
Company restaurant expenses	<u>2,394</u>	<u>2,466</u>	<u>5,931</u>	<u>6,029</u>	<u>5,965</u>	<u>5,781</u>	<u>4,584</u>
General and administrative expenses(b)	170	168	395	389	356	336	278
Franchise expenses(c)	31	29	70	64	60	55	43
Closures and impairment expenses, net	31	19	64	517	325	9	12
Refranchising gain, net(d)	(4)	(4)	(13)	(17)	(5)	(17)	(14)
Other income, net	(27)	(14)	(26)	(51)	(25)	(112)	(42)
Total costs and expenses, net	<u>2,595</u>	<u>2,664</u>	<u>6,421</u>	<u>6,931</u>	<u>6,676</u>	<u>6,052</u>	<u>4,861</u>
<b>Operating Profit(e)</b>	<u>296</u>	<u>228</u>	<u>488</u>	<u>3</u>	<u>229</u>	<u>846</u>	<u>705</u>
Interest income, net	4	2	8	14	5	8	9
<b>Income Before Income Taxes</b>	<u>300</u>	<u>230</u>	<u>496</u>	<u>17</u>	<u>234</u>	<u>854</u>	<u>714</u>
Income tax provision	(78)	(65)	(168)	(54)	(135)	(181)	(169)
Net Income (loss)—including noncontrolling interests	222	165	328	(37)	99	673	545
Net Income (loss)—noncontrolling interests	—	—	5	(30)	(27)	11	16
<b>Net Income (loss)—Yum China Holdings, Inc. (e)</b>	<u>\$ 222</u>	<u>\$ 165</u>	<u>\$ 323</u>	<u>\$ (7)</u>	<u>\$ 126</u>	<u>\$ 662</u>	<u>\$ 529</u>
<b>Combined Balance Sheets Data:</b>							
Total assets	\$ 3,293	\$ 3,261	\$ 3,201	\$ 3,257	\$ 3,750	\$ 3,782	\$ 2,916
Property, plant and equipment, net	1,742	1,969	1,841	2,001	1,979	1,810	1,370
Parent Company investment	1,900	1,737	1,791	1,671	2,014	2,012	1,343
<b>Other Statistics</b>							
Net cash provided by operating activities	\$ 422	\$ 396	\$ 910	\$ 775	782	\$ 871	931
Capital spending	172	235	512	525	568	655	405
Number of restaurants	7,246	6,853	7,176	6,715	6,243	5,726	4,493

- (a) Occupancy and other operating expenses include license fees paid to YUM of \$219 million, \$217 million, \$215 million, \$217 million and \$178 million for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively, and \$86 million and \$89 million for the years to date ended May 31, 2016 and May 31, 2015, respectively.
- (b) General and administrative expenses include corporate expenses allocated from YUM of \$12 million, \$11 million, \$12 million, \$15 million and \$12 million for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively, and \$6 million for both of the years to date ended May 31, 2016 and May 31, 2015.
- (c) Franchise expenses include license fees paid to YUM of \$50 million, \$48 million, \$47 million, \$46 million and \$39 million for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively, and \$23 million and \$21 million for the years to date ended May 31, 2016 and May 31, 2015, respectively.
- (d) See Note 4 to the Combined Financial Statements and Condensed Combined Financial Statements for discussion of Refranchising gain, net.
- (e) Operating Profit for 2014 and 2013, respectively, includes \$463 million and \$295 million of expense associated with non-cash impairment of our investment in Little Sheep. After considering the tax benefit associated with these losses and the portion of the net losses allocated to noncontrolling interests, Net Income (loss)—Yum China Holdings, Inc., was negatively impacted by these impairments by \$361 million and \$258 million in 2014 and 2013, respectively. Excluding these impairments, Net income (loss)—Yum China Holdings, Inc. was income of \$354 million and \$384 million in 2014 and 2013, respectively. Operating profit in 2012 includes a \$74 million gain in 2012 related to the acquisition of additional interest in and resulting consolidation of Little Sheep with no associated tax expense. Excluding this gain, Net Income (loss)—Yum China Holdings, Inc. was \$588 million in 2012.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Combined Financial Statements and accompanying notes included elsewhere in this Information Statement for the years ended December 31, 2015, 2014 and 2013 and the Condensed Combined Financial Statements for the years to date ended May 31, 2016 and May 31, 2015, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). This MD&A includes the following sections:

- Separation and Distribution
- Overview
- Results of Operations
- Combined Cash Flows
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Quantitative and Qualitative Disclosures About Market Risk
- New Accounting Pronouncements Not Yet Adopted
- Critical Accounting Policies and Estimates

Certain of the statements below are forward-looking statements. In addition, any projections of future results of operations and cash flows are subject to substantial uncertainty. See "Cautionary Statement Concerning Forward-Looking Statements" included elsewhere in this Information Statement.

### **Separation and Distribution**

On October 20, 2015, YUM announced that it intended to separate into two independent publicly traded companies each with a separate strategic focus. YUM plans to distribute to its shareholders all outstanding shares of the Company held by YUM on the distribution date, a wholly owned subsidiary of YUM, which will hold, directly or indirectly, the assets and liabilities associated with YUM's operations in China. The separation transaction will be completed by way of a pro rata distribution of Company shares by YUM to its shareholders as of the record date. Completion of the transaction will be subject to certain conditions, including, among others, receiving final approval from YUM's board of directors, receipt of various regulatory approvals, receipt of opinions of YUM's external tax advisors with respect to certain tax matters, the effectiveness of filings related to public listing in the United States of America and applicable securities laws, and other terms and conditions as may be determined by YUM's board of directors. The transaction is expected to be completed by the end of 2016 and is intended to qualify as a tax-free reorganization for U.S. federal income tax purposes. The transaction will not require YUM shareholder approval.

The Combined Financial Statements have been prepared on a stand-alone basis and are derived from YUM's Consolidated Financial Statements and underlying accounting records. Transactions between the Company and YUM that were not cash settled were considered to be effectively settled at the time the transactions were recorded.

The Combined Financial Statements include all revenues, costs, assets and liabilities directly attributable to the Company either through specific identification or allocation. The Combined Statements of Income include allocations of certain of YUM's Corporate functions which provide a direct benefit to the Company. These costs have been allocated based on system sales of the Company relative to YUM's global system sales. All allocated costs have been deemed to have been incurred and

settled in the period in which the costs were recorded. The Company considers the expense allocation methodology and results to be reasonable for all periods presented. However, the allocations may not be indicative of the actual expense that would have been incurred had the Company operated as an independent, publicly traded company for the periods presented. Following the separation, we will perform these functions using our own resources or purchased services. See Note 3 to the Combined Financial Statements for further discussion.

## Overview

Yum China Holdings, Inc. is the largest restaurant company in China, with approximately 7,200 restaurants, \$6.9 billion of revenue, net income of \$323 million and \$998 million of adjusted EBITDA in 2015. Our growing restaurant base consists of China's leading restaurant brands, including KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, East Dawning and Little Sheep. Following our separation from Yum! Brands, we will have the exclusive right to operate, sub-franchise and license the KFC, Pizza Hut Casual Dining, Pizza Hut Home Service and Taco Bell brands in China, and will own the East Dawning and Little Sheep concepts outright. We were the first major global restaurant brand to enter China in 1987 and have developed deep experience operating in the market. We have since grown to become one of China's largest retail developers covering over 1,100 cities and opening an average of two new locations per day over the past five years.

KFC is the leading Quick-Service Restaurant ("QSR") brand in China. Today, KFC operates over 5,000 restaurants in over 1,100 cities across China. Measured by number of restaurants, KFC has a two-to-one lead over the nearest Western QSR competitor and continues to grow in both large and small cities. Similarly, Pizza Hut Casual Dining is the leading Casual Dining Restaurant ("CDR") brand in China. Today, Pizza Hut Casual Dining, with nearly 1,600 restaurants in over 400 cities, has a seven-to-one lead in terms of restaurants over its nearest Western CDR competitor.

The operations of each of the concepts represent an operating segment of the Company within these Combined Financial Statements. We have two reportable segments: KFC and Pizza Hut Casual Dining. Our remaining operating segments, including the operations of Pizza Hut Home Service, East Dawning and Little Sheep, are combined and referred to as All Other Segments, as those operating segments are individually insignificant.

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

- The Company provides certain percentage changes excluding the impact of foreign currency translation ("FX" or "Forex"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the foreign currency translation impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.
- System sales growth includes the results of all restaurants regardless of ownership, including company-owned, franchise and unconsolidated affiliate restaurants that operate our brands, except for 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 a rate of approximately 6% of system sales. Franchise and unconsolidated affiliate restaurant sales are not included in Company sales on the Combined 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.

- Same-store sales growth is the estimated percentage change in sales of all restaurants that have been open and in the Company system one year or more.
- 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 as a percentage of sales 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 costs such as inflation/deflation.
- In addition to the results provided in accordance with GAAP throughout this MD&A, the Company provides non-GAAP measurements which present Adjusted EBITDA and operating results on a basis before Special Items. The Company uses earnings before Special Items as a key performance measure of results of operations for the purpose of evaluating performance internally and Special Items are not included in any of our segment results. 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 taxes, interest expense, depreciation and amortization and impairment charges. These non-GAAP measurements are not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of Adjusted EBITDA and earnings before Special Items 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 size and/or nature.

All Note references herein refer to the Notes to the Combined Financial Statements. Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding.

## Results of Operations

### Summary

All comparisons within this summary are versus the same period a year ago and exclude the impact of Special Items. All system sales growth and Operating Profit comparisons exclude the impact of foreign currency.

In 2013, KFC China sales and profits were negatively impacted due to intense media surrounding an investigation by the Shanghai FDA into our poultry supply that began in 2012, coupled with additional intense media in April 2013 surrounding avian flu in China.

In 2014, the Company's sales and profits were significantly impacted by adverse publicity surrounding improper food handling practices by a former supplier. Specifically, on July 20, 2014, an undercover report was televised in China depicting improper food handling practices by supplier Shanghai Husi, a division of OSI, which is a large, global supplier to many in the restaurant industry. This triggered extensive news coverage in China that shook consumer confidence and impacted brand usage. Immediately following the incident, we experienced a significant, negative impact to sales and profits at both KFC and Pizza Hut Casual Dining. For further information about the potential impact of food safety risks on our business, see "Risk Factors—Risks Related to Our Business and Industry—Food safety and food-borne illness concerns may have an adverse effect on our business."

In 2015, we expected sales and profits to grow significantly in the second half as we recovered from the adverse publicity in July 2014. Sales initially turned significantly positive as we lapped the supplier incident, but overall sales in the second half of 2015 trailed our expectations, particularly at Pizza Hut Casual Dining. In the second half of 2015, KFC grew same-store sales 3% in the third

quarter and 6% in the fourth quarter, which was below our forecasts. Over the same period, Pizza Hut Casual Dining experienced same-store sales declines of 1% in the third quarter and 8% in the fourth quarter. We believe that this performance was driven primarily by (1) extraordinary volatility in financial markets, currency devaluation and overall softer economic conditions which weigh more heavily on the casual dining sector; (2) the impact of online delivery aggregators entering the casual dining space; and (3) marketing promotions which underperformed our expectations.

The Combined Results of Operations for the years ended December 31, 2015, 2014 and 2013 are presented below:

	2015	2014	2013	% B/(W)	
				2015	2014
Company sales	\$ 6,789	\$ 6,821	\$ 6,800	—	—
Franchise fees and income	120	113	105	7	7
<b>Total revenues</b>	<b>\$ 6,909</b>	<b>\$ 6,934</b>	<b>\$ 6,905</b>	<b>—</b>	<b>—</b>
Restaurant profit	\$ 858	\$ 792	\$ 835	8	(5)
Restaurant Margin %	12.6%	11.6%	12.3%	1.0 ppts.	(0.7) ppts.
Operating Profit	\$ 488	\$ 3	\$ 229	NM	(99)
Interest income, net	8	14	5	46	NM
Income tax provision	(168)	(54)	(135)	NM	60
Net Income—including noncontrolling interests	328	(37)	99	NM	NM
Net Income (loss)—noncontrolling interests	5	(30)	(27)	NM	(12)
Net Income—Yum China Holdings, Inc.	\$ 323	\$ (7)	\$ 126	NM	NM
Reported Effective tax rate	33.9%	322.3%	57.5%		
Operating Profit before Special Items	\$ 503	\$ 466	\$ 524		
Effective tax rate before Special Items	33.7%	26.8%	28.9%		
Adjusted EBITDA	\$ 998	931	949		

	2015	2014
System Sales Growth	—%	1%
System Sales Growth, excluding FX	2%	1%
Same-store Sales Growth (Decline)%	(4)%	(5)%

Unit Count	2015	2014	2013	% Increase (Decrease)	
				2015	2014
Company-owned	5,768	5,417	5,026	6	8
Unconsolidated affiliates	796	757	716	5	6
Franchise	612	541	501	13	8
	<u>7,176</u>	<u>6,715</u>	<u>6,243</u>	7	8

### Special Items

Special Items, along with the reconciliation to the most comparable GAAP financial measure, are presented below.

Detail of Special Items	Year		
	2015	2014	2013
Little Sheep impairment (See Note 4)	—	(463)	(295)
Losses associated with planned sale of aircraft (See Note 6)	(15)	—	—
Special Items Income (Expense)—Operating Profit	(15)	(463)	(295)
Tax Benefit (Expense) on Special Items(a)	4	76	18
Special Items Income (Expense), net of tax—including noncontrolling interests	(11)	(387)	(277)
Special Items Income (Expense), net of tax—noncontrolling interests	—	26	19
Special Items Income (Expense), net of tax—Yum China Holdings, Inc.	<u>\$ (11)</u>	<u>\$ (361)</u>	<u>\$ (258)</u>
<b>Reconciliation of Operating Profit Before Special Items to Reported Operating Profit</b>			
Operating Profit before Special Items	\$ 503	\$ 466	\$ 524
Special Items Expense—Operating Profit	(15)	(463)	(295)
Reported Operating Profit	<u>\$ 488</u>	<u>\$ 3</u>	<u>\$ 229</u>
<b>Reconciliation of Effective Tax Rate Before Special Items to Reported Effective Tax Rate</b>			
Effective Tax Rate before Special Items	33.7%	26.8%	28.9%
Impact on Tax Rate as a result of Special Items(a)	0.2%	295.5%	28.6%
Reported Effective Tax Rate (See Note 14)	<u>33.9%</u>	<u>322.3%</u>	<u>57.5%</u>

- (a) The tax benefit (expense) was determined based upon the impact of the nature of each Special Item tax effected at the 25% China tax rate, except for non-cash impairments of Little Sheep goodwill of \$160 million and \$222 million for 2014 and 2013, respectively, which resulted in no related income tax benefit.

### Adjusted EBITDA

Adjusted EBITDA, along with the reconciliation to the most comparable GAAP financial measure, is presented below.

	2015	2014	2013
<b>Reconciliation of Reported Net Income to Adjusted EBITDA</b>			
Net Income (loss)—Yum China Holdings, Inc.	\$ 323	\$ (7)	\$ 126
Net income (loss)—noncontrolling interests	5	(30)	(27)
Income tax provision	168	54	135
Interest income, net	(8)	(14)	(5)
Reported Operating Profit	488	3	229
Depreciation and amortization	425	411	394
Store impairment charges (See Note 4)	70	54	31
Special Items Expense—Operating Profit	15	463	295
Adjusted EBITDA	<u>\$ 998</u>	<u>\$ 931</u>	<u>\$ 949</u>

	2015	2014	2013	% B/(W)		% B/(W)	
				2015		2014	
				Reported	Ex FX	Reported	Ex FX
Company sales	\$ 4,652	\$ 4,782	\$ 4,892	(3)	(1)	(2)	(2)
Franchise fees and income	116	111	103	4	7	7	7
Total revenues	\$ 4,768	\$ 4,893	\$ 4,995	(3)	(1)	(2)	(2)
Restaurant profit	\$ 620	\$ 559	\$ 557	11	14	—	1
Restaurant margin %	13.3%	11.7%	11.4%	1.6 ppts.	1.7 ppts.	0.3 ppts.	0.3 ppts.
G&A expenses	\$ 150	\$ 150	\$ 137	—	(2)	(9)	(10)
Closure and impairment expenses, net	\$ 50	\$ 41	\$ 23	(22)	(26)	(74)	(76)
Operating Profit	\$ 499	\$ 435	\$ 456	14	18	(5)	(4)

	2015	2014
System Sales Growth	(2)%	(1)%
System Sales Growth, excluding FX	—%	(1)%
Same-Store Sales Growth (Decline)%	(4)%	(4)%

Unit Count	2015	2014	2013	% Increase (Decrease)	
				2015	2014
Company-owned	3,821	3,732	3,569	2	5
Unconsolidated affiliates	796	757	716	5	6
Franchise	386	339	278	14	22
	<u>5,003</u>	<u>4,828</u>	<u>4,563</u>	4	6

	2014	New Builds	Closures	Refranchised	Acquired	Other	2015
Company-owned	3,732	282	(144)	(52)	3	—	3,821
Unconsolidated affiliates	757	58	(15)	—	—	(4)	796
Franchise	339	11	(17)	52	(3)	4	386
Total	<u>4,828</u>	<u>351</u>	<u>(176)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,003</u>

	2013	New Builds	Closures	Refranchised	Acquired	Other	2014
Company-owned	3,569	318	(91)	(65)	1	—	3,732
Unconsolidated affiliates	716	56	(14)	(1)	—	—	757
Franchise	278	2	(6)	66	(1)	—	339
Total	<u>4,563</u>	<u>376</u>	<u>(111)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,828</u>

**Company Sales and Restaurant Profit**

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

<u>Income / (Expense)</u>	2015 vs. 2014				2015
	2014	Store Portfolio Actions	Other	FX	
Company sales	\$ 4,782	\$ 137	\$ (176)	\$ (91)	\$ 4,652
Cost of sales	(1,584)	(40)	83	29	(1,512)
Cost of labor	(963)	(18)	60	18	(903)
Occupancy and other	(1,676)	(42)	69	32	(1,617)
Restaurant profit	\$ 559	\$ 37	\$ 36	\$ (12)	\$ 620

<u>Income / (Expense)</u>	2014 vs. 2013				2014
	2013	Store Portfolio Actions	Other	FX	
Company sales	\$ 4,892	\$ 117	\$ (216)	\$ (11)	\$ 4,782
Cost of sales	(1,682)	(36)	130	4	(1,584)
Cost of labor	(970)	(21)	26	2	(963)
Occupancy and other	(1,683)	(43)	47	3	(1,676)
Restaurant profit	\$ 557	\$ 17	\$ (13)	\$ (2)	\$ 559

In 2015, the increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth, partially offset by the impact of refranchising. Significant other factors impacting Company sales and/or Restaurant profit were labor efficiencies and lower utilities, partially offset by wage inflation of 8% and Company same-store sales declines of 4%.

In 2014, the increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit were wage inflation of 9% and same-store sales declines of 4%, partially offset by labor efficiencies and lower advertising expense.

**Franchise Fees and Income**

In 2015, the increase in Franchise fees and income, excluding the impact of foreign currency translation, was driven by the impact of refranchising and net new unit growth, partially offset by franchise same-store sales declines of 9%.

In 2014, the increase in Franchise fees and income, excluding the impact of foreign currency translation, was driven by the impact of refranchising and net new unit growth, partially offset by franchise same-store sales declines of 8%.

**G&A Expenses**

In 2015, the increase in G&A expenses, excluding the impact of foreign currency translation, was driven by higher compensation costs due to wage inflation.

In 2014, the increase in G&A expenses, excluding the impact of foreign currency translation, was driven by higher compensation costs due to wage inflation and higher headcount.



## Operating Profit

In 2015, the increase in Operating Profit, excluding the impact of foreign currency translation, was driven by net new unit growth and lower restaurant operating costs, partially offset by same-store sales declines and higher closure and impairment expenses.

In 2014, the decrease in Operating Profit, excluding the impact of foreign currency translation, was driven by same-store sales declines, higher closure and impairment expenses and higher G&A expenses, partially offset by net new unit growth.

### Pizza Hut Casual Dining

	2015	2014	2013	% B/(W) 2015		% B/(W) 2014	
				Reported	Ex FX	Reported	Ex FX
Company sales	\$ 1,824	\$ 1,696	\$ 1,522	8	10	11	12
Franchise fees and income	1	—	—	NM	NM	NM	NM
Total revenues	\$ 1,825	\$ 1,696	\$ 1,522	8	10	11	12
Restaurant profit	\$ 225	\$ 243	\$ 291	(7)	(5)	(17)	(17)
Restaurant margin %	12.3%	14.3%	19.2%	(2.0) ppts.	(1.9) ppts.	(4.9) ppts.	(4.9) ppts.
G&A expenses	\$ 73	\$ 65	\$ 55	(12)	(14)	(18)	(18)
Closure and impairment expenses, net	\$ 8	\$ 2	\$ 1	NM	NM	NM	NM
Operating Profit	\$ 145	\$ 176	\$ 235	(18)	(16)	(25)	(25)

	2015	2014
System Sales Growth	8%	11%
System Sales Growth, excluding FX	10%	12%
Same-Store Sales Growth %	(5)%	(5)%

Unit Count	2015	2014	2013	% Increase (Decrease)	
				2015	2014
Company-owned	1,556	1,310	1,058	19	24
Franchise	16	3	2	NM	50
	1,572	1,313	1,060	20	24

	2014	New Builds	Closures	Refranchised	Acquired	2015
Company-owned	1,310	279	(21)	(12)	—	1,556
Franchise	3	1	—	12	—	16
Total	1,313	280	(21)	—	—	1,572

	2013	New Builds	Closures	Refranchised	Acquired	2014
Company-owned	1,058	270	(18)	—	—	1,310
Franchise	2	1	—	—	—	3
Total	1,060	271	(18)	—	—	1,313

**Company Sales and Restaurant Profit**

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

<u>Income / (Expense)</u>	2015 vs. 2014				2015
	2014	Store Portfolio Actions	Other	FX	
Company sales	\$ 1,696	\$ 249	\$ (85)	\$ (36)	\$ 1,824
Cost of sales	(494)	(75)	15	11	(543)
Cost of labor	(346)	(58)	5	8	(391)
Occupancy and other	(613)	(95)	30	13	(665)
Restaurant profit	\$ 243	\$ 21	\$ (35)	\$ (4)	\$ 225

<u>Income / (Expense)</u>	2014 vs. 2013				2014
	2013	Store Portfolio Actions	Other	FX	
Company sales	\$ 1,522	\$ 247	\$ (69)	\$ (4)	\$ 1,696
Cost of sales	(429)	(73)	7	1	(494)
Cost of labor	(283)	(56)	(8)	1	(346)
Occupancy and other	(519)	(97)	1	2	(613)
Restaurant profit	\$ 291	\$ 21	\$ (69)	\$ —	\$ 243

In 2015, the increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit were wage rate inflation of 8% and Company same-store sales declines of 5%, partially offset by labor efficiencies and lower utilities.

In 2014, the increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit were wage rate inflation of 8%, same-store sales declines of 5% and commodity inflation of 3%.

*G&A Expenses*

In 2015 and 2014, the increases in G&A expenses, excluding the impact of foreign currency translation, were driven by higher compensation costs due to wage rate inflation and higher headcount.

*Operating Profit*

In 2015 and 2014, the decreases in Operating Profit, excluding the impact of foreign currency translation, were driven by higher restaurant operating costs, same-store sales declines and higher G&A expenses, partially offset by net new unit growth.

### All Other Segments

All Other Segments includes Pizza Hut Home Service, East Dawning and Little Sheep.

	2015	2014	2013	% B/(W)		% B/(W)	
				2015		2014	
				Reported	Ex FX	Reported	Ex FX
Company sales	\$ 313	\$ 343	\$ 386	(9)	(7)	(11)	(11)
Franchise fees and income	3	2	2	NM	NM	(15)	(15)
<b>Total revenues</b>	<b>\$ 316</b>	<b>\$ 345</b>	<b>\$ 388</b>	<b>(8)</b>	<b>(6)</b>	<b>(11)</b>	<b>(11)</b>
Restaurant profit	\$ 13	\$ (10)	\$ (13)	NM	NM	30	28
Restaurant margin %	4.3%	(2.8)%	(3.6)%	7.1 ppts.	7.2 ppts.	0.8 ppts.	0.7 ppts.
G&A expenses	\$ 28	\$ 31	\$ 41	7	5	26	26
Closure and impairment expenses, net	\$ 6	\$ 11	\$ 6	44	43	NM	NM
Operating Loss	\$ (14)	\$ (44)	\$ (54)	70	70	20	20

In 2015, the decrease in total revenues, excluding the impact of foreign currency translation, was driven primarily by a net unit decline related to Little Sheep units, partially offset by net new unit growth for Pizza Hut Home Service.

In 2014, the decrease in total revenues, excluding the impact of foreign currency translation, was driven primarily by same-store sales declines related to Little Sheep units.

In 2015 and 2014, the decreases in Operating Loss, excluding the impact of foreign currency translation, were driven by lower operating losses at Little Sheep.

### Corporate & Unallocated

Income/(Expense)	2015	2014	2013	% B/(W)	
				2015	2014
Corporate G&A expenses	\$ (144)	\$ (143)	\$ (123)	(1)	(16)
Unallocated closures and impairments (See Note 4)	—	(463)	(295)	NM	(57)
Refranchising gain (loss) (See Note 4)	13	17	5	(21)	NM
Other unallocated (See Note 6)	(11)	25	5	NM	NM
Interest income, net	8	14	5	(46)	NM
Income tax provision (See Note 14)	(168)	(54)	(135)	NM	60
Effective tax rate (See Note 14)	33.9%	322.3%	57.5%	288.4 ppts.	(264.8) ppts.

### Corporate G&A Expenses

In 2015 and 2014, the increase in Corporate G&A expenses was driven primarily by higher compensation costs due to wage inflation and higher headcount.

### Unallocated Closures and Impairments

In 2014 and 2013, Unallocated closures and impairments represent Little Sheep impairment charges. See Note 4.

### **Other Unallocated**

In 2015, Other unallocated primarily includes the write-down related to our decision to dispose of a corporate aircraft, partially offset by insurance recoveries related to the 2012 poultry supply incident.

In 2014, Other unallocated includes an insurance recovery related to the 2012 poultry supply incident.

### **Interest Income, Net**

The decrease in interest income, net for 2015 was driven by lower short term investments.

The increase in interest income, net for 2014 was driven by higher returns on short term investments.

### **Income tax provision**

Our income tax provision includes tax on our earnings at the China statutory tax rate of 25%. To the extent those earnings are not deemed permanently reinvested in China we are required to record US tax on those earnings, net of a credit for the foreign taxes paid in China. Our effective tax rate before special items was 33.7%, 26.8% and 28.9% in 2015, 2014 and 2013, respectively. The higher effective tax rate before special items in 2015 was due to a greater amount of our earnings being subject to US tax.

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

The Chinese government recently announced reform to its retail tax structure, which is intended to be a progressive and positive shift to more closely align with a more modern service-based economy. Under this reform, a 6% output VAT would replace the present 5% Business Tax currently applied to certain restaurant sales. Input VAT would be creditable to the aforementioned 6% output VAT. This change was effective May 1, 2016.

While it is difficult to estimate the full benefit of this VAT reform prior to its actual implementation, we expect a positive financial benefit, further enabling continued investment in the business and creating thousands of additional jobs in China.

### **Combined Cash Flows**

**Net cash provided by operating activities** was \$910 million in 2015 versus \$775 million in 2014. The increase was primarily due to the timing of payments for inventory, lower tax payments and higher Operating Profit before Special Items.

In 2014, net cash provided by operating activities was \$775 million compared to \$782 million in 2013. The decrease was due to lower Operating Profit before Special Items offset by the timing of payments for inventory.

**Net cash used in investing activities** was \$493 million in 2015 compared to \$512 million in 2014. The decrease was primarily driven by lower capital spending.

In 2014, net cash used in investing activities was \$512 million compared to \$575 million in 2013. The decrease was primarily driven by primarily driven by lower capital spending and higher franchising proceeds.

**Net cash used in financing activities** was \$213 million in 2015 compared to \$319 million in 2014. The decrease was primarily driven by changes in net parent investment.

In 2014, net cash used in financing activities was \$319 million compared to \$136 million in 2013. The increase was primarily driven by changes in net parent investment.

## **Liquidity and Capital Resources**

Historically we have funded our operations through cash generated from the operation of our Company-owned stores and from our franchise operations and dividend payments from our unconsolidated affiliates. Excess cash has historically been repatriated to YUM through intercompany loans or dividends.

Our ability to fund our future operations and capital needs will 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, capital expenditures and any distributions to our stockholders we may make. We believe that our future cash from operations, together with our access to funds on hand and capital markets, will provide adequate resources to fund these uses of cash and that our existing cash and net cash from operations will be sufficient to fund our operations and anticipated capital expenditures for the next 12 months.

Our balance sheet often reflects a working capital deficit, which is not uncommon in our industry and is also historically common for YUM. Company sales are paid for in cash or by credit card (which is quickly converted into cash). Substantial amounts of cash received from our restaurant operations are invested in new restaurant assets which are non-current in nature. As part of our working capital strategy, we negotiate favorable credit terms with vendors and our on-hand inventory turns faster than the related short-term liabilities as a result. Accordingly, it is not unusual for current liabilities to exceed current assets. We believe such a deficit has no significant impact on our liquidity or operations.

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 or absence of a credit rating;
- the liquidity of the overall capital markets; and
- the state of the Chinese, U.S. and global economies.

There can be no assurance, particularly as a new company that currently has no credit rating, that we will have access to the capital markets on terms acceptable to us or at all. See "Risk Factors" included elsewhere in this Information Statement for a further discussion.

Generally our income is subject to the China 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 overall tax rate equal to the 35% U.S. statutory income tax rate.

### *Borrowing Capacity*

As of December 31, 2015, we have two RMB300 million (approximately \$92 million in total) revolving credit facilities (each a "Credit Facility"). Our three-year Credit Facility matured on April 30, 2016 but remains available to us and may be renewed until the bank completes its annual internal credit review process. It contains a cross-default provision whereby our failure to make any payment on a principal amount from the other Credit Facility will constitute a default on the agreement. Our one-year Credit Facility matures on February 16, 2017. Each Credit Facility bears interest based on the prevailing rate stipulated by the People's Bank of China and contains financial covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other

transactions specified in the agreement. Interest on any outstanding borrowings is due at least monthly. As of December 31, 2015, the full amount of borrowings were available to us under each Credit Facility.

### *Contractual Obligations*

Our significant contractual obligations and payments as of December 31, 2015 consisted of:

	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Capital Leases	54	3	6	8	37
Operating Leases(a)	3,549	490	888	752	1,419
Purchase Obligations(b)	311	311	—	—	—
Total Contractual Obligations	<u>3,914</u>	<u>804</u>	<u>894</u>	<u>760</u>	<u>1,456</u>

- (a) These obligations, which are shown on a nominal basis, relate primarily to approximately 5,700 company-owned restaurants. See Note 10.
- (b) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. We have excluded agreements that are cancelable without penalty. Purchase obligations relate primarily to supply agreements, marketing, as well as consulting and other agreements.

We have not included in the contractual obligations table approximately \$18 million of liabilities for unrecognized tax benefits relating to various tax positions we have taken. These liabilities may increase or decrease over time as a result of tax examinations, and given the status of the examinations, we cannot reliably estimate the period of any cash settlement with the respective taxing authorities. These liabilities exclude amounts that are temporary in nature and for which we anticipate that over time there will be no net cash outflow.

### **Off-Balance Sheet Arrangements**

See the Unconsolidated Affiliates Guarantees sections of Note 16 for discussion of our off-balance sheet arrangements.

### **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 Chinese Renminbi ("RMB"). Historically, YUM has chosen not to hedge foreign currency risks related to our foreign currency denominated earnings and cash flows through the use of financial instruments. In addition, we attempt to minimize the exposure related to foreign currency denominated financial instruments by purchasing goods and services from third parties in local currencies when practical. Following the separation, the Company is considering a foreign currency risk management program to mitigate our foreign currency exchange risk.

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 fiscal year ended December 31, 2015 Operating Profit would have decreased approximately \$46 million if the RMB weakened 10% relative

to the U.S. dollar. 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 risk 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.

### **New Accounting Pronouncements Not Yet Adopted**

In May, 2014 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. In July, 2015 the FASB approved a one-year deferral of the effective date of the new revenue standard. ASU 2014-09 is now effective for the Company in our first quarter of fiscal 2018 with early adoption permitted in the first quarter of 2017. The standard allows for either a full retrospective or modified retrospective transition method. In March and April, 2016 the FASB issued the following amendments to clarify the implementation guidance: ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* and ASU No. 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. We do not believe the standards will impact our recognition of revenue from company-owned restaurants or our recognition of continuing fees from franchisees, which are based on a percentage of franchise sales. We are continuing to evaluate the impact the adoption of these standards will have on the recognition of other less significant revenue transactions such as initial fees from franchisees and refranchising of company-owned restaurants.

In February, 2016 the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the Company in our first quarter of fiscal 2019 with early adoption permitted. The standard must be adopted using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

In March, 2016 the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for the Company in our first quarter of fiscal 2017 with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

### **Critical Accounting Policies and Estimates**

Our reported results are impacted by the application of certain accounting policies that require us to make subjective or complex judgments. These judgments involve estimations of the effect of matters that are inherently uncertain and may significantly impact our quarterly or annual results of operations or financial condition. Changes in the estimates and judgments could significantly affect our results of operations, financial condition and cash flows in future years. A description of what we consider to be our most significant critical accounting policies follows.

### *Impairment or Disposal of Long-Lived Assets*

We review long-lived assets of restaurants (primarily PP&E and allocated intangible assets subject to amortization) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate recoverability based on the restaurant's forecasted undiscounted cash flows, which incorporate our best estimate of sales growth and margin improvement based upon our plans for the unit and actual results at comparable restaurants. Our restaurant impairment indicator and recoverability tests do not include a deduction for the license fee paid to YUM. For restaurant assets that are deemed to not be recoverable, we write down the impaired restaurant to its estimated fair value. Key assumptions in the determination of fair value are the future after-tax cash flows of the restaurant, which are reduced by future royalties a franchisee would pay, and a discount rate. The after-tax cash flows incorporate reasonable sales growth and margin improvement assumptions that would be used by a franchisee in the determination of a purchase price for the restaurant. Estimates of future cash flows are highly subjective judgments and can be significantly impacted by changes in the business or economic conditions.

When we believe it is more likely than not a restaurant or groups of restaurants will be refranchised for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. Expected net sales proceeds are generally based on actual bids from the buyer, if available, or anticipated bids given the discounted projected after-tax cash flows for the group of restaurants. Historically, these anticipated bids have been reasonably accurate estimations of the proceeds ultimately received. The after-tax cash flows used in determining the anticipated bids incorporate reasonable assumptions we believe a franchisee would make such as sales growth and margin improvement as well as expectations as to the useful lives of the restaurant assets. These after-tax cash flows also include a deduction for the anticipated, future royalties we would receive under a franchise agreement with terms substantially at market entered into simultaneously with the refranchising transaction.

The discount rate used in the fair value calculations is our estimate of the required rate of return that a franchisee would expect to receive when purchasing a similar restaurant or groups of restaurants and the related long-lived assets. The discount rate incorporates rates of returns for historical refranchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

We evaluate indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicates impairment might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future after-tax cash flows associated with the intangible asset. Our only indefinite-lived intangible asset is our Little Sheep trademark. In 2013, we wrote down the Little Sheep trademark from its carrying value of \$414 million to \$345 million as a result of an impairment charge of \$69 million. In 2014, we recorded impairment charges of \$284 million to write the trademark down to its estimated fair value. The Little Sheep trademark has a book value of \$56 million at December 31, 2015. Our 2015 fair value estimate of the Little Sheep trademark exceeded its carrying value. Fair value was determined using a relief-from-royalty valuation approach that included estimated future revenues as a significant input, and a discount rate of 13% as our estimate of the required rate-of-return that a third-party buyer would expect to receive when purchasing the Little Sheep trademark. The primary drivers of fair value include franchise revenue growth and revenues from a wholly-owned business that sells seasoning to retail customers. Franchise revenue growth reflects annual same-store sales growth of 4% and approximately 35 new franchise units per year, partially offset by the impact of approximately 25 franchise closures per year. The seasoning business is forecasted to generate sales growth rates consistent with historical results.



## *Impairment of Goodwill*

We evaluate goodwill for impairment on an annual basis as of the beginning of our fourth quarter or more often if an event occurs or circumstances change that indicates impairment might exist. Goodwill is evaluated for impairment by determining whether the fair value of our reporting units exceed their carrying values. Our reporting units are our individual operating segments. Fair value is the price a willing buyer would pay for the reporting unit, and is generally estimated using discounted expected future after-tax cash flows from Company-owned restaurant operations and franchise royalties.

Future cash flow estimates and the discount rate are the key assumptions when estimating the fair value of a reporting unit. Future cash flows are based on growth expectations relative to recent historical performance and incorporate sales growth and margin improvement assumptions that we believe a third-party buyer would assume when determining a purchase price for the reporting unit. The sales growth and margin improvement assumptions that factor into the discounted cash flows are highly correlated as cash flow growth can be achieved through various interrelated strategies such as product pricing and restaurant productivity initiatives. The discount rate is our estimate of the required rate of return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

Other than the Little Sheep reporting unit discussed below, the fair values of our other reporting units were substantially in excess of their respective carrying values as of the goodwill testing dates in 2015, 2014 and 2013, respectively.

We wrote down Little Sheep's goodwill from \$384 million to \$162 million as a result of an impairment charge of \$222 million in 2013. In 2014, we completely impaired the remaining goodwill balance at the Little Sheep reporting unit of \$160 million. The fair value of the Little Sheep reporting unit in both years was based on the estimated price a willing buyer would pay, and was determined using an income approach with future cash flow estimates generated by the business as a significant input. Future cash flow estimates were impacted by assumptions related to new unit development, sales growth and margin improvement. These fair values incorporated a discount rate of 13% as our estimate of the required rate of return that a third-party buyer would expect to receive when purchasing the Little Sheep reporting unit.

When we rebrand restaurants, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the rebranding versus the portion of the reporting unit that will be retained. The fair value of the portion of the reporting unit disposed of in a rebranding is determined by reference to the discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee, which include a deduction for the anticipated, future royalties the franchisee will pay us associated with the franchise agreement entered into simultaneously with the rebranding transaction. Appropriate adjustments are made to the fair value determinations if such franchise agreement is determined to not be at prevailing market rates.

The discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee is reduced by future royalties the franchisee will pay the Company. The Company thus considers the fair value of future royalties to be received under the franchise agreement as fair value retained in its determination of the goodwill to be written off when rebranding. Others may consider the fair value of these future royalties as fair value disposed of and thus would conclude that a larger percentage of a reporting unit's fair value is disposed of in a rebranding transaction.

*Income Taxes*

Our operations have historically been included in the U.S. federal and U.S. state income tax returns filed by YUM. Our foreign income tax returns, primarily those filed by our China subsidiaries, are filed on an individual entity basis. Income tax expense and other income tax related information contained in our Combined Financial Statements are presented on a separate return basis as if we filed our own U.S. federal and U.S. state tax returns rather than having been included in these YUM tax returns. The separate return method applies the accounting guidance for income taxes to the standalone financial statements as if we were a separate taxpayer and a standalone enterprise for the periods presented. The calculation of our income taxes on a separate return basis requires a considerable amount of judgment and the use of both estimates and allocations. Current income tax liabilities related to our operations under the separate return method are assumed to be immediately settled with YUM and are relieved through the parent company investment account and the net transfers to parent in the combined statements of cash flows.

At December 31, 2015 and 2014, we had valuation allowances of approximately \$45 million and \$34 million to reduce our \$173 million and \$187 million of deferred tax assets, respectively, to amounts that are more likely than not to be realized. The deferred tax assets not subject to a valuation allowance primarily relate to temporary differences in our profitable China legal entities. In evaluating our ability to recover our deferred tax assets, we consider future taxable income as well as carryforward periods and restrictions on usage. The estimation of future taxable income and our resulting ability to utilize deferred tax assets can significantly change based on future events, including our determinations as to feasibility of certain tax planning strategies. Thus, recorded valuation allowances may be subject to material future changes.

As a matter of course, we are regularly subject to tax audits and examination by federal, state and foreign tax authorities. We recognize the benefit of positions taken or expected to be taken in our tax returns when it is more likely than not that the position would be sustained upon examination by these tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. At December 31, 2015 and 2014 we had \$15 million and \$13 million, respectively, of unrecognized tax benefits. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

We have investments in foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. We have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone these basis differences from reversing with a tax consequence. We estimate that our total temporary difference upon which we have not provided deferred tax is approximately \$1.6 billion at December 31, 2015. However, it is not practicable to determine the deferred tax liability on this amount due to uncertainty with regard to the timing or manner of repatriation and the related impact on local taxes, withholding taxes and foreign tax credits.

If our intentions regarding our ability and intent to postpone these basis differences from reversing with a tax consequence change, deferred tax may need to be provided on this excess that could materially impact the provision for income taxes.

See Note 14 of the Combined Financial Statements for a further discussion of our income taxes.

Years to date ended May 31, 2016 and May 31, 2015

## Results of Operations

### Summary

All comparisons within this summary are versus the same period a year ago. All system sales growth and Operating Profit comparisons exclude the impact of foreign currency.

In the first half of 2016, our Operating profit increased 37%, driven by same-store sales growth of 7% at KFC, which, during the second quarter, delivered its fourth consecutive quarter of same-store sales growth. This sales growth more than offset weakness at Pizza Hut Casual Dining where same-store sales declined 12% in the first half of the year.

Effective May 1, 2016, the Chinese government implemented reform of its retail tax structure, which is intended to be a progressive and positive shift to more closely align with a more modern service-based economy. Under this reform a 6% output value added tax ("VAT") replaces a 5% Business Tax currently applied to certain restaurant sales. Input VAT is creditable to the aforementioned 6% output VAT. We believe this change will have a material benefit to Company restaurant margins balance of year. However, the scale and nature of the reform, along with implementation and transition challenges, make it very difficult to pinpoint the exact magnitude of the impact. For the balance of the year we expect labor and commodity inflation to partially offset this benefit. Given this and our first half outperformance, our current guidance for full-year restaurant margins is now at least 17% versus 16% previously, prior to the license fee paid to YUM.

The Combined Results of Operations for the years to date ended May 31, 2016 and May 31, 2015, are presented below:

	Year to Date		% B/(W)
	2016	2015	Reported
Company sales	\$ 2,836	\$ 2,843	—
Franchise fees and income	55	49	12
Total revenues	\$ 2,891	\$ 2,892	—
Restaurant profit	\$ 442	\$ 377	18
Restaurant Margin %	15.6%	13.2%	2.4 ppts.
Operating Profit	\$ 296	\$ 228	30
Interest income, net	4	2	80
Income tax provision	(78)	(65)	(23)
Net Income—including noncontrolling interests	222	165	34
Net Income—noncontrolling interests	—	—	NM
Net Income—Yum China Holdings, Inc.	\$ 222	\$ 165	34
Reported Effective tax rate	26.2%	28.0%	

	Year to Date	
	2016	2015
System Sales Growth	2%	(6)%
System Sales Growth, excluding FX	7%	(5)%
Same-store Sales Growth (Decline)%	2%	(11)%

<u>Unit Count</u>	<u>5/31/2016</u>	<u>5/31/2015</u>	<u>% Increase (Decrease)</u>
Company-owned	5,800	5,520	5
Unconsolidated Affiliates	811	773	5
Franchise	635	560	13
	<u>7,246</u>	<u>6,853</u>	6

### Segment Results

#### KFC

	<u>Year to Date</u>		<u>% B/(W)</u>	
	<u>2016</u>	<u>2015</u>	<u>Reported</u>	<u>Ex FX</u>
Company sales	\$ 1,975	\$ 1,914	3	8
Franchise fees and income	53	47	11	16
Total revenues	<u>\$ 2,028</u>	<u>\$ 1,961</u>	3	8
Restaurant profit	\$ 339	\$ 254	34	40
Restaurant margin %	17.2%	13.3%	3.9 ppts.	3.9 ppts.
G&A expenses	\$ 62	\$ 61	(1)	(6)
Closure and impairment expenses, net	\$ 21	\$ 15	(39)	(48)
Operating Profit	\$ 300	\$ 209	44	51

	<u>Year to Date</u>	
	<u>2016</u>	<u>2015</u>
System Sales Growth	5%	(10)%
System Sales Growth, excluding FX	10%	(9)%
Same-Store Sales Growth (Decline)%	7%	(13)%

<u>Unit Count</u>	<u>5/31/2016</u>	<u>5/31/2015</u>	<u>% Increase (Decrease)</u>
Company-owned	3,815	3,767	1
Unconsolidated Affiliates	811	773	5
Franchise	413	349	18
	<u>5,039</u>	<u>4,889</u>	3

### Company Sales and Restaurant Profit

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

<u>Income / (Expense)</u>	<u>Year to Date 2016 vs. 2015</u>				
	<u>2015</u>	<u>Store Portfolio Actions</u>	<u>Other</u>	<u>FX</u>	<u>2016</u>
Company sales	\$ 1,914	\$ 27	\$ 130	\$ (96)	\$ 1,975
Cost of sales	(625)	(6)	—	28	(603)
Cost of labor	(372)	(3)	(26)	19	(382)
Occupancy and other	(663)	(4)	(16)	32	(651)
Restaurant profit	<u>\$ 254</u>	<u>\$ 14</u>	<u>\$ 88</u>	<u>\$ (17)</u>	<u>\$ 339</u>

The year to date increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were Company same-store sales growth of 7%, commodity deflation of 2%, the impact of retail tax structure reform (primarily in cost of sales) and lower utilities partially offset by wage inflation of 7%.

### Franchise Fees and Income

The year to date increase in Franchise fees and income, excluding the impact of foreign currency translation, was driven by the impact of refranchising, franchise same-store sales growth of 4% and net new unit growth.

### G&A Expenses

The year to date increase in G&A expenses, excluding the impact of foreign currency translation, was driven by higher compensation costs due to wage inflation and higher headcount.

### Operating Profit

The year to date increase in Operating Profit, excluding the impact of foreign currency translation, was driven by the impact of same-store sales growth, net new unit growth and lower restaurant operating costs, including the favorable impact of the retail tax structure reform, partially offset by higher restaurant impairment charges. Additionally, leap year added an extra day in 2016 resulting in incremental Operating Profit of \$5 million.

### Pizza Hut Casual Dining

	Year to Date		% B/(W)	
	2016	2015	Reported	Ex FX
Company sales	\$ 742	\$ 792	(6)	(2)
Franchise fees and income	—	—	NM	NM
Total revenues	\$ 742	\$ 792	(6)	(2)
Restaurant profit	\$ 96	\$ 114	(15)	(11)
Restaurant margin %	13.0%	14.3%	(1.3) ppts.	(1.3) ppts.
G&A expenses	\$ 34	\$ 31	(8)	(13)
Closure and impairment expenses, net	\$ 10	\$ 1	NM	NM
Operating Profit	\$ 52	\$ 82	(35)	(32)

	Year to Date	
	2016	2015
System Sales Growth	(6)%	10%
System Sales Growth, excluding FX	(1)%	12%
Same-Store Sales Growth (Decline)%	(12)%	(5)%

Unit Count	5/31/2016	5/31/2015	% Increase (Decrease)
	Company-owned	1,593	1,383
Franchise	17	5	NM
	<u>1,610</u>	<u>1,388</u>	16

## Company Sales and Restaurant Profit

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

Income / (Expense)	Year to Date 2016 vs. 2015				
	2015	Store Portfolio Actions	Other	FX	2016
Company sales	\$ 792	\$ 74	\$ (88)	\$ (36)	\$ 742
Cost of sales	(237)	(21)	42	10	(206)
Cost of labor	(166)	(20)	9	8	(169)
Occupancy and other	(275)	(29)	20	13	(271)
Restaurant profit	\$ 114	\$ 4	\$ (17)	\$ (5)	\$ 96

The year to date increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit were Company same-store sales declines of 12% and wage inflation of 7% partially offset by 3% commodity deflation, the impact of retail tax structure reform (primarily in cost of sales) and lower utilities.

## G&A Expenses

The year to date increase in G&A expenses, excluding the impact of foreign currency translation, was driven by higher compensation costs due to wage inflation and higher headcount.

## Operating Profit

The year to date decrease in Operating Profit, excluding the impact of foreign currency translation, was driven by same-store sales declines and higher restaurant impairment charges, partially offset by net new unit growth and lower restaurant operating costs, including the favorable impact of the retail tax structure reform.

## All Other Segments

All Other Segments includes Pizza Hut Home Service, East Dawning and Little Sheep.

	Year to Date		% B/(W)	
	2016	2015	Reported	Ex FX
Company sales	\$ 119	\$ 137	(13)	(9)
Franchise fees and income	2	2	13	18
Total revenues	\$ 121	\$ 139	(13)	(9)
Restaurant profit	\$ 7	\$ 9	(27)	(22)
Restaurant margin %	5.6%	6.6%	(1.0) ppts.	(0.9) ppts.
G&A expenses	\$ 13	\$ 12	(2)	(7)
Closure and impairment expenses, net	\$ —	\$ 3	95	94
Operating Profit	\$ (3)	\$ (3)	(20)	(20)

**Corporate & Unallocated**

<u>Income/(Expense)</u>	<u>Year to Date</u>		<u>% B/(W)</u>
	<u>2016</u>	<u>2015</u>	
Corporate G&A expenses	\$ (61)	\$ (64)	3
Refranchising gain (loss) (See Note 4)	4	4	24
Other unallocated	4	—	NM
Interest income, net	4	2	80
Income tax provision (See Note 8)	(78)	(65)	(23)
Effective tax rate (See Note 8)	26.2%	28.0%	1.8 ppts.

**Corporate G&A Expenses**

The year to date decrease in G&A expenses was driven by foreign currency translation of \$2 million and lower incentive compensation costs.

**Interest Income, Net**

The year to date increase in interest income, net was driven by higher returns on short term investment.

**Income Tax Provision**

Our income tax provision includes tax on our earnings at the China statutory tax rate of 25%. To the extent those earnings are not deemed permanently reinvested in China we are required to record US tax on those earnings, net of a credit for the foreign taxes paid in China. Our effective tax rate before special items was 26.2% and 28.0% in 2016 and 2015, respectively. Our year to date effective tax rate was lower than the prior year primarily due to the decreased cost of repatriating current year foreign earnings.

**Combined Cash Flows**

**Net cash provided by operating activities** was \$422 million in 2016 versus \$396 million in 2015. The increase was primarily driven by higher Net Income, partially offset by timing of payments for inventory.

**Net cash used in investing activities** was \$214 million in 2016 compared to \$245 million in 2015. The decrease was primarily driven by lower capital spending, partially offset by an increase in short-term investments.

**Net cash used in financing activities** was \$118 million in 2016 compared to \$103 million in 2015. The increase was primarily driven by changes in net parent investment.

**Liquidity and Capital Resources**

Historically we have funded our operations through cash generated from the operation of our Company-owned stores and from our franchise operations and dividend payments from our unconsolidated affiliates. Excess cash has historically been repatriated to YUM through intercompany loans or dividends.

Our ability to fund our future operations and capital needs will depend on our ongoing ability to generate cash from operations. Our principal uses of cash in the future will be primarily to fund our operations, capital expenditures and any distributions to our stockholders we may make. We believe that our future cash from operations, together with our access to funds on hand and capital markets,

will provide adequate resources to fund these uses of cash and that our existing cash will be sufficient to fund our operations and anticipated capital expenditures for the next 12 months.

Our balance sheet often reflects a working capital deficit, which is not uncommon in our industry and is also historically common for YUM. Company sales are paid for in cash or by credit card (which is quickly converted into cash). Substantial amounts of cash received from our restaurant operations are invested in new restaurant assets which are non-current in nature. As part of our working capital strategy, we negotiate favorable credit terms with vendors and our on-hand inventory turns faster than the related short-term liabilities as a result. Accordingly, it is not unusual for current liabilities to exceed current assets. We believe such a deficit has no significant impact on our liquidity or operations.

If our cash flows from operations are less than we require, we may need to access the long-term and short-term 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 or absence of a credit rating;
- the liquidity of the overall capital markets; and
- the state of the Chinese, U.S. and global economies.

There can be no assurance, particularly as a new company that currently has no credit rating, that we will have access to the capital markets on terms acceptable to us or at all. See "Risk Factors" included elsewhere in this Information Statement for a further discussion.

Generally our income is subject to the China 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 overall tax rate equal to the 35% U.S. statutory income tax rate.

#### *Borrowing Capacity*

As of May 31, 2016, we have two RMB300 million revolving credit facilities (approximately \$91 million in total at May 31, 2016) (each a "Credit Facility"). Our three-year Credit Facility matured on April 30, 2016 but remains available to us and may be renewed until the bank completes its annual internal credit review process. It contains a cross-default provision whereby our failure to make any payment on a principal amount from the other Credit Facility will constitute a default on the agreement. Our one-year Credit Facility matures on February 16, 2017. Each Credit Facility bears interest based on the prevailing rate stipulated by the People's Bank of China and contains financial covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the agreement. Interest on any outstanding borrowings is due at least monthly. As of May 31, 2016 the full amount of borrowings were available to us under each Credit Facility.

#### **Quantitative and Qualitative Disclosures About Market Risk**

There were no material changes during the year to date ended May 31, 2016 to the disclosures regarding market risk set forth on page 64.



## BUSINESS

### Overview

Yum China Holdings, Inc. is the largest restaurant company in China with approximately 7,200 restaurants, \$6.9 billion of revenue, net income of \$323 million and \$998 million of adjusted EBITDA in 2015. Our growing restaurant base consists of China's leading restaurant brands, including KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, East Dawning and Little Sheep. Following our separation from Yum! Brands, we will have the exclusive right to operate and sub-license the KFC, Pizza Hut and Taco Bell brands in China, and will own the East Dawning and Little Sheep concepts outright. We were the first major global restaurant brand to enter China in 1987 and have developed deep experience operating in the market. We have since grown to become one of China's largest retail developers covering over 1,100 cities and opening an average of two new locations per day over the past five years.

KFC is the leading Quick-Service Restaurant ("QSR") brand in China. Today, KFC operates over 5,000 restaurants in over 1,100 cities across China. Measured by number of restaurants, KFC has a two-to-one lead over the nearest Western QSR competitor and continues to grow in both large and small cities. Similarly, Pizza Hut Casual Dining is the leading Casual Dining Restaurant ("CDR") brand in China. Today, Pizza Hut Casual Dining, with nearly 1,600 restaurants in over 400 cities, has a seven-to-one lead in terms of restaurants over its nearest Western CDR competitor.



Over the past three decades, we have built a significant lead not just in number of restaurants, but also in brand awareness and loyalty, proprietary consumer know-how in individual provinces and city tiers, a national supply-chain network, product innovation and quality processes, a motivated and highly-educated workforce and a long-tenured and passionate local management team. We believe that these competitive strengths are difficult to replicate.

We generate strong consumer regard and loyalty by developing menus that cater to local tastes in addition to offering global favorites like KFC's Original Recipe chicken. Each of our brands has proprietary menu items, many developed in China, and emphasizes the preparation of food with

high-quality ingredients, as well as unique recipes and special seasonings to provide appealing, tasty and convenient food at competitive prices. Most of our restaurants offer consumers the ability to dine in and/or order delivery or carry-out food. With decades of accumulated consumer know-how and loyalty in China, we believe our brands are integrated into Chinese popular culture and consumers' daily lives based on our extensive history in China and substantial presence there.

We opened nearly 750 new restaurants in 2015 and more than 3,000 over the past four years—the equivalent of two new restaurant openings per day. While we may either operate, franchise and/or license restaurant brands, we currently own and operate either through direct company ownership or minority ownership in unconsolidated affiliates approximately 90% of our restaurants, and this high ownership percentage has driven our historically attractive return on investment.



Given the strong competitive position of the KFC and Pizza Hut Casual Dining brands, China's growing economy and population of over 1.3 billion, we expect to continue growing our system sales by adding KFC and Pizza Hut Casual Dining restaurants and through growing same-store sales.

**Strong Cash Flow Generator**

(in millions)	2015	2014	2013
Revenues	\$ 6,909	\$ 6,934	\$ 6,905
Net Income (loss)—Yum China Holdings, Inc.	\$ 323	\$ (7)	\$ 126
Net income (loss)—noncontrolling interests	5	(30)	(27)
Income tax provision	168	54	135
Interest income, net	(8)	(14)	(5)
Reported Operating Profit	488	3	229
Depreciation and amortization	425	411	394
Store impairment charges(b)	70	54	31
Special Items Expense—Operating Profit(a)	15	463	295
Adjusted EBITDA(c)	\$ 998	\$ 931	\$ 949

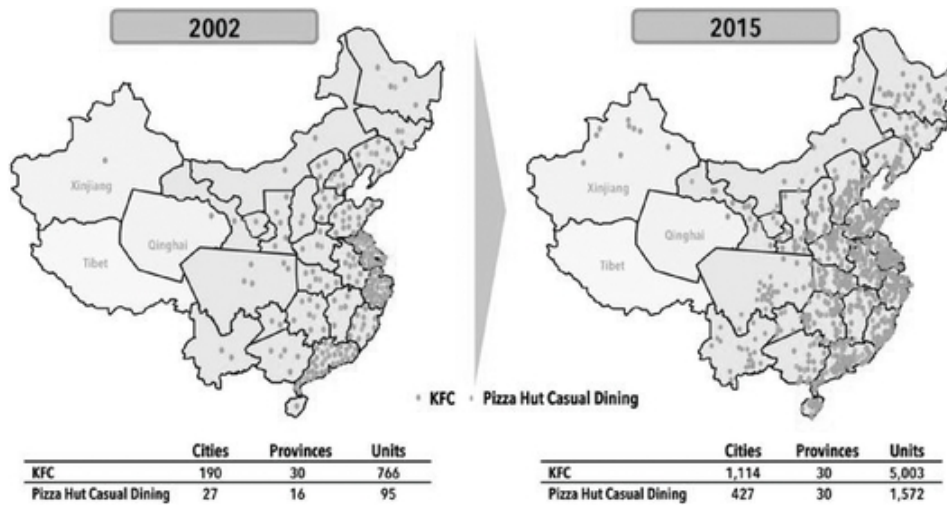
- (a) The Company believes that the presentation of Special Items provides additional information to investors to facilitate the comparison of past and present results, excluding those items that the Company does not believe are indicative of our ongoing operations due to their size and/or nature. Refer to further discussion of non-GAAP measures in MD&A.
- (b) Refer to Note 4 of the Combined Financial Statements.
- (c) The Company provides Adjusted EBITDA as a non-GAAP measure because we believe that investors may find it useful in measuring operating performance. Refer to further discussion of non-GAAP measures in MD&A.

**Industry Backdrop**

The development and growth of our business has benefited from China's rapidly growing middle class and increasing urbanization. Although changes in consumer taste are possible, the expansion of China's middle class has generally been correlated with an increase in eating outside of the home, which is in part driven by higher discretionary income associated with this demographic group. According to McKinsey, middle class and affluent households are expected to continue to grow, increasing from 116 million people in 2016 to an estimated 315 million by 2030. The number of working-age consumers is expected to increase by 100 million during the same period as their average per capita consumption doubles. By 2030, spending by this group is expected to account for an estimated 12 cents for every \$1 of worldwide urban consumption. With this, annual household spending on dining out in China may double. The Company will continue to focus on this core consumer segment and on serving China's growing middle class.

In 2002 87% of the middle class lived in coastal China and only 13% of the middle class lived in inland provinces. According to macroeconomic models prepared by McKinsey in 2012, by 2022 it is expected that only 61% of the middle class will live in coastal cities as the middle class expands more rapidly in inland cities. Likewise, according to the same models, by 2022 it is expected that 39% of the middle class will live in cities with a population of more than one million. This is consistent with the Company's development plans which have focused on entering new trade zones and building new restaurants further inland.

**Growing with a Shifting Middle Class**



**Reporting Segments**

We have two reportable segments: KFC and Pizza Hut Casual Dining. We also have three other operating segments consisting of the operations of Pizza Hut Home Service, East Dawning and Little Sheep, which are combined and referred to as All Other Segments. While we have rights to the Taco Bell concept, we currently have no operations and expect to open the first Taco Bell restaurant in China in 2016.

The following table presents the total segment revenue attributable to each reportable segment for each of the last three fiscal years.

	Revenues (\$Bn)		
	2015	2014	2013
KFC	4.8	4.9	5.0
Pizza Hut Casual Dining	1.8	1.7	1.5
All Other Segments	0.3	0.3	0.4
	<u>\$ 6.9</u>	<u>\$ 6.9</u>	<u>\$ 6.9</u>

See Note 15 of the Combined Financial Statements for additional information concerning the Company's segments.

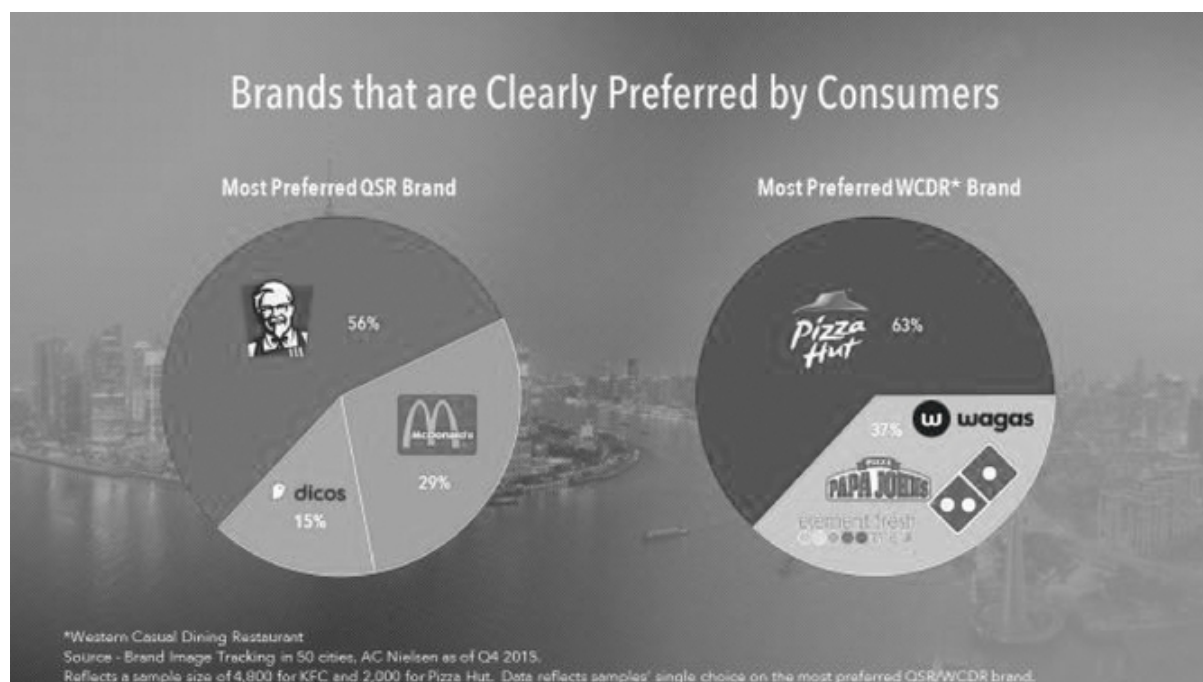
**Restaurant Concepts**

KFC

KFC is the largest restaurant brand in China in terms of system sales and number of restaurants. Founded in Corbin, Kentucky by Colonel Harland D. Sanders in 1939, KFC opened its first restaurant in Beijing, China in 1987. Today, almost 30 years later, there are over 5,000 KFCs in China, and the Company plans to continue adding new units. In addition to Original Recipe chicken, KFC in China has an extensive menu featuring pork, beef, seafood, rice dishes, fresh vegetables, soups, breakfast, desserts, and many other products, including premium coffee. The KFC brand is also seeking to increase revenues from its restaurants throughout the day with breakfast, delivery and 24-hour operations in many of its locations.

Pizza Hut Casual Dining

Pizza Hut Casual Dining is the largest Western CDR brand in China as measured by system sales and number of restaurants. It operates in over 400 cities and offers multiple dayparts, including breakfast and afternoon tea. The first Pizza Hut in China opened in 1990, and as of 2015 year-end there were nearly 1,600 Pizza Hut Casual Dining restaurants. Pizza Hut Casual Dining has an extensive menu offering a broad variety of pizzas, entrees, pasta, rice dishes, appetizers, beverages and desserts. In 2015, Pizza Hut Casual Dining was ranked the "Most Preferred Western Casual Dining Restaurant" by The Nielsen Corporation.



Other Concepts

**Pizza Hut Home Service.** The Company introduced pizza delivery to China in 2001, and today there are over 300 Pizza Hut Home Service units in nearly 50 cities, specializing in professional and convenient delivery of Chinese food as well as pizza. Over 70% of the brand's orders come through online or mobile channels. Its professional service and diverse menu provide a strong platform for continued growth in the future.

**Little Sheep.** A casual-dining brand with its roots in Inner Mongolia, China, Little Sheep specializes in "Hot Pot" cooking, which is very popular in China particularly during the winter months. Little Sheep has approximately 250 units in both China and international markets today. Of these, over 200 units are franchised.

**East Dawning.** East Dawning is a Chinese food quick-service restaurant brand, primarily located in large coastal cities. There were 15 restaurants as of 2015 year end. This brand is not viewed as a significant growth engine for the Company.

**Taco Bell.** Taco Bell is the world's leading QSR brand specializing in Mexican-style food, including tacos, burritos, quesadillas, salads, nachos and similar items. While there are over 6,400 Taco Bell units globally, currently no locations exist in China. The Company plans to open its first Taco Bell restaurant in 2016.

## Competitive Strengths

We believe the following strengths, developed over our almost 30-year operating history, differentiate us and serve as a platform for future growth.

**Unique Company culture based on global systems and local spirit.** We have operated for three decades as part of Fortune 500 global companies, first under PepsiCo, and then as a part of Yum! Brands following its own spin off from PepsiCo in 1997. Our Company culture promotes systems, practices and accountability that are consistent with a global company. In addition, our experience of operating for three decades across the breadth of China has enabled us to develop a uniquely Chinese spirit that promotes and rewards team-work, respect for the individual, and a quest for excellence in everything we do. We believe this unique combination allows us to delight our customer everyday while also becoming an employer of choice for our workforce. We employ approximately 400,000 people, who serve an average of over five million Chinese consumers daily.

**Category-leading brands in one of the world's fastest growing economies.** KFC and Pizza Hut Casual Dining are China's leading brands in their respective categories as measured by number of units and consumer preference. This significant competitive advantage is largely a result of our early entry into the China market. Rapid China infrastructure development and a growing consumer class position our brands for continued growth.



**Strong Presence in 1,100+ Cities, 2 Billion+ Consumer Visits a Year**

**High-quality, great-tasting food, including local favorites with compelling value and a Western experience.** Our KFC and Pizza Hut Casual Dining brands offer consumers a Western menu and experience, while also providing menu items that appeal to local taste preferences. Moreover, we provide our guests a clean and attractive dining destination. Our menus focus on providing our customers great food at a great value.

**Strong Unit Economics.** Our focus on driving efficiencies and improving our operating model has led to increasing margins and strong cash flow from our restaurants. This focus will continue, and we expect our financial results will benefit from operating leverage as sales grow. Our operating discipline has allowed us to deliver a new restaurant cash-on-cash pre-tax payback period of approximately three to four years for KFC and Pizza Hut Casual Dining.

**Extensive experience in developing new restaurants.** Our development capability consists of hundreds of experienced development specialists focused on all major regions of China. We continuously update a proprietary database reflecting our own knowledge of thousands of trade zones over nearly three decades. We have extensive knowledge of infrastructure development and trade zone evolution. This allows for more in-depth site selection analysis and more accurate sales projections for

new units. Our real estate development capabilities have allowed us to historically maintain a high rate of new restaurant openings with attractive returns on investment.

*Knowledge and understanding of Chinese consumers and versatile approach to marketing.* With approximately 7,200 restaurants, \$6.9 billion of revenue, net income of \$323 million and \$998 billion of adjusted EBITDA in 2015, the Company's scale enables significant marketing investment to broadly advertise and promote our brands, and the resources to understand and leverage consumer insights and changing consumer behavior.

*Supply chain management with a focus on food safety and quality.* Given our size and scale, the Company can effectively leverage suppliers to meet our high standards for food safety and quality, while negotiating prices that reflect our purchasing power in the category. With distribution centers strategically placed throughout China, we have the ability to readily enter new cities and efficiently supply these new restaurants with high-quality food.

*Internal people development culture and training systems.* We have an extensive system to support the growing people capability that is needed to enable rapid expansion. For example, our internally developed management training system called Whampoa Academy enables us to train and develop our high-potential team members into restaurant general managers ("RGMs"). This program was recently recognized by The Association for Talent Development with a 2015 "Excellence in Practice Award." Our focus on people development results in increased loyalty: our above-store managers have average tenures of over 12 years.

*World class operations led by certified restaurant managers.* Every restaurant has an RGM and at least one Assistant Manager. With thousands of restaurants from which to draw talent, the Company can utilize existing restaurant operating expertise to staff new restaurants, as Assistant Managers are promoted to RGMs of new units. This continuity enables new restaurants to meet our high operational standards upon opening.

*Digital and technology capability, especially in mobile and social media.* The Company is in a strong position to invest in emerging technologies, such as digital ordering, cashless payments and loyalty programs. The Company is often sought as a key strategic partner by China's leading-edge technology companies in digital and social media. We are on the forefront of these offerings because they are critical to maintain our competitive advantages in the market place.

*Experienced senior management team.* Many of our functional leaders have experience with our Company since our early days in China. Because of our strong track record of growth historically, we have been able to attract and retain highly talented management team members across our various functions.

## **Our Strategies**

The Company's primary strategy is to grow sales and profits across its portfolio of brands through increased brand relevance, new store development and enhanced unit economics. Other areas of investment include store remodels; product innovation and quality; improved operating platforms leading to improved service; store-level human resources, including recruiting and training; creative marketing programs; and product testing.

### **New-Unit Growth**

*Rapidly growing consumer class.* Given the rapidly expanding middle class, we believe that there is significant opportunity to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new markets. We expanded our restaurant count from 3,906 units in 2010 to approximately 7,200 as of the end of 2015, representing a compounded annual growth rate ("CAGR") of 13%.

### Substantial New-Unit Growth Potential...



**Franchise opportunity.** Currently, only 9% of our restaurants are operated by franchisees. Going forward, we anticipate high franchisee demand for our brands, supported by strong unit economics, operational consistency and simplicity, and multiple store types to drive restaurant growth. While the franchise market in China is still in its early stages compared to developed markets, the Company plans to continue to increase its franchise-owned store percentage over time.

**Development pipeline.** We consider our development pipeline to be robust, and believe we have an opportunity to grow our restaurant count three times over the next two to three decades. For additional information on the risks associated with this growth strategy, see the section entitled "Risk Factors," including the risk factor entitled "We may not attain our target development goals, aggressive development could cannibalize existing sales and new restaurants may not be profitable." We also believe the opportunity to add Taco Bell restaurants as well as other concepts could further increase our total unit count.

#### Same-Store Sales Growth

**Flavor innovation.** We are keenly aware of the strength of our core menu items but we also seek to continue to introduce innovative items to meet evolving consumer preferences and local tastes, while simultaneously maintaining brand relevance and broadening brand appeal. For example, KFC offers soy bean milk, fried dough sticks, and congee for breakfast. Outside of breakfast, KFC has introduced rice dishes, Peking style chicken twisters, roasted chicken products, egg tarts and fresh lemon/calamansi tea.

**Daypart opportunities.** We believe there are significant daypart opportunities across our brands. For example, at KFC we recently introduced premium coffee to expand our breakfast and afternoon dayparts. Pizza Hut Casual Dining has focused on breakfast and afternoon tea to further grow same-store sales.

**Customer frequency through mobile connectivity.** KFC is rolling out its K-Gold loyalty program in 2016 with the eventual goal of a fully digitized customer experience. The brand will also improve the customer experience through ease of ordering and speed of service, supported by innovative technology. Pizza Hut Casual Dining is a leader in providing a digital experience with free in-store Wi-Fi, queue ticketing and pre-ordering, partnering with Alipay and WeChat to receive cashless payments, and introducing a loyalty program.



***Best in-store experience.*** The Company continuously looks for ways to improve the customer experience. For example, starting in 2015, KFC revamped its remodel strategy to accelerate restaurant upgrades. Pizza Hut Casual Dining is also well regarded for offering consumers a contemporary casual dining setting. Our brands also look to improve efficiency to drive sales growth. For example, we are simplifying menu boards and fine-tuning our digital menu boards and in-store self-service order devices. We are also exploring expansion of our delivery business through online-to-offline, or O2O, aggregators.

***Value innovation.*** KFC will continue to focus on value with product offerings such as the bucket and increased combo options throughout the day. Pizza Hut Casual Dining will leverage past innovations like business lunch set and breakfast.

***O2O and home delivery.*** China is a world leader in the emerging online-to-offline or O2O market. This is where digital online ordering technologies interact with traditional brick and mortar retail to enhance the shopping experience. In the restaurant sector, KFC and Pizza Hut Home Service are already leading brands in home delivery. We see considerable further growth potential in the rapidly growing in-home consumption market by aligning our proven restaurant operation capabilities with emerging specialized O2O firms (known as aggregators) that offer consumers the ability to order any restaurant food at home. This could be an exciting new business opportunity with potential to create substantial stockholder value.

### **Enhanced Profitability**

We focus on improving our unit-level economics and overall profits while also making the necessary investments to support our future growth. Since we increased our focus on restaurant margin improvement in late 2013, restaurant margins at KFC improved two percentage points from 2013 to 2015. We will pursue additional opportunities to improve profits over the long-term by continuing our focus on fiscal discipline and leveraging fixed costs, while maintaining the quality customer experience for which our brands are known.

### **Franchise and New Business Development**

The franchise programs of the Company are designed to promote consistency and quality, and the Company is selective in granting franchises. Under standard franchise agreements, franchisees supply capital—initially by paying a franchise fee to the Company; by purchasing or leasing the land use right, building, equipment, signs, seating, inventories and supplies; and, over the longer term, by reinvesting in the business through expansion or acquisitions. Franchisees contribute to the Company's revenues on an ongoing basis through the payment of royalties based on a percentage of sales.

The Company believes that it is important to maintain strong and open relationships with our franchisees and their representatives. To this end, the Company invests a significant amount of time working with the franchisee community and their representative organizations on key aspects of the business, including products, equipment, operational improvements and standards and management techniques.

### **Restaurant Operations**

Restaurant management structure varies among our brands and by unit size. Generally, each restaurant operated by the Company is led by an RGM, together with one or more Assistant Managers. RGMs are skilled and highly trained, with most having a college-level education. Each brand issues detailed manuals, which may then be customized to meet local regulations and customs. These manuals set forth standards and requirements for all aspects of restaurant operations, including food safety and quality, food handling and product preparation procedures, equipment maintenance, facility standards and accounting control procedures. The restaurant management teams are responsible for the

day-to-day operation of each unit and for ensuring compliance with operating standards. The performance of RGM's is regularly monitored and coached by Area Managers. In addition, senior operations leaders regularly visit restaurants to promote adherence to system standards and mentor restaurant teams.

### **Supply and Distribution**

The Company's restaurants, including those operated by franchisees, are substantial purchasers of a number of food and paper products, equipment and other restaurant supplies. The principal items purchased include chicken, cheese, beef and pork products and paper and packaging materials. The Company has not experienced any significant, continuous shortages of supplies, and alternative sources for most of these products are generally available. Prices paid for these supplies fluctuate. When prices increase, the brands may attempt to pass on such increases to their customers, although there is no assurance that this can be done practically.

The Company partners with approximately 600 independent suppliers, mostly China-based, providing a wide range of products. The Company, along with multiple independently owned and operated distributors, utilizes 18 distribution centers to distribute restaurant products to owned and franchised stores. The Company also owns a seasoning facility in Inner Mongolia, which supplies products to the Little Sheep business, as well as to third-party customers.

Food safety is the top priority at the Company. Food safety systems include rigorous standards and training of employees in our restaurants and distribution system, as well as requirements for suppliers. These standards and training topics include, but are not limited to, employee health, product handling, ingredient and product temperature management and prevention of cross contamination. Food safety training is focused on illness prevention, food safety and regulation adherence in day-to-day operations. Our standards also promote compliance with applicable laws and regulations when building new or renovating existing restaurants. For further information on food safety issues, see "Risk Factors—Risks Related to Our Business and Industry—Food safety and food-borne illness concerns may have an adverse effect on our business".

### **Trademarks, and Other Intellectual Property**

The Company's use of certain material trademarks and service marks is governed by a master license agreement between Yum! Restaurants Asia Pte. Ltd., a wholly-owned indirect subsidiary of YUM, and Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of the Company. The master license agreement is further described under the section "Certain Relationships and Related Person Transactions—The Master License Agreement." The Company is the exclusive licensee of the KFC, Pizza Hut Casual Dining and Pizza Hut Home Service brands and their related marks and other intellectual property rights for restaurant services in China. 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 addition, subject to certain agreed-upon milestones, the Company has an exclusive license under the master license agreement to develop Taco Bell restaurants and use the related marks.

The Company's use of certain other material intellectual property (including intellectual property in product recipes, restaurant operation and restaurant design) is likewise governed by the master license agreement with YUM.

The Company owns registered trademarks and service marks relating to the East Dawning and Little Sheep brands. Collectively, these licensed and owned marks have significant value and are important to the Company's business. The Company's policy is to pursue registration of our important intellectual property rights whenever feasible and to oppose vigorously any infringement of our rights.

## **Working Capital**

Information about the Company's working capital is included in Management's Discussion and Analysis.

## **Seasonal Operations**

Due to higher sales during holidays and summer months, the Company has experienced significant seasonality in operating results. Also, due to Yum's fiscal calendar having 12 weeks each in its first, second and third fiscal quarters and 16 weeks in its fourth fiscal quarter, the Company has historically operated on a modified quarterly basis whereby January and February comprised the first quarter; March, April and May comprised the second quarter; June, July and August comprised the third quarter and September, October, November and December comprised the fourth quarter. On average over the last 10 years the third quarter represented 36% of total annual operating profit, followed by the first quarter with 24%, the fourth quarter with 22% and the second quarter with 18%.

## **Competition**

Data from the National Bureau of Statistics of China indicates that sales in the consumer food service market in China, which includes the retail food industry, totaled approximately \$500 million in 2015. Industry conditions vary by region, with local Chinese restaurants and Western chains present, but the Company possesses the largest market share (as measured by both units and system sales). On average, competition is less than in the United States, and branded quick service restaurant units per population are well below that of the United States. However, competition is increasing and the Company still competes with respect to food quality, price, service, convenience, restaurant location and concept. The restaurant business is often affected by changes in consumer tastes; national, regional or local economic conditions; demographic trends; traffic patterns; the type, number and location of competing restaurants; and disposable purchasing power. The Company competes not only for consumers but also for management and hourly personnel and suitable real estate sites.

Among KFC's primary competitors in China are restaurant chains such as McDonald's and Dicos. Pizza Hut's Western pizza-brand competitors include Domino's and Papa John's.

## **Research and Development**

The Company operates a test kitchen in Shanghai to promote product innovation. From time to time, the Company also works with independent suppliers to conduct research and development activities for the benefit of the Company.

## **Government Regulation**

The Company is subject to various laws affecting its business, including laws and regulations concerning information security, labor, health, sanitation and safety. Each of the brands' restaurants must comply with licensing and regulation by a number of governmental authorities, which include restaurant operation, health, sanitation, food safety and fire agencies in the province and/or municipality in which the restaurant is located. To date, the Company has not been materially adversely affected by such licensing and regulation or by any difficulty, delay or failure to obtain required licenses or approvals. The Company is also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment, as well as anti-bribery and corruption laws.

See "Risk Factors" for a discussion of risks relating to federal, state, provincial, local and international regulation of our business.

## Regulations relating to Dividend Distribution

The Chinese laws, rules and regulations applicable to our China subsidiaries permit payments of dividends only out of their accumulated profits, if any, determined in accordance with applicable accounting standards and regulations. In addition, under China 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 China 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 our Board of Directors, as enterprises incorporated in China, our China subsidiaries may allocate a portion of their after-tax profits based on China accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

## Regulations relating to Taxation

**Enterprise Income Tax.** Under the EIT Law and its implementation rules, a China resident enterprise shall be subject to China enterprise income tax in respect of its net taxable income derived from sources inside and outside China. The term "resident enterprise" refers to any enterprise established in China and any enterprise established outside China with a "de facto management body" within China.

Our China subsidiaries will be regarded as China resident enterprises by virtue of their incorporation in China, and will generally be subject to China enterprise income tax on their worldwide income at the current uniform rate of 25%, unless reduced under certain specific qualifying criteria. Our China subsidiaries may deduct reasonable expenses that are actually incurred and are related to the generation of its income, including interest and other borrowing expenses, amortization of land use rights and depreciation of buildings and certain fixed assets, subject to any restrictions that may be imposed under the EIT Law, its implementation regulations and any applicable tax notices and circulars issued by the Chinese government or tax authorities.

The Company and each Company subsidiary that is organized outside of China intend to conduct their management functions in a manner that does not cause them to be China resident enterprises, including by carrying on their day-to-day management activities and maintaining their key assets and records, such as resolutions of their board of directors and resolutions of stockholders, outside of China. As such, we do not believe that the Company or any of its non-Chinese subsidiaries should be considered a China resident enterprise for purposes of the EIT Law, and should not be subject to China enterprise income tax on that basis. See "Risk Factors—Risks Related To Doing Business in China—Under the EIT Law, if we are classified as a China resident enterprise for Chinese enterprise income tax purposes such classification would likely result in unfavorable tax consequences to us and our non-Chinese stockholders."

**Value-Added Tax / Business Tax and Local Surcharges.** Effective May 1, 2016, a 6% value-added tax ("VAT") on output replaced the 5% business tax that has historically been applied to certain restaurant sales under the China Provisional Regulations on Business Tax. Pursuant to Caishui 2016 (36) jointly issued by the Ministry of Finance and the State Administration for Taxation, from May 1, 2016 onwards, any entity engaged in the provision of certain catering services in China is generally required to pay VAT, at the rate of 6% on revenues generated from the provision of such services, less any creditable VAT already paid or borne by such entity upon purchase of materials and services.

Local surcharges generally ranging from 7% to 13%, varying with the location of the relevant China subsidiary, are imposed on the amount of VAT payable.

**Repatriation of Dividends from our China Subsidiaries.** Dividends (if any) paid by our China subsidiaries to their direct offshore parent company are subject to China withholding income tax at the

rate of 10%, provided that such dividends are not effectively connected with any establishment or place of the offshore parent company in China. The 10% withholding income tax rate may be reduced or exempted pursuant to the provisions of any applicable double tax treaties or tax arrangements entered into by China.

*Gains on Direct Disposal of Equity Interests in our China Subsidiaries.* Under the EIT Law and its implementation rules, gains derived by non-resident enterprises from the sale of equity interests in a China resident enterprise are subject to China withholding income tax at the rate of 10%. The gains are computed based on the difference between the sales proceeds and the original investment basis. Stamp duty is also payable upon a direct transfer of equity interest in a China resident enterprise. The stamp duty is calculated at 0.05% on the transfer value, payable by each of the transferor and transferee. We may be subject to these taxes in the event of any future sale by us of a China resident enterprise.

*Gains on Indirect Disposal of Equity Interests in our China Subsidiaries.* In February, 2015, the SAT issued the SAT's Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises ("Bulletin 7"). Pursuant to Bulletin 7, an "indirect transfer" of Chinese taxable assets, including equity interests in a China resident enterprise ("Chinese interests"), 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. Where a non-resident enterprise conducts an "indirect transfer" of Chinese interests by disposing of equity interests in an offshore holding company, the transferor, transferee, and/or the China resident enterprise being indirectly transferred may report such indirect transfer to the relevant Chinese tax authority, which in turn reports to the SAT. Using general anti-tax avoidance provisions, the SAT may treat such indirect transfer as a direct transfer of Chinese interests if the transfer has avoided Chinese tax by way of an arrangement without reasonable commercial purpose. As a result, gains derived from such indirect transfer may be subject to Chinese enterprise income tax, and the transferee or other person who is obligated to pay for the transfer would be obligated to withhold the applicable taxes, currently at a rate of up to 10% of the capital gain in the case of an indirect transfer of equity interests in a China resident enterprise. Both the transferor and the party obligated to withhold the applicable taxes may be subject to penalties under Chinese tax laws if the transferor fails to pay the taxes and the party obligated to withhold the applicable taxes fails to withhold the taxes.

The above regulations do not apply if either (i) the selling non-resident enterprise recognizes the relevant gain by purchasing and selling equity of the same listed enterprise in the open market (the "listed enterprise exception"); or (ii) the selling non-resident enterprise would have been exempted from enterprise income tax in China if it had directly held and transferred such Chinese interests that were indirectly transferred. Under current law, the China indirect transfer rules do not apply to gains recognized by individual stockholders, regardless of whether or not they acquire or transfer our stock in open market transactions. However, in practice there have been a few reported cases of individuals being taxed on the indirect transfer of Chinese interests and the law could be changed so as to apply to individual stockholders, possibly with retroactive effect.

It is unclear whether Company stockholders that acquire Company stock through the distribution will be treated as acquiring Company stock in an open market purchase. If such Company stock is not treated as acquired in an open market purchase, the listed transaction exception will not be available for transfers of such stock. Following the distribution, we expect that transfers in open market transactions of our stock by corporate or other non-individual stockholders that have purchased our stock in open market transactions will not be taxable under the China indirect transfer rules due to the listed enterprise exception. Transfers, whether in the open market or otherwise, of our stock by corporate and other non-individual stockholders that acquired our stock in the distribution or in non-open market transactions may be taxable under the China indirect transfer rules and our China

subsidiaries may have filing obligations in respect of such transfers. Transfers of our stock in non-open market transactions by corporate and other non-individual stockholders may be taxable under the China indirect transfer rules, whether or not such stock was acquired in open market transactions, and our China subsidiaries may have filing obligations in respect of such transfers. Corporate and other non-individual stockholders may be exempt from taxation under the China indirect transfer rules with respect to transfers of our stock if they are tax resident in a country or region that has a tax treaty or arrangement with China that provides for a capital gains tax exemption and they qualify for that exemption. For example, under the U.S.-China double tax treaty, a stockholder that is a U.S. tax resident and that disposes of stock representing less than 25% of our outstanding stock should be exempt from Chinese capital gains tax.

## **Employees**

As of year-end 2015, the Company employed approximately 400,000 persons, approximately 90% of whom were restaurant team members who were employed on a full- or part-time basis with their pay calculated based on their service hours. The Company believes that it provides working conditions and compensation that compare favorably with those of our principal competitors. The majority of employees are paid on an hourly basis. The Company considers our employee relations to be good.

## **Unconsolidated Affiliates**

As of year-end 2015, 11% of the Company's units were owned by unconsolidated affiliates that operated as our franchisees. All 796 of these were KFC restaurants, or 16% of total KFC restaurants. These unconsolidated affiliates are Chinese joint venture entities partially owned by the Company which helped KFC establish its initial presence in certain regions of China.

## **Properties**

As of year-end 2015, the Company leased land, building or both for 5,768 units in China, which unit count includes land use rights for approximately 40 properties. The Company owned units are further detailed as follows:

- KFC leased land, building or both (including land use rights) in approximately 3,821 units.
- Pizza Hut Casual Dining leased land, building or both (including land use rights) in approximately 1,556 units.
- All other segments leased land, building or both (including land use rights) in approximately 391 units.

Company-owned restaurants in China are generally leased for initial terms of 10 to 20 years and generally do not have renewal options.

The Company leases its corporate headquarters and test kitchen facilities in Shanghai, China and owns land use rights for six non-store properties of Little Sheep. The Company subleases approximately 160 properties to franchisees. Additional information about the Company's properties is included in Note 10 of the Combined Financial Statements.

The Company believes that its properties are generally in good operating condition and are suitable for the purposes for which they are being used.

## **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 Combined Financial Statements, is not likely to have a material adverse effect on the Company's annual 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. Refer to Note 16 of the Combined Financial Statements included in this Information Statement.

## MANAGEMENT OF THE COMPANY

### Executive Officers Following the Distribution

The following table and biographies present information concerning the individuals who are expected to serve as the Company's executive officers following the separation, including their positions immediately following the separation. After the separation, none of these individuals will continue to be employees of YUM.

<u>Name</u>	<u>Age</u>	<u>Title</u>
Muktesh "Micky" Pant	62	Chief Executive Officer
Edwin "Ted" Stedem	43	Chief Financial Officer
Joey Wat	45	Chief Executive Officer, KFC
Mark Chu	58	Senior Advisor to the Chief Executive Officer
Shella Ng	51	Chief Legal Officer

*Micky Pant* is expected to serve as the Chief Executive Officer of the Company. He has served as CEO of the YUM China Division ("Yum! Restaurants China") since August 2015. Over the past decade, Mr. Pant has held a number of leadership positions at YUM, including CEO of the KFC Division, CEO of Yum! Restaurants International ("YRI"), President of Global Branding for YUM, President of YRI, Chief Marketing Officer of YUM, Global Chief Concept Officer for YUM and President of Taco Bell International. Before joining YUM, Mr. Pant built a foundation in marketing and international business with 15 years at Unilever in India and the UK and worked at PepsiCo, Inc. and Reebok. While he was Chief Marketing Officer, Reebok was the winner of two Golden Lion awards at the Cannes Film Festival, widely considered as the highest recognition in advertising. Since December 2014, Mr. Pant has served as an independent director on the board of Pinnacle Foods, Inc. (NYSE: PF), where he also serves on the audit committee.

*Ted Stedem* is expected to serve as the Chief Financial Officer for the Company. He has served as Chief Financial Officer of Yum! Restaurants China since August 2016. Prior to that position, Mr. Stedem served in a number of leadership roles for YUM over the past seven years, including General Manager and Managing Director of KFC Asia, Chief Financial Officer and Chief Development Officer of KFC South Pacific (SOPAC), and Vice President of Finance. Prior to joining YUM, he worked in finance and development roles with Merrill Lynch, Bain Consulting, and Office Depot.

*Joey Wat* is expected to serve as the Chief Executive Officer, KFC for the Company, a position she was promoted to in August 2015. Ms. Wat joined Yum! Restaurants China in September 2014 as President of KFC China. Before joining YUM, Ms. Wat served in various management and strategy positions at AS Watson of Hutchinson Group, including as Managing Director of Superdrug and Savers, two chains prominent in the United Kingdom in pharmacy, health and beauty retail, from 2012 to 2014, and in other strategy and management positions with that group from 2004 to 2012.

*Mark Chu* is expected to serve as the Senior Advisor to the Chief Executive Officer of the Company. Mr. Chu is a long term veteran of YUM and has held a number of leadership positions with Yum! Restaurants China, including President & Chief Development and Support Officer, President & Chief Operating Officer, Chief Development Officer, and Brand General Manager of KFC China. Mr. Chu joined YUM over two decades ago as Deputy General Manager of the Nanjing KFC market. Prior to joining YUM, Mr. Chu was the District Manager of McDonalds, Taiwan.

*Shella Ng* is expected to serve as the Chief Legal Officer for the Company. Ms. Ng joined YUM in 1995 and was appointed to Chief Legal Officer of Yum! Restaurants China in 2005. Prior to joining YUM, she worked for Freshfields Bruckhaus Deringer and Clifford Chance.

## **Board of Directors Following the Distribution**

The Company is in the process of identifying the individuals who are expected to serve on the Company's board of directors following the separation. We will provide details regarding these individuals in an amendment to this Information Statement.

## **Director Qualification Standards and Board of Directors Membership Criteria**

It is anticipated that, upon consummation of the distribution, a majority of the members of the Company's board of directors will qualify as independent directors in accordance with the applicable rules of the New York Stock Exchange. It is anticipated that the Company's board of directors will be comprised of members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Company directors should have experience in positions with a high degree of responsibility, be (or have been) leaders in the companies or institutions with which they are (or were) affiliated and be selected based upon contributions they can make to the Company's board of directors.

Following the distribution, the ultimate responsibility for selection of director candidates will reside in the Company's board of directors. The Company's Nominating and Governance Committee will have, as one of its responsibilities, the recommendation of director candidates to the full board of directors. Each member of the Nominating and Governance Committee will interview a director candidate before the candidate is recommended by the Nominating and Corporate Governance Committee for election to the full board of directors. As one of its responsibilities, the Nominating and Governance Committee will be required to periodically review and recommend the composition, organization and responsibilities of the Company's board of directors and its committees.

## **Committees of the Board of Directors**

Effective upon completion of the separation, the Company's board of directors will establish several standing committees in connection with the discharge of its responsibilities. Such standing committees will include the Audit Committee, Compensation Committee and Nominating and Governance Committee. Each committee will consist solely of independent directors under the applicable independence requirements of the New York Stock Exchange and be governed by a written charter. All such committee charters will be available on the Company's website at [www.\[redacted\].com](http://www.[redacted].com).

*Audit Committee.* The initial membership of the Audit Committee will be determined prior to the separation. The committee will have at least three members at all times, each of whom shall satisfy the applicable independence requirements of the New York Stock Exchange and Section 10A of the Exchange Act, and the rules promulgated thereunder. Each member of the Audit Committee will be financially literate, and at least one member will be an "audit committee financial expert" as defined by the rules of the SEC. The Audit Committee will, among other things, assist the board of directors in its oversight of:

- the integrity of the financial statements of the Company;
- the Company's compliance with legal and regulatory requirements;
- the Company's system of internal controls and procedures, including disclosure controls and procedures;
- the independent auditors' qualifications and independence; and
- the performance of the Company's internal audit function and independent auditors.



*Compensation Committee.* The initial membership of the Compensation Committee will be determined prior to the separation. The Compensation Committee will consist of no fewer than three members. Each member of the Compensation Committee will satisfy the independence requirements of the New York Stock Exchange and, if deemed appropriate by the board of directors from time to time, meet the definition of "non-employee director" under Rule 16b-3 under the Exchange Act, and "outside director" for purposes of Section 162(m) of the Code. Among other things, the Compensation Committee will:

- oversee the Company's executive compensation plans and programs and review and recommend changes to these plans and programs;
- monitor the performance of the Chief Executive Officer and other senior executives in light of corporate goals set by the Committee;
- review and approve the compensation of the Chief Executive Officer and other senior executive officers; and
- review management succession planning.

*Nominating and Governance Committee.* The initial membership of the Nominating and Governance Committee will be determined prior to the separation. The Nominating and Governance Committee will consist of no fewer than three members. Each member of the Nominating and Governance Committee will satisfy the independence requirements of the New York Stock Exchange. Among other things, the Nominating and Governance Committee will:

- identify and propose to the board of directors suitable candidates for board membership;
- advise the board of directors on matters of corporate governance;
- review and reassess from time to time the adequacy of the Company's corporate governance principles;
- receive comments from all directors and report annually to the board of directors with an assessment of the board's performance; and
- prepare and supervise the board of directors' annual review of director independence.

#### **Limitations on Liability, Indemnification of Officers and Directors, and Insurance**

The Delaware General Corporation Law (the "DGCL") authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors, except for liability

- for any breach of the director's duty of loyalty to the corporation or its stockholders,
- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law,
- for unlawful payments of dividends or unlawful stock repurchases or redemptions described by Section 174 of the DGCL, or
- for any transaction from which the director derived an improper personal benefit.

Our amended and restated certificate of incorporation will include such an exculpation provision. Our amended and restated certificate of incorporation and amended and restated bylaws will include provisions that require the Company to indemnify, to the fullest extent allowable under the DGCL, directors or officers for monetary damages for actions taken as a director or officer of the Company or while serving at the Company's request as a director or officer or another position at another corporation or enterprise, as the case may be. Our amended and restated certificate of incorporation

will also provide that, subject to certain conditions, the Company must advance reasonable expenses to its directors and officers. Our amended and restated certificate of incorporation will expressly authorize the Company to carry directors' and officers' insurance to protect the Company and our directors, officers, employees and agents from certain liabilities.

The limitation of liability and indemnification provisions that will be in our amended and restated certificate of incorporation and amended and restated bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duties. These provisions may also have the effect of reducing the likelihood of derivative litigation against our directors and officers, even though such an action, if successful, might otherwise benefit our company and our stockholders. However, these provisions will not limit or eliminate the Company's rights, or those of any stockholder, to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's fiduciary duties. The provisions will not alter the liability of directors under the federal securities laws. In addition, your investment may be adversely affected to the extent that, in a class action or direct suit, the Company pays the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

#### **Compensation Committee Interlocks and Insider Participation**

During the Company's fiscal year ended December 31, 2015, the Company was not an independent company, and did not have a Compensation Committee or any other committee serving a similar function. Decisions as to the compensation of the Company's executive officers who currently serve as YUM's executive officers were made by YUM, as described in the section of this Information Statement captioned "Compensation Discussion and Analysis."

## COMPENSATION DISCUSSION AND ANALYSIS

### Introduction

As noted above, the Company is currently a division of YUM and not an independent company, and the Company's Compensation Committee has not yet been formed. This Compensation Discussion and Analysis ("CD&A") describes the historical compensation practices of YUM and outlines certain aspects of the Company's anticipated compensation structure for its named executive officers following the separation. In connection with the separation, the Company (or YUM on the Company's behalf) has identified the Company's named executive officers for 2015 and this CD&A describes the material terms of the compensation arrangements in place for such individuals. For purposes of the following CD&A and executive compensation disclosures, such individuals are collectively referred to as the Company's, or our, "named executive officers" or "NEOs."

The historical decisions relating to the compensation of the Company's named executive officers, who are currently executives of YUM, have been made by YUM in 2015 and in prior years. Following the separation, the compensation of the Company's named executive officers will be determined by the Company's Compensation Committee consistent with the compensation and benefit plans, programs and policies adopted by the Company. Initially, we expect that the Company's compensation policies will be similar to those employed by YUM. The Company's Compensation Committee will review these policies and practices, and, it is expected, will make adjustments to support the Company's strategies as an independent company and to remain market competitive.

### Named Executive Officers

The Company's named executive officers for 2015 were as follows:

<u>Name</u>	<u>Title</u>
Muktesh "Micky" Pant	Chief Executive Officer
Edwin "Ted" Stedem	Chief Financial Officer
Joey Wat	Chief Executive Officer, KFC China
Mark Chu	Senior Advisor to the Chief Executive Officer
Shella Ng	Chief Legal Officer

The following sections of this CD&A describe YUM's compensation philosophy, policies and practices as they applied to the Company's named executive officers during 2015.

### Compensation Philosophy

YUM's executive compensation program is designed to support its long-term growth model, while holding its executives accountable to achieve key annual results year after year. YUM's compensation philosophy for its named executive officers is reviewed annually by the Management Planning &

Development Committee of YUM's Board of Directors (the "YUM Committee") and has the following objectives:

<u>Objective</u>	<u>Base Salary</u>	<u>Annual Performance-Based Cash Bonuses</u>	<u>Long-Term Equity Performance-Based Incentives</u>
<b>Retain and reward the best talent to achieve superior shareholder results</b> —To be consistently better than its competitors, YUM needs to recruit and retain superior talent who are able to drive superior results. YUM has structured its compensation programs to be competitive and to motivate and reward high performers.	X	X	X
<b>Reward performance</b> —The majority of executive officer pay is performance based and therefore at risk. YUM designs pay programs that incorporate team and individual performance, customer satisfaction and shareholder return.		X	X
<b>Emphasize long-term value creation</b> —YUM's belief is simple: if it creates value for shareholders, then it shares a portion of that value with those responsible for the results. Stock Appreciation Rights/Options ("SARs/Options") reward value creation generated from sustained results and the favorable expectations of YUM's shareholders. Performance Share Unit ("PSU") awards reward for superior relative performance as compared to the S&P 500.			X
<b>Drive ownership mentality</b> —YUM requires executives to personally invest in YUM's success by owning a substantial amount of YUM stock.			X

**Elements of Executive Compensation Program**

YUM's annual executive compensation program has three primary pay components: base salary, annual performance-based cash bonuses and long-term equity performance-based incentives. YUM also offers certain retirement and other benefits.

**Base Salary.** YUM provides base salary to compensate its executive officers for their primary roles and responsibilities and to provide a stable level of annual compensation. An executive officer's actual salary varies based on the role, level of responsibility, experience, individual performance, future potential and market value. Specific salary increases take into account these factors. The YUM Committee reviews the salary and performance of YUM's executive officers annually (including Mr. Pant). With respect to Ms. Wat, Mr. Chu and Ms. Ng, the YUM CEO and the CEO of YUM's China division reviewed the salary and performance of the executive officers annually. With respect to Mr. Stedem, the YUM CEO and the CEO of the KFC Division reviewed his salary and performance annually.

**Annual Performance-Based Cash Bonuses.** YUM's performance-based annual bonus program, the Yum Leaders' Bonus Program, is a cash-based plan. The principal purpose of the Yum Leaders' Bonus Program is to motivate and reward short-term team and individual performance that drives shareholder

value. The formula for calculating the performance-based annual bonus under the Yum Leaders' Bonus Program is the product of the following:

$$\begin{array}{ccccccc} \text{Base Salary} & \times & \text{Target Bonus} & \times & \text{Team Performance} & \times & \text{Individual Performance} & = & \text{Bonus Payout} \\ & & \text{Percentage} & & \text{(0-200\%)} & & \text{(0-150\%)} & & \text{(0-300\%)} \end{array}$$

**Team Performance.** The YUM Committee established team performance measures, targets and weights in January 2015 after receiving input and recommendations from management, which were applicable to Mr. Pant, Mr. Chu and Ms. Ng. The objectives were also reviewed by the YUM board of directors, to evaluate whether the goals support YUM's overall strategic objectives. The performance measures, targets and weights applicable to Mr. Stedem and Ms. Wat were established by the KFC Division and the China Division, respectively, rather than by the YUM Committee.

The performance objectives were developed through YUM's annual financial planning process, which takes into account growth strategies, historical performance, and the expected future operating environment of each of its Divisions, including the China Division and the KFC Division, which was led by Mr. Pant before he was appointed as CEO of the China Division. These projections included profit growth to achieve YUM's EPS growth target.

When setting targets for each specific team performance measure, the YUM committee takes into account overall business goals and structures the target to motivate achievement of desired performance consistent with its growth commitment to shareholders.

A leverage formula for each team performance measure magnifies the potential impact that performance above or below the performance target will have on the calculation of the annual bonus. This leverage increases the payouts when targets are exceeded and reduces payouts when performance is below target. There is a threshold level of performance for all measures that must be met in order for any bonus to be paid. Additionally, all measures have a cap on the level of performance over which no additional bonus will be paid regardless of performance above the cap.

The performance targets are comparable to those YUM discloses to its investors and, when determined to be appropriate by the YUM Committee, may be slightly above or below disclosed guidance. Division and Business Unit targets may be adjusted during the year when doing so is consistent with the objectives and intent at the time the targets were originally set.

**Detailed Breakdown of 2015 Team Performance.** The team performance targets, actual results, weights and overall performance for each measure for the Company's NEOs are outlined below. The YUM Committee, with respect to Mr. Pant, the YUM CEO and China Division CEO, with respect to Ms. Wat, Mr. Chu, and Ms. Ng, and the Yum CEO and KFC Division CEO with respect to Mr. Stedem, selected these performance measures because they were viewed as key drivers of long-term value creation. For each NEO's Division, other than Mr. Stedem's and Ms. Wat's, the team performances were weighted 75% on Division operating measures and 25% on YUM team performance. Mr. Pant was CEO of YUM's KFC Division prior to being named CEO of its China Division on August 18, 2015 and the divisional portion of his 2015 Leader's Bonus Program was based on the performance of the KFC Division. For Mr. Stedem's Business Unit, the team performance was

weighted 75% on KFC Asia Business Unit operating measures and 25% on KFC Division team performance.

NEO	Measures	Target	Actual	Earned Award as % of Target	Weighting	Final Team Performance
	Weighted Average Divisions' Team Performances(1)			106	50%	53
	Earnings Per Share Growth (excluding special items)	10%	3%	0	50%	0
	<b>FINAL YUM TEAM FACTOR</b>					<b>53</b>
Pant	Operating Profit Growth(2,6)	8%	9%	115	50%	57
	System Same-Store Sales Growth	3%	3%	110	20%	22
	System Net Builds(5)	425	500	200	20%	40
	System Customer Satisfaction	Weighted Average(4)		137	10%	14
	Total Weighted Team Performance—KFC Division (75%)					133
	Total Weighted Team Performance—YUM (25%)					53
	<b>FINAL KFC DIVISION TEAM FACTOR(3)</b>					<b>113</b>
Stedem	Operating Profit Growth(2)	2.8%	1.3%	54	50%	27
	System Same-Store Sales Growth	3.8%	2.2%	35	20%	7
	System Net Builds	125	112	88	20%	18
	System Customer Satisfaction	Weighted Average(4)		200	10%	20
	Total Weighted Team Performance—KFC Asia (75%)					72
	Total Weighted Team Performance—KFC Division (25%)					133
	<b>FINAL KFC ASIA TEAM FACTOR(3)</b>					<b>87</b>
Chu	Operating Profit Growth(2)	27%	8%	0	50%	0
Ng	System Same-Store Sales Growth	7%	(4)%	0	20%	0
	System Gross New Builds	650	743	200	20%	40
	System Customer Satisfaction	Weighted Average(4)		183	10%	18
	Total Weighted Team Performance—China (75%)					58
	Total Weighted Team Performance—YUM (25%)					53
	<b>FINAL CHINA TEAM FACTOR(3)</b>					<b>57</b>
Wat(7)	N/A					N/A

(1) Weighted average based on each Division's contribution to overall segment operating profit of YUM in 2015.

- (2) Excludes the impact of foreign exchange.
- (3) Final Team Factor reflects 75% Division and 25% YUM weighting (Pant, Chu, and Ng) and 75% KFC Asia and 25% KFC Division weighting (Stedem).
- (4) Weighted average of each subsidiary business unit's Team Factor based on number of restaurants.
- (5) Excludes U.S. units.
- (6) KFC's standard operating profit growth rate target is 10% year-over-year. For 2015, the actual operating growth target was adjusted as shown above for the impact of certain non-recurring costs and other items distortive of brand performance primarily in the U.S. and U.K. markets.
- (7) Ms. Wat's 2015 Bonus Award was based on the target award amount, as outlined in her offer letter dated February 28, 2014, rather than on individual performance and team factors.

Long-Term Equity Performance-Based Incentives. YUM provides performance-based long-term equity compensation to its executive officers to encourage long-term decision making that creates shareholder value. To that end, YUM uses vehicles that are designed to motivate and balance the tradeoffs between short-term and long-term performance. Performance-based long-term equity compensation also serves as a retention tool. YUM executive officers, including Mr. Pant, are awarded long-term incentives annually based on the YUM Committee's subjective assessment of the following items for each of its executive officers (without assigning weight to any particular item):

- Prior year individual and team performance
- Expected contribution in future years
- Consideration of the market value of the executive's role compared with similar roles in the YUM Executive Peer Group described below
- Achievement of stock ownership guidelines

The YUM CEO and China Division CEO, with respect to Ms. Wat, Mr. Chu, and Ms. Ng, and the Yum CEO and KFC Division CEO with respect to Mr. Stedem, assessed the performance of these executives by considering items similar to those considered by the YUM Committee in evaluating its executives, and awarded long-term incentives annually based on such assessments. Compensation survey data was used in lieu of the YUM Executive Peer Group in the determinations for the Company's NEOs, other than Mr. Pant (for whom the YUM Executive Peer Group was used).

Equity Mix. Each year, the YUM Committee reviews the mix of long-term incentives to determine if it is appropriate to continue predominantly using SARs/Options as the long-term incentive vehicle. For 2015, the YUM Committee continued to choose SARs/Options and PSU awards because these equity vehicles were viewed as effectively focusing and rewarding management to enhance long-term shareholder value, thereby aligning the interests of YUM's executive officers with the interests of its shareholders. At the beginning of 2015, the YUM Committee determined each of its executive officer's target grant values and the split of those values between SARs/Options and PSU grants. For Mr. Pant and the other executive officers (other than the CEO of YUM), the target grant values were split 80% SARs/Options and 20% PSUs. The YUM Committee awarded predominantly SARs/Options because it believed SARs/Options would align the interests of executives with the interests of shareholders and incentivize executives to drive a long-term growth in the business. Please see the section entitled "Effect of the Company's Separation from YUM on Outstanding Executive Compensation Awards" for information regarding the impact of the separation on the 2015 equity awards.

With respect to Ms. Wat, Mr. Chu, Ms. Ng, and Mr. Stedem, the YUM CEO annually reviews the mix of long-term incentives to determine if it is appropriate to continue exclusively using SARs as the

long-term incentive vehicle. For 2015, the YUM CEO continued to choose SARs awards because this equity vehicle was viewed as effectively focusing and rewarding management to enhance long-term shareholder value, thereby aligning the interests of executive officers with the interests of shareholders. At the beginning of 2015, the YUM CEO determined the named executive officers' target grant values and the split of those values between SAR and PSU grants. For Ms. Wat, Mr. Chu, Ms. Ng, and Mr. Stedem, the target grant values were 100% SARs. The YUM CEO awarded exclusively SARs because he believed SARs best align the interests of executives with the interests of shareholders and incents executives to drive a long-term growth in the business. Please see the section entitled "Effect of the Company's Separation from YUM on Outstanding Executive Compensation Awards" for information regarding the impact of the separation on the 2015 equity awards.

**Stock Appreciation Rights/Stock Options.** In 2015, YUM granted to each of its executive officers SARs/Options which have ten-year terms and vest over at least four years. The exercise price of each SARs/Options grant was based on the closing market price of the underlying YUM common stock on the date of grant. Therefore, SARs/Options awards will only have value if the YUM executive officers are successful in increasing the share price of YUM above the awards' exercise price.

**Performance Share Plan.** Under YUM's Performance Share Plan, YUM granted to each of its executive officers PSU awards in 2015. PSU awards are earned based on YUM's 3-year average total shareholder return ("TSR") relative to the companies in the S&P 500. The YUM Committee believes that incorporating TSR supports YUM's pay-for-performance philosophy while diversifying performance criteria by using measures not used in the annual bonus plan and aligning YUM's executive officers' reward with the creation of shareholder value. Ms. Wat, Mr. Chu, Ms. Ng, and Mr. Stedem were not granted PSU awards during 2015.

The threshold and maximum share payouts are aggressively set, exceeding commonly viewed market best practice. For the performance period covering the 2015 - 2017 calendar years, each YUM executive officer will earn a percentage of his or her target PSU award based on the achieved TSR percentile ranking as set forth in the chart below:

	<u>Threshold</u>	<u>Target</u>	<u>Max.</u>
<b>TSR Percentile Ranking</b>	<40%	40%	90%
<b>Payout as % of Target</b>	0%	50%	200%

YUM set target long-term incentive pay at the 50<sup>th</sup> percentile of the YUM Executive Peer Group, as described below. Therefore, for on-target performance YUM pays at the median, which is consistent with market practice. Dividend equivalents will accrue during the performance period and will be distributed as incremental shares but only in the same proportion and at the same time as the original awards are earned. If no awards are earned, no dividend equivalents will be paid. The awards are eligible for deferral under YUM's Executive Income Deferral Program.

#### **2015 Named Executive Officer Total Direct Compensation and Performance Summary**

Below is a summary of our named executive officers' total direct compensation—which includes base salary, annual cash bonus, PSUs (if applicable) and SARs—and an overview of their 2015 performance relative to YUM's annual and long term incentive performance goals.

*Micky Pant*  
Chief Executive Officer

**2015 Performance Summary.** Mr. Pant was Chief Executive Officer of YUM's KFC Division prior to being named Chief Executive Officer of its China Division on August 18, 2015. The YUM Committee determined Mr. Pant's performance was above target and approved a 130 individual performance factor. In determining Mr. Pant's annual bonus payout, the YUM Committee recognized



Mr. Pant for the strong results of the KFC Division, especially unit expansion and strong same store sales results, as described above under "Annual Performance-Based Cash Bonus Program." The YUM Committee also acknowledged his leadership in taking over as the China Division CEO in 2015 and reinvigorating the brand culture and planning the China separation. Mr. Pant's individual performance factor, combined with a team factor of 113, resulted in him receiving 147% of his annual target bonus. Mr. Pant's team factor for 2015 was weighted 75% on KFC Division results—which were driven by his leadership prior to his promotion to CEO of the YUM China Division—as agreed to by Mr. Pant and the YUM Committee, and 25% on YUM team performance.

2015 Committee Decisions. In January, Mr. Pant's compensation was adjusted as follows:

- Base salary was increased 7%.
- Annual cash bonus target remained unchanged.
- Target grant value of equity award remained unchanged.

In connection with his mid-year promotion to CEO of YUM's China Division, Mr. Pant's compensation was further adjusted as follows:

- Base salary was increased 19%.
- Annual cash bonus target was increased to 115% of base salary.
- Target grant value of equity award remained unchanged.

These increases brought Mr. Pant's total direct compensation to between the 50<sup>th</sup> and 75<sup>th</sup> percentile of the YUM Executive Peer Group.

The table below summarizes how the annual performance-based incentive award was calculated for Mr. Pant:

#### 2015 BONUS AWARD

Base Salary	\$950,000
	×
Blended Target Bonus %(1)	105.589%
	×
Team Performance Factor	113%
	×
Individual Performance Factor	130%
	=
<b>2015 Bonus Award</b>	<b>\$1,473,548</b>

- (1) Mr. Pant's "Blended Target Bonus" is based on a Target Bonus of 100% during his time as CEO of the KFC Division and 115% during his time as CEO of the China Division.

Edwin "Ted" Stedem  
Chief Financial Officer

2015 Performance Summary. Mr. Stedem was General Manager of KFC Asia prior to being named Chief Financial Officer of the China Division on August 1, 2016. The YUM CEO and KFC Division CEO determined Mr. Stedem's performance was on target and approved a 115 individual performance factor. In determining Mr. Stedem's annual bonus payout, the YUM CEO and KFC Division CEO recognized Mr. Stedem for: forging strong relationships with franchise partners, which helped to stabilize performance and set the foundation for strong future performance; ensuring that pricing was consistent with the consumer and competitive landscape in each market; and building on

the historically strong unit growth momentum in the region. Mr. Stedem's individual performance factor, combined with a team factor of 87, resulted in him receiving 100% of his annual target bonus. Mr. Stedem's team factor for 2015 was weighted 75% on KFC Asia results—which were driven by his leadership and 25% on KFC Division team performance.

2015 YUM Decisions. In January, Mr. Stedem's compensation was adjusted as follows:

- Base salary was increased 3%.
- Annual cash bonus target remained unchanged.
- Target grant value of equity award remained unchanged.

The table below summarizes how the annual performance-based incentive award was calculated for Mr. Stedem:

#### 2015 BONUS AWARD

Base Salary	\$356,280
	×
Target Bonus %	45%
	×
Team Performance Factor	87.25%
	×
Individual Performance Factor	115%
	=
<b>2015 Bonus Award</b>	<b>\$160,867</b>

These increases brought Mr. Stedem's total direct compensation to between the 50<sup>th</sup> and 75<sup>th</sup> percentile of the market reference data for a Head of a Business Unit in a Division, based on published survey data from third-party providers, as described more fully in the section below entitled "How Compensation Decisions Are Made".

*Joey Wat*  
*Chief Executive Officer, KFC China*

2015 Performance Summary. Ms. Wat was President of KFC China prior to being promoted to CEO of KFC China on August 18, 2015. Per her offer letter, Ms. Wat was paid her bonus at target, rather than on individual performance and team factors.

2015 Company Decisions. In February, Ms. Wat's compensation was adjusted as follows:

- In 2015, YUM did not provide an annual merit increase to its senior executives, including Ms. Wat.
- Annual cash bonus target remained unchanged.
- Target grant value of equity award remained unchanged.

In connection with her mid-year promotion to CEO of KFC China, Ms. Wat's compensation was further adjusted as follows:

- Base salary was increased 5%.
- Annual cash bonus target remained unchanged.
- Target grant value of equity award increased to \$750,000.

These increases brought Ms. Wat's total direct compensation to above the 75<sup>th</sup> percentile of the market reference data for a Head of a Business Unit in a Division, based on published survey data

from third-party providers (as described more fully in the section below entitled 'How Compensation Decisions Are Made').

The table below summarizes how the annual performance-based incentive award was calculated for Ms. Wat:

#### 2015 BONUS AWARD

Base Salary	\$610,000
	×
Target Bonus %	85%
	=
<b>2015 Bonus Award(1)</b>	<b>\$518,500</b>

- (1) Ms. Wat's "2015 Bonus Award" was paid based on the target award amount, as outlined in her offer letter dated February 28, 2014, rather than on individual performance and team factors.

Mark Chu  
Senior Advisor

**2015 Performance Summary.** Mr. Chu was re-designated as Senior Advisor of the China Division on January 1, 2016. The YUM CEO and China Division CEO determined Mr. Chu's performance was on target and approved a 110 individual performance factor. In determining Mr. Chu's annual bonus payout, the YUM CEO and China Division CEO recognized Mr. Chu for playing a key role in providing continuity in the transition of leadership to Micky Pant, while making important contributions to emerging brands, such as Pizza Hut Home Service, Little Sheep and East Dawning. Mr. Chu's individual performance factor, combined with a team factor of 57, resulted in him receiving 63% of his annual target bonus. Mr. Chu's team factor for 2015 was weighted 75% on China Division results—which were partly driven by his leadership and 25% on YUM team performance.

**2015 Company Decisions.** In February, Mr. Chu's compensation was adjusted as follows:

- In 2015, the Company did not provide an annual merit increase to its senior executives, including Mr. Chu.
- Annual cash bonus target remained unchanged.
- Target grant value of equity award remained unchanged.

The table below summarizes how the annual performance-based incentive award was calculated for Mr. Chu:

#### 2015 BONUS AWARD

Base Salary	\$400,000
	×
Target Bonus %	60%
	×
Team Performance Factor	57%
	×
Individual Performance Factor	110%
	=
<b>2015 Bonus Award</b>	<b>\$150,480</b>

Sheila Ng  
Chief Legal Officer

**2015 Performance Summary.** Ms. Ng was Chief Legal Officer of the China Division in 2015. The YUM CEO and China Division CEO determined Ms. Ng's performance was on target and approved a 110 individual performance factor. In determining Ms. Ng's annual bonus payout, the YUM CEO and China Division CEO recognized Ms. Ng for playing a key role in the pending separation of the Company from YUM, including her contributions in preparing inter-company agreements and readiness planning, which involved know how building and the hiring of personnel in key functions. Ms. Ng's individual performance factor, combined with a team factor of 57, resulted in her receiving 63% of her annual target bonus. Ms. Ng's team factor for 2015 was weighted 75% on China Division results—which were partly driven by her leadership and 25% on YUM team performance.

**2015 Company Decisions.** In February, Ms. Ng's compensation was adjusted as follows:

- In 2015, the Company did not provide an annual merit increase to its senior executives, including Ms. Ng.
- Annual cash bonus target remained unchanged.
- Target grant value of equity award remained unchanged.

Ms. Ng's 2015 total direct compensation was between the 50<sup>th</sup> and 75<sup>th</sup> percentile of the market reference data for a Top Legal Executive of a Division, based on published survey data from third-party providers, as described more fully in the section below entitled "How Compensation Decisions Are Made".

The table below summarizes how the annual performance-based incentive award was calculated for Ms. Ng:

#### 2015 BONUS AWARD

Base Salary	\$359,243
	×
Target Bonus %	60%
	×
Team Performance Factor	57%
	×
Individual Performance Factor	110%
	=
<b>2015 Bonus Award</b>	<b>\$135,147</b>

#### Retirement and Other Benefits.

As with all YUM employees, YUM executive officers receive certain employment and post-employment benefits. Benefits are an important part of retention and capital preservation for all levels of employees. Our benefits are designed to protect against the expense of unexpected catastrophic loss of health and/or earnings potential, and provide a means to save and accumulate for retirement or other post-employment needs.

**Retirement Benefits.** For executives who were hired or re-hired after September 30, 2001, YUM has implemented the Leadership Retirement Plan ("LRP"). This is an unfunded, unsecured account-based retirement plan which allocates a percentage of pay to an account payable to the executive following the later to occur of the executive's separation of employment from YUM or attainment of

age 55. For 2015, Mr. Pant was eligible for the LRP and received an annual allocation to his account equal to 20% of his base salary and target bonus, and an annual earnings credit of 5%.

YUM offers certain executives working in China retirement benefits under the Yum! Restaurants (Hong Kong) Limited Retirement Scheme. Under this program, YUM provides a company funded contribution ranging from 5% to 10% of an executive's base salary. During 2015, Ms. Wat, Mr. Chu and Ms. Ng were participants in the program. YUM's contribution for 2015 was equal to 5%, 10% and 10% of salary for Ms. Wat, Mr. Chu and Ms. Ng, respectively. Upon termination, participants will receive a lump sum equal to a percentage of the Company's contributions inclusive of investment return. This percentage is based on a vesting schedule that provides participants with a vested 30% interest upon completion of a minimum of 3 years of service, and an additional 10% vested interest for each additional completed year, up to a maximum of 100%.

Medical, Dental, Life Insurance and Disability Coverage. YUM also provides other benefits such as medical, dental, life insurance and disability coverage to its executive officers through benefit plans, which are also provided to all eligible U.S. salaried employees. Eligible employees can purchase additional life, dependent life and accidental death and dismemberment coverage as part of their employee benefits package. YUM's broad-based employee disability plan limits the annual benefit coverage to \$300,000. Executives located in China, who are not eligible for benefits under the benefit programs provided to eligible U.S. salaried employees, are provided with medical, life and accidental death insurance by the Company.

Perquisites. Certain perquisites are provided to certain Company executive officers relating to overseas assignment.

Nonqualified Deferred Compensation. YUM provides an Executive Income Deferral ("EID") Program, in addition to the LRP. These plans are unfunded, unsecured deferred, account-based compensation plans. For each calendar year, participants are permitted under the EID Program to defer up to 85% of their base pay and up to 100% of their annual incentive award. Mr. Pant and Mr. Stedem are the only Company NEOs currently eligible to participate in the EID Program.

## **How Compensation Decisions Are Made**

Role of the YUM Committee. YUM executive compensation decisions have historically been made by the YUM Committee using its judgment, focusing primarily on each executive officer's performance against his financial and strategic objectives, qualitative factors and YUM's overall performance. The YUM Committee considers the total compensation of each executive officer, including Mr. Pant, and retains discretion to make decisions that are reflective of overall business performance and each executive's strategic contributions to the business. It also carefully considers shareholder and advisor feedback in making its compensation decisions. The YUM CEO and China Division CEO, with respect to Ms. Wat, Mr. Chu, and Ms. Ng, and the Yum CEO and KFC Division CEO with respect to Mr. Stedem, were responsible for making compensation decisions for these NEOs during 2015.

Role of the Independent Consultant. The YUM Committee's charter states the YUM Committee may retain outside compensation consultants, lawyers or other advisors. The YUM Committee retains an independent consultant, Meridian Compensation Partners, LLC ("Meridian"), to advise it on certain compensation matters. The YUM Committee has instructed Meridian that:

- it is to act independently of management and at the direction of the YUM Committee;
- its ongoing engagement will be determined by the YUM Committee;
- it is to inform the YUM Committee of relevant trends and regulatory developments;

- it is to provide compensation comparisons based on information that is derived from comparable businesses of a similar size to YUM; and
- it is to assist the YUM Committee in its determination of the annual compensation package for its executive officers.

The YUM Committee considered the following factors, among others, in determining that Meridian is independent of management and its provision of services to the YUM Committee did not give rise to a conflict of interest:

- Meridian did not provide any services to YUM unrelated to executive compensation;
- Meridian has no business or personal relationship with any member of the YUM Committee or management; and
- Meridian's partners and employees who provide services to the YUM Committee are prohibited from owning YUM stock per Meridian's firm policy.

YUM Executive Peer Group. The YUM Committee uses an evaluation of how its executive officer target compensation levels compare to those of similarly situated executives at companies that comprise its executive peer group ("YUM Executive Peer Group") as one of the factors in setting executive compensation. The YUM Executive Peer Group is made up of retail, hospitality, food, nondurable consumer goods companies, special eatery and quick service restaurants, as these represent the sectors with which YUM is most likely to compete for executive talent. The companies selected from these sectors must also be reflective of the overall market characteristics of YUM's executive talent market, relative leadership position in their sector, size as measured by revenues, complexity of their business, and in some cases global reach.

The YUM Committee established the current peer group of companies for its executive officers at the end of 2014 for pay determinations in 2015. The 2015 YUM Executive Peer Group is comprised of the following companies:

AutoZone Inc.	Kellogg Company	Nike Inc.
Avon Products Inc.	Kimberly-Clark Corporation	Office Depot, Inc.
Campbell Soup Company	Kohl's Corporation	Staples Inc.
Colgate Palmolive Company	Kraft Foods Group, Inc.	Starbucks Corporation
Gap Inc.	Macy's Inc.	Starwood Hotels & Resorts Worldwide, Inc.
General Mills Inc.	Marriott International	Unilever USA
Hilton Worldwide Holdings Inc.	McDonald's Corporation	

Competitive Positioning and Setting Compensation. At the beginning of 2015, the YUM Committee considered YUM Executive Peer Group compensation data as a frame of reference for establishing compensation targets for base salary, annual bonus and long-term incentives for each executive officer. In particular, the YUM Committee generally targeted each of its executive officer's base salary and long-term incentive compensation at the 50<sup>th</sup> percentile of the YUM Executive Peer Group and target annual bonus opportunity at the 75<sup>th</sup> percentile of the YUM Executive Peer Group. In setting executive officer compensation, the YUM Committee considers this competitive market data but does not rely on it exclusively. It also considers additional factors in setting each element of YUM executive officer compensation, including individual performance, experience, time in role and expected contributions.

YUM benchmarks Division and Business Unit leaders using published survey data from third-party providers like Mercer, Willis Towers Watson, and AonHewitt. YUM compares data of comparable positions based on responsibilities and size of the business. The YUM CEO and Division CEOs considered survey data as a frame of reference for establishing compensation targets for base salary, annual bonus and long-term incentives for each named executive officer, other than Mr. Pant. In

particular, the YUM CEO and Division CEOs generally target each of its executive officer's base salary and long-term incentive compensation at the 50<sup>th</sup> percentile and target annual bonus opportunity at the 75<sup>th</sup> percentile. In setting executive officer compensation, the Yum CEO and Division CEOs consider this competitive market data but do not rely on it exclusively. Additional factors are considered in setting each element of executive officer compensation, including individual performance, experience, time in role and expected future contributions.

## Compensation Policies and Practices

YUM's Executive Stock Ownership Guidelines. The YUM Committee has established stock ownership guidelines for approximately 400 of its senior employees, including its executive officers. If a YUM executive officer does not meet his or her ownership guidelines, he or she is not eligible for a long-term equity incentive award. Mr. Pant's and Mr. Chu's ownership of YUM shares was well in excess of the amount required by the guidelines, while Mr. Stedem and Ms. Ng's ownership met the guidelines. Ms. Wat joined YUM pursuant to an offer letter dated February 28, 2014, and YUM policy allows employees a period of five years within which to meet ownership guidelines.

NEO	Ownership Guidelines	Shares Owned(1)	Value of Shares(2)	Multiple of Salary
Pant	30,000	107,592	7,859,596	8
Stedem	5,000	8,302	606,461	2
Wat	5,000	—	—	—
Chu	5,000	21,664	1,582,555	4
Ng	5,000	5,401	394,543	1

- (1) Calculated as of December 31, 2015. For Mr. Pant, represents shares owned outright, vested RSUs and all RSUs awarded under the Company's Executive Income Deferral Program. For Mr. Chu and Ms. Ng, the figure represents 50% of vested awards. For Mr. Stedem, the figure represents shares owned outright, vested RSUs and all RSUs awarded under the Company's Executive Income Deferral Program, as well as 50% of vested awards.
- (2) Based on YUM closing stock price of \$73.05 as of December 31, 2015.

Payments upon Termination of Employment. YUM does not have agreements with its executives concerning payments upon termination of employment except in the case of a change in control of YUM. The YUM Committee believes these are appropriate agreements for retaining executive officers to preserve shareholder value in case of a potential change in control. The YUM Committee periodically reviews these agreements and other aspects of its change in control program. YUM's change in control severance agreements, in general, entitle YUM executive officers terminated other than for cause within two years of a change in control, to receive a benefit of two times salary and bonus.

YUM's change in control severance agreements include a "best net after-tax" approach to address any potential excise tax imposed on executives. If any excise tax is due, YUM will not make a gross-up payment, but instead will reduce payments to an executive if the reduction will provide the YUM executive officer the best net after-tax result. If full payment to a YUM executive officer will result in the best net after-tax result, the full amount will be paid, but the YUM executive officer will be solely responsible for any potential excise tax payment. Also, effective for equity awards made in 2013 and beyond, the YUM Committee implemented "double trigger" vesting, pursuant to which outstanding awards will fully and immediately vest only if the executive is employed on the date of a change in control of YUM and is involuntarily terminated (other than by YUM for cause) on or within two years following the change in control.

In the case of an executive officer's retirement, YUM provides retirement benefits described above, life insurance benefits, the continued ability to exercise vested SARs/Options and the ability to vest in PSUs on a pro rata basis.

**Compensation Recovery Policy.** Pursuant to YUM's Compensation Recovery Policy (*i.e.*, "clawback"), the YUM Committee may require an executive officer (including Mr. Pant) to return compensation paid or may cancel any award or bonuses not yet vested or earned if the executive officer engaged in misconduct or violation of YUM policy that resulted in significant financial or reputational harm or violation of YUM policy, or contributed to the use of inaccurate metrics in the calculation of incentive compensation. Under this policy, when the YUM board of directors determines that recovery of compensation is appropriate, YUM could require repayment of all or a portion of any bonus, incentive payment, equity-based award or other compensation, and cancellation of an award or bonus to the fullest extent permitted by law.

**Hedging and Pledging of YUM Stock.** Under YUM's Code of Conduct, no employee or director is permitted to engage in securities transactions that would allow them either to insulate themselves from, or profit from, a decline in YUM's stock price. Similarly, no employee or director may enter into hedging transactions in YUM stock. Such transactions include (without limitation) short sales as well as any hedging transactions in derivative securities (*e.g.*, puts, calls, swaps, or collars) or other speculative transactions related to YUM's stock. Pledging of YUM stock is also prohibited.

**Deductibility of Executive Compensation.** The provisions of Section 162(m) of the Internal Revenue Code limit the tax deduction for compensation in excess of \$1 million paid to certain YUM executive officers (including Mr. Pant). Performance-based compensation is excluded from the limit, however, so long as it meets certain requirements. The YUM Committee structures compensation to take advantage of this exemption under Section 162(m) to the extent practicable, while satisfying YUM's compensation policies and objectives. Because the YUM Committee also recognizes the need to retain flexibility to make compensation decisions that may not meet the standards of Section 162(m) when necessary to enable YUM to continue to attract, retain, and motivate highly-qualified executives, it reserves the authority to approve potentially non-deductible compensation.

#### ***Effect of the Company's Separation from YUM on Outstanding Executive Compensation Awards***

The separation of the Company from YUM is not considered a change in control under YUM's executive compensation programs, and therefore it will not entitle the Company officers to any change in control benefits under those programs.

**Equity-Based Compensation:** Concurrently with the separation, and notwithstanding anything in the foregoing to the contrary (including the more general discussion of YUM's equity-based compensation awards presented in the "Executive Compensation Tables" discussion herein), holders of YUM equity-based awards, whether vested or unvested, will generally receive both adjusted YUM awards and Company awards, subject only to limited exceptions. Further, holders of performance units will retain all awards as YUM awards, adjusted to reflect the effects of the separation.

Similarly, employees who hold unrestricted common stock of YUM acquired through past equity-based awards or otherwise will be treated like all other YUM shareholders in the distribution.

#### ***The Company's Compensation and Benefit Programs—Going Forward***

The Company expects that its compensation and benefits programs and philosophy initially will be similar to those that applied to the Company's business prior to the separation, provided that it is expected that any equity-based programs for executives will be similar to those maintained by YUM. Following the separation, the Company's Compensation Committee will develop the Company's



compensation and benefits philosophy and intends to establish financial and non-financial performance goals and competitive compensation and benefits practices to meet and advance the Company's business needs and goals.

The Company expects that it will initially establish policies regarding guidelines for executive stock ownership, payments made upon termination of employment, equity compensation granting practices, compensation recovery, the hedging and pledging of Company stock, and the deductibility of executive compensation, that will be similar to those policies in place at YUM for its executive officers.

**2015 SUMMARY COMPENSATION TABLE**

The following table and footnotes summarize the total compensation awarded to, earned by or paid to the Company's Named Executive Officers ("NEOs") for the 2015 fiscal year. The Company's NEOs are its Chief Executive Officer, Chief Financial Officer, and the three other most highly compensated executive officers for the 2015 fiscal year.

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Awards (\$)(3)	Option/ SAR Awards (\$)(4)	Non-Equity Incentive Plan Compensation (\$)(5)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(6)	All Other Compensation (\$)(7)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
<b>Muktesh</b>									
"Micky" Pant	2015	849,038	—	355,012	1,419,011	1,473,548	42,979	950,622	5,090,210
Chief Executive Officer	2014	750,000	—	350,019	1,475,973	799,500	32,735	313,356	3,721,583
	2013	750,000	—	203,735	1,323,839	784,875	15,640	309,198	3,387,287
<b>Edwin "Ted" Stedem(7)</b>									
Chief Financial Officer	2015	356,280	—	—	120,076	160,867	—	514,250	1,151,467
<b>Joey Wat(7)</b>									
Chief Executive Officer, KFC China	2015	590,000	—	—	1,059,813	518,500	—	1,560,728	3,729,041
<b>Mark Chu(7)</b>									
Senior Advisor	2015	400,000	—	—	272,877	150,480	—	335,318	1,158,675
<b>Shella Ng(7)</b>									
Chief Legal Officer	2015	359,243	—	—	185,558	135,147	—	900,935	1,580,883

- (1) Amounts shown are not reduced to reflect the NEOs' elections, if any, to defer receipt of salary into the EID Program.
- (2) Amounts shown in this column represent the grant date fair values for PSUs granted in 2015, 2014 and 2013. The grant date fair value of the PSUs reflected in this column is the target payout based on the probable outcome of the performance condition, determined as of the grant date. The maximum potential values of the PSUs is 200% of target. Assuming the maximum achievement of the performance goal, the grant date fair value of Mr. Pant's 2015 PSU award would be \$710,024. For more information, see the discussion of stock awards and option awards contained in Part II, Item 8, "Financial Statements and Supplementary Data" of the YUM 2015 Annual Report in Notes to Consolidated Financial Statements at Note 14, "Share-based and Deferred Compensation Plans."
- (3) The amounts shown in this column represent the grant date fair values of the SARs awarded in 2015, 2014 and 2013, respectively. For more information, see the discussion of stock awards and option awards contained in Part II, Item 8, "Financial Statements and Supplementary Data" of the YUM 2015 Annual Report in Notes to Consolidated Financial Statements at Note 14, "Share-based and Deferred Compensation Plans." For Ms. Wat, this column also includes her 2015 CEO Awards with a grant date fair value of \$623,216. See the Grants of Plan-Based Awards Table for details.
- (4) Amounts in this column reflect the annual incentive awards earned for the 2015, 2014 and 2013 fiscal year performance periods, which were awarded by the YUM Committee in January 2016, January 2015 and January 2014, respectively, under the Yum Leaders' Bonus Program, which is described further in our CD&A under the heading "Annual Performance-Based Cash Bonuses."
- (5) Amounts in this column also represent the above market earnings as established pursuant to SEC rules which have accrued under each of his accounts under the LRP for Mr. Pant.
- (6) The amounts in this column for 2015 are explained in the All Other Compensation Table and footnotes to that table, which follows.
- (7) Mr. Stedem, Ms. Wat, Mr. Chu, and Ms. Ng were not executive officers of YUM during any period prior to the separation. As such, no amounts for them are included for years prior to the most recent fiscal year.

**2015 ALL OTHER COMPENSATION TABLE**

The following table and footnotes summarize the compensation and benefits included under All Other Compensation in the Summary Compensation Table above for 2015 that were awarded to, earned by or paid to the Company's NEOs by YUM, for the fiscal year ending December 31, 2015.

<u>Name</u>	<u>Perquisites and other personal benefits</u>	<u>Tax Reimbursements</u>	<u>Insurance premiums</u>	<u>LRP Contributions</u>	<u>Other</u>	<u>Total</u>
(a)	(\$)(1) (b)	(\$)(2) (c)	(\$)(3) (d)	(\$)(4) (e)	(\$)(5) (f)	(\$) (g)
Mr. Pant	376,431	114,028	14,913	408,500	36,750	950,622
Mr. Stedem	412,304	13,066	—	—	88,880	514,250
Ms. Wat	500,000	720,654	—	—	340,074	1,560,728
Mr. Chu	138,083	143,749	—	—	53,486	335,318
Ms. Ng	123,354	719,655	—	—	57,926	900,935

- (1) Amounts in this column include: for Mr. Pant, a relocation and cost of living allowance (\$150,000) and expenditures/housing allowance (\$226,431); for Mr. Stedem, a mobility premium (\$108,798), education allowance (\$75,626), housing allowance (\$157,557), and a pension plan payment (\$70,323); for Ms. Wat, a sign-on bonus (\$500,000); for Mr. Chu, a housing allowance (\$138,083); and for Ms. Ng, a housing allowance (\$123,354), and such amounts are valued based on the amounts paid directly to these NEOs.
- (2) Amounts in this column reflect payments to the executive of tax reimbursements. For Mr. Pant, this amount represents YUM-provided tax reimbursement for relocation, cost of living allowance and expenditure/housing allowance associated with his position as CEO of the China Division. For Ms. Wat, Mr. Chu and Ms. Ng, these amounts represent tax reimbursements for cost of living allowance and expenditure/housing allowance.
- (3) These amounts reflect the income each NEO was deemed to receive from IRS tables related to YUM-provided life insurance in excess of \$50,000.
- (4) This column represents YUM's annual allocations to the LRP.
- (5) This column reports the total amount of other benefits provided, none of which individually exceeded the greater of \$25,000 or 10% of the total amount of these benefits and the perquisites and other personal benefits shown in column (b) for the NEO. These other benefits include mobility premiums, transportation benefits, home leave expenses and tax preparation assistance. For Mr. Pant, these other benefits also include the housing allowance associated with his position as CEO of the China Division.

## 2015 GRANTS OF PLAN-BASED AWARDS

The following table provides information on SARs and PSUs granted in 2015 to the Company's NEOs.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Option/SAR Awards; Number of Securities Underlying Options (#)(3)	Exercise or Base Price Option/SAR Awards (\$/Sh)(4)	Grant Date Fair Value (\$)(5)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Mr. Pant	2/6/2015	—	1,003,096	3,009,288						
	2/6/2015							89,022	73.93	1,419,011
	2/6/2015				—	4,802	9,604			355,012
Mr. Stedem	2/6/2015	—	160,326	480,978						
	2/6/2015							7,533	73.93	120,076
Ms. Wat	2/6/2015	—	518,500	1,555,500						
	2/6/2015							27,390	73.93	436,597
	3/25/2015							32,595	79.15	623,216
Mr. Chu	2/6/2015	—	240,000	720,000						
	2/6/2015							17,119	73.93	272,877
Ms. Ng	2/6/2015	—	215,546	646,638						
	2/6/2015							11,641	73.93	185,558

- (1) Amounts in columns (c), (d) and (e) provide the minimum amount, target amount and maximum amount payable as annual incentive compensation under the Yum Leaders' Bonus Program based on respective team performances and on individual performance during 2015. The actual amount of annual incentive compensation awards are shown in column (g) of the Summary Compensation Table. The performance measurements, performance targets, and target bonus percentages are described in the CD&A beginning under the discussion of annual incentive compensation.
- (2) Reflects grants of PSU awards subject to performance-based vesting conditions in 2015. The PSU awards vest on December 31, 2017 and PSU award payouts are subject to YUM's achievement of specified relative TSR rankings against its peer group (which is the S&P 500) during the performance period ending on December 31, 2017. The performance target for all the PSU awards granted to the YUM NEOs in 2015 is a 50% TSR percentile ranking for YUM, determined by comparing its relative TSR ranking against its peer group as measured at the end of the performance period. If the 50% TSR percentile ranking target is achieved, 100% of the PSU award will pay out in shares of YUM stock, subject to executive's election to defer PSU awards into the EID Program. If less than 40% TSR percentile ranking is achieved, there will be no payout. If YUM's TSR percentile ranking is 90% or higher, PSU awards pay out at the maximum, which is 200% of target. The terms of the PSU awards provide that in case of a change in control of YUM during the first year of award, shares will be distributed assuming target performance was achieved subject to reduction to reflect the portion of the performance period following the change in control. In case of a change in control of YUM after the first year of the award, shares will be distributed assuming performance at the greater of target level or projected level at the time of the change in control subject to reduction to reflect the portion of the performance period following the change in control.
- (3) Reflects grants of SARs in 2015. SARs allow the grantee to receive the number of shares of YUM common stock that is equal in value to the appreciation in YUM common stock with respect to the number of SARs granted from the date of grant to the date of exercise. SARs become exercisable in equal installments on the first, second, third and fourth anniversaries of the grant date. The terms of each SAR grant provides that, in case of a change in control, if an executive is employed on the date of a change in control of YUM and is involuntarily terminated on or within two years following the change in control (other than by YUM for cause) then all outstanding awards become exercisable immediately.
- Executives who have attained age 55 with 10 years of service who terminate employment may exercise SARs that were vested on their date of termination through the expiration dates of the SARs (generally, the tenth anniversary following the SARs grant dates). Vested SARs of grantees who die may also be exercised by the grantee's beneficiary through the expiration dates of the vested SARs and the grantee's unvested SARs expire on the grantee's date of death. If a grantee's employment is terminated due to gross misconduct, the entire award is forfeited. For other employment terminations, all vested or previously exercisable SARs as of the last day of employment must be exercised within 90 days following termination of employment.
- (4) The exercise prices of the SARs granted in 2015 equals the closing price of YUM common stock on the respective grant dates.
- (5) Amounts in this column reflect the full grant date fair value of the PSU awards shown in column (g) and the SARs shown in column (i). The grant date fair value is the amount that YUM is expensing in its financial statements over the award's vesting schedule. For PSUs, fair value is calculated by multiplying the per unit value of the award (\$73.93) by the number of units corresponding to the most probable outcome of performance conditions on the grant date. For SARs, fair value of \$15.94 was calculated using the Black-Scholes value on the February 6, 2015 grant date. In addition, with respect to Ms. Wat, a fair value of \$19.12 was calculated using the Black-Scholes value on the March 25, 2015 grant date. For additional information, see the discussion of stock awards and option awards contained in Part II, Item 8, "Financial Statements and Supplementary Data" of the YUM 2015 Annual Report in Notes to Consolidated Financial Statements at Note 14, "Share-based and Deferred Compensation Plans."

**OUTSTANDING EQUITY AWARDS AT 2015 YEAR-END**

The following table shows the number of shares covered by exercisable and unexercisable SARs and PSUs held by the Company's NEOs on December 31, 2015.

Name	Grant Date	Option/SAR Awards(1)				Stock Awards		Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)(2)	Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested \$(3)
		Number of Securities Underlying Unexercised Options/SARs (#) Exercisable	Number of Securities Underlying Unexercised Options/SARs (#) Unexercisable	Option/SAR Exercise Price (\$)	Option/SAR Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Pant	1/19/2007	49,844	—	\$ 29.61	1/19/2017				
	1/24/2008	133,856	—	\$ 37.30	1/24/2018				
	1/24/2008	53,543	—	\$ 37.30	1/24/2018				
	2/5/2009	135,318	—	\$ 29.29	2/5/2019				
	2/5/2010	114,745	—	\$ 32.98	2/5/2020				
	2/4/2011	101,833	—	\$ 49.30	2/4/2021				
	11/18/2011	—	94,949(vii)	\$ 53.84	11/18/2021				
	2/8/2012	86,892	28,964(i)	\$ 64.44	2/8/2022				
	2/6/2013	45,461	45,462(ii)	\$ 62.93	2/6/2023				
	2/5/2014	21,145	63,438(iii)	\$ 70.54	2/5/2024				
	2/6/2015	—	89,022(iv)	\$ 73.93	2/6/2025			19,528	1,426,520
	Stedem	2/4/2011	4,379	—	\$ 49.30	2/4/2021			
2/4/2011		7,129	—	\$ 49.30	2/4/2021				
2/8/2012		3,103	1,035(i)	\$ 64.44	2/8/2022				
2/6/2013		1,894	1,895(ii)	\$ 62.93	2/6/2023				
2/5/2014		1,564	4,694(iii)	\$ 70.54	2/5/2024				
2/5/2014		859	2,580(iii)	\$ 70.54	2/5/2024				
2/6/2015		—	7,533(iv)	\$ 73.93	2/6/2025				
Wat	2/6/2015	—	27,390(iv)	\$ 73.93	2/6/2025				
	3/25/2015	—	32,595(v)	\$ 79.15	3/25/2025				
Chu	2/4/2011	—	101,833(vi)	\$ 49.30	2/4/2021				
	2/8/2012	31,033	10,345(i)	\$ 64.44	2/8/2022				
	2/6/2013	18,942	18,943(ii)	\$ 62.93	2/6/2023				
	2/5/2014	8,596	25,788(iii)	\$ 70.54	2/5/2024				
	2/6/2015	—	17,119(iv)	\$ 73.93	2/6/2025				
Ng	2/5/2010	4,421	—	\$ 32.98	2/5/2020				
	2/4/2011	11,886	—	\$ 49.30	2/4/2021				
	2/8/2012	—	8,276(i)	\$ 64.44	2/8/2022				
	2/8/2012	10,551	3,518(i)	\$ 64.44	2/8/2022				
	2/6/2013	6,819	6,820(ii)	\$ 62.93	2/6/2023				
	2/5/2014	3,094	9,284(iii)	\$ 70.54	2/5/2024				
2/6/2015	—	11,641(iv)	\$ 73.93	2/6/2025					

(1) The actual vesting dates for unexercisable awards are as follows:

- (i) Remainder of unexercisable awards vested on February 8, 2016.
- (ii) One-half of the unexercisable award will vest on each of February 6, 2016 and 2017.
- (iii) One-third of the unexercisable award will vest on each of February 5, 2016, 2017, and 2018.
- (iv) One-fourth of the unexercisable award will vest on each of February 6, 2016, 2017, 2018, and 2019.
- (v) One-fourth of the unexercisable award will vest on each of March 25, 2016, 2017, 2018 and 2019.
- (vi) Unexercisable award vested on February 4, 2016
- (vii) Unexercisable award will vest on November 18, 2016.

(2) The awards reflected in this column are unvested performance-based PSU awards with three-year performance periods that are scheduled to vest on December 31, 2016 or December 31, 2017 if the performance targets are met. In accordance with SEC rules, the PSU awards are reported at their maximum payout value as follows: 2014 grant—9,924 PSUs; and 2015 grant—9,604 PSUs.

(3) The market value of these awards are calculated by multiplying the number of shares covered by the award by \$73.05, the closing price of YUM stock on the NYSE on December 31, 2015.

**2015 OPTION/SAR EXERCISES AND STOCK VESTED**

The table below shows the number of shares of YUM common stock acquired during 2015 upon exercise of SAR awards and before payment of applicable withholding taxes and broker commissions.

<u>Name</u> (a)	<u>Option/SAR Awards</u>		<u>Stock Awards</u>	
	<u>Number of Shares Acquired on Exercise</u> (#) (b)	<u>Value Realized on Exercise</u> (\$) (c)	<u>Number of Shares Acquired on Vesting</u> (#) (d)	<u>Value realized on Vesting</u> (\$) (e)
Pant	63,282	5,062,676	—	—
Stedem	3,641	293,227	—	—
Wat	—	—	—	—
Chu	35,913	2,843,068	—	—
Ng	11,881	943,320	—	—

Nonqualified Deferred Compensation. Amounts reflected in the Nonqualified Deferred Compensation table below are provided for under YUM's EID Program and the LRP. These plans are unfunded, unsecured deferred, account-based compensation plans. For each calendar year, participants are permitted under the EID Program to defer up to 85% of their base pay and up to 100% of their annual incentive award. The LRP provides an annual allocation to the account of Mr. Pant equal to 20% of his salary plus target bonus.

EID Program.

Deferred Investments under the EID Program. Amounts deferred under the EID Program may be invested in the following phantom investment alternatives (12 month investment returns are shown in parentheses):

- YUM! Stock Fund (2.45%\*)
- YUM! Matching Stock Fund (2.45%\*)
- S&P 500 Index Fund (-0.74%)
- Bond Market Index Fund (-0.19%)
- Stable Value Fund (1.54%)

All of the phantom investment alternatives offered under the EID Program are designed to match the performance of actual investments; that is, they provide market rate returns and do not provide for preferential earnings. The S&P 500 index fund, bond market index fund and stable value fund are designed to track the investment return of like-named funds offered under YUM's 401(k) Plan. The YUM! Stock Fund and YUM! Matching Stock Fund track the investment return of YUM's common stock. Participants may transfer funds between the investment alternatives on a quarterly basis except (1) funds invested in the YUM! Stock Fund or YUM! Matching Stock Fund may not be transferred once invested in these funds and (2) a participant may only elect to invest into the YUM! Matching Stock Fund at the time the annual incentive deferral election is made. In the case of the Matching Stock Fund, participants who defer their annual incentive into this fund acquire additional phantom shares (RSUs) equal to 33% of the RSUs received with respect to the deferral of their annual incentive into the YUM! Matching Stock Fund (the additional RSUs are referred to as "matching contributions"). The RSUs attributable to the matching contributions are allocated on the same day the RSUs attributable to the annual incentive are allocated, which is the same day YUM makes its annual

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\* Assumes dividends are not reinvested.

stock appreciation right grants. Eligible amounts attributable to the matching contribution under the YUM! Matching Stock Fund are included in column (c) below as contributions by YUM (and represent amounts actually credited to the YUM executive officer's account during 2015). Beginning with their 2009 annual incentive award, those who are eligible for PSU awards are no longer eligible to participate in the Matching Stock Fund.

RSUs attributable to annual incentive deferrals into the YUM! Matching Stock Fund and matching contributions vest on the second anniversary of the grant (or upon a change in control of YUM, if earlier) and are payable as shares of YUM common stock pursuant to the participant's deferral election. Unvested RSUs held in a participant's YUM! Matching Stock Fund account are forfeited if the participant voluntarily terminates employment with YUM within two years of the deferral date. If a participant terminates employment involuntarily, the portion of the account attributable to the matching contributions is forfeited and the participant will receive an amount equal to the amount of the original amount deferred. If a participant dies or becomes disabled during the restricted period, the participant fully vests in the RSUs. Dividend equivalents are accrued during the restricted period but are only paid if the RSUs vest. RSUs held by a participant who has attained age 65 with five years of service vest immediately. In the case of a participant who has attained age 55 with 10 years of service, RSUs attributable to bonus deferrals into the YUM! Matching Stock Fund vest immediately and RSUs attributable to the matching contribution vest on a pro rata basis during the period beginning on the first anniversary of the grant and ending on the second anniversary of the grant and are fully vested on the second anniversary.

*Distributions under EID Program.* When participants elect to defer amounts into the EID Program, they also select when the amounts ultimately will be distributed to them. Distributions may either be made in a specific year—whether or not employment has then ended—or at a time that begins at or after the executive's retirement, separation or termination of employment.

Distributions can be made in a lump sum or quarterly or annual installments for up to 20 years. Initial deferrals are subject to a minimum two year deferral. In general, with respect to amounts deferred after 2005 or not fully vested as of January 1, 2005, participants may change their distribution schedule, provided the new elections satisfy the requirements of Section 409A of the Internal Revenue Code (the "Code"). In general, Code Section 409A requires that:

- Distribution schedules cannot be accelerated (other than for a hardship),
- To delay a previously scheduled distribution,
  - A participant must make an election at least one year before the distribution otherwise would be made, and
  - The new distribution cannot begin earlier than five years after it would have begun without the election to re-defer.

With respect to amounts deferred prior to 2005, to delay a distribution the new distribution cannot begin until two years after it would have begun without the election to re-defer.

Investments in the YUM! Stock Fund and YUM! Matching Stock Fund are only distributed in shares of YUM stock.

Distributions from the EID Program will not be made solely as a result of the separation and distribution.

#### LRP.

*LRP Account Returns.* The LRP provides an annual earnings credit to each participant's account based on the value of participant's account at the end of each year. Under the LRP, Mr. Pant receives

an annual earnings credit equal to 5%. YUM's contribution ("Employer Credit") for 2015 is equal to 20% of Mr. Pant's salary plus target bonus.

*Distributions under LRP.* Under the LRP, participants age 55 or older are entitled to a lump sum distribution of their account balance in the quarter following their separation of employment. Participants under age 55 with a vested LRP benefit combined with any other deferred compensation benefits covered under Code Section 409A exceeds \$15,000, will not receive a distribution until the calendar quarter that follows the participant's 55<sup>th</sup> birthday. Distributions from the LRP will not be made solely as a result of the separation and distribution.

2015 Nonqualified Deferred Compensation Table

<u>Name</u>	<u>Executive Contributions in Last FY (\$)(1)</u>	<u>YUM Contributions in Last FY (\$)(2)</u>	<u>Aggregate Earnings in Last FY (\$)(3)</u>	<u>Aggregate Withdrawals/ Distributions (\$)(4)</u>	<u>Aggregate Balance at Last FYE (\$)(5)</u>
(a)	(b)	(c)	(d)	(e)	(f)
Pant	721,683	408,500	288,715	15,894	11,508,418
Stedem	—	—	11,901	25,079	463,796
Wat	—	—	—	—	—
Chu	—	—	—	—	—
Ng	—	—	—	—	—

- (1) Amounts in column (b) reflect amounts that were also reported as compensation in YUM's 2015 Summary Compensation Table.
- (2) Amounts in column (c) reflect Mr. Pant's LRP allocation of \$408,500.
- (3) Amounts in column (d) reflect earnings during the last fiscal year on deferred amounts. All earnings are based on the investment alternatives offered under the EID Program or the earnings credit provided under the LRP described in the narrative above this table. The EID Program earnings are market based returns and, therefore, are not reported in the Summary Compensation Table. For Mr. Pant, of the earnings reflected in this column, \$42,979 was deemed above market earnings accruing to his account under the LRP. For above market earnings on nonqualified deferred compensation, see the "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column of the Summary Compensation Table.
- (4) The amount shown in column (e) was distributed to Mr. Pant to pay payroll taxes due upon the account balance under the EID Program or LRP for 2015.
- (5) The amount reflected in column (f) is the year-end balance for Mr. Pant under the EID Program and the LRP. As required under SEC rules, \$2,933,282 is the portion of the year-end balance for Mr. Pant which has previously been reported as compensation to him in YUM's Summary Compensation Table for 2015 and prior years.

*Potential Payments upon Termination or Change in Control.* The information below describes and quantifies certain compensation that would become payable under existing plans and arrangements if Mr. Pant's employment with YUM had terminated on December 31, 2015, and, if applicable, based on the YUM's closing stock price on that date. This information is not applicable to the other Company named executive officers. These benefits are in addition to benefits available generally to salaried employees, such as distributions under YUM's 401(k) Plan, retiree medical benefits, disability benefits and accrued vacation pay.

Due to the number of factors that affect the nature and amount of any benefits provided upon the events discussed below, any actual amounts paid or distributed may be different. Factors that could



affect these amounts include the timing during the year of any such event, YUM's stock price and the executive's age.

**SAR Awards.** If Mr. Pant terminated employment for any reason other than retirement, death, disability or following a YUM change in control and as of December 31, 2015, he could exercise the SARs that were exercisable on that date as shown at the Outstanding Equity Awards at Year-End table above, otherwise all SARs, pursuant to their terms, would have been forfeited and cancelled after that date. Mr. Pant does not currently hold any YUM stock options. If he had retired, died or become disabled as of December 31, 2015, exercisable SARs would remain exercisable through the term of the award. Except in the case of a change in control of YUM, no SARs become exercisable on an accelerated basis. Benefits Mr. Pant would have received on a change in control of YUM are discussed below.

**EID Program.** As described in more detail above, the YUM executive officers participate in the EID Program, which permits the deferral of salary and annual incentive compensation. The last column of the Nonqualified Deferred Compensation Table includes the aggregate balance at December 31, 2015 of each of our NEOs. Executive officers are entitled to receive their vested amount under the EID Program in case of voluntary termination of employment. In the case of involuntary termination of employment, they are entitled to receive their vested benefit and the amount of the unvested benefit that corresponds to their deferral. In the case of death, disability or retirement after age 65, they or their beneficiaries are entitled to their entire account balance as shown in the last column of the Nonqualified Deferred Compensation table.

In the case of an involuntary termination of employment as of December 31, 2015, Mr. Pant would have received \$8,702,530. This amount reflects bonuses previously deferred by Mr. Pant and appreciation on these deferred amounts (see above for discussion of investment alternatives available under the EID). Mr. Pant's EID balance is invested primarily in RSUs. Thus, his EID account balance represents deferred bonuses (earned in prior years) and appreciation of his account based primarily on the performance of YUM's stock.

**Leadership Retirement Plan.** Under the LRP, participants age 55 are entitled to a lump sum distribution of their account balance following their termination of employment. Participants under age 55 who terminate with more than five years of service will receive their account balance at their 55<sup>th</sup> birthday. In case of termination of employment as of December 31, 2015, Mr. Pant would have received \$2,805,888.

**Performance Share Unit Awards.** If an executive officer terminated employment for any reason other than retirement or death or following a change in control and prior to achievement of the performance criteria and vesting period, then the award would be cancelled and forfeited. If an executive officer had retired, or died as of December 31, 2015, the PSU award would be paid out based on actual performance for the performance period, subject to a pro rata reduction reflecting the portion of the performance period not worked by the executive officer. If any of these terminations had occurred on December 31, 2015, Mr. Pant would have been entitled to \$369,464, assuming target performance.

**Life Insurance Benefits.** For a description of the supplemental life insurance plans that provide coverage to the YUM executive officers, see the All Other Compensation Table above. If Mr. Pant had died on December 31, 2015, the survivors of Mr. Pant would have received YUM-paid life insurance of \$2,043,000 under this arrangement. Executives and all other salaried employees can purchase additional life insurance benefits up to a maximum combined company paid and additional life insurance of \$3.5 million. This additional benefit is not paid or subsidized by YUM and, therefore, is not shown here.

Change in Control. Change in control severance agreements are in effect between YUM and certain key executives (including Mr. Pant, but not the other Company NEOs). These agreements are general obligations of YUM, and provide, generally, that if, within two years subsequent to a change in control of YUM, the employment of the executive is terminated (other than for cause, or for other limited reasons specified in the change in control severance agreements) or the executive terminates employment for Good Reason (defined in the change in control severance agreements to include a diminution of duties and responsibilities or benefits), the executive will be entitled to receive the following:

- a proportionate annual incentive assuming achievement of target performance goals under the bonus plan or, if higher, assuming continued achievement of actual YUM performance until date of termination;
- a severance payment equal to two times the sum of the executive's base salary and the target bonus or, if higher, the actual bonus for the year preceding the change in control of YUM; and
- outplacement services for up to one year following termination.

The change in control severance agreements include a "best net after-tax" approach to address any potential excise tax imposed on executives. If any excise tax is due, YUM will not make a gross-up payment, but instead will reduce payments to an executive if the reduction will provide the YUM executive officer the best net after-tax result.

The change in control severance agreements have a three-year term and are automatically renewable each January 1 for another three-year term. An executive whose employment is not terminated within two years of a change in control will not be entitled to receive any severance payments under the change in control severance agreements, with respect to such change in control.

Generally, pursuant to the agreements, a change in control is deemed to occur:

- (i) if any person acquires 20% or more of YUM's voting securities (other than securities acquired directly from YUM or its affiliates);
- (ii) if a majority of the directors as of the date of the agreement are replaced other than in specific circumstances; or
- (iii) upon the consummation of a merger of YUM or any subsidiary of YUM other than (a) a merger where YUM's directors immediately before the change in control constitute a majority of the directors of the resulting organization, or (b) a merger effected to implement a recapitalization of YUM in which no person is or becomes the beneficial owner of securities of YUM representing 20% or more of the combined voting power of YUM's then-outstanding securities.

In addition to the payments described above, upon a change in control:

- All stock options and/or SARs granted prior to 2013 and held by the executive will automatically vest and become exercisable. For all stock options and/or SARs granted beginning in 2013, outstanding awards will fully and immediately vest following a change in control if the executive is employed on the date of the change in control of YUM and is involuntarily terminated (other than by YUM for cause) on or within two years following the change in control.
- All RSUs under YUM's EID Program held by the executive will automatically vest.
- All PSU awards under YUM's Performance Share Plan awarded in the year in which the change in control occurs will be paid out at target assuming a target level performance had been achieved for the entire performance period, subject to a pro rata reduction to reflect the portion of the performance period after the change in control. All PSUs awarded for performance

periods that began before the year in which the change in control occurs will be paid out assuming performance achieved for the performance period was at the greater of target level performance or projected level of performance at the time of the change in control, subject to pro rata reduction to reflect the portion of the performance period after the change in control. In all cases, executives must be employed with YUM on the date of the change in control and involuntarily terminated upon or following the change in control and during the performance period. See the Company's CD&A on page 93 for more detail.

If a change in control and the involuntary termination of one of the Company's NEOs had occurred as of December 31, 2015, the following payments or other benefits would have been made or become available to them:

	<u>Pant \$</u>	<u>Stedem \$</u>	<u>Wat \$</u>	<u>Chu \$</u>	<u>Ng \$</u>
Severance Payment	3,906,875				
Annual Incentive	1,003,438	160,326	518,500	240,000	215,546
Accelerated Vesting of SARs	2,692,655	46,346	—	2,764,035	193,868
Accelerated Vesting of RSUs	—	—	—	—	—
Acceleration of PSU Performance/Vesting	369,464	—	—	—	—
Outplacement	25,000	—	—	—	—
<b>TOTAL</b>	<b><u>7,997,432</u></b>	<b><u>206,672</u></b>	<b><u>518,500</u></b>	<b><u>3,004,035</u></b>	<b><u>409,414</u></b>

If a change in control without an involuntary termination of one of the Company's NEOs had occurred as of December 31, 2015, the following benefits would have become available to them:

	<u>Pant \$</u>	<u>Stedem \$</u>	<u>Wat \$</u>	<u>Chu \$</u>	<u>Ng \$</u>
Accelerated Vesting of SARs	2,073,350	8,911	—	2,507,604	101,546
Accelerated Vesting of RSUs	—	—	—	—	—
Acceleration of PSU Performance/Vesting	—	—	—	—	—
<b>TOTAL</b>	<b><u>2,073,350</u></b>	<b><u>8,911</u></b>	<b><u>—</u></b>	<b><u>2,507,604</u></b>	<b><u>101,546</u></b>

## CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

### Agreements with YUM

Following the separation and distribution, the Company and YUM will operate separately, each as an independent public company. We will enter into a separation and distribution agreement with YUM, which is referred to in this Information Statement as the "separation and distribution agreement." In connection with the separation, we will also enter into various other agreements to effect the separation and provide a framework for our relationship with YUM after the separation, including a master license agreement, a tax matters agreement, an employee matters agreement, a transition services agreement and a name license agreement. These agreements will provide for the allocation between us and YUM of assets, employees, liabilities and obligations (including investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after our separation from YUM and will govern certain relationships between the Company and YUM after the separation. The agreements listed above will be filed as exhibits to the registration statement on Form 10 of which this Information Statement is a part.

The summaries of each of the agreements listed above are qualified in their entireties by reference to the full text of the applicable agreements, which are incorporated by reference into this Information Statement. See "Where You Can Find More Information."

### The Separation and Distribution Agreement

#### *Transfer of Assets and Assumption of Liabilities*

The separation and distribution agreement will identify the assets to be transferred, the liabilities to be assumed and the contracts to be assigned to each of the Company and YUM as part of the separation of YUM into two independent companies, and it will provide for when and how these transfers, assumptions and assignments will occur. In particular, the separation and distribution agreement will provide, among other things, that subject to the terms and conditions contained therein:

- Certain assets related to the Company business, which are referred to as the "Company Assets," will be transferred to the Company, including:
  - equity interests in certain YUM subsidiaries that operate the Company business;
  - contracts (or portions thereof) that relate to the Company business;
  - certain information, technology, software and intellectual property exclusively used in the Company business;
  - rights and assets expressly allocated to the Company pursuant to the terms of the separation and distribution agreement or certain other agreements entered into in connection with the separation;
  - permits primarily used in the Company business; and
  - other assets that are included in the Company pro forma combined balance sheet included in this Information Statement.
- Certain liabilities related to the Company business or the Company Assets, which are referred to as the "Company Liabilities," will be retained by or transferred to the Company, including:
  - liabilities and obligations expressly allocated to the Company pursuant to the terms of the separation and distribution agreement or certain other agreements entered into in connection with the separation; and

- other liabilities that are included in the Company pro forma combined balance sheet included in this Information Statement.
- All of the assets and liabilities (including whether accrued, contingent or otherwise) other than the Company Assets and the Company Liabilities (all such assets and liabilities, other than the Company Assets and the Company Liabilities, referred to as the "YUM Assets" and the "YUM Liabilities," respectively), will be retained or assumed by YUM.

Except as expressly set forth in the separation and distribution agreement or any ancillary agreement, neither the Company nor YUM will make any representation or warranty as to the assets, business or liabilities transferred or assumed as part of the separation, as to any approvals or notifications required in connection with the transfers, as to the value of or the freedom from any security interests of any of the assets transferred, as to the absence or presence of any defenses or right of setoff or freedom from counterclaim with respect to any claim or other asset of either the Company or YUM, or as to the legal sufficiency of any assignment, document or instrument delivered to convey title to any asset or thing of value to be transferred in connection with the separation. All assets will be transferred on an "as is," "where is" basis and the respective transferees will bear the economic and legal risks that any conveyance will prove to be insufficient to vest in the transferee good and marketable title, free and clear of all security interests, that any necessary consents or governmental approval are not obtained or that any requirements of laws, agreements, security interests, or judgments are not complied with.

Information in this Information Statement with respect to the assets and liabilities of the parties following the distribution is presented based on the allocation of such assets and liabilities pursuant to the separation and distribution agreement, unless the context otherwise requires. The separation and distribution agreement will provide that, in the event that the transfer or assignment of certain assets and liabilities to the Company or YUM, as applicable, does not occur prior to the separation, then until such assets or liabilities are able to be transferred or assigned, the Company or YUM, as applicable, will hold such assets on behalf and for the benefit of the other party and will pay, perform and discharge such liabilities, for which the other party will reimburse YUM or the Company, as applicable, for any payments made in connection with the maintenance of such assets or the performance and discharge of such liabilities.

### ***The Distribution***

The separation and distribution agreement will also govern the rights and obligations of the parties regarding the distribution following the completion of the separation. On the distribution date, YUM will distribute to its shareholders that hold YUM common stock as of 5:00 p.m., Eastern Time, on the record date for the distribution all of the issued and outstanding shares of the Company's common stock held by YUM on a pro rata basis. YUM shareholders will receive cash in lieu of any fractional shares.

### ***Conditions to the Distribution***

The separation and distribution agreement will provide that the distribution is subject to satisfaction (or waiver by YUM) of certain conditions described under "The Separation and Distribution—Conditions to the Distribution." YUM has the sole and absolute discretion to determine (and change) the terms of, and to determine whether to proceed with, the distribution and, to the extent it determines to so proceed, to determine the record date for the distribution, the distribution date and the distribution ratio.

### ***Settlement of Accounts Between the Company and YUM***

The separation and distribution agreement will provide that all intercompany receivables and payables as to which there are no third parties and that are between the Company or a Company subsidiary, on the one hand, and YUM or a YUM subsidiary, on the other hand, other than accounts related to the agreements to be entered into in connection with the separation and post-separation agreements between YUM and the Company and other than any accrued liabilities incurred in connection with providing the services that will be memorialized by certain ancillary agreements, in each case existing as of immediately prior to the completion of the separation, will be settled, capitalized, cancelled, assigned or assumed by the Company or one or more Company subsidiaries.

### ***Claims***

In general, each party to the separation and distribution agreement will assume or retain liability for all pending, threatened and unasserted legal matters related to its own business or its assumed or retained liabilities and will indemnify the other party for any liability to the extent arising out of or resulting from such assumed or retained legal matters.

### ***Releases***

The separation and distribution agreement will provide that the Company and its affiliates will release and discharge YUM and its affiliates from all liabilities assumed by the Company as part of the separation, from all acts and events occurring or failing to occur, and all conditions existing, on or before the distribution date relating to the Company's business, and from all liabilities existing or arising in connection with the implementation of the separation, except as expressly set forth in the separation and distribution agreement. YUM and its affiliates will release and discharge the Company and its affiliates from all liabilities retained by YUM and its affiliates as part of the separation and from all liabilities existing or arising in connection with the implementation of the separation, except as expressly set forth in the separation and distribution agreement.

These releases will not extend to obligations or liabilities under any agreements between the parties that remain in effect following the separation, which agreements include, but are not limited to, the separation and distribution agreement, the tax matters agreement, the employee matters agreement, the transition services agreement, the name license agreement and certain other agreements, including the master license agreement and the transfer documents in connection with the separation.

### ***Indemnification***

In the separation and distribution agreement, the Company will agree to indemnify, defend and hold harmless YUM, each of its affiliates and each of their respective directors, officers and employees, from and against all liabilities relating to, arising out of or resulting from:

- the Company Liabilities;
- the failure of the Company or any other person to pay, perform or otherwise promptly discharge any of the Company Liabilities, in accordance with their respective terms, whether prior to, at or after the distribution;
- specified litigation matters that relate to the Company business;
- any breach by the Company of the separation and distribution agreement or any of the ancillary agreements;
- except to the extent relating to a YUM Liability, any guarantee, indemnification or contribution obligation for the benefit of the Company by YUM that survives the distribution; and

- any untrue statement or alleged untrue statement or omission or alleged omission of material fact in the registration statement of which this Information Statement forms a part, or in this Information Statement (as amended or supplemented), except for any such statements made explicitly in YUM's name.

YUM agrees to indemnify, defend and hold harmless the Company, each of its affiliates and each of their respective directors, officers and employees from and against all liabilities relating to, arising out of or resulting from:

- the YUM Liabilities;
- the failure of YUM or any other person to pay, perform or otherwise promptly discharge any of the YUM Liabilities, in accordance with their respective terms whether prior to, at or after the distribution;
- specified litigation matters that relate to the YUM business;
- any breach by YUM of the separation and distribution agreement or any of the ancillary agreements;
- except to the extent relating to a Company Liability, any guarantee, indemnification or contribution obligation for the benefit of YUM by the Company that survives the distribution; and
- any untrue statement or alleged untrue statement or omission or alleged omission of a material fact with respect to statements made explicitly in YUM's name in the registration statement of which this Information Statement forms a part, or in this Information Statement (as amended or supplemented).

The separation and distribution agreement will also establish procedures with respect to claims subject to indemnification and related matters.

### ***Intellectual Property***

Following the distribution, YUM will continue to own the YUM, KFC, Pizza Hut and Taco Bell names and other intellectual property rights associated with such brands, and will license to the Company certain intellectual property rights, including use of the YUM, KFC, Pizza Hut and Taco Bell names for use in the Company business, pursuant to the master license agreement and the name license agreement, which are described below.

### ***Insurance***

The separation and distribution agreement will provide for the allocation between the parties of rights and obligations under existing insurance policies with respect to occurrences prior to the distribution and sets forth procedures for the administration of insured claims.

### ***Non-Solicitation***

The separation and distribution agreement will contain a non-solicitation provision preventing each of YUM and the Company from soliciting certain of the other party's employees for twelve months from the distribution date, subject to certain exceptions, including, among others, for generalized solicitations that are not directed to employees of the other party and the solicitation of a person whose employment was terminated by the other party.

### ***Further Assurances***

In addition to the actions specifically provided for in the separation and distribution agreement, except as otherwise set forth therein or in any ancillary agreement, both the Company and YUM will agree in the separation and distribution agreement to use reasonable best efforts, prior to, on and after the distribution date, to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws, regulations and agreements to consummate and make effective the transactions contemplated by the separation and distribution agreement and the ancillary agreements.

### ***Dispute Resolution***

The separation and distribution agreement will contain provisions that govern, except as otherwise provided in any ancillary agreement, the resolution of disputes, controversies or claims that may arise between the Company and YUM related to the separation or distribution and that are unable to be resolved by the transition committee. These provisions will contemplate that efforts will be made to resolve disputes, controversies and claims by escalation of the matter to executives of the Company and YUM. If such efforts are not successful, either the Company or YUM may submit the dispute, controversy or claim to nonbinding mediation or, if such nonbinding mediation is not successful, binding arbitration, subject to the provisions of the separation and distribution agreement.

### ***Expenses***

Except as expressly set forth in the separation and distribution agreement or in any ancillary agreement, all costs and expenses incurred in connection with the separation and distribution incurred prior to the distribution date, including costs and expenses relating to legal and tax counsel, financial advisors and accounting advisory work related to the separation and distribution, will be paid by the party incurring such cost and expense. We anticipate that substantially all of the one-time costs of the separation will be borne by YUM.

### ***Other Matters***

Other matters governed by the separation and distribution agreement will include access to financial and other information, confidentiality, access to and provision of records and treatment of outstanding guarantees and similar credit support.

### ***Termination***

The separation and distribution agreement will provide that it may be terminated, and the separation and distribution may be modified or abandoned, at any time prior to the distribution date in the sole discretion of YUM without the approval of any person, including the Company's or YUM's shareholders. In the event of a termination of the separation and distribution agreement, no party, nor any of its directors, officers or employees, will have any liability of any kind to the other party or any other person. After the distribution date, the separation and distribution agreement may not be terminated except by an agreement in writing signed by both YUM and the Company.

### ***Tax Matters Agreement***

In connection with the separation, the Company, YCCL and YUM will enter into a tax matters agreement that will govern our respective rights, responsibilities, and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings, and certain other matters regarding taxes.



Under the tax matters agreement, subject to certain exceptions, YUM generally will be liable for and indemnify us against all taxes attributable to the YUM business and we generally will be liable for and indemnify YUM against all taxes attributable to our business for all taxable periods, whether ending on, before or after the date of the distribution. YUM will also be liable for and indemnify us against pre-distribution taxes of certain non-China intermediate entities that will be part of our group. The tax matters agreement also addresses the allocation of liability for taxes that are incurred as a result of distribution or restructuring activities undertaken to effectuate the distribution. To the extent any Chinese indirect transfer tax pursuant to Bulletin 7 is imposed, such tax will be allocated between YUM and us in proportion to our respective share of the combined market capitalization of YUM and the Company during the thirty trading days after the distribution, subject to certain exceptions. In addition, we generally would be responsible for any tax imposed with respect to the distribution and related separation transactions resulting from our breach of certain covenants relating to actions or inactions that would be inconsistent with the intended tax-free treatment of the distribution and related separation transactions, and any U.S. tax imposed on YUM with respect to the distribution arising under Section 355(e) of the Code.

The tax matters agreement generally provides that YUM is responsible for preparing and filing tax returns of YUM and its affiliates and we are responsible for preparing and filing tax returns of us and our affiliates, and that, for a specified period following the distribution, we shall not take positions on our tax returns inconsistent with past practices or that would adversely affect YUM. Generally, the party responsible for preparing and filing a tax return will also have the authority to control all tax proceedings, including tax audits, involving any taxes or adjustment to taxes reported on such tax return, except that YUM will have review and control rights over certain of our tax returns and related proceedings. The tax matters agreement further provides for cooperation between us and YUM with respect to tax matters, including the exchange of information and the retention of records.

### **Employee Matters Agreement**

YUM and the Company will enter into an employee matters agreement ("EMA") prior to the separation and distribution. The EMA will allocate liabilities and responsibilities relating to employees, employment matters, compensation, benefit plans, and other related matters in connection with the separation and distribution, including the treatment of outstanding equity and incentive awards, both inside and outside of the United States.

### ***Employee Benefits Generally***

Employees of the businesses to be conducted by the Company or one of its subsidiaries after the separation and distribution (the "Company Business") are currently employed by the Company and such employees currently participate only in benefit plans and arrangements maintained by the Company (other than equity-based arrangements and certain executive compensation arrangements). Similarly, employees of the businesses to be conducted by YUM after the separation and distribution (the "YUM Business") are currently employed by YUM or one of its subsidiaries (other than the Company and its subsidiaries) and such employees currently participate only in benefit plans and arrangements maintained by YUM. It is anticipated that employees will remain employed by the same business before and after the separation and distribution. Based on the foregoing, the EMA generally provides that the Company will retain all liabilities relating to the employees and former employees of the Company Business and YUM will retain all liabilities relating to the employees and former employees of the YUM Business (other than equity-based arrangements and certain executive compensation arrangements discussed below). These liabilities include all liabilities relating to, arising out of or resulting from employment (or termination of employment) and all liabilities and obligations under and with respect to the employee benefit plans and arrangements that are maintained by the Company or YUM, as applicable, respectively. YUM, however, will retain limited liabilities accrued

with respect to Company employees under YUM benefit plans through the date of the separation and distribution, such as liabilities under qualified retirement plans and nonqualified deferred compensation plans prior to the separation and distribution.

Employees of the Company and its subsidiaries will not be eligible to participate in YUM benefit plans and arrangements for periods after the separation and distribution and employees of YUM and its subsidiaries will not be eligible to participate in Company benefit plans for periods after the separation and distribution.

The separation and distribution is not a change in control for purpose of any benefit plan, equity plan, employment agreement or other purpose. Therefore, it will not entitle employees to any change in control benefits.

#### ***Equity-Based Compensation and Certain Executive Compensation Arrangements***

Unless otherwise specified and notwithstanding the general provisions of the EMA relating to allocation of liabilities between YUM and the Company, concurrently with the separation and distribution, holders of YUM equity-based awards (including stock options, SARs and RSUs) will generally receive awards with respect to Company stock and their YUM awards will be adjusted. All PSU awards will remain as awards with respect to YUM stock and will be adjusted to reflect the separation and distribution. To the extent applicable, the aggregate intrinsic value of the new Company awards and the adjusted YUM awards will not exceed the intrinsic value of the corresponding YUM equity-based award as measured immediately before the separation.

Except for the adjustments described above, all adjusted awards will remain subject to the same vesting conditions and other material terms and conditions that applied to the original YUM equity award immediately before the separation and distribution.

If local regulations outside the United States or the terms of any employment agreement do not permit use of the specified adjustment method, a compliant alternative adjustment method will be used.

Adjustments will also be made with respect to phantom equity awards under executive programs, such as the EID Program, to reflect the separation and distribution.

#### **Master License Agreement**

In connection with the separation, Yum! Restaurants Asia Pte. Ltd. ("YRAPL"), a wholly-owned indirect subsidiary of YUM, and Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of the Company, will enter into a master license agreement. Under the master license agreement, YRAPL grants YCCL the exclusive right to use and sublicense the use of intellectual property owned by YUM and its subsidiaries for the operation of KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, and Taco Bell restaurants in the People's Republic of China, excluding Hong Kong, Taiwan and Macau (the "territory") including related development, promotional and support activities. The master license agreement also gives YCCL a right of first refusal to develop and franchise in the territory certain other restaurant brands that YUM may later develop or acquire. KFC, Pizza Hut and Taco Bell are referred to in this section as the "brands" and each as a "brand."

#### ***Term***

The term of the master license agreement expires on the 50th anniversary of the effective date of the agreement, but as long as YCCL is in "good standing," and unless YCCL gives notice of its intent not to renew, the agreement will be automatically renewed for an unlimited number of additional 50-year renewal terms.

### ***Payments and Required Expenditures***

YCCL must pay YRAPL a monthly license fee in an amount equal to 3% of net sales, from the operation of the KFC, Pizza Hut Casual Dining, Pizza Hut Home Service and Taco Bell restaurants in the territory by YCCL or its sublicensees and franchisees. YCCL must spend a specified minimum percentage of net sales to market, advertise and promote the brands and their products in the territory.

### ***Guarantor***

YCCL's obligations under the master license agreement are guaranteed by the Company.

### ***Growth***

To maintain its exclusivity, YCCL must meet certain benchmarks designed to measure growth of the brands in the territory. These benchmarks may vary by brand. In addition, YCCL must open a certain number of Taco Bell restaurants in the territory by December 31, 2022; if it does not, YCCL will lose its exclusivity with respect to the Taco Bell brand and YRAPL may terminate YCCL's right to develop new Taco Bell restaurants.

### ***Non-Competition***

The master license agreement restricts YCCL and its affiliates from engaging in a "competing business" in China and other countries in which YUM operates its brands during the term of the agreement and for twelve months following the expiration, termination or transfer of the agreement or an interest in the agreement. A "competing business" is (a) one that offers to consumers any food product that is similar to one offered by restaurants operating under the brands (like pizza, pasta, ready-to-eat chicken and Mexican-style food) and that accounts for more than 20% of all product revenues generated by the business either in the territory or in the world, and (b) certain businesses specifically identified in the master license agreement, which may be updated from time to time.

### ***Brand Standards***

YCCL must maintain, and cause its sublicensees to maintain, specified standards of quality and comply, and cause its sublicensees to comply, with certain brand standards set forth by YRAPL.

### ***Transfer and Change of Control***

YRAPL and its affiliates may transfer their interests in brand assets, the master license agreement, and their rights and obligations under the master license agreement (including those pertaining to a particular brand, which are separable under the master license agreement), with advance notice to (and for transfers to competitors after consultation with) YCCL, but without YCCL's consent, subject to the rights and obligations of YCCL under the master license agreement. The transfer by YCCL of its rights or obligations under the master license agreement or any sublicense agreement is subject to YRAPL's prior written consent. YRAPL may terminate the master license agreement or YCCL's rights as to a particular brand in the event of an unauthorized transfer. A change of control occurs if YCCL ceases to be a wholly-owned subsidiary of the Company and in any of the following circumstances: (i) substantially all of the assets of YCCL or the Company are transferred to a competitor; (ii) YCCL or the Company merge, or engage in any other business combination, with a competitor; (iii) 20% or more of the Company's outstanding capital stock or voting securities is owned by a competitor; and (iv) a competitor acquires the power to manage YCCL or the Company. A competitor is a person or entity engaged in a competing business (or an affiliate of such a person or entity). YRAPL may terminate the master license agreement or YCCL's rights as to a particular brand in the event of a change of control.

### **Termination**

Except for the dissolution, liquidation, insolvency or bankruptcy of YCCL or the Company or upon the occurrence of an unauthorized transfer or change of control or other breach that YRAPL determines cannot be cured, YCCL will have the right to cure any breach of the master license agreement. Upon the occurrence of a non-curable breach, YRAPL will have the right to terminate the master license agreement (or YCCL's rights to a particular brand) on delivery of written notice. Upon the occurrence of a curable breach, YRAPL will provide a notice of breach that sets forth a cure period that is reasonably tailored to the applicable breach. If YCCL does not cure the breach, YRAPL will have the right to terminate the master license agreement (or YCCL's rights to a particular brand). The master license agreement will also contemplate remedies other than termination that YRAPL may use as appropriate. These remedies include: actions for injunctive and/or declaratory relief (including specific performance) and/or damages; limitations on YCCL's future development rights or suspension of restaurant operations pending a cure; modification or elimination of YCCL's territorial exclusivity; and YRAPL's right to repurchase from YCCL the business operated under an affected brand at fair market value, less YRAPL's damages. YCCL may request an early termination of the master license agreement with respect to a particular brand if sales for that brand declined for five consecutive years and such decline was caused by YUM's failure to maintain that brand outside of the territory, which results in material, irreparable damages to that brand in the territory, or was proximately caused by a material adverse change in the applicable laws.

### **Indemnification**

YCCL will indemnify YRAPL for certain claims including those related to the operation or franchise of the brands or restaurants in the territory, YCCL's actions prior to the separation, third party claims regarding use and license of the intellectual property in the territory and YCCL's breaches of its representations and warranties under the master license agreement.

### **Transition Services Agreement**

In connection with the separation, YUM and the Company will enter into a transition services agreement pursuant to which YUM will provide to the Company, on an interim, transitional basis, various services. The services to be provided by YUM are expected to include, among other things, finance and information technology services, office space leasing and the secondment of certain personnel, and will generally be provided on an at-cost basis. In addition, the Company is expected to provide YUM certain promotional sourcing support on a cost basis. The services generally will commence on the distribution date and are expected to terminate within 24 months following the distribution date.

The Company or YUM, as applicable, will generally have the right to terminate any or all of the services upon written notice to the other party.

### **Name License Agreement**

In connection with the separation, we will enter into a name license agreement with YUM pursuant to which we will be granted a non-exclusive, non-transferable, non-sublicensable (except to certain Company subsidiaries) royalty-free license to use the name and mark "YUM" as part of the Company's name, domain name and stock identification symbol, subject to certain conditions. The name license agreement may be terminated by YUM in the event of, among other things, our material breach of the name license agreement, and it will automatically terminate concurrently with any termination of the master license agreement.

## **Other Related Person Transactions**

We may enter into commercial transactions with entities for which our expected executive officers or directors serve as directors and/or executive officers in the ordinary course of our business. All of these transactions will be approved under our policy for approval of related person transactions described below.

## **Procedures for Approval of Related Person Transactions**

The YUM board of directors has adopted policies and procedures for the review of related person transactions and the Company expects to adopt policies and procedures substantially similar to those in effect at YUM. The Company expects that its Nominating and Governance Committee will review transactions, arrangements, or relationships or any series of similar transactions, arrangements or relationships in which a related person had or will have a material interest and that exceed \$100,000 to determine if such transactions, arrangements or relationships are in the best interests of the Company's stockholders and the Company. Any member of the Nominating and Governance Committee who is a related person with respect to a transaction, arrangement relationship under review will not participate in the deliberation or vote respecting approval or ratification of such transaction, arrangement or relationship.

Related persons are directors, director nominees, executive officers, holders of 5% or more of the Company's voting stock and their immediate family members. Immediate family members are spouses, parents, stepparents, children, stepchildren, siblings, daughters-in-law, sons-in-law and any person, other than a tenant or domestic employee, who resides in the household of a director, director nominee, executive officer or holder of 5% or more of the Company voting stock.

After its review, the Nominating and Governance Committee will consider whether to approve or ratify the transaction.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Before the distribution, all of the outstanding shares of the Company's common stock will be owned beneficially and of record by YUM. Immediately following the distribution, the Company expects to have outstanding an aggregate of approximately [ ] shares of common stock based upon the number of shares of YUM common stock outstanding on [ ], 2016, assuming no subsequent exercise of YUM stock awards, and applying the distribution ratio. Yum will not own any shares of the Company's common stock following the distribution.

The following table sets forth information concerning the expected beneficial ownership of our common stock following the distribution by:

- holders of more than 5% of YUM's outstanding shares of common stock as of [ ], 2016;
- each of our expected directors;
- each of our named executive officers; and
- all of our expected directors and executive officers as a group.

The information provided in the table is based on our records, information filed with the SEC and information provided to us, except where otherwise noted. The information is intended to estimate the expected beneficial ownership of our common stock immediately following the distribution, calculated as of [ ], 2016, and based upon the distribution of [ ] share[s] of Company common stock for each share of YUM common stock. To the extent the expected directors and executive officers own YUM stock as of 5:00 p.m., Eastern Time, on [ ], 2016, or the record date for the distribution, they will participate in the distribution on the same terms as other holders of YUM common stock. The address of each expected director and named executive officer shown in the table below is c/o [ ].

<u>Name and Address of Beneficial Owner</u>	<u>Shares Beneficially Owned</u>	<u>Percent of Class</u>
<i>Persons with over 5% of Outstanding Shares(1)</i>		
Vanguard 100 Vanguard Blvd. Malvern, PA 19355	[ ]	6.31%
Blackrock Inc. 55 East 52nd Street New York, NY 10055	[ ]	5.1%
Corvex Management, LP 667 Madison Ave. New York, NY 10065	[ ]	5.0%
<i>Expected Directors and Executive Officers</i>		
Micky Pant	[ ]	[ ]%
Ted Stedem	[ ]	[ ]%
Joey Wat	[ ]	[ ]%
Mark Chu	[ ]	[ ]%
Shella Ng	[ ]	[ ]%
Expected directors and executive officers as a group	[ ]	[ ]%

- (1) This information is presented as of December 31, 2015, and reflects ownership of YUM shares (based on a stock ownership report on Schedule 13G filed by such shareholders with the SEC and provided to YUM).

## THE SEPARATION AND DISTRIBUTION

### Overview

On October 20, 2015, YUM announced that it intended to separate into two publicly traded companies: one comprising YUM's world-class operations in China, which will do business as "YUM China", and one that will comprise YUM's remaining operations around the world, which will continue to do business as YUM and retain YUM's current logo. YUM announced that it intends to effect the separation through a pro rata distribution of common stock of a new entity, which is the Company, formed to hold the assets and liabilities associated with the China business.

On [redacted], 2016, the YUM board of directors approved the distribution of the issued and outstanding shares of Company common stock owned by YUM on the basis of [redacted] share[s] of Company common stock for each share of YUM common stock held as of 5:00 p.m., Eastern Time, on the record date of [redacted], 2016. The distribution of Company common stock as described in this Information Statement is subject to the satisfaction or waiver of certain conditions. We cannot provide any assurances YUM will complete the distribution. For a more detailed description of these conditions, see "Conditions to the Distribution," below.

### Reasons for the Separation

YUM's board of directors and management believes that the creation of two independent public companies, with the Company operating the China business, and YUM operating its remaining businesses (including franchising) throughout the rest of the world, is in the best interests of YUM and its shareholders and approved the plan of separation. A wide variety of factors were considered by YUM's board of directors in evaluating the creation of two independent public companies. In arriving at the decision to approve the separation, YUM's board of directors and management evaluated a number of strategic alternatives to the separation, including a sale of the entirety of the China business and maintaining the existing business structure of YUM. Given the divergence in the business models of YUM and YUM's China business, YUM's board of directors determined that a separation of the businesses could improve each company's performance and create more focused investment opportunities for shareholders, and that the proposed separation could accomplish this goal in the most straightforward and tax-efficient manner available. YUM's board of directors considered the potential disadvantages of a separation, including that execution of the proposed separation will require significant time and attention from YUM management, that the separation is complex in nature and may be affected by unanticipated developments, and that YUM may experience difficulties in attracting, retaining, and motivating key employees during the pendency of the separation. Ultimately, however, YUM's board of directors concluded that the expected benefits associated with the proposed separation outweighed the potential disadvantages. Among other things, the YUM board of directors considered the following expected benefits:

- *Enhanced strategic and management focus.* The separation will allow each company to focus on and more effectively pursue its own distinct operating priorities and strategies, and will enable the management of each company to concentrate efforts on the unique needs of each business and pursue distinct opportunities for long-term growth and profitability. Specifically, YUM will pursue its strategy of developing its brands and expanding its franchise operations globally outside of China and expects to own less than 4% of the restaurants within its system by the end of 2017. The Company, on the other hand, will pursue its strategy of owning and operating restaurants in China and plans to own and operate a substantial majority of its restaurants in China;
- *More efficient allocation of capital.* The separation will permit each company to concentrate its financial resources solely on its own operations, providing greater flexibility to invest capital in

its business in a time and manner appropriate for its distinct strategy and business needs and facilitating a more efficient allocation of capital;

- *Alignment of incentives with performance objectives.* The separation will facilitate incentive compensation arrangements for employees more directly tied to the performance of the relevant company's business, and may enhance employee hiring and retention by, among other things, improving the alignment of management and employee incentives with performance and growth objectives;
- *Direct access to capital markets.* The separation will create an independent equity structure that will afford the Company direct access to capital markets and facilitate the ability of the Company to capitalize on its unique growth opportunities and effect future acquisitions utilizing its common stock;
- *Investor choice.* The separation will allow investors to separately value YUM and the Company based on their unique investment identities, including the merits, performance and future prospects of their respective businesses. The separation will also provide investors with two distinct and targeted investment opportunities; and
- *Optimized Capital Structure.* By the end of 2017, we expect that at least 96% of the restaurants within YUM's system will be owned and operated by franchisees or licensees from which YUM will receive an ongoing royalty fee. These restaurants will be spread across nearly 140 countries and territories worldwide. This diversified royalty stream is expected to decrease the volatility of YUM's earnings as the royalty is not dependent upon restaurant margin performance. YUM believes this lower volatility will enable YUM to borrow at lower interest rates than would otherwise be available if its earnings were more volatile and return significant capital to its shareholders through share repurchases and dividends.

Neither the Company nor YUM can assure you that, following the separation, any of the benefits described above or otherwise will be realized to the extent anticipated or at all.

### **Risks Associated with the Company and the Separation**

YUM's board of directors also considered the following potentially negative factors in evaluating the separation:

- *Risks related to the loss of certain benefits associated with unified corporate structure.* Currently, YUM and the Company derive certain benefits from operating within a unified corporate structure. Such benefits may include sharing of general and administrative expenses, which will no longer occur following the separation, and the coordination of global best practices, which may be more limited following the separation.
- *One-time separation costs.* The planning, evaluation, and implementation of the separation will result in significant costs, which are expected to amount to approximately \$60 million.
- *Increased operational costs.* As a newly-formed public company, the Company will have increased operating costs. The primary items that are currently provided by YUM that will need to be duplicated by the Company subsequent to the separation relate to additional management and governance obligations associated with being an independent public company. Our current estimate of annual costs that will be incurred by the Company in connection with public company management and governance is approximately \$20 million. The Company has included corporate allocations in the Combined Statements of Income of \$12 million, \$11 million and \$12 million for 2015, 2014 and 2013, respectively.
- *Uncertain benefits.* There is a risk of not realizing the anticipated benefits of the separation.



- *Risk Relating to China Tax.* The separation could result in one-time and/or on-going material Chinese tax detriments to the Company. For example, if the Company is classified as a Chinese resident enterprise for Chinese enterprise income tax purposes such classification would likely result in unfavorable tax consequences to the Company and our non-Chinese stockholders. In addition, if the separation is deemed by Chinese tax authorities to constitute an indirect transfer subject to Bulletin 7, gains derived from such transfer may be subject to Chinese enterprise income tax, resulting in a significant China tax liability for YUM for a portion of which the Company and YCCL would have an indemnification obligation under the tax matters agreement.
- *Risks relating to U.S. tax.* If the IRS were successful in taking the position that the distribution does not qualify for tax-free treatment for U.S. federal income tax purposes under Sections 355 or 361 of the Code, the Company and YUM shareholders could be subject to significant U.S. federal income tax liability.

After considering these potentially negative factors, YUM's board of directors concluded that the potential benefits from the separation outweighed these factors.

### **Formation of a New Company Prior to the Company's Distribution**

The Company was formed in Delaware on April 1, 2016, for the purpose of holding YUM's China business. YUM's China business is currently operated primarily through two indirect subsidiaries of YUM, Yum Restaurants Consulting (Shanghai) Company Limited and Yum Restaurants (China) Investment Company Limited (together, the "China Subsidiaries"). As part of the plan to separate the China business from the remainder of YUM's business, and as provided in the separation and distribution agreement, YUM has transferred the equity interests of the holding companies through which YUM owns the China Subsidiaries as well as any related assets and liabilities of the China business to the Company.

### **When and How You Will Receive Shares in the Distribution**

With the assistance of the distribution agent, YUM expects to distribute Company common stock at [ · ], Eastern Time, on the distribution date, to all holders of outstanding YUM common stock as of 5:00 p.m., Eastern Time, on [ · ], 2016, the record date for the distribution. The distribution agent will serve as the settlement and distribution agent in connection with the distribution and the transfer agent and registrar for Company common stock following the distribution.

If you own shares of YUM common stock as of 5:00 p.m., Eastern Time, on the record date for the distribution, Company common stock that you are entitled to receive in the distribution will be issued electronically, as of the distribution date, to you in direct registration form or to your bank or brokerage firm on your behalf. If you are a registered holder, the distribution agent will then mail you a direct registration account statement that reflects your shares of Company common stock. If you hold your shares through a bank or brokerage firm, your bank or brokerage firm will credit your account for the shares. Direct registration form refers to a method of recording share ownership when no physical share certificates are issued to stockholders, as is the case in this distribution. If you sell YUM common stock in the "regular-way" market up to and including the distribution date, you will be selling your right to receive shares of Company common stock in the distribution.

Commencing on or shortly after the distribution date, if you hold physical stock certificates that represent your shares of YUM common stock and you are the registered holder of the shares represented by those certificates, the distribution agent will mail to you an account statement that indicates the number of shares of Company common stock that have been registered in book-entry form in your name.

Most YUM shareholders hold their shares of common stock through a bank or brokerage firm. In such cases, the bank or brokerage firm would be said to hold the shares in "street name" and ownership would be recorded on the bank or brokerage firm's books. If you hold your shares of YUM common stock through a bank or brokerage firm, your bank or brokerage firm will credit your account for the Company common stock that you are entitled to receive in the distribution. If you have any questions concerning the mechanics of having shares held in "street name," please contact your bank or brokerage firm.

### **Transferability of Shares You Receive**

Shares of Company common stock distributed to holders in connection with the distribution will be transferable without registration under the Securities Act, except for shares received by persons who may be deemed to be Company affiliates. Persons who may be deemed to be Company affiliates after the distribution generally include individuals or entities that control, are controlled by or are under common control with the Company, which may include certain Company executive officers, directors or principal stockholders. Securities held by Company affiliates will be subject to resale restrictions under the Securities Act. Company affiliates will be permitted to sell shares of Company common stock only pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act, such as the exemption afforded by Rule 144 under the Securities Act.

### **Number of Shares of Company Common Stock You Will Receive**

For each share of YUM common stock that you own as of 5:00 p.m., Eastern Time, on [ · ], 2016, the record date for the distribution, you will receive [ · ] share[s] of Company common stock on the distribution date. YUM will not distribute any fractional shares of Company common stock to its shareholders. Instead, if you would otherwise be entitled to receive a fractional share of Company common stock, [the distribution agent] will aggregate such fractional shares into whole shares, sell the whole shares in the open market at prevailing market prices and distribute the aggregate cash proceeds (net of discounts and commissions) of the sales pro rata (based on the fractional share such holder would otherwise be entitled to receive) to each holder who otherwise would have been entitled to receive a fractional share in the distribution. The distribution agent, in its sole discretion, without any influence by YUM or the Company, will determine when, how, and through which broker-dealer and at what price to sell the whole shares. Any broker-dealer used by the distribution agent will not be an affiliate of either YUM or the Company. [The distribution agent] is not an affiliate of either YUM or the Company. Neither the Company nor YUM will be able to guarantee any minimum sale price in connection with the sale of these shares. Recipients of cash in lieu of fractional shares, if any, will not be entitled to any interest on the amounts of payment made in lieu of fractional shares.

The aggregate net cash proceeds of any sales of fractional shares will be taxable for U.S. federal income tax purposes. See "Material U.S. Federal Income Tax Consequences" for an explanation of the material U.S. federal income tax consequences of the distribution. If you hold physical certificates for shares of YUM common stock and are the registered holder, you will receive a check from the distribution agent in an amount equal to your pro rata share of the aggregate net cash proceeds of the sales. The Company estimates that it will take approximately two weeks from the distribution date for the distribution agent to complete the distributions of the aggregate net cash proceeds. If you hold your shares of YUM common stock through a bank or brokerage firm, your bank or brokerage firm will receive, on your behalf, your pro rata share of the aggregate net cash proceeds of the sales and will electronically credit your account for your share of such proceeds.

### **Results of the Distribution**

After the distribution, the Company will be an independent, publicly traded company. The actual number of shares to be distributed will be determined at 5:00 p.m., Eastern Time, on [ · ], 2016, the

record date for the distribution, and will reflect any exercise of YUM options between the date the YUM board of directors declares the distribution and the record date for the distribution. The distribution will not affect the number of outstanding shares of YUM common stock or any rights of YUM shareholders. YUM will not distribute any fractional shares of Company common stock.

The Company will enter into a separation and distribution agreement and will enter into other related agreements with YUM before the distribution to effect the separation and provide a framework for the Company's relationship with YUM after the separation. These agreements will provide for the allocation between YUM and the Company of assets, liabilities and obligations (including investments, property and employee benefits and tax-related assets and liabilities). For a more detailed description of these agreements, see "Certain Relationships and Related Person Transactions."

### **Market for the Company's Common Stock**

There is currently no public trading market for the Company's common stock. The Company intends to file an application to have its common stock authorized for listing on the New York Stock Exchange under the symbol "YUMC." The Company has not and will not set the initial price of its common stock. The initial price will be established by the public markets.

The Company cannot predict the price at which its common stock will trade after the distribution. The combined trading prices, after the separation, of a share of Company common stock that a YUM shareholder will receive in the distribution and a share of YUM common stock held as of 5:00 p.m., Eastern Time, on the record date for the distribution may not equal the "regular-way" trading price of a share of YUM common stock immediately prior to the distribution. The price at which the Company common stock trades may fluctuate significantly, particularly until an orderly public market develops. Trading prices for Company common stock will be determined in the public markets and may be influenced by many factors. See "Risk Factors—Risks Related to Our Common Stock."

### **Trading between the Record Date and Distribution Date**

Beginning on or shortly before the record date for the distribution and continuing up to and including through the distribution date, YUM expects that there will be two markets in YUM common stock: a "regular-way" market and an "ex-distribution" market. Shares of YUM common stock that trade on the "regular-way" market will trade with an entitlement to Company common stock distributed pursuant to the distribution. Shares of YUM common stock that trade on the "ex-distribution" market will trade without an entitlement to Company common stock distributed pursuant to the distribution. Therefore, if you sell shares of YUM common stock in the "regular-way" market up to and including through the distribution date, you will be selling your right to receive Company common stock in the distribution. If you own shares of YUM common stock as of 5:00 p.m., Eastern Time, on the record date and sell those shares on the "ex-distribution" market up to and including through the distribution date, you will receive the shares of Company common stock that you are entitled to receive pursuant to your ownership as of 5:00 p.m., Eastern Time, on the record date of the shares of YUM common stock.

Furthermore, beginning on or shortly before the record date for the distribution and continuing up to and including the distribution date, the Company expects that there will be a "when-issued" market in its common stock. "When-issued" trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. The "when-issued" trading market will be a market for shares of Company common stock that will be distributed to holders of shares of YUM common stock on the distribution date. If you owned shares of YUM common stock as of 5:00 p.m., Eastern Time, on the record date for the distribution, you would be entitled to shares of Company common stock distributed pursuant to the distribution. You may trade this entitlement to shares of Company common stock, without the shares of YUM common stock you own, on the "when-issued" market, but

your transaction will not settle until after the distribution date. On the first trading day following the distribution date, "when-issued" trading with respect to Company common stock will end, and "regular-way" trading will begin.

### Conditions to the Distribution

The distribution is subject to final approval by the board of directors of YUM, as well as to a number of conditions, including:

- the transfer of assets and liabilities to the Company in accordance with the separation and distribution agreement will have been completed, other than assets and liabilities intended to be transferred after the distribution;
- receipt of (A) an opinion of each of Mayer Brown LLP and PricewaterhouseCoopers LLP, regarding the qualification of the distribution as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 361 of the Code and (B) one (1) or more opinions of YUM's external tax advisors, in each case satisfactory to YUM's board of directors, regarding certain other tax matters relating to the distribution and related transactions;
- the SEC will have declared effective the registration statement of which this Information Statement forms a part, no stop order suspending the effectiveness of the registration statement will be in effect and no proceedings for such purpose will be pending before or threatened by the SEC;
- this Information Statement shall have been made available to the YUM shareholders;
- all actions or filings necessary or appropriate under applicable U.S. federal, U.S. state or other securities laws will have been taken and, where applicable, have become effective or been accepted by the applicable governmental entity;
- any approvals of any governmental entities required for the consummation of the separation and distribution will have been obtained;
- no order, injunction or decree issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the separation, the distribution or any of the related transactions will be in effect;
- the shares of Company common stock to be distributed will have been approved for listing on the New York Stock Exchange, subject to official notice of issuance;
- the receipt of an opinion from an independent advisory firm confirming the solvency and financial viability of each of the Company and YUM after the distribution that is in form and substance acceptable to YUM in its sole discretion; and
- no other event or development will have occurred or exist that, in the judgment of YUM's board of directors, in its sole discretion, makes it inadvisable to effect the separation, the distribution or the other related transactions.

YUM and the Company cannot assure you that any or all of these conditions will be met. YUM will have the sole and absolute discretion to determine (and change) the terms of, and whether to proceed with, the distribution and, to the extent it determines to so proceed, to determine the record date for the distribution and the distribution date and the distribution ratio. YUM will also have sole discretion to waive any of the conditions to the distribution. YUM does not intend to notify its shareholders of any modifications to the terms of the separation that, in the judgment of its board of directors, are not material. For example, the YUM board of directors might consider material such matters as significant changes to the distribution ratio, the assets to be contributed or the liabilities to be assumed in the separation. To the extent that the YUM board of directors determines that any

modifications by YUM materially change the material terms of the distribution, YUM will notify YUM shareholders in a manner reasonably calculated to inform them about such modifications as may be required by law, by, for example, publishing a press release, filing a Current Report on Form 8-K, or circulating a supplement to this Information Statement.

### **Costs of Separation**

We estimate that the one-time cash costs of the separation will be approximately \$60 million, and we anticipate that substantially all of such one-time costs will be borne by YUM. Following the separation, in general, YUM and the Company will be responsible for the costs incurred by YUM or the Company, as applicable (which, in the case of the Company, will include costs incurred in connection with the transition to being an independent public company).

## MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of material U.S. federal income tax consequences of the distribution by YUM of the Company's outstanding common stock held by YUM on the distribution date to "U.S. holders" (defined below) of YUM common stock. This summary is based on the Code, U.S. Treasury Regulations promulgated thereunder, rulings and other administrative pronouncements issued by the IRS, and judicial decisions, all as in effect on the date of this Information Statement, and all of which are subject to differing interpretation and change at any time, possibly with retroactive effect. This summary applies only to U.S. holders of shares of YUM common stock who hold such shares as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment). This summary is based upon the assumption that the distribution, together with certain related transactions, will be consummated in accordance with the separation and distribution agreement and other applicable agreements and as described in this Information Statement. This summary is for general information only and is not tax advice. It does not discuss all aspects of U.S. federal income taxation that may be relevant to particular holders in light of their particular circumstances or to holders subject to special rules under the Code (including, but not limited to, insurance companies, tax-exempt organizations, financial institutions, broker-dealers, partners in partnerships (or entities or arrangements treated as partnerships for U.S. federal income tax purposes) that hold YUM common stock, pass-through entities (or investors therein), traders in securities who elect to apply a mark-to-market method of accounting, shareholders who hold YUM common stock as part of a "hedge," "straddle," "conversion," "synthetic security," "integrated investment" or "constructive sale transaction," individuals who receive YUM or Company common stock upon the exercise of employee stock options or otherwise as compensation, holders who are liable for the alternative minimum tax or any holders who actually or constructively own 5% or more of YUM common stock). This summary also does not address any tax consequences arising under the unearned Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010, nor does it address any tax considerations under state, local or foreign laws or U.S. federal laws other than those pertaining to the U.S. federal income tax. The distribution may be taxable under such other tax laws and all holders should consult their own tax advisors with respect to the applicability and effect of any such tax laws.

If a partnership, including for this purpose any entity or arrangement that is treated as a partnership for U.S. federal income tax purposes, holds YUM common stock, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. Holders of YUM common stock that are partnerships and partners in such partnerships should consult their own tax advisors about the U.S. federal income tax consequences of the distribution.

For purposes of this summary, a "U.S. holder" is any beneficial owner of YUM common stock that is, for U.S. federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or a trust, (i) if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of its substantial decisions or (ii) that has a valid election in place under applicable Treasury Regulations to be treated as a United States person.

It is a condition to the distribution that YUM receive (i) an opinion of each of Mayer Brown LLP and PricewaterhouseCoopers LLP, satisfactory to YUM's board of directors, regarding the qualification

of the distribution as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 361 of the Code and (ii) one or more opinions of YUM's external tax advisors, in each case satisfactory to YUM's board of directors, regarding certain other tax matters relating to the distribution and related transactions. Any opinions of outside counsel or other advisors will be based, among other things, on various facts and assumptions, as well as certain representations, statements and undertakings of YUM and the Company (including those relating to the past and future conduct of YUM and the Company). If any of these facts, assumptions, representations, statements or undertakings is, or becomes, inaccurate or incomplete, or if YUM or the Company breaches any of their respective covenants relating to the separation, the conclusions reached in the tax opinions may be incorrect. Accordingly, notwithstanding receipt of the opinions of counsel or other advisors, the IRS could determine that the distribution and certain related transactions should be treated as taxable transactions for U.S. federal income tax purposes if it determines that any of the facts, assumptions, representations, statements or undertakings on which any opinion was based are false or have been violated. In addition, an opinion of outside counsel or other external tax advisor represents the judgment of such counsel or other advisor, which is not binding on the IRS or any court. Accordingly, notwithstanding receipt by YUM of the tax opinions referred to above, the IRS could assert that the distribution does not qualify for tax-free treatment for U.S. federal income tax purposes. If the IRS were successful in taking this position, YUM, the Company and YUM shareholders could be subject to significant U.S. federal income tax liability. See "—Material U.S. Federal Income Tax Consequences if the Distribution is Taxable" below.

***Material U.S. Federal Income Tax Consequences if the Distribution Qualifies as a Transaction that is Generally Tax-Free Under Sections 355 and 361 of the Code***

Assuming the distribution qualifies as a transaction that is generally tax-free, for U.S. federal income tax purposes, under Sections 355 and 361 of the Code, the U.S. federal income tax consequences of the distribution generally are as follows:

- subject to the discussion below regarding Section 355(e) of the Code, neither the Company nor YUM will recognize any gain or loss upon the distribution of Company common stock and no amount will be includable in the income of YUM or the Company as a result of the distribution other than taxable income or gain possibly arising out of internal reorganizations undertaken in connection with the separation and distribution and with respect to any items required to be taken into account under U.S. Treasury regulations relating to consolidated federal income tax returns;
- a YUM shareholder will not recognize any gain or loss and no amount will be includable in income as a result of the receipt of Company common stock pursuant to the distribution, except with respect to any cash received in lieu of fractional shares of Company common stock (as described below);
- a YUM shareholder's aggregate tax basis in such shareholder's shares of YUM common stock following the distribution and in Company common stock received in the distribution (including any fractional share interest in Company common stock for which cash is received) will equal such shareholder's tax basis in its YUM common stock immediately before the distribution, allocated between the YUM common stock and Company common stock (including any fractional share interest in Company common stock for which cash is received) in proportion to their relative fair market values on the distribution date;
- a YUM shareholder's holding period for Company common stock received in the distribution (including any fractional share interest in Company common stock for which cash is received) will include the holding period for that shareholder's YUM common stock; and

- a YUM shareholder who receives cash in lieu of a fractional share of Company common stock in the distribution will be treated as having sold such fractional share for cash, and will recognize capital gain or loss in an amount equal to the difference between the amount of cash received and the YUM shareholder's adjusted tax basis in the fractional share. That gain or loss will be long-term capital gain or loss if the shareholder's holding period for its YUM common stock exceeds one year at the time of the distribution.

U.S. Treasury regulations provide that if a YUM shareholder holds different blocks of YUM common stock (generally YUM common stock purchased or acquired on different dates or at different prices), the aggregate basis for each block of YUM common stock will be allocated, to the greatest extent possible, between the shares of Company common stock received in the distribution in respect of such block of YUM common stock and such block of YUM common stock, in proportion to their respective fair market values on the distribution date. The holding period of the shares of Company common stock received in the distribution in respect of such block of YUM common stock will include the holding period of such block of YUM common stock. If a YUM shareholder is not able to identify which particular shares of Company common stock are received in the distribution with respect to a particular block of YUM common stock, for purposes of applying the rules described above, the stockholder may designate which shares of Company common stock are received in the distribution in respect of a particular block of YUM common stock, provided that such designation is consistent with the terms of the distribution. YUM shareholders are urged to consult their own tax advisors regarding the application of these rules to their particular circumstances.

#### ***Material U.S. Federal Income Tax Consequences if the Distribution is Taxable***

As discussed above, notwithstanding receipt by YUM of opinions of counsel, the IRS could assert that the distribution does not qualify for tax-free treatment for U.S. federal income tax purposes. If the IRS were successful in taking this position, the consequences described above would not apply and YUM, the Company and YUM shareholders could be subject to significant U.S. federal income tax liability. In addition, certain events that may or may not be within the control of YUM or the Company could cause the distribution to not qualify for tax-free treatment for U.S. federal income tax purposes. Depending on the circumstances, the Company may be required to indemnify YUM for taxes (and certain related losses) resulting from the distribution not qualifying as tax-free for U.S. federal income tax purposes.

If the distribution fails to qualify as a tax-free transaction for U.S. federal income tax purposes, in general, YUM would recognize taxable gain as if it had sold the Company common stock in a taxable sale for its fair market value (unless YUM and the Company jointly make an election under Section 336(e) of the Code with respect to the distribution, in which case, in general, (i) YUM would recognize taxable gain as if the Company had sold all of its assets in a taxable sale in exchange for an amount equal to the fair market value of the Company common stock and the assumption of all the Company's liabilities and (ii) the Company would obtain a related step up in the basis of its assets) and YUM shareholders who receive shares of Company common stock in the distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares.

Even if the distribution were to otherwise qualify as tax-free for U.S. federal income tax purposes under Sections 355 and 361 of the Code, it may result in taxable gain to YUM under Section 355(e) of the Code if the distribution were later deemed to be part of a plan (or series of related transactions) pursuant to which one or more persons acquire, directly or indirectly, shares representing a 50% or greater interest (by vote or value) in YUM or the Company. For this purpose, any acquisitions of YUM or the Company shares within the period beginning two years before the distribution and ending two years after the distribution are presumed to be part of such a plan, although YUM or the Company may be able to rebut that presumption.



In connection with the distribution, the Company, YCCL and YUM will enter into a tax matters agreement pursuant to which the Company and YCCL will agree to be responsible for certain tax liabilities and obligations following the distribution. For a description of the tax matters agreement, see "Certain Relationships and Related Person Transactions—Tax Matters Agreement."

***Backup Withholding and Information Reporting.***

Payments of cash to U.S. holders of YUM common stock in lieu of fractional shares of Company common stock may be subject to information reporting and backup withholding (currently, at a rate of 28%), unless such U.S. holder delivers a properly completed IRS Form W-9 certifying such U.S. holder's correct taxpayer identification number and certain other information, or otherwise establishes an exemption from backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against a U.S. holder's U.S. federal income tax liability provided that the required information is timely furnished to the IRS.

**THE FOREGOING DISCUSSION IS A SUMMARY OF MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE DISTRIBUTION UNDER CURRENT LAW AND IS FOR GENERAL INFORMATION ONLY. ALL HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE DISTRIBUTION TO THEM, INCLUDING THE APPLICATION AND EFFECT OF U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS.**

## MATERIAL CHINA TAX CONSEQUENCES

The following is a summary of material Chinese income tax consequences of the distribution by YUM of the Company's outstanding common stock held by YUM on the distribution date to holders of YUM common stock and the treatment to such holders of the ownership and disposition of such Company common stock. This summary is based on China Enterprise Income Tax Law ("EIT Law"), Implementation Regulations of China Enterprise Income Tax Law, Chinese Individual Income Tax Law, Implementation Regulations of Chinese Individual Income Tax Law, the SAT's Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises. ("Bulletin 7"), Bulletin on the Administrative Measures in respect of Individual Income Tax on Income arising from Equity Transfers, rulings and other administrative pronouncements issued by SAT, and judicial decisions, all as in effect on the date of this Information Statement, and all of which are subject to differing interpretation and change at any time, possibly with retroactive effect. This summary applies only to holders of Company common stock that are not residents of China. This summary does not address Chinese income tax consequences to any holder that receives our stock other than in the distribution, and does not address Company common stock received by employees of YUM and the Company as compensation. This summary is based upon the assumption that the distribution, together with certain related transactions, will be consummated in accordance with the separation and distribution agreement and other applicable agreements and as described in this Information Statement. This summary is for general information only and is not tax advice. This summary does not address any tax considerations under laws other than Chinese income tax laws. The distribution and the ownership and disposition of Company common stock may be taxable under such other tax laws and all holders should consult their own tax advisors with respect to the applicability and effect of any such tax laws.

### ***The distribution may be treated as an indirect transfer of Chinese interests resulting in Chinese tax to YUM***

Pursuant to Bulletin 7, an "indirect transfer" of Chinese interests 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 has informed us that it believes that it is more likely than not that YUM will not be subject to this tax with respect to the distribution. However, there are significant uncertainties regarding the circumstances in which the tax will apply, and there can be no assurances that the Chinese tax authorities will not seek to impose this tax on YUM. Pursuant to the tax matters agreement, the Company and YCCL will indemnify YUM for a portion (tied to the relative market capitalization of YUM and the Company) of any taxes and related losses resulting from the application of Bulletin 7 to the distribution. Alternatively, if Bulletin 7 applies to the distribution as a result of a breach by the Company or Company group members of certain representations or covenants, or due to certain actions of the Company or Company group members following the distribution, the Company and YCCL generally will indemnify YUM for all such taxes and related losses. Therefore, if YUM is subject to such Chinese tax with respect to the distribution, we may be required to make material payments to YUM under this indemnity.

### ***Chinese tax consequences to shareholders of receipt of Company shares***

YUM shareholders are not expected to recognize gain or loss for Chinese tax purposes on receipt of Company common shares in the distribution. YUM shareholders should not be subject to any Chinese withholding or reporting obligations on such receipt, provided that the distribution is not recharacterized and taxed under Bulletin 7, and that the Company is not regarded as a China resident enterprise at the time of the distribution. However, if the distribution is recharacterized and taxed

under Bulletin 7, YUM shareholders, as the transferees of Company shares, may in principle be required to withhold their proportionate share of the Chinese enterprise income tax payable by YUM on the capital gains YUM is deemed to have realized on the indirect transfer of Chinese interests, although there are arguments against the imposition of such a withholding obligation. If a withholding obligation were deemed to apply, and the Chinese tax authorities sought to enforce such withholding obligation, failure on the part of YUM shareholders to withhold as required by Bulletin 7 could result in the imposition of penalties on such shareholders. Separately, if the Company is regarded as a China resident enterprise at the time of the distribution, YUM shareholders may have a similar withholding obligation with respect to capital gains YUM is deemed to have realized on its transfer of interest in a China resident enterprise.

#### ***Treatment of the Company as a China resident enterprise***

Under the EIT Law and its implementation rules, an enterprise established outside China with a "de facto management body" within China is considered a China resident enterprise for Chinese enterprise income tax purposes. The Company and each Company subsidiary that is organized outside of China intend to conduct their management functions in a manner that does not cause them to be China resident enterprises, including by carrying on their day-to-day management activities and maintaining their key assets and records, such as resolutions of their board of directors and resolutions of stockholders, outside of China. As such, we do not believe that the Company or any of its non-Chinese subsidiaries should be considered a China resident enterprise for purposes of the EIT Law, and should not be subject to China enterprise income tax on that basis. However, given the uncertainty regarding the application of the EIT Law to the Company and its future operations, there can be no assurances that the Company or any of its non-Chinese subsidiaries will not be treated as a China resident enterprise now or in the future.

#### ***Chinese tax consequences of distributions to Company stockholders***

No Chinese withholding tax should apply to dividends paid by the Company to non-Chinese stockholders, provided the Company is not considered to be a China resident enterprise.

If the Company is considered to be a China resident enterprise, dividends paid by the Company to non-Chinese stockholders will generally be subject to a withholding tax at a rate of 10%, or an individual income tax at a rate of 20% if the stockholder is an individual, unless otherwise reduced or exempted in accordance with an applicable income tax treaty. The Company will have primary responsibility for Chinese tax filings with respect to any such withholding taxes, and non-Chinese stockholders generally should not have any Chinese tax filing obligations in this regard provided the Company satisfies its obligations as the tax withholding agent.

#### ***Chinese tax consequences to stockholders of dispositions of Company shares***

As noted above, gains derived from an indirect transfer of Chinese interests by a non-resident enterprise may be subject to Chinese enterprise income tax at a rate of 10%. Under current law, this tax does not apply to gains recognized by individual stockholders. However, in practice there have been a few reported cases of individuals being taxed on the indirect transfer of Chinese interests and the law could be changed so as to apply to individual stockholders, possibly with retroactive effect. For Company stockholders that are not individuals, a transfer of Company shares may be treated as an indirect transfer of Chinese interests.

An exception to the Chinese enterprise income tax applies if (i) the selling non-resident enterprise recognizes the relevant gain by purchasing and selling equity of the same listed enterprise in the open market (the "listed enterprise exception") or (ii) the selling non-resident enterprise would have been exempted from income tax in China if it had directly held and transferred such Chinese interests that

were indirectly transferred. Because Company stockholders will acquire Company stock through the distribution, it is unclear whether such Company stockholders will be treated as acquiring Company stock through an open market purchase. If Company shares are not treated as acquired in an open market purchase the listed enterprise exception will not be available. Similarly, if Company shares are disposed of in transactions other than open market sales, such sales would not qualify for the listed enterprise exception. If the listed enterprise exception does not apply, non-individual stockholders may be subject to 10% Chinese enterprise income tax on any gains recognized, unless a treaty exception applies.

In addition to the listed enterprise exception, Company stockholders that are not individuals may be exempt from the Chinese enterprise income tax with respect to the sale of our stock if they are tax resident in a country or region that has a tax treaty or arrangement with China that provides for a capital gains tax exemption, and they qualify for that exemption. Under the U.S.-China double tax treaty, a stockholder that is a U.S. tax resident and that disposes of stock representing less than 25% of the Company's outstanding stock should be exempt from Chinese capital gains tax.

If neither the listed enterprise exception nor a treaty exception applies, non-individual stockholders may be subject to 10% Chinese enterprise income tax on any gain recognized. For purposes of calculating the amount of any such tax, a holder's tax basis for Company shares in the distribution would generally be determined based on its investment cost in Company shares, assuming that the prior transaction in which that holder acquired those Company shares has been subject to 10% Chinese enterprise income tax. Alternatively, if the distribution is not subject to Chinese enterprise income tax, there is no formal guidance as to the computation of tax basis for holders of Company shares that receive such shares in the distribution. As a result, it is not clear that a Company stockholder would be permitted to allocate a portion of its basis in its YUM shares to Company stock, or to claim a tax basis that YUM would have been entitled to if the distribution were taxable, and Chinese tax authorities may take a position that the stockholder's basis in the Company shares is zero. Holders of Company stock that may be subject to Chinese tax on the disposition of such stock should consult their tax advisors as to the appropriate method of calculating their taxable gain in this scenario.

Company stockholders that are not individuals and are not eligible for the listed enterprise exception or a treaty exemption may also be subject to Chinese tax filing obligations in respect of any such transactions. In addition, the buyers of such shares may also be subject to Chinese tax filing obligation in respect of any such transactions and may be required to withhold the Chinese capital gains tax payable by the seller for such shares.

Finally, as discussed above, in certain circumstances the Company may be treated as a China resident enterprise. If the Company is treated as a China resident enterprise, a non-individual holder of Company stock will generally be subject to Chinese capital gains tax at a tax rate of 10%, while an individual holder of Company stock may be subject to Chinese capital gains tax at a tax rate of 20%, as well as Chinese tax filing obligations, unless otherwise reduced or exempted in accordance with an applicable income tax treaty. In addition, a purchaser of Company shares in such a scenario may be required to withhold the Chinese capital gains tax payable by the seller for such shares and comply with Chinese tax filing obligations.

**THE FOREGOING DISCUSSION IS A SUMMARY OF MATERIAL CHINESE INCOME TAX CONSEQUENCES OF THE DISTRIBUTION AND THE DISPOSITION OF SHARES OF COMPANY COMMON STOCK UNDER CURRENT LAW AND IS FOR GENERAL INFORMATION ONLY. ALL HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE DISTRIBUTION AND DISPOSITION OF SHARES OF COMPANY COMMON STOCK TO THEM, INCLUDING THE APPLICATION AND EFFECT OF CHINESE TAX LAWS.**

## DESCRIPTION OF CAPITAL STOCK

*Our certificate of incorporation and bylaws will be amended and restated prior to the separation. The following is a summary of the material terms of our capital stock that will be contained in our amended and restated certificate of incorporation and amended and restated bylaws. The summaries and descriptions below do not purport to be complete statements of the relevant provisions of the certificate of incorporation or of the bylaws to be in effect at the time of the distribution. The summary is qualified in its entirety by reference to such documents, which you must read (along with the applicable provisions of Delaware law) for complete information on the Company's capital stock as of the time of the distribution. Our certificate of incorporation and bylaws to be in effect at the time of the distribution are included as exhibits to the registration statement of which this Information Statement forms a part.*

### General

Our authorized capital stock consists of [ · ] shares of common stock, \$0.01 par value per share, and [ · ] shares of preferred stock, \$0.01 par value per share. Immediately following the distribution, based on the number of shares of YUM common stock outstanding as of [ · ], 2016, we expect that approximately [ · ] shares of our common stock will be issued and outstanding and that no shares of preferred stock will be issued and outstanding.

### Common Stock

Each holder of Company common stock will be entitled to one vote for each share on all matters to be voted upon by the common stockholders, and there will be no cumulative voting rights. Subject to any preferential rights of any outstanding preferred stock, holders of our common stock will be entitled to receive ratably the dividends, if any, as may be declared from time to time by our board of directors out of funds legally available for that purpose. If there is a liquidation, dissolution or winding up of the Company, holders of our common stock would be entitled to ratable distribution of its assets remaining after the payment in full of liabilities and any preferential rights of any then-outstanding preferred stock.

Holders of our common stock will have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to the common stock. After the distribution, all outstanding shares of our common stock will be fully paid and non-assessable. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

### Preferred Stock

Under the terms of our amended and restated certificate of incorporation, our board of directors will be authorized, subject to limitations prescribed by the DGCL, to issue up to [ · ] shares of preferred stock in one or more series without further action by the holders of our common stock. Our board of directors will have the discretion, subject to limitations prescribed by the DGCL and by our amended and restated certificate of incorporation, to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

At the time of the distribution, no shares of our preferred stock will be outstanding, and, other than shares of our preferred stock that may become issuable pursuant to our rights agreement, we have no present plans to issue any shares of our preferred stock. See "—Stockholder Rights Plan" below.

## Anti-Takeover Effects of Various Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws

Provisions of the DGCL, our amended and restated certificate of incorporation and amended and restated bylaws and our stockholder rights plan could make it more difficult to acquire control of the Company by means of a tender offer, a proxy contest or otherwise, or to remove incumbent officers and directors. These provisions, summarized below, are expected to discourage certain types of coercive takeover practices and takeover bids that our board of directors may consider inadequate and to encourage persons seeking to acquire control of the Company to first negotiate with our board of directors. We believe that the benefits of increased protection of our ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure the Company outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

**Stockholder Rights Plan.** The Company's board of directors will enter into a rights agreement with a rights agent prior to the separation. Pursuant to the rights agreement, the Company will issue, and holders of Company common stock will receive, one preferred share purchase right for each outstanding share of Company common stock. Each right issued will be subject to the terms of the rights agreement. The Company's board of directors believes that the rights agreement will protect our stockholders from coercive or otherwise unfair takeover tactics. In general terms, the rights agreement works by imposing a significant penalty upon any person or group that acquires [ · ]% or more of the Company's outstanding common stock, without the approval of the Company's board of directors. The rights agreement will automatically terminate without further action of the Company board of directors on the first anniversary of the distribution date.

**Delaware Anti-Takeover Statute.** The Company will be subject to Section 203 of the DGCL, an anti-takeover statute. In general, Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the time the person became an interested stockholder, unless: (i) prior to such time, the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) the voting stock owned by directors who are also officers or held in employee benefit plans in which the employees do not have a confidential right to tender or vote stock held by the plan); or (iii) on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years prior to the determination of interested stockholder status did own) 15% or more of a corporation's voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

**Classified Board.** Upon completion of the separation, the Company's board of directors will initially be divided into three classes, with Class I comprised of [ · ] directors, Class II comprised of [ · ] directors and Class III comprised of [ · ] directors. The directors designated as Class I directors will have terms expiring at the first annual meeting of stockholders following the distribution,

which the Company expects to hold in 2017. The directors designated as Class II directors will have terms expiring at the following year's annual meeting of stockholders, which the Company expects to hold in 2018, and the directors designated as Class III directors will have terms expiring at the following year's annual meeting of stockholders, which the Company expects to hold in 2019. Commencing with the first annual meeting of stockholders following the distribution, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the 2019 annual meeting of stockholders. Beginning at the 2019 annual meeting, all of our directors will stand for election each year for annual terms, and our board will therefore no longer be divided into three classes.

At any meeting of stockholders for the election of directors at which a quorum is present, the election will be determined by a majority of the votes cast by the stockholders entitled to vote in the election, with directors not receiving a majority of the votes cast required to tender their resignations for consideration by the board of directors, except that in the case of a contested election, the election will be determined by a plurality of the votes cast by the stockholders entitled to vote in the election. Before the Company's board of directors is declassified, it would take at least two elections of directors for any individual or group to gain control of the Company's board of directors. Accordingly, while the classified board of directors is in effect, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of the Company.

*Removal of Directors.* Our amended and restated bylaws will provide that, for long as our board of directors is classified, stockholders may only remove our directors for cause. After the board of directors has been fully declassified, stockholders may remove our directors with or without cause.

*Amendments to Bylaws.* Our amended and restated bylaws will provide that such bylaws may be amended by our board of directors or by the affirmative vote of a majority of our stockholders entitled to vote.

*Size of Board and Vacancies.* Our amended and restated bylaws will provide that the number of directors on our board of directors will be not less than five nor more than 15, and that the exact number of directors will be fixed by resolution of a majority of our entire board of directors (assuming no vacancies). Any vacancies created on our board of directors resulting from any increase in the authorized number of directors or death, resignation, retirement, disqualification, removal from office or other cause will be filled by a majority of the board of directors then in office, even if less than a quorum is present, or by a sole remaining director. Any director appointed to fill a vacancy on our board of directors will be appointed for a term expiring at the next election of the class for which such director has been appointed and until his or her successor has been elected and qualified.

*Special Meetings.* Our amended and restated bylaws will provide that only our board of directors (or the chairman of our board of directors, our chief executive officer or our secretary with the concurrence of a majority of our board of directors) may call special meetings of our stockholders.

*Stockholder Action by Written Consent.* Our amended and restated certificate of incorporation will expressly eliminate the right of our stockholders to act by written consent. Accordingly, stockholder action must take place at the annual or a special meeting of our stockholders.

*Requirements for Advance Notification of Stockholder Nominations and Proposals.* Our amended and restated bylaws will establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of our board of directors or a committee of our board of directors.

*Proxy Access.* In addition to advance notice procedures, our amended and restated bylaws will also include provisions permitting, subject to certain terms and conditions, stockholders owning at least 3% of our outstanding common shares for at least three consecutive years to use our annual meeting

proxy statement to nominate a number of director candidates not to exceed 20% of the number of directors in office, subject to reduction in certain circumstances.

*No Cumulative Voting.* The DGCL provides that stockholders are denied the right to cumulate votes in the election of directors unless the company's certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation will not provide for cumulative voting.

*Undesignated Preferred Stock.* The authority that our board of directors will possess to issue preferred stock could potentially be used to discourage attempts by third parties to obtain control of our company through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly. Our board of directors may be able to issue preferred stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of our common stock.

#### **Limitations on Liability, Indemnification of Officers and Directors and Insurance**

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors, except for liability for any breach of the director's duty of loyalty to the corporation or its stockholders, for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, for unlawful payments of dividends or unlawful stock repurchases or redemptions described by Section 174 of the DGCL or for any transaction from which the director derived an improper personal benefit. Our amended and restated certificate of incorporation will include such an exculpation provision. Our amended and restated certificate of incorporation and amended and restated bylaws will include provisions that require the Company to indemnify, to the fullest extent allowable under the DGCL, directors or officers for monetary damages for actions taken as a director or officer of the Company or while serving at the Company's request as a director or officer or another position at another corporation or enterprise, as the case may be. Our amended and restated certificate of incorporation will also provide that the Company must, subject to certain conditions, advance reasonable expenses to its directors and officers. Our amended and restated certificate of incorporation will expressly authorize the Company to carry directors' and officers' insurance to protect the Company and our directors, officers, employees and agents from certain liabilities.

The limitation of liability and indemnification provisions that will be in our amended and restated certificate of incorporation and amended and restated bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duties. These provisions may also have the effect of reducing the likelihood of derivative litigation against our directors and officers, even though such an action, if successful, might otherwise benefit our company and our stockholders. However, these provisions will not limit or eliminate the Company's rights, or those of any stockholder, to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's fiduciary duties. The provisions will not alter the liability of directors under the federal securities laws. In addition, your investment may be adversely affected to the extent that, in a class action or direct suit, the Company pays the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

#### **Exclusive Forum**

Our amended and restated certificate of incorporation will provide that unless the board of directors otherwise determines, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of the Company, any action asserting a claim of breach of a fiduciary duty owed by any director or officer of the Company to the Company or the Company's stockholders, creditors or other constituents, any action asserting a claim



against the Company or any director or officer of the Company arising pursuant to any provision of the DGCL or the Company's amended and restated certificate of incorporation or bylaws, or any action asserting a claim against the Company or any director or officer of the Company governed by the internal affairs doctrine. However, if the Court of Chancery of the State of Delaware dismisses any such action for lack of subject matter jurisdiction, the action may be brought in another court sitting in the State of Delaware. Although the Company's amended and restated certificate of incorporation will include this exclusive forum provision, it is possible that a court could rule that this provision is inapplicable or unenforceable.

#### **Authorized But Unissued Shares**

Our authorized but unissued shares of common stock and preferred stock will generally be available for future issuance without the approval of the Company's stockholders. The Company may use such additional shares for a variety of purposes, including future public offerings to raise additional capital, to fund acquisitions and as employee compensation. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of the Company by means of a proxy contest, tender offer, merger or otherwise.

#### **Listing**

We intend to file an application to have our shares of common stock authorized for listing on the New York Stock Exchange under the symbol "YUMC."

#### **Sale of Unregistered Securities**

On April 1, 2016, the Company issued 1,000 shares of its common stock to Yum! Restaurants International Management ("YRIM"), and the Company issued 1 share of its common stock to YRIM on each of August 2, 3 and 18, 2016, pursuant to Section 4(a)(2) of the Securities Act. The Company did not register the issuance of such shares under the Securities Act because such issuance did not constitute a public offering. All of the shares of the Company's common stock are currently owned by Yum! Brands, Inc. after YRIM, and other Yum! Brands, Inc. subsidiaries, transferred such shares by means of share repurchases until the Company became wholly owned by Yum! Brands, Inc.

#### **Transfer Agent and Registrar**

After the distribution, the transfer agent and registrar for our common stock will be American Stock Transfer & Trust Company, LLC.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form 10 with the SEC with respect to the shares of our common stock that YUM shareholders will receive in the distribution. This Information Statement forms a part of that registration statement and, as allowed by SEC rules, does not include all of the information you can find in the registration statement or the exhibits to the registration statement. For additional information relating to the Company and the distribution, reference is made to the registration statement and the exhibits to the registration statement. Statements contained in this Information Statement as to the contents of any contract or document referred to are not necessarily complete and in each instance, if the contract or document is filed as an exhibit to the registration statement, we refer you to the copy of the contract or other document filed as an exhibit to the registration statement. Each such statement is qualified in all respects by reference to the applicable document.

Following the distribution, we will file annual, quarterly and special reports, proxy statements and other information with the SEC. We intend to furnish our stockholders with annual reports containing combined financial statements audited by an independent registered public accounting firm. The registration statement is, and any of these future filings with the SEC will be, available to the public over the Internet on the SEC's website at [www.sec.gov](http://www.sec.gov). You may read and copy any filed document at the SEC's public reference room in Washington, D.C. at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room.

**The Company maintains an Internet site at [www.yum.com](http://www.yum.com). The Company's website and the information contained therein or connected thereto shall not be deemed to be incorporated herein, and you should not rely on any such information.**

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<a href="#">Condensed Combined Statements of Income for the years to date ended May 31, 2016 and May 31, 2015</a>	<a href="#">F-36</a>
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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Yum! Brands, Inc.:

We have audited the accompanying combined balance sheets of Yum! Brands, Inc.'s China businesses and operations ("Yum China Holdings, Inc." or the "Company") as of December 31, 2015 and 2014, and the related combined statements of income (loss), comprehensive income (loss), equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 and Note 2, the accompanying combined financial statements have been derived from the consolidated financial statements and underlying accounting records of Yum! Brands, Inc. ("YUM"). The combined financial statements also include expense allocations for certain corporate functions historically provided by YUM. These allocations may not be indicative of the actual expenses which would have been incurred had the Company operated as a separate entity apart from YUM.

/s/ KPMG Huazhen LLP

Shanghai, China  
May 3, 2016

**Combined Statements of Income (Loss)****Yum China Holdings, Inc.**

Fiscal years ended December 31, 2015, December 31, 2014 and December 31, 2013

(in millions)

	2015	2014	2013
<b>Revenues</b>			
Company sales	\$ 6,789	\$ 6,821	\$ 6,800
Franchise fees and income	120	113	105
Total revenues	6,909	6,934	6,905
<b>Costs and Expenses, Net</b>			
Company restaurants			
Food and paper	2,159	2,207	2,258
Payroll and employee benefits	1,386	1,407	1,360
Occupancy and other operating expenses	2,386	2,415	2,347
Company restaurant expenses	5,931	6,029	5,965
General and administrative expenses	395	389	356
Franchise expenses	70	64	60
Closures and impairment expenses, net	64	517	325
Refranchising gain, net	(13)	(17)	(5)
Other income, net	(26)	(51)	(25)
Total costs and expenses, net	6,421	6,931	6,676
<b>Operating Profit</b>	488	3	229
Interest income, net	8	14	5
<b>Income Before Income Taxes</b>	496	17	234
Income tax provision	(168)	(54)	(135)
Net Income (loss)—including noncontrolling interests	328	(37)	99
Net Income (loss)—noncontrolling interests	5	(30)	(27)
<b>Net Income (loss)—Yum China Holdings, Inc.</b>	<u>\$ 323</u>	<u>\$ (7)</u>	<u>\$ 126</u>

See accompanying Notes to Combined Financial Statements.

**Combined Statements of Comprehensive Income (Loss)****Yum China Holdings, Inc.**

Fiscal years ended December 31, 2015, December 31, 2014 and December 31, 2013

(in millions)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net income (loss)—including noncontrolling interests	\$ 328	\$ (37)	\$ 99
Other comprehensive income (loss), net of tax:			
Foreign currency gains (losses) arising during the year	(93)	(52)	66
Comprehensive Income (loss)—including noncontrolling interests	235	(89)	165
Comprehensive Income (loss)—noncontrolling interests	(1)	(32)	(23)
<b>Comprehensive Income (Loss)—Yum China Holdings, Inc.</b>	<u>\$ 236</u>	<u>\$ (57)</u>	<u>\$ 188</u>

See accompanying Notes to Combined Financial Statements.

**Combined Statements of Cash Flows**

**Yum China Holdings, Inc.**

**Fiscal years ended December 31, 2015, December 31, 2014 and December 31, 2013**

**(in millions)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Cash Flows—Operating Activities</b>			
Net Income (loss)—including noncontrolling interests	\$ 328	\$ (37)	\$ 99
Depreciation and amortization	425	411	394
Closures and impairment expenses	64	517	325
Refranchising gain	(13)	(17)	(5)
Deferred income taxes	29	(104)	(49)
Equity income from investments in unconsolidated affiliates	(41)	(30)	(26)
Distributions of income received from unconsolidated affiliates	21	28	43
Excess tax benefits from share-based compensation	(3)	(2)	(3)
Share-based compensation expense	14	13	12
Changes in accounts receivable	(12)	6	(12)
Changes in inventories	61	(21)	22
Changes in prepaid expenses and other current assets	(1)	10	(5)
Changes in accounts payable and other current liabilities	31	39	(24)
Changes in income taxes payable	(14)	(44)	6
Other, net	21	6	5
<b>Net Cash Provided by Operating Activities</b>	<u>910</u>	<u>775</u>	<u>782</u>
<b>Cash Flows—Investing Activities</b>			
Capital spending	(512)	(525)	(568)
Proceeds from refranchising of restaurants	27	31	10
Other, net	(8)	(18)	(17)
<b>Net Cash Used in Investing Activities</b>	<u>(493)</u>	<u>(512)</u>	<u>(575)</u>
<b>Cash Flows—Financing Activities</b>			
Net transfers to Parent	(214)	(316)	(105)
Payment of capital lease obligations	(2)	(1)	(1)
Short-term borrowings, by original maturity			
More than three months—proceeds	—	2	56
More than three months—payments	—	(2)	(56)
Excess tax benefits from share-based compensation	3	2	3
Other, net	—	(4)	(33)
<b>Net Cash Used in Financing Activities</b>	<u>(213)</u>	<u>(319)</u>	<u>(136)</u>
<b>Effect of Exchange Rates on Cash and Cash Equivalents</b>	<u>(17)</u>	<u>(6)</u>	<u>6</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	187	(62)	77
<b>Cash and Cash Equivalents—Beginning of Year</b>	238	300	223
<b>Cash and Cash Equivalents—End of Year</b>	<u>\$ 425</u>	<u>\$ 238</u>	<u>\$ 300</u>

See accompanying Notes to Combined Financial Statements.

## Combined Balance Sheets

## Yum China Holdings, Inc.

December 31, 2015 and December 31, 2014

(in millions)

	2015	2014
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 425	\$ 238
Accounts receivable, net	76	60
Inventories	189	260
Prepaid expenses and other current assets	109	90
<b>Total Current Assets</b>	<u>799</u>	<u>648</u>
Property, plant and equipment, net	1,841	2,001
Goodwill	85	89
Intangible assets, net	107	127
Investments in unconsolidated affiliates	61	52
Other assets	192	199
Deferred income taxes	116	141
<b>Total Assets</b>	<u>\$ 3,201</u>	<u>\$ 3,257</u>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities	\$ 926	\$ 1,004
Income taxes payable	22	36
<b>Total Current Liabilities</b>	<u>948</u>	<u>1,040</u>
Capital lease obligations	34	34
Other liabilities and deferred credits	234	229
<b>Total Liabilities</b>	<u>1,216</u>	<u>1,303</u>
<b>Redeemable Noncontrolling Interest</b>	<u>6</u>	<u>9</u>
<b>Equity</b>		
Parent Company investment	1,791	1,671
Accumulated other comprehensive income (loss)	130	217
<b>Total Equity—Yum China Holdings, Inc.</b>	<u>1,921</u>	<u>1,888</u>
Noncontrolling interests	58	57
<b>Total Equity</b>	<u>1,979</u>	<u>1,945</u>
<b>Total Liabilities, Redeemable Noncontrolling Interest and Equity</b>	<u>\$ 3,201</u>	<u>\$ 3,257</u>

See accompanying Notes to Combined Financial Statements.



## Combined Statements of Equity

### Yum China Holdings, Inc.

Fiscal years ended December 31, 2015, December 31, 2014 and December 31, 2013

(in millions)

	Yum China Holdings, Inc.				
	Parent Company Investment	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interest
<b>Balance at December 31, 2012</b>	\$ 2,012	\$ 205	\$ 99	\$ 2,316	\$ 59
Net Income (loss)	126		(5)	121	(22)
Foreign currency translation gains (losses)		62	2	64	2
Comprehensive Income (loss)				185	(20)
Dividends declared			(18)	(18)	—
Acquisitions of Little Sheep store-level noncontrolling interests			(15)	(15)	
Net transfers to Parent	(124)			(124)	
<b>Balance at December 31, 2013</b>	\$ 2,014	\$ 267	\$ 63	\$ 2,344	\$ 39
Net Income (loss)	(7)		(1)	(8)	(29)
Foreign currency translation gains (losses)		(50)	(1)	(51)	(1)
Comprehensive Income (loss)				(59)	(30)
Dividends declared			(4)	(4)	—
Net transfers to Parent	(336)			(336)	
<b>Balance at December 31, 2014</b>	\$ 1,671	\$ 217	\$ 57	\$ 1,945	\$ 9
Net Income (loss)	323		6	329	(1)
Foreign currency translation gains (losses)		(87)	(4)	(91)	(2)
Comprehensive Income (loss)				238	(3)
Acquisitions of Little Sheep store-level noncontrolling interests	1		(1)	—	
Net transfers to Parent	(204)			(204)	
<b>Balance at December 31, 2015</b>	1,791	130	58	1,979	6

See accompanying Notes to Combined Financial Statements.

## Notes to Combined Financial Statements

(Tabular amounts in millions, except share data)

### Note 1—Description of the Business

On October 20, 2015, Yum! Brands, Inc. ("YUM" or the "Parent") announced that it intended to separate into two independent publicly traded companies each with a separate strategic focus. YUM plans to distribute to its shareholders all outstanding shares of Yum China Holdings, Inc. (the "Company"), which will hold, directly or indirectly, the assets and liabilities associated with YUM's operations in China. The separation transaction will be completed by way of a pro rata distribution of Company shares by YUM to its shareholders as of the record date. These Combined Financial Statements reflect the results of operations, comprehensive income and cash flows of the Company for the three years ended December 31, 2015 and the Company's financial position as of December 31, 2015 and 2014. References to the Company throughout these Combined Financial Statements are made using the first person notations of "we," "us" or "our."

The Company operates and owns, franchises or has ownership in entities that own and operate restaurants under the KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, East Dawning and Little Sheep concepts (collectively, the "Concepts"). The operating results of these Concepts in China have historically been included in the China Division segment of YUM's Consolidated Financial Statements. Upon the separation of the Company from YUM, Yum! Restaurants Asia Pte. Ltd., a wholly-owned indirect subsidiary of YUM, and Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of the Company, will enter into a 50-year master license agreement 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 to not renew, for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its subsidiaries for the development and operation of the KFC, Pizza Hut Casual Dining and Pizza Hut Home Services brands and their related marks and other intellectual property rights for restaurant services in China. In addition, subject to certain agreed-upon milestones, the Company has an exclusive license under the master license agreement to operate and develop Taco Bell restaurants and use the related marks in China. In exchange we will pay a license fee to YUM equal to 3% of net sales for both our Company and franchise restaurants. We will continue to own the East Dawning and Little Sheep intellectual property and will pay no license fee related to these concepts.

Completion of the transaction will be subject to certain conditions, including, among others, receiving final approval from YUM's board of directors, receipt of various regulatory approvals, receipt of opinions of YUM's external tax advisors with respect to certain tax matters, the effectiveness of filings related to public listing in the United States of America and applicable securities laws, and other terms and conditions as may be determined by YUM's board of directors. The transaction is expected to be completed by the end of 2016 and is intended to qualify as a tax-free reorganization for U.S. federal income tax purposes.

The operations of each Concept represent an operating segment of the Company within these Combined Financial Statements. We have two reportable segments: KFC and Pizza Hut Casual Dining. Our remaining operating segments, including the operations of Pizza Hut Home Service, East Dawning and Little Sheep, are combined and referred to as All Other Segments, as those operating segments are individually insignificant.

KFC was the first quick-service restaurant brand to enter China in 1987. As of December 31, 2015, there are approximately 5,000 KFCs in China. We maintain a 58% and 70% controlling interest in the entities that own and operate the KFCs in Shanghai and Beijing, respectively. We have a 47%

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 1—Description of the Business (Continued)**

non-controlling ownership in each of the entities that own and operate KFCs in Hangzhou, Suzhou and Wuxi.

<u>KFC Unit Count</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Company-owned	3,821	3,732	3,569
Unconsolidated affiliates	796	757	716
Franchise	386	339	278
	<u>5,003</u>	<u>4,828</u>	<u>4,563</u>

The first Pizza Hut Casual Dining in China opened in 1990. As of December 31, 2015 there are nearly 1,600 Pizza Hut Casual Dining restaurants in China.

<u>Pizza Hut Casual Dining Unit Count</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Company-owned	1,556	1,310	1,058
Franchise	16	3	2
	<u>1,572</u>	<u>1,313</u>	<u>1,060</u>

**Note 2—Summary of Significant Accounting Policies**

Our preparation of the accompanying Combined 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.

**Basis of Preparation and Principles of Consolidation.** These accompanying Combined Financial Statements have been prepared on a stand-alone basis and are derived from YUM's Consolidated Financial Statements and underlying accounting records. Transactions between the Company and the Parent that were not cash settled were considered to be effectively settled at the time the transactions are recorded.

The Combined Financial Statements include all revenues, costs, assets and liabilities directly attributable to the Company either through specific identification or allocation. The Combined Statements of Income include allocations for certain of YUM's Corporate functions which provide a direct benefit to the Company. These costs have been allocated based on Company system sales relative to YUM's global system sales. System sales includes the sales results of all restaurants regardless of ownership. All allocated costs have been deemed to have been paid to the Parent in the period in which the costs were recorded. The Company considers the cost allocation methodology and results to be reasonable for all periods presented. However, the allocations may not be indicative of the actual expense that would have been incurred had the Company operated as an independent, publicly traded company for the periods presented. See Note 3 for further discussion.

We consolidate entities in which we have a controlling financial interest, the usual condition of which is ownership of a majority voting interest. We also consider for consolidation an entity, in which we have certain interests, where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity

## Notes to Combined Financial Statements (Continued)

(Tabular amounts in millions, except share data)

### Note 2—Summary of Significant Accounting Policies (Continued)

("VIE"), is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it.

Our most significant variable interests are in entities that operate restaurants under franchise arrangements. We do not generally have an equity interest in our franchisee businesses with the exception of certain entities discussed below. Additionally, we do not typically provide significant financial support such as loans or guarantees to our franchisees. We have variable interests in certain entities that operate restaurants under franchise agreements through real estate lease arrangements with them to which we are a party. At December 31, 2015, the Company had future lease payments due from franchisees, on a nominal basis, of approximately \$100 million. As our franchise arrangements provide our franchisee entities the power to direct the activities that most significantly impact their economic performance, we do not consider ourselves the primary beneficiary of any such entity that might otherwise be considered a VIE.

We consolidate the entities that operate KFCs in Shanghai and Beijing where we have controlling interests of 58% and 70%, respectively. We report Net income (loss) attributable to noncontrolling interests, which includes the minority shareholders of the entities separately on the face of our Combined Statements of Income. The portion of equity not attributable to the Company for these entities is reported within equity, separately from the Company's equity on the Combined Balance Sheets.

We have a noncontrolling 47% interest in each of the entities that operate the KFCs in Hangzhou, Suzhou and Wuxi. We account for these entities by the equity method. These entities are not VIEs and our lack of majority voting rights precludes us from controlling these affiliates. Thus, we do not consolidate these affiliates, instead accounting for them under the equity method. We also have a 25% noncontrolling interest in a meat processing entity affiliated with our Little Sheep business which is also accounted for by the equity method. Our share of the net income or loss of these unconsolidated affiliates is included in Other income, net.

The shareholder that owns the remaining 7% ownership interest in Little Sheep holds an option that, if exercised, requires us to redeem its noncontrolling interest. This redeemable non-controlling interest is classified outside permanent equity and recorded in the Combined Balance Sheets as the greater of the initial carrying amount adjusted for the non-controlling interest's share of net income (loss), or its redemption value.

**Fiscal Calendar.** Our fiscal year ends on December 31. The Company operates on a fiscal monthly calendar, with two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter.

**Foreign Currency.** Our functional currency for the operating entities in China is the Chinese Renminbi ("RMB"), the currency of the primary economic environment in which they operate. Income and expense accounts for our operations are then translated into U.S. dollars at the average exchange rates prevailing during the period. Assets and liabilities are then translated into U.S. dollars at exchange rates in effect at the balance sheet date. As of December 31, 2015, net cumulative translation adjustment gains of \$130 million are recorded in Accumulated other comprehensive income (loss) in the Combined Balance Sheet. Gains and losses arising from the impact of foreign currency exchange

**Notes to Combined Financial Statements (Continued)**

**(Tabular amounts in millions, except share data)**

**Note 2—Summary of Significant Accounting Policies (Continued)**

rate fluctuations on transactions in foreign currency, to the extent they arise, are included in Other income, net in our Combined Statements of Income.

**Franchise Operations.** We execute agreements which set out the terms of our arrangement with franchisees. Our franchise agreements typically require the franchisee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to our approval and their payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration.

The internal costs we incur to provide support services to our franchisees are charged to General and Administrative ("G&A") expenses as incurred. Certain direct costs of our franchise operations are charged to Franchise expenses. These costs include provisions for estimated uncollectible fees, rent or depreciation expense associated with restaurants we sublease to franchisees, and certain other direct incremental franchise support costs. The 3% license fee we pay to YUM for the right to sublicense the KFC and Pizza Hut intellectual property is also recorded in Franchise expenses.

**Revenue Recognition.** Revenues from Company-owned restaurants are recognized when payment is tendered at the time of sale. The Company presents sales net of sales-related taxes. The license fee we pay to YUM as a percentage of these Company sales is included in Occupancy and other operating expenses. We recognize income from gift cards when the gift card is redeemed by the customer. We recognize breakage revenue, which is the amount of gift card proceeds that is not expected to be redeemed, when the likelihood of redemption becomes remote.

Income from our franchisees includes initial fees, continuing fees, renewal fees and rental income from restaurants we sublease to them. We recognize initial fees received from a franchisee as revenue when we have performed substantially all initial services required by the franchise agreement, which is generally upon the opening of a store. We recognize continuing fees, which are based upon a percentage of franchisee sales, as those sales occur and rental income is recognized as it is earned. We recognize renewal fees when a renewal agreement with a franchisee becomes effective. We present initial fees collected upon the sale of a Company-owned restaurant to a franchisee in Refranchising gain, net.

**Direct Marketing Costs.** We charge direct marketing costs to expense ratably in relation to revenues over the year in which incurred and, in the case of advertising production costs, in the year the advertisement is first shown. Deferred direct marketing costs, which are classified as prepaid expenses, consist of media and related advertising production costs which will generally be used for the first time in the next fiscal year and have historically not been significant. Our direct marketing expenses were \$327 million, \$328 million and \$346 million in 2015, 2014 and 2013, respectively. We report direct marketing costs in Occupancy and other operating expenses.

Our franchise agreements require our franchisees to fund advertising and marketing expenditures, typically in an amount that is a percentage of sales. Local marketing expenditures are managed by each operator. The Company, as an agent, collects and disburses non-local funds on behalf of the entire system. We record cash received and accounts payable from the administration of such non-local funds in our Combined Balance Sheets. Any unused non-local funds are returned to the system.

**Research and Development Expenses.** Research and development expenses, which are expensed as incurred and are reported in G&A expenses. Research and development expenses were \$5 million, in each of 2015, 2014 and 2013.

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 2—Summary of Significant Accounting Policies (Continued)**

**Share-Based Compensation.** Certain of the Company's employees participate in YUM's share-based compensation plans. We recognize all share-based payments to employees, including grants of employee stock options and stock appreciation rights ("SARs"), in the Combined Financial Statements as compensation cost over the service period based on their fair value on the date of grant. This compensation cost is recognized over the service period on a straight-line basis for awards that actually vest. We present this compensation cost consistent with the other compensation costs for the employee recipient in G&A expenses. Share-based compensation expense includes an allocation of amounts incurred by YUM for services provided on our behalf. See Note 13 for further discussion of YUM's share-based compensation plans.

**Impairment or Disposal of Property, Plant and Equipment.** Property, plant and equipment ("PP&E") is tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The assets are not recoverable if their carrying value is less than the undiscounted cash flows we expect to generate from such assets. If the assets are not deemed to be recoverable, impairment is measured based on the excess of their carrying value over their fair value.

For purposes of impairment testing for our restaurants, we have concluded that an individual restaurant is the lowest level of independent cash flows unless our intent is to rebrand restaurants as a group. We review our long-lived assets of such individual restaurants (primarily PP&E and allocated intangible assets subject to amortization) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We use two consecutive years of operating losses after a restaurant has been open for three years as our primary indicator of potential impairment for our semi-annual impairment testing of these restaurant assets. We evaluate the recoverability of these restaurant assets by comparing the estimated undiscounted future cash flows, which are based on our entity-specific assumptions to the carrying value of such assets. Our impairment indicator and recoverability tests do not include a deduction for license fees paid to YUM. For restaurant assets that are not deemed to be recoverable, we write-down an impaired restaurant to its estimated fair value, which becomes its new cost basis. Fair value is an estimate of the price a franchisee would pay for the restaurant and its related assets and is determined by discounting the estimated future after-tax cash flows of the restaurant, which include a deduction for royalties we would receive under a franchise agreement with terms substantially at market. The after-tax cash flows incorporate reasonable assumptions we believe a franchisee would make such as sales growth and margin improvement. 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. The discount rate incorporates rates of returns for historical franchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

When we believe it is more likely than not a restaurant or groups of restaurants will be rebranded for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. We evaluate the recoverability of these restaurant assets by comparing estimated sales proceeds plus holding period cash flows, if any, to the carrying value of the restaurant or group of restaurants. For restaurant assets that are not deemed to be recoverable, we recognize impairment for any excess of carrying value over the fair value of the restaurants, which is based on the expected net sales proceeds. To the extent ongoing

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 2—Summary of Significant Accounting Policies (Continued)**

agreements to be entered into with the franchisee simultaneous with the refranchising are expected to contain terms, such as royalty rates, not at prevailing market rates, we consider the off-market terms in our impairment evaluation. We recognize any such impairment charges in Refranchising gain. Refranchising gain includes the gains or losses from the sales of our restaurants to new and existing franchisees, including any impairment charges discussed above, and the related initial franchise fees. We recognize gains on restaurant refranchisings when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity and we are satisfied that the franchisee can meet its financial obligations.

When we decide to close a restaurant, it is reviewed for impairment and depreciable lives are adjusted based on the expected disposal date. Other costs incurred when closing a restaurant such as costs of disposing of the assets as well as other facility-related expenses from previously closed stores are generally expensed as incurred. Additionally, at the date we cease using a property under an operating lease, we record a liability for the net present value of any remaining lease obligations, net of estimated sublease income, if any. Any costs recorded upon store closure as well as any subsequent adjustments to liabilities for remaining lease obligations as a result of lease termination or changes in estimates of sublease income are recorded in Closures and impairment expenses. In the event we are forced to close a store and receive compensation for such closure, that compensation is recorded in Closures and impairment expenses. To the extent we sell assets associated with a closed store, any gain or loss upon that sale is also recorded in Closures and impairment expenses.

Considerable management judgment is necessary to estimate future cash flows, including cash flows from continuing use, terminal value, sublease income and refranchising proceeds. Accordingly, actual results could vary significantly from our estimates.

**Impairment of Investments in Unconsolidated Affiliates.** We record impairment charges related to an investment in an unconsolidated affiliate whenever events or circumstances indicate that a decrease in the fair value of an investment has occurred which is other than temporary. In addition, we evaluate our investments in unconsolidated affiliates for impairment when they have experienced two consecutive years of operating losses.

**Income Taxes.** The Company's results have historically been included in the consolidated U.S. federal income tax return and U.S. state income tax filings of YUM. The Company has computed its provision for income taxes on a separate return basis in these Combined Financial Statements. The separate return method applies the accounting guidance for income taxes to the stand-alone financial statements as if the Company was a separate taxpayer and a stand-alone enterprise for the periods presented. The calculation of income taxes for the Company on a separate return basis requires a considerable amount of judgment and use of both estimates and allocations.

We record deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences or carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Additionally, in determining the need for recording a valuation allowance against the carrying amount of deferred tax assets, we consider the amount of

**Notes to Combined Financial Statements (Continued)**

**(Tabular amounts in millions, except share data)**

**Note 2—Summary of Significant Accounting Policies (Continued)**

taxable income and periods over which it must be earned, actual levels of past taxable income and known trends and events or transactions that are expected to affect future levels of taxable income. Where we determine that it is more likely than not that all or a portion of an asset will not be realized, we record a valuation allowance.

We recognize the benefit of positions taken or expected to be taken in our tax returns when it is more likely than not (*i.e.*, a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. We evaluate these amounts on a quarterly basis to ensure that they have been appropriately adjusted for audit settlements and other events we believe may impact the outcome. Changes in judgment that result in subsequent recognition, derecognition or a change in measurement of a tax position taken in a prior annual period (including any related interest and penalties) are recognized as a discrete item in the interim period in which the change occurs. We recognize accrued interest and penalties related to unrecognized tax benefits as components of our Income tax provision.

We do not record a U.S. deferred tax liability for the excess of the book basis over the tax basis of our investments in foreign subsidiaries to the extent that the basis difference results from earnings that meet the indefinite reversal criteria. This criteria is met if the foreign subsidiary has invested, or will invest, the undistributed earnings indefinitely. The decision as to the amount of undistributed earnings that we intend to maintain in non-U.S. subsidiaries considers items including, but not limited to, forecasts and budgets of financial needs of cash for working capital, liquidity plans and expected cash requirements in the United States.

In November, 2015 the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17) to simplify the presentation of deferred taxes on the balance sheet. ASU 2015-17 requires organizations that present a classified balance sheet to classify all deferred taxes as noncurrent assets or noncurrent liabilities. We have elected to early adopt this guidance as of December 31, 2015.

See Note 14 for a further discussion of our income taxes.

**Fair Value Measurements.** Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. For those assets and liabilities we record or disclose at fair value, we determine fair value based upon the quoted market price, if available. If a quoted market price is not available for identical assets, we determine fair value based upon the quoted market price of similar assets or the present value of expected future cash flows considering the risks involved, including counterparty performance risk if appropriate, and using discount rates appropriate for the duration. The fair values are assigned a level within the fair value hierarchy, depending on the source of the inputs into the calculation.

- Level 1 Inputs based upon quoted prices in active markets for identical assets.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 Inputs that are unobservable for the asset.

**Cash and Cash Equivalents.** Cash equivalents represent funds we have temporarily invested (with original maturities not exceeding three months), including short-term, highly liquid debt securities. Cash



**Notes to Combined Financial Statements (Continued)**

**(Tabular amounts in millions, except share data)**

**Note 2—Summary of Significant Accounting Policies (Continued)**

and overdraft balances that meet the criteria for right to offset are presented net on our Combined Balance Sheets.

**Receivables.** Trade receivables consisting of royalties from franchisees are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts receivable on our Combined Balance Sheets. Our provision for uncollectible franchise receivable balances is based upon pre-defined aging criteria or upon the occurrence of other events that indicate that we may not collect the balance due. Additionally, we monitor the financial condition of our franchisees and record provisions for estimated losses on receivables when we believe it probable that our franchisees will be unable to make their required payments. 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. Trade receivables that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. Receivables due from unconsolidated affiliates were \$19 million and \$15 million as of December 31, 2015 and 2014, respectively.

**Inventories.** We value our inventories at the lower of cost (computed on the first-in, first-out method) or market.

**Property, Plant and Equipment.** We state PP&E at cost less accumulated depreciation and amortization. We calculate depreciation and amortization on a straight-line basis over the estimated useful lives of the assets as follows: 20 years for buildings, the lesser of 8 years and remaining lease term for leasehold improvements, 5 to 10 years for restaurant machinery and equipment and 3 to 5 years for capitalized software costs. We suspend depreciation and amortization on assets related to restaurants that are held for sale.

**Leases and Leasehold Improvements.** The Company leases land, buildings or both for its restaurants. The length of our lease terms which generally do not have renewal options are an important factor in determining the appropriate accounting for leases including the initial classification of the lease as capital or operating and the timing of recognition of rent expense over the duration of the lease. We include renewal option periods in determining the term of our leases when failure to renew the lease would impose a penalty on the Company in such an amount that a renewal appears to be reasonably assured at the inception of the lease. The primary penalty to which we are subject is the economic detriment associated with the existence of leasehold improvements which might be impaired if we choose not to continue the use of the leased property. Leasehold improvements are amortized over the shorter of their estimated useful lives or the lease term. We generally do not receive leasehold improvement incentives upon opening a store that is subject to a lease.

We expense rent associated with leased land or buildings while a restaurant is being constructed whether rent is paid or we are subject to a rent holiday. Additionally, certain of the Company's operating leases contain predetermined fixed escalations of the minimum rent during the lease term. For leases with fixed escalating payments and/or rent holidays, we record rent expense on a straight-line basis over the lease term, including any option periods considered in the determination of that lease term. Contingent rentals are generally based on sales levels in excess of stipulated amounts, and thus are not considered minimum lease payments and are included in rent expense when attainment of the contingency is considered probable (*e.g.*, when Company sales occur).

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 2—Summary of Significant Accounting Policies (Continued)**

From time to time, we purchase the rights to use government-owned land for a fixed period of time. These land use rights are recorded in Other Assets in our Combined Balance Sheets as we are purchasing the right and are a legal party to the underlying land grant, and are amortized to rent expense on a straight-line basis over the term of the land use right.

**Internal Development Costs and Abandoned Site Costs.** We capitalize direct costs associated with the site acquisition and construction of a Company unit on that site, including direct internal payroll and payroll-related costs. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized. If we subsequently make a determination that it is probable a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed and included in G&A expenses.

**Goodwill and Intangible Assets.** From time to time, the Company acquires restaurants from our existing franchisees or acquires another business. Goodwill from these acquisitions represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets and liabilities assumed. Goodwill is not amortized and has been assigned to reporting units for purposes of impairment testing. Our reporting units are our individual operating segments.

We evaluate goodwill for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairment might exist. We have selected the beginning of our fourth quarter as the date on which to perform our ongoing annual impairment test for goodwill. We may elect to perform a qualitative assessment for our reporting units to determine whether it is more likely than not that the fair value of the reporting unit is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, then the reporting unit's fair value is compared to its carrying value. Fair value is the price a willing buyer would pay for a reporting unit, and is generally estimated using discounted expected future after-tax cash flows from Company-owned restaurant operations and franchise royalties. The discount rate is our estimate of the required rate of return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value.

If we record goodwill upon acquisition of a restaurant(s) from a franchisee and such restaurant(s) is then sold within two years of acquisition, the goodwill associated with the acquired restaurant(s) is written off in its entirety. If the restaurant is refranchised two years or more subsequent to its acquisition, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising and the portion of the reporting unit that will be retained. The fair value of the portion of the reporting unit disposed of in a refranchising is determined by reference to the discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee, which includes a deduction for the anticipated, future royalties the franchisee will pay us associated with the franchise agreement entered into simultaneously with the refranchising transition. The fair value of the reporting unit retained is based on the price a willing buyer would pay for the reporting unit and includes the value of franchise agreements. Appropriate adjustments are made if a franchise agreement includes terms that

## Notes to Combined Financial Statements (Continued)

(Tabular amounts in millions, except share data)

### Note 2—Summary of Significant Accounting Policies (Continued)

are determined to not be at prevailing market rates. As such, the fair value of the reporting unit retained can include expected cash flows from future royalties from those restaurants currently being refranchised, future royalties from existing franchise businesses and company restaurant operations. As a result, the percentage of a reporting unit's goodwill that will be written off in a refranchising transaction will be less than the percentage of the reporting unit's Company-owned restaurants that are refranchised in that transaction.

We evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, we amortize the intangible asset prospectively over its estimated remaining useful life. Intangible assets that are deemed to have a definite life are generally amortized on a straight-line basis to their residual value.

We evaluate our indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairments might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. We may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of an indefinite-lived intangible asset exceeds its carrying value, then the asset's fair value is compared to its carrying value. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future after-tax cash flows associated with the intangible asset.

Our definite-lived intangible assets that are not allocated to an individual restaurant are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed not recoverable on an undiscounted basis is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the definite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

**Asset Retirement Obligations.** We recognize an asset and a liability for the fair value of a required asset retirement obligation ("ARO") when such an obligation is incurred. The Company's AROs are primarily associated with leasehold improvements which, at the end of the lease, the Company is contractually obligated to remove in order to comply with the lease agreement. As such, we amortize the asset on a straight-line basis over the lease term and accrete the liability to its nominal value using the effective interest method over the lease term.

**Retirement Plans.** Certain of the Company's employees participate in noncontributory defined benefit plans and post-retirement medical plans sponsored by YUM. For these plans, the Company considers them to be part of multi-employer plans. We have allocated expenses related to our employees' participation in these plans in our Combined Statements of Income. However, our Combined Balance Sheets do not reflect any assets or liabilities related to these plans. We consider the expense allocation methodology and results to be reasonable for all periods presented. See Note 3 for additional information.

**Notes to Combined Financial Statements (Continued)**

**(Tabular amounts in millions, except share data)**

**Note 2—Summary of Significant Accounting Policies (Continued)**

**Net Earnings Per Share.** We do not present historical net earnings per share as common stock was not part of the Company's capital structure for the periods presented.

**Parent Company Investment.** Parent Company Investment in the Combined Balance Sheets represents YUM's historical investment in the Company, the Company's accumulated net earnings after taxes, and the net effect of transactions with and allocations from YUM. The Combined Statements of Equity include net cash transfers to and from YUM and the Company. All intercompany transactions that are not cash settled through Parent Company Investment in the accompanying Combined Balance Sheets are considered to be settled at the time the transaction is recorded. The total net effect of the settlement of these transactions is reflected in financing activities in the accompanying Combined Statements of Cash Flows.

**Note 3—Transactions with Parent**

Allocation of Corporate Expenses

YUM has historically performed centralized corporate functions on our behalf. Accordingly, certain YUM costs have been allocated to the Company and reflected as expenses in these Combined Financial Statements. Management considers the allocation methodologies used to be reasonable and appropriate reflections of the historical Parent expenses attributable to the Company. The expenses reflected in the Combined Financial Statements may not be indicative of the actual expenses that would have been incurred during the periods presented if we had operated as a separate, stand-alone entity.

Corporate expense allocations primarily relate to centralized corporate functions, including finance, accounting, treasury, tax, legal, internal audit and risk management functions. In addition, corporate expense allocations include, among other costs, IT maintenance, professional fees for legal services and expenses related to litigation, investigations, or similar matters. Corporate allocations of \$12 million, \$11 million, and \$12 million were allocated to the Company during fiscal years 2015, 2014 and 2013, respectively, and have been included in G&A expenses in the Combined Statements of Income. All of the corporate allocations of costs are deemed to have been incurred and settled through Parent Company Investment in the period where the costs were recorded. Following the separation, we will perform these functions using our own resources or purchased services.

License Fee

The Combined Statements of Income include a fee that was historically paid to YUM comprised of initial fees and continuing fees equal to 3% of net sales for both our Company and franchise restaurants. License fees due to YUM for our Company-owned stores are included within restaurant margin in Occupancy and other operating expenses in the Combined Statements of Income. License

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 3—Transactions with Parent (Continued)**

fees due to YUM on franchise sales are included in Franchise expenses. Total license fees paid to YUM in 2015, 2014 and 2013 are reflected in the table below:

	2015	2014	2013
Initial fees—Company	\$ 18	\$ 17	\$ 17
Initial fees—Franchise	3	2	2
Continuing fees—Company	201	200	198
Continuing fees—Franchise	47	46	45
<b>Total</b>	<b>\$ 269</b>	<b>\$ 265</b>	<b>\$ 262</b>

Cash Management and Treasury

The Company funds its operations through cash generated from the operation of its Company-owned stores, franchise operations and dividend payments from our unconsolidated affiliates. Excess cash has historically been repatriated to YUM through intercompany loans or dividends. Transfers of cash both to and from YUM are included within Parent Company Investment on the Combined Statements of Equity. YUM has issued debt for general corporate purposes but in no case has any such debt been guaranteed or assumed by the Company or otherwise secured by the assets of the Company. As YUM debt and related interest is not directly attributable to the Company, no such amounts have been allocated to these Combined Financial Statements.

**Note 4—Items Affecting Comparability of Net Income and Cash Flows**Little Sheep Impairment

On February 1, 2012 we acquired an additional 66% interest in Little Sheep for \$540 million, net of cash acquired of \$44 million, increasing our ownership to 93%. The primary assets recorded as a result of the acquisition and resulting consolidation of Little Sheep were the Little Sheep trademark and goodwill of approximately \$400 million and \$375 million, respectively.

Sustained declines in sales and profits in 2013 resulted in a determination that the Little Sheep trademark, goodwill and certain restaurant level PP&E were impaired during the quarter ended September 7, 2013. As a result, we recorded impairment charges to the trademark, goodwill and PP&E of \$69 million, \$222 million and \$4 million, respectively, during the quarter ended August 31, 2013.

The Little Sheep business continued to underperform during 2014 with actual average-unit sales volumes and profit levels significantly below those assumed in our 2013 estimation of the Little Sheep trademark and reporting unit fair values. As a result, a significant number of Company-operated restaurants were closed or refranchised during 2014 with future plans calling for further focus on franchise-ownership for the Concept. We tested the Little Sheep trademark and goodwill for impairment in the fourth quarter of 2014 pursuant to our accounting policy. As a result of comparing the trademark's 2014 fair value estimate of \$58 million to its carrying value of \$342 million, we recorded a \$284 million impairment charge. Additionally, after determining the 2014 fair value estimate of the Little Sheep reporting unit was less than its carrying value we wrote off Little Sheep's remaining goodwill balance of \$160 million. The Company also evaluated other Little Sheep long-lived assets for impairment and recorded \$14 million of restaurant-level PP&E impairment and a \$5 million

**Notes to Combined Financial Statements (Continued)**
**(Tabular amounts in millions, except share data)**
**Note 4—Items Affecting Comparability of Net Income and Cash Flows (Continued)**

impairment of our equity method investment in a meat processing business that supplies lamb to Little Sheep.

The losses related to Little Sheep that have occurred concurrent with our trademark and goodwill impairments in 2014 and 2013, none of which have been allocated to any segment for performance reporting purposes, are summarized below:

	2014	2013	Income Statement Classification
Impairment of Goodwill	\$ 160	\$ 222	Closures and impairment (income) expense
Impairment of Trademark	284	69	Closures and impairment (income) expense
Impairment of PP&E	14	4	Closures and impairment (income) expense
Impairment of Investment in Little Sheep Meat	5	—	Closures and impairment (income) expense
Tax Benefit	(76)	(18)	Income tax provision
Loss Attributable to Non-Controlling Interest	(26)	(19)	Net Income (loss) noncontrolling interests
Net loss	<u>\$ 361</u>	<u>\$ 258</u>	

Refranchising Gain, net

The Refranchising gain, net by reportable segment and All Other Segments is presented below. We do not allocate such gains and losses to our segments for performance reporting purposes.

	Refranchising gain, net		
	2015	2014	2013
KFC	\$ 8	\$ 17	\$ 5
Pizza Hut Casual Dining	3	—	—
All Other Segments	2	—	—
Total Company	<u>\$ 13</u>	<u>\$ 17</u>	<u>\$ 5</u>

Store Closure and Impairment Activity

Store closure (income) costs and Store impairment charges by reportable segment and All Other Segments are presented below. These tables exclude \$463 million and \$295 million of Little Sheep impairment losses in 2014 and 2013, respectively which were not allocated to any segment for performance reporting purposes.

	2015			
	Total Company	KFC	Pizza Hut Casual Dining	All Other Segments
Store closure (income) costs(a)	\$ (6)	\$ (7)	\$ (2)	\$ 3
Store impairment charges	70	57	10	3
Closure and impairment (income) expenses	<u>\$ 64</u>	<u>\$ 50</u>	<u>\$ 8</u>	<u>\$ 6</u>

**Notes to Combined Financial Statements (Continued)**
**(Tabular amounts in millions, except share data)**
**Note 4—Items Affecting Comparability of Net Income and Cash Flows (Continued)**

	2014			
	Total Company	KFC	Pizza Hut Casual Dining	All Other Segments
Store closure (income) costs(a)	\$ —	\$ (2)	\$ (1)	\$ 3
Store impairment charges	54	43	3	8
Closure and impairment (income) expenses	<u>\$ 54</u>	<u>\$ 41</u>	<u>\$ 2</u>	<u>\$ 11</u>

	2013			
	Total Company	KFC	Pizza Hut Casual Dining	All Other Segments
Store closure (income) costs(a)	\$ (1)	\$ (4)	\$ (1)	\$ 4
Store impairment charges	31	27	2	2
Closure and impairment (income) expenses	<u>\$ 30</u>	<u>\$ 23</u>	<u>\$ 1</u>	<u>\$ 6</u>

- (a) Store closure (income) costs include lease reserves established when we cease using a property under an operating lease and subsequent adjustments to those reserves, other facility-related expenses from previously closed stores and proceeds from forced store closures. Remaining lease obligations for closed stores were not material at December 31, 2015 or December 31, 2014.

**Note 5—Franchise Fees and Income**

	2015	2014	2013
Initial fees, including renewal fees	\$ 9	\$ 7	\$ 5
Initial franchise fees included in Refranchising gain, net	(3)	(3)	(1)
	6	4	4
Continuing fees and rental income	114	109	101
Franchise fees and income	<u>\$ 120</u>	<u>\$ 113</u>	<u>\$ 105</u>

**Note 6—Other Income, net**

	2015	2014	2013
Equity income from investments in unconsolidated affiliates	\$ (41)	\$ (30)	\$ (26)
China poultry supply insurance recovery(a)	(5)	(25)	—
Loss associated with planned sale of aircraft(b)	15	—	—
Foreign exchange net loss and other	5	4	1
Other income, net	<u>\$ (26)</u>	<u>\$ (51)</u>	<u>\$ (25)</u>

- (a) Recoveries related to lost profits associated with a 2012 poultry supply incident.

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 6—Other Income, net (Continued)**

- (b) During 2015, we made the decision to dispose of a corporate aircraft. The loss associated with this planned sale reflects the shortfall of the expected proceeds, less any selling costs, over the carrying value of the aircraft.

**Note 7—Supplemental Balance Sheet Information**

	As of December 31,	
	2015	2014
<b>Prepaid Expenses and Other Current Assets</b>		
Assets held for sale(a)	\$ 18	\$ —
Prepaid rent	53	45
Other prepaid expenses and current assets	38	45
Prepaid expenses and other current assets	<u>\$ 109</u>	<u>\$ 90</u>

- (a) Reflects the carrying value of a corporate aircraft (See Note 6).

	As of December 31,	
	2015	2014
<b>Property, Plant and Equipment</b>		
Buildings and improvements	\$ 2,231	\$ 2,237
Capital leases, primarily buildings	35	38
Machinery and equipment	1,171	1,253
Property, plant and equipment, gross	3,437	3,528
Accumulated depreciation and amortization	(1,596)	(1,527)
Property, plant and equipment, net	<u>\$ 1,841</u>	<u>\$ 2,001</u>

Depreciation and amortization expense related to property, plant and equipment was \$408 million, \$392 million and \$377 million in 2015, 2014 and 2013, respectively.

	As of December 31,	
	2015	2014
<b>Accounts Payable and Other Current Liabilities</b>		
Accounts payable	\$ 454	\$ 501
Accrued capital expenditures	128	187
Accrued compensation and benefits	180	186
Accrued taxes, other than income taxes	42	42
Other current liabilities	122	88
Accounts payable and other current liabilities	<u>\$ 926</u>	<u>\$ 1,004</u>



**Notes to Combined Financial Statements (Continued)**
**(Tabular amounts in millions, except share data)**
**Note 7—Supplemental Balance Sheet Information (Continued)**

<u>Other Liabilities and Deferred Credits</u>	As of December 31,	
	2015	2014
Deferred escalating minimum rent	\$ 162	\$ 163
Other noncurrent liabilities and deferred credits	72	66
Other liabilities and deferred credits	<u>\$ 234</u>	<u>\$ 229</u>

**Note 8—Goodwill and Intangible Assets**

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

	<u>Total Company</u>	<u>KFC</u>	<u>Pizza Hut Casual Dining</u>	<u>All Other Segments(a)</u>
<b>Balance as of December 31, 2013</b>				
Goodwill, gross	\$ 478	\$ 80	\$ 11	387
Accumulated impairment losses	(222)	—	—	(222)
Goodwill, net	256	80	11	165
Impairment Losses	(160)	—	—	(160)
Disposals and other, net(b)	(7)	(2)	—	(5)
<b>Balance as of December 31, 2014</b>				
Goodwill, gross	471	78	11	382
Accumulated impairment losses	(382)	—	—	(382)
Goodwill, net	89	78	11	—
Disposals and other, net(b)	(4)	(3)	(1)	—
<b>Balance as of December 31, 2015</b>				
Goodwill, gross	467	75	10	382
Accumulated impairment losses	(382)	—	—	(382)
Goodwill, net	<u>\$ 85</u>	<u>\$ 75</u>	<u>\$ 10</u>	<u>\$ —</u>

- (a) Goodwill and Accumulated impairment losses associated with Little Sheep. (See Note 4)
- (b) Disposals and other, net includes the impact of foreign currency translation on existing balances and goodwill write-offs associated with refranchising.

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 8—Goodwill and Intangible Assets (Continued)**

Intangible assets, net as of December 31, 2015 and 2014 are as follows:

	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Definite-lived intangible assets</b>				
Reacquired franchise rights	\$ 100	\$ (66)	\$ 105	\$ (59)
Other	30	(13)	35	(14)
	<u>\$ 130</u>	<u>\$ (79)</u>	<u>\$ 140</u>	<u>\$ (73)</u>
<b>Indefinite-lived intangible assets</b>				
Little Sheep trademark	\$ 56		\$ 60	

Amortization expense for all definite-lived intangible assets was \$13 million in 2015, \$14 million in 2014 and \$14 million in 2013. Amortization expense for definite-lived intangible assets will approximate \$13 million in 2016, \$13 million in 2017, \$13 million in 2018, \$5 million in 2019 and \$2 million in 2020.

**Note 9—Credit Facilities**

Our bank credit agreements comprise two RMB300 million (approximately \$92 million in total) revolving credit facilities (each a "Credit Facility"). Our three-year Credit Facility matured on April 30, 2016 but remains available to us and may be renewed until the bank completes its annual credit review process. It contains a cross-default provision whereby our failure to make any payment on a principal amount from the other Credit Facility will constitute a default on the agreement. Our one-year Credit Facility matures on February 16, 2017. Each Credit Facility bears interest based on the prevailing rate stipulated by the People's Bank of China and contains financial covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the agreement. Interest on any outstanding borrowings is due at least monthly. As of December 31, 2015, no amounts were outstanding under either credit facility and the full amount of borrowings were available to us under each credit facility.

**Note 10—Leases**

At December 31, 2015 we operated 5,768 restaurants, leasing the underlying land and/or building, with our commitments expiring within 20 years from the inception of the lease. In addition, the Company subleases approximately 160 properties to franchisees. Most leases require us to pay related executory costs, which include property taxes, maintenance and insurance.

We also lease office space for headquarters and support functions, as well as certain office and restaurant equipment. We do not consider any of these individual leases material to our operations.

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 10—Leases (Continued)**

Future minimum commitments and amounts to be received as lessor or sublessor under non-cancelable leases are set forth below:

	Commitments		Lease Receivables	
	Capital	Operating	Direct Financing	Operating
2016	\$ 3	\$ 490	\$ —	\$ 16
2017	3	461	—	16
2018	3	427	—	15
2019	4	393	—	14
2020	4	359	—	12
Thereafter	37	1,419	—	25
	<u>\$ 54</u>	<u>\$ 3,549</u>	<u>\$ —</u>	<u>\$ 98</u>

At December 31, 2015 and December 31, 2014, the present value of minimum payments under capital leases was \$35 million and \$36 million, respectively. The current portion of capital lease obligations was \$1 million and \$2 million in 2015 and 2014, respectively, and is classified in Accounts payable and other current liabilities.

The details of rental expense and income are set forth below:

	2015	2014	2013
Rental expense			
Minimum	\$ 516	\$ 523	\$ 530
Contingent	260	265	258
	<u>\$ 776</u>	<u>\$ 788</u>	<u>\$ 788</u>
Rental income	<u>\$ 24</u>	<u>\$ 20</u>	<u>\$ 17</u>

**Note 11—Fair Value Disclosures**

As of December 31, 2015 the carrying values of cash and cash equivalents, accounts receivable and accounts payable approximated their fair values because of the short-term nature of these instruments.

The following table presents expense recognized from all non-recurring fair value measurements during the years ended December 31, 2015 and 2014. All fair value measurements used in these impairment evaluations were based on unobservable inputs (Level 3). These amounts exclude fair value

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 11—Fair Value Disclosures (Continued)**

measurements made for restaurants that were subsequently closed or refranchised prior to those respective year-end dates.

	2015	2014
Little Sheep impairment(a)	\$ —	\$ 463
Restaurant-level impairment(b)	51	35
<b>Total</b>	<b>\$ 51</b>	<b>\$ 498</b>

- (a) Except for the Little Sheep trademark, which had a carrying value of \$56 million at December 31, 2015, the remaining carrying value of assets measured at fair value due to the 2014 Little Sheep impairments is insignificant. See Note 4 for further discussion. Our 2014 fair value estimate of the Little Sheep trademark was determined using a relief-from-royalty valuation approach that included future revenues as a significant input and a discount rate of 13% as our estimate of the required rate-of-return that a third party buyer would expect to receive when purchasing the trademark. The primary drivers of the trademark's fair value were franchise revenue growth and revenues associated with a wholly-owned business that sells seasoning to retail customers. Franchise revenue growth reflected annual same store sales growth of 4% and approximately 35 new franchise units per year, partially offset by approximately 25 franchise closures per year. The retail seasoning business was forecasted to generate sales growth consistent with historical results. Our 2015 fair value estimate exceeded its carrying value using similar assumptions and methods as those used in 2014.
- (b) Restaurant-level impairment charges are recorded in Closures and impairment (income) expenses 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. The fair value measurements used in these impairment evaluations were based on discounted cash flow estimates using unobservable inputs. The remaining net book value of assets measured at fair value during the years ended December 31, 2015 and December 31, 2014 is insignificant.

**Note 12—Retirement Plans**

Certain of the Company's employees participate in retirement plans administered and sponsored by YUM. For these plans, the Company has considered participating employees to be part of multi-employer plans. We have allocated expenses related to this participation in our Combined Statements of Income. However, as we are not the plan sponsor for these benefit plans, our Combined Balance Sheets do not reflect any assets or liabilities related to these plans. We consider the expense allocation methodology and results to be reasonable for all periods presented.

As stipulated by Chinese state regulations, the Company participates in a government-sponsored defined contribution retirement plan. Substantially all employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. We are required to make contributions to the local social security bureau between 10% and 22% of the previous year's average basic salary amount of the geographical area where the employees are under our employment. Contributions are recorded in the Combined

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 12—Retirement Plans (Continued)**

Statements of Income as they become payable. We have no obligation for the payment of pension benefits beyond the annual contributions as set out above. The Company contributed \$150 million, \$147 million and \$141 million to the plan for 2015, 2014 and 2013, respectively.

**Note 13—Share-Based Compensation**Overview

Certain of the Company's employees participate in YUM's Long-term Incentive Plan (the "Plan") which provides employees with certain share-based awards as described below. Accordingly, certain costs related to the Plan have been allocated to the Company and are reflected in the Combined Statements of Income in G&A expenses. Under the Plan, the exercise price of stock options and SARs granted must be equal to or greater than the average market price or the ending market price of YUM's stock on the date of grant.

Potential awards to employees under the Plan include stock options, SARs, stock units, restricted stock units (RSUs), performance RSUs, performance share units (PSUs) and performance units. YUM has only issued stock options, SARs, RSUs and PSUs under the Plan. While awards can have varying provisions and exercise periods, outstanding awards vest in periods ranging from three to five years. Stock options and SARs expire ten years after grant.

Award Valuation

YUM estimated the fair value of each stock option and SAR award granted to the Company's employees as of the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Risk-free interest rate	1.3%	1.6%	0.8%
Expected term (years)	6.5	6.3	6.3
Expected volatility	27.0%	29.9%	30.0%
Expected dividend yield	2.2%	2.1%	2.1%

Grants made to executives under the Plan typically have a graded vesting schedule of 25% per year over four years and expire ten years after grant. YUM uses a single weighted-average term for awards that have a graded vesting schedule. Based on analysis of the historical exercise and post-vesting termination behavior, YUM determined that executives exercised the awards on average after 6.5 years.

When determining expected volatility, YUM considers both historical volatility of its stock as well as implied volatility associated with its publicly traded options. The expected dividend yield is based on the annual dividend yield at the time of grant.

The fair values of RSU awards are based on the closing price of YUM stock on the date of grant. The fair values of PSU awards granted prior to 2013 are based on the closing price of YUM stock on the date of grant. Beginning in 2013, YUM granted PSU awards with market-based conditions which have been valued based on the outcome of a Monte Carlo simulation.

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 13—Share-Based Compensation (Continued)**Award Activity*Stock Options and SARs*

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at the beginning of the year	4,165	\$ 49.26		
Granted	753	74.27		
Exercised	(754)	36.90		
Forfeited or expired	(120)	69.20		
Transfers, net(a)	980	47.16		
Outstanding at the end of the year	<u>5,024(b)</u>	<u>\$ 53.98</u>	5.70	\$ 97
Exercisable at the end of the year	<u>3,076</u>	<u>\$ 44.86</u>	4.30	\$ 87

(a) Reflects awards previously granted to YUM employees who transferred into or out of the Company from or to another YUM Division during the year.

(b) Outstanding awards include 1,461 options and 3,563 SARs with weighted average exercise prices of \$47.61 and \$56.59, respectively.

The weighted-average grant-date fair value of stock options and SARs granted during 2015, 2014 and 2013 was \$16.11, \$17.45 and \$14.56, respectively. The total intrinsic value of stock options and SARs exercised during the years ended December 31, 2015, December 31, 2014 and December 31, 2013, was \$33 million, \$16 million and \$24 million, respectively.

As of December 31, 2015, there was \$19 million of unrecognized compensation cost related to stock options and SARs, which will be reduced by any forfeitures that occur, related to unvested awards that is expected to be recognized over a remaining weighted-average period of approximately 1.7 years. The total fair value at grant date of awards that vested during 2015, 2014 and 2013 was \$6 million, \$7 million and \$10 million, respectively.

*RSUs and PSUs*

As of December 31, 2015, there was \$0.8 million of unrecognized compensation cost related to unvested RSUs and PSUs.

Impact on Net Income

Share-based compensation expense was \$14 million, \$13 million and \$12 million for 2015, 2014 and 2013, respectively. Deferred tax benefits recognized totaled \$3 million, \$3 million and \$2 million for 2015, 2014 and 2013, respectively.

**Notes to Combined Financial Statements (Continued)**
**(Tabular amounts in millions, except share data)**
**Note 14—Income Taxes**

The Company's results have historically been included in the consolidated U.S. federal tax return and U.S. state income tax filings of YUM. Our foreign income tax returns, primarily those filed by our China subsidiaries, are filed on an individual entity basis. The Company has calculated its provision using the separate return method in these Combined Financial Statements. Under this method, the Company is assumed to have filed hypothetical tax returns on a stand-alone basis separate from YUM in the relevant tax jurisdictions. Any additional accrued tax liability attributable to the Company arising from the separate return method has been shown as settled against the net Parent company investment account in these Combined Financial Statements. The Company has recorded deferred taxes on its temporary differences, including hypothetical carryforwards and tax credits created by the separate tax return filings. The established current and deferred tax balances may not be indicative of the Company's actual balances prior or subsequent to the separation of operations from YUM.

U.S. and foreign income before taxes are set forth below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
U.S.	\$ (7)	\$ 15	\$ (12)
China	502	—	251
Other Foreign	1	2	(5)
	<u>\$ 496</u>	<u>\$ 17</u>	<u>\$ 234</u>

The details of our income tax provision (benefit) are set forth below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current: Federal	\$ 7	\$ 9	\$ 6
Foreign	132	149	178
	<u>\$ 139</u>	<u>\$ 158</u>	<u>\$ 184</u>
Deferred: Federal	\$ (7)	\$ (9)	\$ (3)
Foreign	36	(95)	(46)
	<u>29</u>	<u>(104)</u>	<u>(49)</u>
	<u>\$ 168</u>	<u>\$ 54</u>	<u>\$ 135</u>

The reconciliation of income taxes calculated at the U.S. federal statutory rate to our effective tax rate is set forth below:

	<u>2015</u>		<u>2014</u>		<u>2013</u>	
U.S. federal statutory rate	\$ 173	35.0%	\$ 6	35.0%	\$ 82	35.0%
Statutory rate differential attributable to foreign operations	(15)	(3.1)	5	32.2	(12)	(5.2)
Adjustments to reserves and prior years	3	0.6	(3)	(20.9)	(2)	(0.8)
Change in valuation allowances	12	2.4	13	79.8	17	7.4
Other, net	(5)	(1.0)	33	196.2	50	21.1
Effective income tax rate	<u>\$ 168</u>	<u>33.9%</u>	<u>\$ 54</u>	<u>322.3%</u>	<u>\$ 135</u>	<u>57.5%</u>

**Notes to Combined Financial Statements (Continued)**

**(Tabular amounts in millions, except share data)**

**Note 14—Income Taxes (Continued)**

*Statutory rate differential attributable to foreign operations.* This item includes local taxes, withholding taxes, and shareholder-level taxes, net of foreign tax credits. There is a favorable impact attributable to our income being earned in China where it is subject to a 25% tax rate, which is lower than the U.S. federal statutory rate of 35%.

In 2015, 2014 and 2013, this benefit was negatively impacted by the actual and deemed repatriation of current year foreign earnings to the U.S. as we recognized additional tax expense, resulting from the related effective tax rate being lower than the U.S. federal statutory rate.

*Adjustments to reserves and prior years.* This item includes: (1) changes in tax reserves, including interest thereon, established for potential exposure we may incur if a taxing authority takes a position on a matter contrary to our position; and (2) the effects of reconciling income tax amounts recorded in our Combined Statements of Income to amounts reflected on our tax returns, including any adjustments to the Combined Balance Sheets. The impact of certain effects or changes may offset items reflected in the '*Statutory rate differential attributable to foreign operations*' line.

In 2014 and 2013, this item was impacted by the favorable resolution of uncertain tax positions.

*Change in valuation allowances.* This item relates to changes for deferred tax assets generated or utilized during the current year and changes in our judgment regarding the likelihood of using deferred tax assets that existed at the beginning of the year. The impact of certain changes may offset items reflected in the '*Statutory rate differential attributable to foreign operations*' line.

In 2015 and 2014, \$12 million and \$13 million, respectively, of net tax expense was driven by valuation allowances recorded against deferred tax assets generated during the current year.

In 2013, \$17 million of net tax expense was driven by \$13 million for valuation allowances recorded against deferred tax assets generated during the current year, as well as \$4 million tax expense resulting from a change in judgment regarding the future use of certain deferred tax assets that existed at the beginning of the year.

*Other.* This item primarily includes the impact of permanent differences related to current year earnings as well as tax credits and deductions.

In 2014 and 2013, this item was negatively impacted by the \$160 million and \$222 million, respectively, of non-cash impairments of Little Sheep goodwill, which resulted in no related tax benefit. See Note 4.



**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 14—Income Taxes (Continued)**

The details of deferred tax assets (liabilities) as of December 31, 2015 and 2014 are set forth below:

	2015	2014
Operating losses and tax credit carryforwards	\$ 66	\$ 54
Employee benefits	2	33
Share-based compensation	11	9
Deferred escalating minimum rent	43	42
Various liabilities	14	13
Deferred income and other	37	36
Gross deferred tax assets	173	187
Deferred tax asset valuation allowances	(45)	(34)
Net deferred tax assets	\$ 128	\$ 153
Intangible assets	\$ (23)	\$ (30)
Property, plant and equipment	(4)	(2)
Other	(9)	(3)
Gross deferred tax liabilities	\$ (36)	\$ (35)
Net deferred tax assets (liabilities)	\$ 92	\$ 118
Reported in Combined Balance Sheets as:		
Deferred income taxes	\$ 116	\$ 141
Other liabilities and deferred credits	(24)	(23)
	\$ 92	\$ 118

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. We have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The China separation from YUM is intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting over tax basis in our investment in the China business continuing to be indefinitely reinvested. This amount may become taxable upon an actual or deemed repatriation of assets from the subsidiaries or a sale or liquidation of the subsidiaries. We estimate that our total temporary difference upon which we have not provided deferred tax is approximately \$1.6 billion at December 31, 2015. However, it is not practicable to determine the deferred tax liability on this amount due to uncertainty with regard to the timing or manner of repatriation and the related impact on local taxes, withholding taxes and foreign tax credits.

At December 31, 2015, the Company has operating loss carryforwards of \$163 million, primarily related to our Little Sheep business, all of which will expire by 2020. These losses are being carried forward in jurisdictions where we are permitted to use tax losses from prior periods to reduce future taxable income. At December 31, 2015 the Company also has U.S. tax credit carryforwards of \$25 million, all of which will expire by 2025.

Cash payments for tax liabilities on income tax returns filed in China were \$143 million, \$186 million and \$174 million in 2015, 2014 and 2013, respectively.

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 14—Income Taxes (Continued)**

We recognize the benefit of positions taken or expected to be taken in tax returns in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement.

A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

	<u>2015</u>	<u>2014</u>
Beginning of Year	\$ 13	\$ 20
Additions on tax positions	4	4
Reductions due to statute expiration	(2)	(11)
End of Year	<u>\$ 15</u>	<u>\$ 13</u>

During 2015 and 2014, we increased our unrecognized tax benefits by \$4 million related to uncertainty with regard to the deductibility of certain business expenses incurred during the year. The Company believes it is reasonably possible its unrecognized tax benefits may decrease by approximately \$3 million in the next twelve months, all of which, if recognized upon audit settlement or statute expiration, would affect the 2016 effective tax rate.

The Company's results are subject to examination in the U.S. federal jurisdiction as well as various U.S. state jurisdictions as part of the YUM income tax filings, and separately in foreign jurisdictions. Any liability arising from these examinations is expected to be settled between the Company, YCCL and YUM in accordance with the tax matters agreement.

YUM has settled audits with the IRS through fiscal year 2010. The Company's operations in foreign jurisdictions remain subject to examination for tax years as far back as 2010, some of which years are currently under audit by local tax authorities. The accrued interest and penalties related to income taxes are set forth below:

	<u>As of</u> <u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Accrued interest and penalties	\$ 3	\$ 3

During 2015, 2014 and 2013, a net expense of \$1 million, and net benefit of \$4 million and \$3 million, respectively, for interest and penalties was recognized in our Combined Statements of Income as components of its income tax provision.

**Note 15—Reportable Operating Segments**

We have two reportable segments: KFC and Pizza Hut Casual Dining. We also have three non-reportable operating segments, Pizza Hut Home Service, East Dawning and Little Sheep, which are

**Notes to Combined Financial Statements (Continued)**
**(Tabular amounts in millions, except share data)**
**Note 15—Reportable Operating Segments (Continued)**

combined and referred to as All Other Segments, as these operating segments are individually insignificant.

	<b>Revenues</b>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
KFC	4,768	4,893	4,995
Pizza Hut Casual Dining	1,825	1,696	1,522
All Other Segments	316	345	388
Total	<u>\$ 6,909</u>	<u>\$ 6,934</u>	<u>\$ 6,905</u>

	<b>Operating Profit; Interest Income, Net; and Income Before Income Taxes</b>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
KFC(a)	499	435	456
Pizza Hut Casual Dining	145	176	235
All Other Segments	(14)	(44)	(54)
Unallocated and corporate expenses(b)	(144)	(143)	(123)
Unallocated Closures and impairment expense(b)(c)	—	(463)	(295)
Unallocated Other income(b)	(11)	25	5
Unallocated Refranchising gain(b)	13	17	5
Operating Profit	488	3	229
Interest income, net(b)	8	14	5
Income Before Income Taxes	<u>\$ 496</u>	<u>\$ 17</u>	<u>\$ 234</u>

	<b>Depreciation and Amortization</b>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
KFC	283	286	283
Pizza Hut Casual Dining	109	92	73
All Other Segments	20	20	30
Corporate	13	13	8
	<u>\$ 425</u>	<u>\$ 411</u>	<u>\$ 394</u>

	<b>Capital Spending</b>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
KFC	259	269	303
Pizza Hut Casual Dining	176	187	167
All Other Segments	16	23	26
Corporate	61	46	72
	<u>\$ 512</u>	<u>\$ 525</u>	<u>\$ 568</u>

**Notes to Combined Financial Statements (Continued)****(Tabular amounts in millions, except share data)****Note 15—Reportable Operating Segments (Continued)**

	<b>Identifiable Assets</b>	
	<b>2015</b>	<b>2014</b>
KFC(d)	1,577	1,773
Pizza Hut Casual Dining	718	694
All Other Segments	181	181
Corporate(e)	725	609
	<u>\$ 3,201</u>	<u>\$ 3,257</u>

	<b>Long-Lived Assets(f)</b>	
	<b>2015</b>	<b>2014</b>
KFC	1,248	1,424
Pizza Hut Casual Dining	616	584
All Other Segments	146	149
Corporate	23	60
	<u>\$ 2,033</u>	<u>\$ 2,217</u>

- (a) Includes equity income from investments in unconsolidated affiliates of \$41 million, \$30 million and \$26 million in 2015, 2014 and 2013, respectively.
- (b) Amounts have not been allocated to any segment for performance reporting purposes.
- (c) Represents 2014 and 2013 impairment losses related to Little Sheep. See Note 4.
- (d) Includes investments in 3 unconsolidated affiliates totaling \$61 million and \$51 million for 2015 and 2014, respectively.
- (e) Primarily includes cash and inventories that are centrally managed.
- (f) Includes property, plant and equipment, net, goodwill, and intangible assets, net.

**Note 16—Contingencies**China Tax on Indirect Transfers of Assets

In February 2015, the Chinese State Administration of Taxation ("SAT") issued the SAT's Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises ("Bulletin 7"). Pursuant to Bulletin 7, an "indirect transfer" of Chinese taxable assets, including equity interests in a China resident enterprise ("Chinese interests"), 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 has informed us that it believes that it is more likely than not that YUM will not be subject to this tax with respect to the distribution. However, given how recently Bulletin 7 was promulgated, there are significant uncertainties regarding what constitutes a reasonable commercial purpose, how the

**Notes to Combined Financial Statements (Continued)**

**(Tabular amounts in millions, except share data)**

**Note 16—Contingencies (Continued)**

safe harbor provisions for group restructurings are to be interpreted and how the taxing authorities will ultimately view the planned 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 planned distribution is expected to be settled in accordance with the tax matters agreement among the Company, YCCL and YUM. Such a settlement could be significant and have a material adverse effect on our results of operations and our financial condition.

Unconsolidated Affiliates Guarantees

From time to time we have guaranteed certain lines of credit and loans of unconsolidated affiliates. At December 31, 2015 there are no guarantees outstanding for unconsolidated affiliates. Our unconsolidated affiliates had total revenues of approximately \$1 billion for the year ended December 31, 2015 and assets and debt of approximately \$350 million and \$50 million, respectively, at December 31, 2015.

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 Combined 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 17—Subsequent Events**

The Company evaluates subsequent events in accordance with ASC Topic 855, Subsequent Events. Subsequent events were evaluated through May 3, 2016, the date the Combined Financial Statements were available to be issued.

**Condensed Combined Statements of Income****Yum China Holdings, Inc.****(in millions—Unaudited)**

	Year to date	
	5/31/2016	5/31/2015
<b>Revenues</b>		
Company sales	\$ 2,836	\$ 2,843
Franchise fees and income	55	49
Total revenues	<u>2,891</u>	<u>2,892</u>
<b>Costs and Expenses, Net</b>		
Company restaurants		
Food and paper	847	907
Payroll and employee benefits	587	577
Occupancy and other operating expenses	960	982
Company restaurant expenses	<u>2,394</u>	<u>2,466</u>
General and administrative expenses	170	168
Franchise expenses	31	29
Closures and impairment expenses, net	31	19
Refranchising gain, net	(4)	(4)
Other income, net	(27)	(14)
Total costs and expenses, net	<u>2,595</u>	<u>2,664</u>
<b>Operating Profit</b>	<u>296</u>	<u>228</u>
Interest income, net	4	2
<b>Income Before Income Taxes</b>	<u>300</u>	<u>230</u>
Income tax provision	(78)	(65)
Net income—including noncontrolling interests	<u>222</u>	<u>165</u>
Net income—noncontrolling interests	—	—
<b>Net Income—Yum China Holdings, Inc.</b>	<u>\$ 222</u>	<u>\$ 165</u>

See accompanying Notes to Condensed Combined Financial Statements.

**Condensed Combined Statements of Comprehensive Income****Yum China Holdings, Inc.****(in millions—Unaudited)**

	<b>Year to date</b>	
	<b>5/31/2016</b>	<b>5/31/2015</b>
Net income—including noncontrolling interests	\$ 222	\$ 165
Other comprehensive loss, net of tax:		
Foreign currency gains (losses) arising during the period	(29)	1
Comprehensive Income—including noncontrolling interests	193	166
Comprehensive Income (loss)—noncontrolling interests	1	(1)
<b>Comprehensive Income—Yum China Holdings, Inc.</b>	<b>\$ 192</b>	<b>\$ 167</b>

See accompanying Notes to Condensed Combined Financial Statements.

**Condensed Combined Statements of Cash Flows**

**Yum China Holdings, Inc.**

(in millions—Unaudited)

	Year to date	
	5/31/2016	5/31/2015
<b>Cash Flows—Operating Activities</b>		
Net Income—including noncontrolling interests	\$ 222	\$ 165
Depreciation and amortization	171	179
Closures and impairment expenses	31	19
Refranchising gain	(4)	(4)
Deferred income taxes	(29)	1
Equity income from investments in unconsolidated affiliates	(26)	(16)
Distributions of income received from unconsolidated affiliates	13	4
Excess tax benefits from share-based compensation	(1)	(3)
Share-based compensation expense	5	5
Changes in accounts receivable	(15)	10
Changes in inventories	(30)	25
Changes in prepaid expenses and other current assets	7	(4)
Changes in accounts payable and other current liabilities	35	8
Changes in income taxes payable	25	(3)
Other, net	18	10
<b>Net Cash Provided by Operating Activities</b>	<b>422</b>	<b>396</b>
<b>Cash Flows—Investing Activities</b>		
Capital spending	(172)	(235)
Changes in short-term investments, net	(54)	(16)
Proceeds from refranchising of restaurants	13	8
Other, net	(1)	(2)
<b>Net Cash Used in Investing Activities</b>	<b>(214)</b>	<b>(245)</b>
<b>Cash Flows—Financing Activities</b>		
Net transfers to Parent	(118)	(104)
Payment of capital lease obligations	(1)	(2)
Excess tax benefits from share-based compensation	1	3
<b>Net Cash Used in Financing Activities</b>	<b>(118)</b>	<b>(103)</b>
<b>Effect of Exchange Rates on Cash and Cash Equivalents</b>	<b>(7)</b>	<b>—</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>83</b>	<b>48</b>
<b>Cash and Cash Equivalents—Beginning of Period</b>	<b>425</b>	<b>238</b>
<b>Cash and Cash Equivalents—End of Period</b>	<b>\$ 508</b>	<b>\$ 286</b>

See accompanying Notes to Condensed Combined Financial Statements



**Condensed Combined Balance Sheets**

**Yum China Holdings, Inc.**

(in millions)

	<u>5/31/2016</u> (Unaudited)	<u>12/31/2015</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 508	\$ 425
Accounts receivable, net	117	76
Inventories	216	189
Prepaid expenses and other current assets	151	109
<b>Total Current Assets</b>	<u>992</u>	<u>799</u>
Property, plant and equipment, net	1,742	1,841
Goodwill	83	85
Intangible assets, net	101	107
Investments in unconsolidated affiliates	46	61
Other assets	187	192
Deferred income taxes	142	116
<b>Total Assets</b>	<u>\$ 3,293</u>	<u>\$ 3,201</u>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities	\$ 921	\$ 926
Income taxes payable	47	22
<b>Total Current Liabilities</b>	<u>968</u>	<u>948</u>
Capital lease obligations	31	34
Other liabilities and deferred credits	236	234
<b>Total Liabilities</b>	<u>1,235</u>	<u>1,216</u>
<b>Redeemable Noncontrolling Interest</b>	<u>—</u>	<u>6</u>
<b>Equity</b>		
Parent Company investment	1,900	1,791
Accumulated other comprehensive income	100	130
<b>Total Equity—Yum China Holdings, Inc.</b>	<u>2,000</u>	<u>1,921</u>
Noncontrolling interests	58	58
<b>Total Equity</b>	<u>2,058</u>	<u>1,979</u>
<b>Total Liabilities, Redeemable Noncontrolling Interest and Equity</b>	<u>\$ 3,293</u>	<u>\$ 3,201</u>

See accompanying Notes to Condensed Combined Financial Statements.

## Notes to Condensed Combined Financial Statements (Unaudited)

(Tabular amounts in millions)

### Note 1—Description of the Business

On October 20, 2015, Yum! Brands, Inc. ("YUM" or the "Parent") announced that it intended to separate into two independent publicly traded companies each with a separate strategic focus. YUM plans to distribute to its shareholders all outstanding shares of Yum China Holdings, Inc. (the "Company"), which will hold directly or indirectly, the assets and liabilities associated with YUM's operations in China. References to the Company throughout these Condensed Combined Financial Statements are made using the first person notations of "we," "us" or "our."

The Company operates and owns, franchises or has ownership in entities that own and operate restaurants under the KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, East Dawning and Little Sheep concepts (collectively, the "Concepts"). The operating results of these Concepts in China have historically been included in the China Division segment of YUM's Consolidated Financial Statements. Upon separation of the Company from YUM, Yum! Restaurants Asia Pte. Ltd., a wholly-owned indirect subsidiary of YUM, and Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of the Company, will enter into a 50-year master license agreement 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 to not renew, for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its subsidiaries for the development and operation of the KFC, Pizza Hut Casual Dining and Pizza Hut Home Services brands and their related marks and other intellectual property rights for restaurant services in China. In addition, subject to certain agreed-upon milestones, the Company has an exclusive license under the master license agreement to operate and develop Taco Bell restaurants and use the related marks in China. In exchange we will pay a license fee to YUM equal to 3% of net sales for both our Company and franchise restaurants. We will continue to own the East Dawning and Little Sheep intellectual property and will pay no license fee related to these concepts.

Completion of the transaction will be subject to certain conditions, including, among others, receiving final approval from YUM's board of directors, receipt of various regulatory approvals, receipt of opinions of YUM's external tax advisors with respect to certain tax matters, the effectiveness of filings related to public listing in the United States of America and applicable securities laws, and other terms and conditions as may be determined by YUM's board of directors. The transaction is expected to be completed around October 31, 2016, and is intended to qualify as a tax-free reorganization for U.S. federal income tax purposes.

The operations of each Concept represent an operating segment of the Company within these Condensed Combined Financial Statements. We have two reportable segments: KFC and Pizza Hut Casual Dining. Our remaining operating segments, including the operations of Pizza Hut Home Service, East Dawning and Little Sheep, are combined and referred to as All Other Segments, as those operating segments are individually insignificant.

### Note 2—Basis of Presentation

We have prepared our accompanying unaudited Condensed Combined Financial Statements in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by Generally Accepted Accounting Principles in the United States ("GAAP") for complete financial statements. These statements should be read in conjunction with the Combined Financial

**Notes to Condensed Combined Financial Statements (Unaudited) (Continued)**

**(Tabular amounts in millions)**

**Note 2—Basis of Presentation (Continued)**

Statements and notes thereto for the Company for the year ended December 31, 2015 included elsewhere in this amendment to the initial Form 10.

Our preparation of the accompanying Condensed Combined Financial Statements in conformity with 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 Condensed Combined Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

These accompanying Condensed Combined Financial Statements have been prepared on a stand-alone basis and are derived from YUM's Condensed Consolidated Financial Statements and underlying accounting records. Transactions between the Company and the Parent that were not cash settled were considered to be effectively settled at the time the transactions are recorded.

The Condensed Combined Financial Statements include all revenues, costs, assets and liabilities directly attributable to the Company either through specific identification or allocation. The Condensed Combined Statements of Income include allocations for certain of YUM's Corporate functions which provide a direct benefit to the Company. These costs have been allocated based on Company system sales relative to YUM's global system sales. System sales includes the sales results of all restaurants regardless of ownership. All allocated costs have been deemed to have been paid to the Parent in the period in which the costs were recorded. The Company considers the cost allocation methodology and results to be reasonable for all periods presented. However, the allocations may not be indicative of the actual expense that would have been incurred had the Company operated as an independent, publicly traded company for the periods presented. See Note 3 for further discussion.

The accompanying Condensed Combined Financial Statements include all normal and recurring adjustments considered necessary to present fairly, when read in conjunction with the Combined Financial Statements and notes thereto for the year ended December 31, 2015 included elsewhere in this amendment to the initial Form 10, our financial position as of May 31, 2016, and the results of our operations, comprehensive income and cash flows for the years to date ended May 31, 2016 and May 31, 2015. 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.

Our fiscal year ends on December 31. As a subsidiary of YUM, the Company operates on a fiscal monthly calendar, with two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter.

**Note 3—Transactions with Parent**

Allocation of Corporate Expenses

YUM has historically performed centralized corporate functions on our behalf. Accordingly, certain YUM costs have been allocated to the Company and reflected as expenses in these Condensed Combined Financial Statements. Management considers the allocation methodologies used to be reasonable and appropriate reflections of the historical Parent expenses attributable to the Company. The expenses reflected in the Condensed Combined Financial Statements may not be indicative of the actual expenses that would have been incurred during the periods presented if we had operated as a separate, stand-alone entity.

**Notes to Condensed Combined Financial Statements (Unaudited) (Continued)****(Tabular amounts in millions)****Note 3—Transactions with Parent (Continued)**

Corporate expense allocations primarily relate to centralized corporate functions, including finance, accounting, treasury, tax, legal, internal audit and risk management functions. In addition, corporate expense allocations include, among other costs, IT maintenance, professional fees for legal services and expenses related to litigation, investigations, or similar matters. Corporate allocations of \$6 million were allocated to the Company during each of the years to date ended May 31, 2016 and May 31, 2015, respectively and have been included in G&A expenses in the Condensed Combined Statements of Income. All of the corporate allocations of costs are deemed to have been incurred and settled through Parent Company Investment in the period where the costs were recorded. Following the separation, we will perform these functions using our own resources or purchased services.

**License Fee**

The Condensed Combined Statements of Income include a fee that was historically paid to YUM comprised of initial fees and continuing fees equal to 3% of our Company and franchise sales. License fees due to YUM for our Company-owned stores are included within restaurant margin in Occupancy and other operating expenses in the Condensed Combined Statements of Income. License fees due to YUM on franchise sales are included in Franchise Expenses. Total license fees paid during the years to date ended May 31, 2016 and May 31, 2015, respectively are reflected in the table below:

	Year to date	
	2016	2015
Initial fees—Company	\$ 4	\$ 6
Initial fees—Franchise	1	1
Continuing Fees—Company	82	83
Continuing Fees—Franchise	22	20
Total	<u>\$ 109</u>	<u>\$ 110</u>

**Cash Management and Treasury**

The Company funds its operations through cash generated from the operation of its Company-owned stores, franchise operations and dividend payments from our unconsolidated affiliates. Excess cash has historically been repatriated to YUM through intercompany loans or dividends. Transfers of cash both to and from YUM are included within Parent Company Investment on the Condensed Combined Balance Sheets. YUM has issued debt for general corporate purposes but in no case has any such debt been guaranteed or assumed by the Company or otherwise secured by the assets of the Company. As YUM debt and related interest is not directly attributable to the Company, no such amounts have been allocated to these Condensed Combined Financial Statements.

## Notes to Condensed Combined Financial Statements (Unaudited) (Continued)

(Tabular amounts in millions)

## Note 4—Items Affecting Comparability of Net Income and Cash Flows

Refranchising Gain, net

The Refranchising gain, net by reportable segment and All Other Segments is presented below. We do not allocate such gains and losses to our segments for performance reporting purposes.

	Year to date	
	2016	2015
KFC	\$ 4	\$ 2
Pizza Hut Casual Dining	–	1
All Other Segments	–	1
Total Company	<u>\$ 4</u>	<u>\$ 4</u>

Store Closure and Impairment Activity

Store closure (income) costs and Store impairment charges by reportable segment and All Other Segments are presented below.

	Year to date			
	2016			
	Total Company	KFC	Pizza Hut Casual Dining	All Other Segments
Store closure (income) costs(a)	\$ (6)	\$ (4)	\$ (1)	\$ (1)
Store impairment charges	37	25	11	1
Closure and impairment (income) expenses	<u>\$ 31</u>	<u>\$ 21</u>	<u>\$ 10</u>	<u>\$ –</u>

	Year to date			
	2015			
	Total Company	KFC	Pizza Hut Casual Dining	All Other Segments
Store closure (income) costs(a)	\$ (3)	\$ (4)	\$ (1)	\$ 2
Store impairment charges	22	19	2	1
Closure and impairment (income) expenses	<u>\$ 19</u>	<u>\$ 15</u>	<u>\$ 1</u>	<u>\$ 3</u>

- (a) Store closure (income) costs include lease reserves established when we cease using a property under an operating lease and subsequent adjustments to those reserves, other facility-related expenses from previously closed stores and proceeds from forced store closures. Remaining lease obligations for closed stores were not material at May 31, 2016 or December 31, 2015.

## Notes to Condensed Combined Financial Statements (Unaudited) (Continued)

(Tabular amounts in millions)

## Note 5—Other Income, net

	Year to date	
	2016	2015
Equity income from investments in unconsolidated affiliates	\$ (26)	\$ (16)
Foreign exchange net (gain) loss and other	(1)	2
Other income, net	<u>\$ (27)</u>	<u>\$ (14)</u>

## Note 6—Supplemental Balance Sheet Information

<u>Prepaid Expenses and Other Current Assets</u>	5/31/2016	12/31/2015
Assets held for sale(a)	\$ 17	\$ 18
Prepaid rent	39	53
Short-term investments	53	—
Other prepaid expenses and current assets	42	38
Prepaid expenses and other current assets	<u>\$ 151</u>	<u>\$ 109</u>

(a) Reflects the carrying value of a corporate aircraft.

<u>Property, Plant and Equipment</u>	5/31/2016	12/31/2015
Buildings and improvements	\$ 2,192	\$ 2,231
Capital leases, primarily buildings	33	35
Machinery and equipment	1,100	1,171
Property, plant and equipment, gross	3,325	3,437
Accumulated depreciation and amortization	(1,583)	(1,596)
Property, plant and equipment, net	<u>\$ 1,742</u>	<u>\$ 1,841</u>

<u>Accounts Payable and Other Current Liabilities</u>	5/31/2016	12/31/2015
Accounts payable	\$ 495	\$ 454
Accrued capital expenditures	93	128
Accrued compensation and benefits	157	180
Accrued taxes, other than income taxes	18	42
Other current liabilities	158	122
Accounts payable and other current liabilities	<u>\$ 921</u>	<u>\$ 926</u>

<u>Other Liabilities and Deferred Credits</u>	5/31/2016	12/31/2015
Deferred escalating minimum rent	\$ 161	\$ 162
Other noncurrent liabilities and deferred credits	75	72
Other liabilities and deferred credits	<u>\$ 236</u>	<u>\$ 234</u>

**Notes to Condensed Combined Financial Statements (Unaudited) (Continued)****(Tabular amounts in millions)****Note 6—Supplemental Balance Sheet Information (Continued)**Noncontrolling Interests

Noncontrolling interests represent the ownership interests of minority shareholders of the entities that operate KFC restaurants in Beijing and Shanghai, China. At December 31, 2015 the Redeemable noncontrolling interest comprised the 7% ownership interest in Little Sheep held by the Little Sheep founding shareholders, and was classified outside of permanent equity on our Condensed Consolidated Balance Sheets due to redemption rights held by the founding Little Sheep shareholders. During the quarter ended May 31, 2016, the Little Sheep founding shareholders sold their remaining 7% Little Sheep ownership interest to the Company pursuant to their redemption rights. The difference between the purchase price of less than \$1 million, which was determined using a non-fair value based formula pursuant to the agreement governing the redemption rights, and the carrying value of their redeemable noncontrolling interest was recorded as an \$8 million loss attributable to noncontrolling interests. Consistent with our 2012 gain on the acquisition of Little Sheep and subsequent impairments of Little Sheep goodwill and intangible assets in 2013 and 2014, this loss attributable to noncontrolling interest is not being allocated to any segment operating results. A reconciliation of the beginning and ending carrying amount of the equity attributable to noncontrolling interests is as follows:

	Noncontrolling Interests	Redeemable Noncontrolling Interest
Balance at December 31, 2015	\$ 58	\$ 6
Net income (loss)—noncontrolling interests	7	1
Noncontrolling interest loss upon redemption	—	(8)
Dividends declared	(7)	—
Currency translation adjustments and other	—	1
Balance at May 31, 2016	<u>\$ 58</u>	<u>\$ —</u>

**Note 7—Fair Value Measurements**

As of May 31, 2016 the carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable approximated their fair values because of the short-term nature of these instruments.

In addition, certain of the Company's assets such as property, plant and equipment, goodwill and intangible assets, are measured at fair value on a non-recurring basis if determined to be impaired. During the year to date ended May 31, 2016, we recorded restaurant-level impairment (Level 3) of \$33 million, excluding impairment recorded associated with stores that were being closed. The remaining net book value of the assets measured at fair value as of May 31, 2016, subsequent to these impairments, was not significant.

**Note 8—Income Taxes**

	Year to date	
	2016	2015
Income tax provision	\$ 78	\$ 65
Effective tax rate	26.2%	28.0%

**Notes to Condensed Combined Financial Statements (Unaudited) (Continued)****(Tabular amounts in millions)****Note 8—Income Taxes (Continued)**

Our effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the majority of our income being earned outside the U.S. where tax rates are generally lower than the U.S. rate.

**Note 9—Reportable Operating Segments**

We have two reportable segments: KFC and Pizza Hut Casual Dining. We also have three non-reportable operating segments, Pizza Hut Home Service, East Dawning and Little Sheep, which are combined and referred to as All Other Segments, as these operating segments are individually insignificant. The following tables summarize Revenues and Operating Profit for each of our reportable operating segments:

	<u>Year to date</u>	
	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
KFC	2,028	1,961
Pizza Hut Casual Dining	742	792
All Other Segments	121	139
<b>Total</b>	<b>\$ 2,891</b>	<b>\$ 2,892</b>

	<u>Year to date</u>	
	<u>2016</u>	<u>2015</u>
<b>Operating Profit</b>		
KFC(a)	300	209
Pizza Hut Casual Dining	52	82
All Other Segments	(3)	(3)
Unallocated and corporate expenses(b)	(61)	(64)
Unallocated Other income	4	—
Unallocated Refranchising gain(b)	4	4
Operating Profit	296	228
Interest income, net(b)	4	2
<b>Income Before Income Taxes</b>	<b>\$ 300</b>	<b>\$ 230</b>

(a) Includes equity income from investments in unconsolidated affiliates of \$26 million and \$16 million for the years to date ended May 31, 2016 and May 31, 2015, respectively.

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

**Note 10—Contingencies**China Tax on Indirect Transfers of Assets

In February 2015, the Chinese State Administration of Taxation issued the SAT's Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises. Pursuant to Bulletin 7, an "indirect transfer" of Chinese taxable assets,



**Notes to Condensed Combined Financial Statements (Unaudited) (Continued)****(Tabular amounts in millions)****Note 10—Contingencies (Continued)**

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 has informed us that it believes that it is more likely than not that YUM will not be subject to this tax with respect to the distribution. However, given how recently Bulletin 7 was promulgated, 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 planned 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 planned distribution is expected to be settled in accordance with the tax matters agreement among the Company, YCCL and YUM. Such a settlement could be significant and have a material adverse effect on our results of operations and our financial condition.

**Unconsolidated Affiliates Guarantees**

From time to time we have guaranteed certain lines of credit and loans of unconsolidated affiliates. As of May 31, 2016, there are no guarantees outstanding for unconsolidated affiliates. Our unconsolidated affiliates had total revenues of approximately \$480 million for the year to date ended May 31, 2016 and assets and debt of approximately \$310 million and \$20 million, respectively, at May 31, 2016.

**Legal Proceedings**

We are subject to lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. These matters typically involve claims from landlords, customers, employee wage and hour claims and others related to operational issues common to the restaurant industry. While the resolution of a lawsuit, proceeding or claim may have an impact on our financial results for the period in which it is resolved, we believe that the final disposition of the lawsuits, proceedings and claims in which we are currently involved, either individually or in the aggregate, will not have a material adverse effect on our financial position, results of operations or liquidity.

**Note 11—Subsequent Events**

The Company evaluates subsequent events in accordance with ASC Topic 855, Subsequent Events. Subsequent events were evaluated through August 1, 2016, the date the Condensed Combined Financial Statements were available to be issued.

