



Joey Wat
Chief Executive Officer

Dear Stockholders,

Yum China delivered another year of strong performance in 2025 by navigating a dynamic macro environment and responding nimbly to evolving consumer preferences.

Having operated for 38 years in one of the world’s most vibrant restaurant markets, we’ve learned that sustaining excellence requires agility and constant reinforcement of our foundations.

Our **RGM (Resilience, Growth, Moat) strategy** has enabled exactly that – guiding our growth and yielding robust results in recent years. I will first highlight our 2025 performance and then outline the strategy that enabled these results – and by which we intend to navigate the next few years.

Strong Financial Performance with Substantial Capital Returns



“\$” refers to U.S. Dollar.

This letter contains “forward-looking statements”. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Refer to page 1 of our Annual Report on Form 10-K for additional information.

In 2025, we opened **1,706 net new stores**, bringing our total footprint to 18,101 locations. This expansion included entry into more than **270 new cities**, extending our reach to over 2,500 cities and towns across China. More importantly, this rapid scaling came alongside improved operating results. We achieved solid **growth in same-store sales, system sales and operating profits** all at the same time. It was not an easy task, but our team made it happen.

Total revenues grew 4% year-over-year to \$11.8 billion, and system sales also increased 4%¹ for the full year, outperforming the restaurant industry in China. Same-store sales increased year-over-year for three consecutive quarters starting in Q2, and **same-store transactions grew for 12 straight quarters** – a testament to the strength of our brands and our sustained resilience.

At the same time, restaurant margins for Yum China, as well as for KFC and Pizza Hut, increased year-over-year in 2025. **OP margin reached 10.9%** for the full year, the highest level since our U.S. listing, excluding special items. Full-year operating profit grew 11% to \$1.3 billion.

We also delivered on our **commitment to return capital to shareholders**. After returning \$1.5 billion in both 2024 and 2025, we plan to return \$1.5 billion again in 2026. This represents an annual capital return of around 9% of our market capitalization².

With our strong cash generation and disciplined capital spending, we are well positioned to return around **100% of annual free cash flow** (after dividend payments to non-controlling interests of our subsidiaries) from 2027 on.

Our Strategy is Grounded in Our Core Philosophies

We had an opportunity to describe our strategy in some detail at our Investor Day back in November 2025. The response from investors was gratifying, and I want to take this opportunity to share the highlights with all shareholders and stakeholders.

Everything we do at Yum China is grounded in a set of values and beliefs, which I call our Core Philosophies. They define our priorities, shape our decisions, and ultimately determine our success.



1 System sales growth excludes the impact of F/X

2 As of 31 March 2026

Philosophy #1: Good Food at Value-for-Money Pricing

I'm often asked: what drives our consistent, profitable growth? The answer lies as much in what we choose not to do. We have resisted the temptation to raise prices aggressively, recognizing early on that consumers have become more rational and value-conscious.

Our actions reflect this belief. Since our 2016 listing, we have held effective prices³ relatively stable at KFC, even as CPI (Consumer Price Index) rose by 13%. At Pizza Hut, we repositioned the brand toward the mass market with a significantly more accessible price point. **Our commitment to good food and great value-for-money** drove strong transaction growth. Compared to 2016, KFC transactions have grown by 40%, and Pizza Hut's transactions have nearly doubled. Yum China's restaurant margins have remained largely stable, while operating profit has expanded.



Delivering both top- and bottom-line growth while holding or lowering prices is not easy. It requires transformation across nearly every part of the business – from operations to supply chain to digital. But it reinforces a core truth: sustainable growth is built on delivering genuine value to customers.

Philosophy #2: Build a Strong Foundation, Then Grow – Like a Bamboo Forest

As we contemplate scaling further, I often reflect on bamboo. Its strength lies underground. For years, its roots grow deep and wide, forming a complex, interconnected system. When it finally emerges, it grows rapidly – up to a meter a day – before spreading outward and becoming a forest. Once a forest, it can weather storms with resilience.

Our business follows a similar pattern. We have invested for many years in a **strong “root system” of core capabilities**: supply chain, digital and membership ecosystems, food innovation, and organizational strength. These capabilities support not only KFC and Pizza Hut but also emerging businesses such as KCOFFEE cafe and Lavazza, which are beginning to “break ground.” As they do, we aim to accelerate their growth.

Bamboo teaches us patience and discipline: invest in the foundation, and trust that scale will follow. It also reminds us that success is interconnected – like a forest's root system, our businesses reinforce one another.

Philosophy #3: Put People First

If I had to choose just one philosophy above all others, it would be this one. **“RGM No.1” is the heart and soul of our culture.** We remain close to the front line, listening to the voices of our restaurant managers. We empower them through digital tools like AI and automation. Beyond competitive pay, we offer comprehensive, targeted care programs: we provide medical insurance for RGMs and their families, including parents, many of whom reside in their hometowns. Our efforts have been recognized: for the eighth consecutive year, Yum China was named a certified Top Employer by Top Employers Institute.

³ Effective price refers to average food product sales per unit sold

Our Strategy for the Future: RGM 3.0

We introduced our RGM strategy in 2021. Its emphasis has shifted with the circumstances: RGM 1.0 focused on Resilience and Moat during COVID; RGM 2.0 emphasized Growth post-pandemic. RGM 3.0 reflects a more balanced approach suited to today's dynamic environment and the stronger foundation we now have.

Growing with Resilience: Front-end Segmentation and Back-end Consolidation

We leverage our consumer insight capability to segment the universe of current and potential customers – and then our innovation capabilities to serve a broader range of meal occasions and to reach more customers. We launched around 600 new or upgraded products in 2025 and developed new store formats and modules to expand the markets we serve. **KFC Small Town** and **Pizza Hut WOW** models have been instrumental in penetrating lower-tier cities, and our side-by-side modules help us scale rapidly with relatively light investment: **KCOFFEE cafes** and **KPRO** are present in 2,200 and 200 KFC stores respectively, contributing meaningful incremental sales and profit to those KFC stores.



Supporting our front-end operations is a network of back-end capabilities, in which we aim to be both best-in-class and best-in-cost. We foster synergies by sharing and centralizing resources in and across stores and regions: one key initiative is **Mega RGM**, enabling capable RGMs to oversee multiple stores. Our persistent efforts to reengineer our operating processes have enabled us to partially mitigate labor and rider cost pressures.

Shaping Our Growth: Focus and Acceleration

KFC and Pizza Hut will remain our primary growth engines for the near future. The success of our new formats is revealing greater growth potential in the core than we envisioned a few years ago.

We are shifting from an equity store business to an **equity-and-franchise hybrid model**. We are accelerating franchise business to speed up our penetration of strategic channels (e.g., highway service stations and university campuses), lower-tier cities and remote areas that were hard to reach. The equity/franchise hybrid we are shooting for allows us to both grow faster and secure our leading position in China — all with a more efficient capital structure.

Deepening Our Moat

Over the past decades, we have made foundational investments aimed at building industry-leading capabilities, most notably in supply chain and digitalization. We are investing further to take them to the next level.

“ Our long-term approach is grounded in the belief that sustainable growth comes from a strong foundation, patient investment and thoughtful strategy. ”

Our **world-class supply chain** management system ensures end-to-end food safety, powered by AI. Our vast and agile logistics network supports rapid store expansion across China, while our integrated procurement approach facilitates food innovation and delivers cost advantages that support business growth.

Our **end-to-end digital systems** power almost everything we do, and we expect our investment in agentic AI to unlock still higher levels of capability. In the stores, agentic AI assists our RGMs with routine operational tasks, like inventory and labor management, allowing them to focus on customer service and team coaching.

Our **membership programs**, now with over 265 million active users⁴, represent another moat we are continuing to deepen. People, especially younger generations, now live in both physical and virtual worlds, so we are evolving from a business driven by physical stores to one that thrives across both spaces. With just a swipe, consumers can move between KFC, KCOFFEE Cafe and KPRO online — just like walking between physical stores.

A Clear Path to Sustainable Growth

Looking ahead, we see extraordinary opportunities in China. While some uncertainties remain amid complex market dynamics, the strong foundation and core capabilities we have been building over the years give us growing confidence.

At our 2025 Investor Day, we set a clear path forward: reaching 20,000 stores in 2026, more than **30,000 stores by 2030**. As we scale, our priority remains to grow with discipline while improving profitability.

Our **long-term approach** is grounded in the belief that sustainable growth comes from a strong foundation, patient investment and thoughtful strategy. Enduring performance is not driven by short-term bursts, but by consistent execution and a resilient business model.

None of this would be possible without the **people who power our business**. To our hundreds of thousands of Yum China team members: thank you. Your unflinching dedication fuels our operational excellence and brings our brands' essence to life. To our customers, partners, and shareholders: thank you for your enduring trust and support. I look forward to shaping the next chapter of resilient, enduring growth together.

Joey Wat

Chief Executive Officer
Yum China Holdings, Inc

⁴ Include members transacting at KFC or Pizza Hut in the past 12 months