

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020

OR

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

For the transition period from _____ to _____

Commission file number 001-37762

Yum China Holdings, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

**7100 Corporate Drive
Plano, Texas 75024
United States of America**

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

(469) 980-2898

(Registrant's Telephone Number, Including Area Code)

Not Applicable

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

81-2421743

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

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

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

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

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

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of May 4, 2020 was 376,432,999 shares.

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Condensed Consolidated Statements of Income (Unaudited)

Yum China Holdings, Inc.

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

	Quarter Ended	
	3/31/2020	3/31/2019
Revenues		
Company sales	\$ 1,548	\$ 2,089
Franchise fees and income	35	39
Revenues from transactions with franchisees and unconsolidated affiliates	161	170
Other revenues	10	6
Total revenues	<u>1,754</u>	<u>2,304</u>
Costs and Expenses, Net		
Company restaurants		
Food and paper	495	638
Payroll and employee benefits	394	466
Occupancy and other operating expenses	494	599
Company restaurant expenses	<u>1,383</u>	<u>1,703</u>
General and administrative expenses	99	114
Franchise expenses	17	20
Expenses for transactions with franchisees and unconsolidated affiliates	156	167
Other operating costs and expenses	10	5
Closures and impairment expenses, net	8	11
Other income, net	(16)	(19)
Total costs and expenses, net	<u>1,657</u>	<u>2,001</u>
Operating Profit	97	303
Interest income, net	9	9
Investment (loss) gain	(8)	10
Income Before Income Taxes	98	322
Income tax provision	(32)	(93)
Net income – including noncontrolling interests	66	229
Net income – noncontrolling interests	4	7
Net Income – Yum China Holdings, Inc.	<u>\$ 62</u>	<u>\$ 222</u>
Weighted-average common shares outstanding (in millions):		
Basic	376	379
Diluted	386	388
Basic Earnings Per Common Share	<u>\$ 0.16</u>	<u>\$ 0.59</u>
Diluted Earnings Per Common Share	<u>\$ 0.16</u>	<u>\$ 0.57</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Yum China Holdings, Inc.

(in US\$ millions)

	Quarter Ended	
	3/31/2020	3/31/2019
Net income - including noncontrolling interests	\$ 66	\$ 229
Other comprehensive income, net of tax of nil:		
Foreign currency translation adjustments	(42)	59
Comprehensive income - including noncontrolling interests	24	288
Comprehensive income - noncontrolling interests	2	10
Comprehensive Income - Yum China Holdings, Inc.	\$ 22	\$ 278

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)

Yum China Holdings, Inc.

(in US\$ millions)

	Quarter Ended	
	3/31/2020	3/31/2019
Cash Flows – Operating Activities		
Net income – including noncontrolling interests	\$ 66	\$ 229
Depreciation and amortization	109	111
Non-cash operating lease cost	88	83
Closures and impairment expenses	8	11
Investment loss (gain)	8	(10)
Equity income from investments in unconsolidated affiliates	(20)	(23)
Distributions of income received from unconsolidated affiliates	8	28
Deferred income taxes	2	6
Share-based compensation expense	7	6
Changes in accounts receivable	9	5
Changes in inventories	57	34
Changes in prepaid expenses and other current assets	10	(3)
Changes in accounts payable and other current liabilities	(192)	(39)
Changes in income taxes payable	5	24
Changes in non-current operating lease liabilities	(102)	(103)
Other, net	(3)	(15)
Net Cash Provided by Operating Activities	<u>60</u>	<u>344</u>
Cash Flows – Investing Activities		
Capital spending	(87)	(110)
Purchases of short-term investments	(275)	(235)
Maturities of short-term investments	390	76
Prepayment for investment	(27)	—
Other, net	1	2
Net Cash Provided by (Used in) Investing Activities	<u>2</u>	<u>(267)</u>
Cash Flows – Financing Activities		
Repurchase of shares of common stock	(8)	(68)
Cash dividends paid on common stock	(45)	(46)
Other, net	1	1
Net Cash Used in Financing Activities	<u>(52)</u>	<u>(113)</u>
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	<u>(8)</u>	<u>17</u>
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	2	(19)
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	1,055	1,266
Cash, Cash Equivalents and Restricted Cash - End of Period	<u>\$ 1,057</u>	<u>\$ 1,247</u>
Supplemental Cash Flow Data		
Cash paid for income tax	25	53
Non-cash Investing and Financing Activities		
Capital expenditures included in accounts payables and other current liabilities	111	106

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Balance Sheets

Yum China Holdings, Inc.

(in US\$ millions)

	3/31/2020 (Unaudited)	12/31/2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,048	\$ 1,046
Short-term investments	490	611
Accounts receivable, net	78	88
Inventories, net	317	380
Prepaid expenses and other current assets	112	134
Total Current Assets	<u>2,045</u>	<u>2,259</u>
Property, plant and equipment, net	1,500	1,594
Operating lease right-of-use assets	1,899	1,985
Goodwill	250	254
Intangible assets, net	89	94
Deferred income taxes	92	95
Investments in unconsolidated affiliates	107	89
Other assets	595	580
Total Assets	<u>\$ 6,577</u>	<u>\$ 6,950</u>
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	\$ 1,434	\$ 1,691
Income taxes payable	49	45
Total Current Liabilities	<u>1,483</u>	<u>1,736</u>
Non-current operating lease liabilities	1,704	1,803
Non-current finance lease liabilities	25	26
Other liabilities	211	210
Total Liabilities	<u>3,423</u>	<u>3,775</u>
Redeemable Noncontrolling Interest	—	—
Equity		
Common stock, \$0.01 par value; 1,000 million shares authorized; 396 million shares and 395 million shares issued at March 31, 2020 and December 31, 2019, respectively; 376 million shares and 376 million shares outstanding at March 31, 2020 and December 31, 2019, respectively	4	4
Treasury stock	(728)	(721)
Additional paid-in capital	2,434	2,427
Retained earnings	1,433	1,416
Accumulated other comprehensive loss	(89)	(49)
Total Yum China Holdings, Inc. Stockholders' Equity	<u>3,054</u>	<u>3,077</u>
Noncontrolling interests	100	98
Total Equity	<u>3,154</u>	<u>3,175</u>
Total Liabilities, Redeemable Noncontrolling Interest and Equity	<u>\$ 6,577</u>	<u>\$ 6,950</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Tabular amounts in US\$ millions)

Note 1 – Description of Business

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

The Company owns, franchises or has ownership in entities that own and operate restaurants (also referred to as “stores” or “units”) under the KFC, Pizza Hut, Little Sheep, COFFii & JOY, East Dawning and Taco Bell concepts (collectively, the “concepts”). In connection with the separation of the Company in 2016 from its former parent company, YUM! Brands, Inc. (“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, entered 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 not to 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 and, subject to achieving certain agreed-upon milestones, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the People’s Republic of China (the “PRC” or “China”), excluding Hong Kong, Taiwan and Macau. In exchange, we pay a license fee to YUM equal to 3% of net system sales from both our Company and franchise restaurants. We own the intellectual property of Little Sheep, COFFii & JOY and East Dawning, and pay no license fee related to these concepts.

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

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

Note 2 – Basis of Presentation

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

We have prepared the Condensed Consolidated Financial Statements in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Condensed Consolidated Financial Statements include all normal and recurring adjustments considered necessary to present fairly our financial position as of March 31, 2020 and our results of operations, comprehensive income and cash flows for the quarters ended March 31, 2020 and 2019. Our results of operations, comprehensive income and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto defined and included in the Company’s Annual Report on Form 10-K as filed with the SEC on February 27, 2020.

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

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires measurement and recognition of expected versus incurred credit losses for financial assets held. The FASB subsequently issued amendments to clarify the implementation guidance. We adopted these standards on January 1, 2020 using the modified retrospective method. The adoption of this standard resulted in a change of our provision policy primarily for accounts receivable, but such adoption did not have a material impact on our financial statements. See Note 3 for additional information related to our accounts receivable provision policy.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework –changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”), which amends the fair value measurement guidance by modifying disclosure requirements. We adopted the standard on January 1, 2020, and such adoption did not have a material impact on our financial statements. See Note 11 for additional disclosure on fair value measurement.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other-Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (“ASU 2018-15”), which aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract with those for an internal-use software license. We adopted this standard on January 1, 2020, and such adoption did not have a material impact on our financial statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606* (“ASU 2018-18”), which clarifies that transactions in a collaborative arrangement should be accounted for under ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASC 606”) when the counterparty is a customer for a distinct good or service. The amendment also precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue if the counterparty is not a customer for that transaction. We adopted the standard on January 1, 2020, and such adoption did not have a material impact on our financial statements.

Note 3 – Revenue Recognition

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

Company Sales

Revenues from Company-owned restaurants are recognized when a customer takes possession of the food and tenders payment, which is when our obligation to perform is satisfied. The Company presents sales net of sales-related taxes. We also offer our customers delivery through both our own mobile applications and third-party aggregators' platforms. For delivery orders placed through our mobile applications, we use our dedicated riders, while for orders placed through third-party aggregators' platforms, we either used our dedicated riders or, in the past, third-party aggregators' delivery staff. With respect to delivery orders delivered by our dedicated riders, we control and determine the price for the delivery service and generally recognize revenue, including delivery fees, when a customer takes possession of the food. When orders were fulfilled by the delivery staff of third-party aggregators, who control and determine the price for the delivery service, we recognized revenue, excluding delivery fees, when control of the food was transferred to the third-party aggregators' delivery staff. The payment terms with respect to those sales were short-term in nature. Starting in 2019, we use our own dedicated riders to deliver orders placed through aggregators' platforms to customers of KFC and Pizza Hut stores.

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

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

Franchise Fees and Income

Franchise fees and income primarily include upfront franchise fees, such as initial fees and renewal fees, and continuing fees. We have determined that the services we provide in exchange for upfront franchise fees and continuing fees are highly interrelated with the franchise right. We recognize upfront franchise fees received from a franchisee as revenue over the term of the franchise agreement or the renewal agreement because the franchise rights are accounted for as rights to access our symbolic intellectual property in accordance with ASC 606. The franchise agreement term is generally 10 years for KFC and Pizza Hut, and five or 10 years for Little Sheep. We recognize continuing fees, which are based upon a percentage of franchisee sales, as those sales occur.

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

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

The Company centrally purchases substantially all food and paper products from suppliers for substantially all of our restaurants, including franchisees and unconsolidated affiliates, and then sells and delivers them to the restaurants. The performance obligation arising from such transactions is considered distinct from the franchise agreement as it is not highly dependent on the franchise agreement and the customer can benefit from the procurement service on its own. We consider ourselves the principal in this arrangement as we have the ability to control a promised good or service before transferring that good or service to the franchisees and unconsolidated affiliates. Revenue is recognized upon transfer of control over ordered items, generally upon delivery to the franchisees and unconsolidated affiliates.

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

Loyalty Programs

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

Disaggregation of Revenue

The following table presents revenue disaggregated by types of arrangements and segments:

Revenues	Quarter Ended 3/31/2020						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	\$ 1,220	\$ 322	\$ 6	\$ —	\$ 1,548	\$ —	\$ 1,548
Franchise fees and income	33	1	1	—	35	—	35
Revenues from transactions with franchisees and unconsolidated affiliates	16	1	5	139	161	—	161
Other revenues	—	—	16	1	17	(7)	10
Total revenues	<u>\$ 1,269</u>	<u>\$ 324</u>	<u>\$ 28</u>	<u>\$ 140</u>	<u>\$ 1,761</u>	<u>\$ (7)</u>	<u>\$ 1,754</u>

Quarter Ended 3/31/2019

Revenues	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	\$ 1,539	\$ 541	\$ 9	\$ —	\$ 2,089	\$ —	\$ 2,089
Franchise fees and income	36	1	2	—	39	—	39
Revenues from transactions with franchisees and unconsolidated affiliates	17	1	7	145	170	—	170
Other revenues	—	—	14	1	15	(9)	6
Total revenues	\$ 1,592	\$ 543	\$ 32	\$ 146	\$ 2,313	\$ (9)	\$ 2,304

Accounts Receivable

Accounts receivable consist of trade receivables and royalties from franchisees and unconsolidated affiliates, and are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts receivable on the Condensed Consolidated Balance Sheets. Prior to the adoption of ASC 326, our provision for uncollectible receivable balances was based upon pre-defined aging criteria or upon the occurrence of other events that indicated that we may not collect the balance due. Upon adoption of ASC 326 starting from January 1, 2020, our provision of credit losses for accounts receivable is based upon the current expected credit losses (“CECL”) model. The CECL model requires an estimate of the credit losses expected over the life of accounts receivable since initial recognition, and accounts receivable with similar risk characteristics are grouped together when estimating CECL. In assessing the CECL, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical credit loss experience, adjusted for relevant factors impacting collectability and forward-looking information indicative of external market conditions. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. 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. As of March 31, 2020 and December 31, 2019, the ending balances of provision for accounts receivable were both \$1 million, and amounts of accounts receivable past due were immaterial. Receivables due from unconsolidated affiliates including trade receivables and dividend receivables were \$43 million and \$58 million as of March 31, 2020 and December 31, 2019, respectively.

Costs to Obtain Contracts

Costs to obtain contracts consist of upfront franchise fees that we paid to YUM prior to the separation in relation to initial fees or renewal fees we received from franchisees and unconsolidated affiliates, as well as license fees that are payable to YUM in relation to our deferred revenue of prepaid stored-value products, privilege membership programs and customer loyalty programs. They meet the requirements to be capitalized as they are incremental costs of obtaining contracts with customers and the Company expects to generate future economic benefits from such costs incurred. Such costs to obtain contracts are included in Other assets on the Condensed Consolidated Balance Sheets and are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. Subsequent to the separation, we are no longer required to pay YUM initial or renewal fees that we receive from franchisees and unconsolidated affiliates. The Company did not incur any impairment losses related to costs to obtain contracts during any of the periods presented. Costs to obtain contracts were \$9 million at both March 31, 2020 and December 31, 2019.

Contract Liabilities

Contract liabilities at March 31, 2020 and December 31, 2019 were as follows:

Contract liabilities	3/31/2020	12/31/2019
- Deferred revenue related to prepaid stored-value products	\$ 81	\$ 86
- Deferred revenue related to upfront franchise fees	39	39
- Deferred revenue related to customer loyalty programs	27	24
- Deferred revenue related to privilege membership programs	15	16
- Others	3	3
Total	\$ 165	\$ 168

Contract liabilities primarily consist of deferred revenue related to prepaid stored-value products, privilege membership programs, customer loyalty programs and upfront franchise fees. Deferred revenue related to prepaid stored-value products, privilege membership programs, and customer loyalty programs is included in Accounts payable and other current liabilities on the Condensed Consolidated Balance Sheets. Deferred revenue related to upfront franchise fees that we expect to recognize as revenue in the next 12 months is included in Accounts payable and other current liabilities, and the remaining balance is included in Other liabilities on the Condensed Consolidated Balance Sheets. Revenue recognized that was included in the contract liability balance at the beginning of each period amounted to \$38 million and \$33 million for the quarters ended March 31, 2020 and 2019, respectively. Changes in contract liability balances were not materially impacted by business acquisition, change in estimate of transaction price or any other factors during any of the periods presented.

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

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

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

	Quarter Ended	
	3/31/2020	3/31/2019
Net Income – Yum China Holdings, Inc.	\$ 62	\$ 222
Weighted-average common shares outstanding (for basic calculation)(a)	376	379
Effect of dilutive share-based awards(a)	6	7
Effect of dilutive warrants(b)	4	2
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	386	388
Basic Earnings Per Common Share	\$ 0.16	\$ 0.59
Diluted Earnings Per Common Share	\$ 0.16	\$ 0.57
Share-based awards excluded from the diluted EPS computation(c)	3	2

- (a) As a result of the separation, shares of Yum China common stock were distributed to YUM’s shareholders of record as of October 19, 2016 and included in the calculated weighted-average common shares outstanding. Holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards of either YUM or Yum China in their entirety. Any subsequent exercise of these awards, whether held by the Company’s employees or YUM’s employees, would increase the number of common shares outstanding. The incremental shares arising from outstanding equity awards are included in the computation of diluted EPS, if there is dilutive effect.
- (b) Pursuant to the investment agreements dated September 1, 2016, Yum China issued to strategic investors two tranches of warrants on January 9, 2017, with each tranche initially providing the right to purchase 8,200,405 shares of Yum China common stock, at an initial exercise price of \$31.40 and \$39.25 per share, respectively, subject to customary anti-dilution adjustments. The warrants may be exercised at any time through October 31, 2021. The incremental shares arising from outstanding warrants are included in the computation of diluted EPS, if there is dilutive effect when the average market price of Yum China common stock for the period exceeds the applicable exercise price of the warrants.
- (c) The Company excluded 2 million outstanding stock appreciation rights (“SARs”) and restricted stock units (“RSUs”) from the computation of diluted EPS because to do so would have been antidilutive for the quarters presented, and 1 million performance stock units (“PSUs”) because they are contingently issuable based on the achievement of performance and market conditions, which have not been met as of March 31, 2020.

Note 5 – Equity

Changes in Equity and Redeemable Noncontrolling Interest (in millions)

Yum China Holdings, Inc.										
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interest
	Shares*	Amount				Shares*	Amount			
Balance at December 31, 2019	395	\$ 4	\$ 2,427	\$ 1,416	\$ (49)	(19)	\$ (721)	\$ 98	\$ 3,175	\$ —
Net Income				62				4	66	
Foreign currency translation adjustments					(40)			(2)	(42)	
Comprehensive income									24	
Cash dividends declared (\$0.12 per common share)				(45)					(45)	
Repurchase of shares of common stock							(7)		(7)	
Exercise and vesting of share-based awards	1		7							
Share-based compensation									7	
Balance at March 31, 2020	396	\$ 4	\$ 2,434	\$ 1,433	\$ (89)	(20)	\$ (728)	\$ 100	\$ 3,154	\$ —

Yum China Holdings, Inc.										
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock		Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interest
	Shares*	Amount				Shares*	Amount			
Balance at December 31, 2018	392	\$ 4	\$ 2,402	\$ 944	\$ (17)	(13)	\$ (460)	\$ 103	\$ 2,976	\$ 1
Net Income				222				7	229	
Foreign currency translation adjustments					56			3	59	
Comprehensive income									288	
Cash dividends declared (\$0.12 per common share)				(46)					(46)	
Dividends declared								(34)	(34)	
Repurchase of shares of common stock						(2)	(65)		(65)	
Exercise and vesting of share-based awards	2		6							
Share-based compensation									6	
Cumulative effect of accounting change				(60)				(3)	(63)	
Balance at March 31, 2019	394	\$ 4	\$ 2,408	\$ 1,060	\$ 39	(15)	\$ (525)	\$ 76	\$ 3,062	\$ 1

*: Shares may not add due to rounding.

Share Repurchase Program

Our Board of Directors has authorized an aggregate of \$1.4 billion for our share repurchase program. The Company repurchased 0.2 million and 1.7 million shares of Yum China common stock at a total cost of \$7 million and \$65 million for the quarters ended March 31, 2020 and 2019, respectively. The total cost includes \$2 million settled subsequent to March 31, 2019, for shares repurchased with trade dates on or prior to March 31, 2019. As of March 31, 2020, \$692 million remained available for future share repurchases under the authorization.

Note 6 – Items Affecting Comparability of Net Income and Cash Flows

Impact of COVID-19 Pandemic

The COVID-19 pandemic has significantly impacted the Company's operations in the first quarter of 2020. The decrease in Operating profit for the quarter was mainly driven by same-store sales declines and temporary store closures resulting from the COVID-19 pandemic, and offset by one-time rent concessions of \$14 million from landlords and a one-time government subsidy in the form of a reduction in social security contributions of \$20 million. Operating profit for the quarter ended March 31, 2020 was \$97 million, a decrease of 68% from the first quarter ended March 31, 2019.

Restaurant-level Impairment

In the first quarter of 2020, we considered the adverse economic effects of the COVID-19 pandemic an impairment indicator, and performed an additional impairment evaluation for long-lived assets of restaurants. As a result of the evaluation, we recorded a restaurant-level impairment charge of \$9 million. In the first quarter of 2019, we also performed an additional impairment evaluation as a result of adopting ASC 842 and recorded a restaurant-level impairment charge of \$12 million. See Note 11 for additional information.

Meituan Dianping (“Meituan”) Investment

In the third quarter of 2018, the Company subscribed for 8.4 million, or less than 1%, of the ordinary shares of Meituan, an e-commerce platform for services in China, for total consideration of approximately \$74 million, when it launched its initial public offering on the Hong Kong Stock Exchange in September 2018. The Company accounted for the equity securities at fair value with subsequent fair value changes recorded in our Condensed Consolidated Statements of Income. The fair value of the investment in Meituan is determined based on the closing market price for the shares at the end of each reporting period. The related unrealized loss of \$8 million and unrealized gain of \$10 million was included in Investment gain or loss in our Condensed Consolidated Statements of Income for the quarters ended March 31, 2020 and 2019, respectively.

Transition Tax

The U.S. Treasury Department and Internal Revenue Service (“IRS”) released the final transition tax regulations in the first quarter of 2019. We completed the evaluation of the impact on our transition tax computation based on the final regulations released in the first quarter of 2019 and recorded an additional amount of \$8 million for the transition tax accordingly. See Note 12 for additional information.

Partner PSU Awards

In February 2020, the Company’s Board of Directors approved new grants of SARs, RSUs and PSUs to employees under the Yum China Holdings, Inc. Long Term Incentive Plan (the “2016 Plan”). The awards will be earned based on their respective vesting terms, with PSUs subject to market conditions or performance conditions. A special award of PSUs (“Partner PSU Awards”) was granted to select employees who were deemed critical to the Company’s execution of its strategic operating plan. These Partner PSU Awards will only vest if threshold performance goals are achieved over a four-year performance period, with the payout ranging from 0% to 200% of the target number of shares. Partner PSU Awards were granted to address increased competition for executive talent, motivate transformational performance and encourage management retention. Given the unique nature of these grants, the Compensation Committee of the Board does not intend to grant similar, special grants to the same employees during the performance period. The impact from these special awards is excluded from metrics that management uses to assess the Company’s performance. The Company recognized a share-based compensation cost associated with the Partner PSU Awards of \$1 million for the quarter ended March 31, 2020.

Note 7 – Other Income, net

	Quarter Ended	
	3/31/2020	3/31/2019
Equity income from investments in unconsolidated affiliates	\$ 20	\$ 23
Foreign exchange impact and other	(4)	(4)
Other income, net	\$ 16	\$ 19

Note 8 – Supplemental Balance Sheet InformationAccounts Receivable, net

	<u>3/31/2020</u>	<u>12/31/2019</u>
Accounts receivable, gross	\$ 79	\$ 89
Allowance for doubtful accounts	(1)	(1)
Accounts receivable, net	<u>\$ 78</u>	<u>\$ 88</u>

Prepaid Expenses and Other Current Assets

	<u>3/31/2020</u>	<u>12/31/2019</u>
Receivables from payment processors and aggregators	\$ 20	\$ 41
Prepaid rent	1	2
Dividends receivable from unconsolidated affiliates	—	8
Other prepaid expenses and current assets	91	83
Prepaid expenses and other current assets	<u>\$ 112</u>	<u>\$ 134</u>

Property, Plant and Equipment

	<u>3/31/2020</u>	<u>12/31/2019</u>
Buildings and improvements	\$ 2,174	\$ 2,159
Finance leases, primarily buildings	30	30
Machinery and equipment, and construction in progress	1,211	1,282
Property, plant and equipment, gross	3,415	3,471
Accumulated depreciation	(1,915)	(1,877)
Property, plant and equipment, net	<u>\$ 1,500</u>	<u>\$ 1,594</u>

Other Assets

	<u>3/31/2020</u>	<u>12/31/2019</u>
VAT assets	\$ 241	\$ 243
Land use right	129	133
Investment in equity securities	102	110
Long-term deposits	73	71
Prepayment for investment ^(a)	27	—
Restricted cash ^(a)	9	9
Costs to obtain contracts	9	9
Others	5	5
Other Assets	<u>\$ 595</u>	<u>\$ 580</u>

Accounts Payable and Other Current Liabilities

	<u>3/31/2020</u>	<u>12/31/2019</u>
Accounts payable	\$ 466	\$ 623
Operating leases liabilities	403	382
Accrued compensation and benefits	142	223
Contract liabilities	133	135
Accrued capital expenditures	111	150
Accrued marketing expenses	79	64
Other current liabilities	100	114
Accounts payable and other current liabilities	<u>\$ 1,434</u>	<u>\$ 1,691</u>

Other Liabilities

	<u>3/31/2020</u>	<u>12/31/2019</u>
Accrued income tax payable	\$ 70	\$ 69
Deferred income tax liabilities	66	67
Contract liabilities	32	33
Other non-current liabilities	43	41
Other liabilities	<u>\$ 211</u>	<u>\$ 210</u>

Reconciliation of Cash, Cash equivalents, and Restricted Cash for Condensed Consolidated Statements of Cash Flows

	3/31/2020	12/31/2019
Cash and cash equivalents as presented in Condensed Consolidated Balance Sheets	\$ 1,048	\$ 1,046
Restricted cash included in Other assets ^(a)	9	9
Cash, Cash Equivalents and Restricted Cash as presented in Condensed Consolidated Statements of Cash Flows	<u>\$ 1,057</u>	<u>\$ 1,055</u>

- (a) Restricted cash included in Other assets within our Condensed Consolidated Balance Sheet represents amounts deposited into an escrow account pursuant to a definitive agreement entered into in August 2019 to acquire a controlling interest in the Huang Ji Huang group, a leading Chinese-style casual dining franchise business. In addition, the Company made a prepayment of \$27 million during the first quarter of 2020 when certain closing conditions were met, and it was included in Other assets within our Condensed Consolidated Balance Sheet as of March 31, 2020. The acquisition was completed in April 2020. See Note 15 for additional information.

Note 9 – Goodwill and Intangible Assets

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

	<u>Total Company</u>	<u>KFC</u>	<u>Pizza Hut</u>	<u>All Other Segments</u>
Balance as of December 31, 2019				
Goodwill, gross	\$ 645	\$ 235	\$ 19	\$ 391
Accumulated impairment losses ^(a)	(391)	—	—	(391)
Goodwill, net	254	235	19	—
Effect of currency translation adjustment	(4)	(4)	—	—
Balance as of March 31, 2020				
Goodwill, gross	641	231	19	391
Accumulated impairment losses ^(a)	(391)	—	—	(391)
Goodwill, net	<u>\$ 250</u>	<u>\$ 231</u>	<u>\$ 19</u>	<u>\$ —</u>

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

Intangible assets, net as of March 31, 2020 and December 31, 2019 are as follows:

	3/31/2020				12/31/2019			
	Gross Carrying Amount ^(a)	Accumulated Amortization	Accumulated Impairment Losses ^(b)	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Losses ^(b)	Net Carrying Amount
Finite-lived intangible assets								
Reacquired franchise rights	\$ 147	\$ (115)	\$ —	\$ 32	\$ 148	\$ (113)	\$ —	\$ 35
Daojia platform	16	(4)	(12)	—	16	(4)	(12)	—
Customer-related assets	12	(9)	(2)	1	12	(8)	(2)	2
Others	9	(4)	—	5	9	(4)	—	5
	<u>\$ 184</u>	<u>\$ (132)</u>	<u>\$ (14)</u>	<u>\$ 38</u>	<u>\$ 185</u>	<u>\$ (129)</u>	<u>\$ (14)</u>	<u>\$ 42</u>
Indefinite-lived intangible assets								
Little Sheep trademark	\$ 51	\$ —	\$ —	\$ 51	\$ 52	\$ —	\$ —	\$ 52
Total intangible assets	<u>\$ 235</u>	<u>\$ (132)</u>	<u>\$ (14)</u>	<u>\$ 89</u>	<u>\$ 237</u>	<u>\$ (129)</u>	<u>\$ (14)</u>	<u>\$ 94</u>

- (a) Changes in gross carrying amount include effect of currency translation adjustment.
- (b) Accumulated impairment losses represent impairment charges on intangible assets acquired from Daojia primarily attributable to the Daojia platform.

Amortization expense of finite-lived intangible assets was \$3 million and \$6 million for the quarters ended March 31, 2020 and 2019, respectively. As of March 31, 2020, expected amortization expense for the unamortized definite-lived intangible assets is approximately \$9 million for the remainder of 2020, \$12 million in 2021, \$12 million in 2022, \$2 million in 2023 and \$1 million in 2024.

Note 10 – Leases

As of March 31, 2020, we operated over 7,400 Company-owned restaurants, leasing the underlying land and/or building. We generally enter into lease agreements for our restaurants with initial terms of 10 to 20 years. Most of our lease agreements contain termination options that permit us to terminate the lease agreement early if the restaurant's unit contribution is negative for a specified period of time. We generally do not have renewal options for our leases. Such options are accounted for only when it is reasonably certain that we will exercise the options. The rent under the majority of our current restaurant lease agreements is generally payable in one of three ways: (i) fixed rent; (ii) the higher of a fixed base rent or a percentage of the restaurant's sales; or (iii) a percentage of the restaurant's sales. Most leases require us to pay common area maintenance fees for the leased property. In addition to restaurants leases, we also lease office spaces, logistics centers and equipment. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In limited cases, we sub-lease certain restaurants to franchisees in connection with franchising transactions or lease our properties to other third parties. The lease payments under these leases are generally based on the higher of a fixed base rent or a percentage of the restaurant's annual sales. Income from sub-lease agreements with franchisees or lease agreements with other third parties are included in Franchise fees and income and Other revenue, respectively, within our Condensed Consolidated Statements of Income. The financial impact of our accounting as a lessor was not significant.

Supplemental Balance Sheet

	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>Account Classification</u>
Assets			
Operating lease right-of-use assets	\$ 1,899	\$ 1,985	Operating lease right-of-use assets
Finance lease right-of-use assets	17	18	Property, plant and equipment, net
Total leased assets	<u>\$ 1,916</u>	<u>\$ 2,003</u>	
Liabilities			
Current			
Operating lease liabilities	\$ 403	\$ 382	Accounts payable and other current liabilities
Finance lease liabilities	2	2	Accounts payable and other current liabilities
Non-current			
Operating lease liabilities	1,704	1,803	Non-current operating lease liabilities
Finance lease liabilities	25	26	Non-current finance lease liabilities
Total lease liabilities	<u>\$ 2,134</u>	<u>\$ 2,213</u>	

Summary of Lease Cost	Quarter Ended		Account Classification
	3/31/2020	3/31/2019	
Operating lease cost	\$ 121	\$ 117	Occupancy and other operating expenses, G&A or Franchise expenses
Finance lease cost			
Amortization of leased assets	1	—	Occupancy and other operating expenses
Variable lease cost (a)	49	91	Occupancy and other operating expenses or Franchise expenses
Short-term lease cost	3	3	Occupancy and other operating expenses or G&A
Sub-lease income	(6)	(7)	Franchise fees and income or Other revenues
Total lease cost	\$ 168	\$ 204	

- (a) In the first quarter of 2020, the Company was granted \$14 million in lease concessions from landlords related to the effects of the COVID-19 pandemic. The lease concessions were primarily in the form of rent reduction over the period of time when the Company's restaurant business was adversely impacted. The Company applied the interpretive guidance in a FASB staff Q&A document issued in April 2020 and elected: (1) not to evaluate whether a concession received in response to the COVID-19 pandemic is a lease modification and (2) to assume such concession was contemplated as part of the existing lease contract with no contract modification. Such concession was recognized as negative variable lease cost in the period the concession was granted.

Supplemental Cash Flow Information

	Quarter Ended	
	3/31/2020	3/31/2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 107	\$ 127
Financing cash flows from finance leases	1	—
Right-of-use assets obtained in exchange for new lease liabilities(b):		
Operating leases	\$ 32	\$ 57
Finance leases	—	(1)

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

Lease Term and Discount Rate	Quarter Ended	
	3/31/2020	3/31/2019
Weighted-average remaining lease term (years)		
Operating leases	6.9	7.3
Finance leases	11.3	12.0
Weighted-average discount rate		
Operating leases	6.0%	6.1%
Finance leases	5.9%	5.7%

Summary of Future Lease Payments and Lease Liabilities

Maturities of lease liabilities as of March 31, 2020 were as follows:

	<u>Amount of Operating Leases</u>	<u>Amount of Finance Leases</u>	<u>Total</u>
Remainder of 2020	\$ 397	\$ 3	\$ 400
2021	447	4	451
2022	388	3	391
2023	325	3	328
2024	261	3	264
Thereafter	771	21	792
Total lease payment	<u>2,589</u>	<u>37</u>	<u>2,626</u>
Less: imputed undiscounted interest ^(c)	482	10	492
Present value of lease liabilities	<u>\$ 2,107</u>	<u>\$ 27</u>	<u>\$ 2,134</u>

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

As of March 31, 2020, we have additional lease agreements that have been signed but not yet commenced, with total undiscounted minimum lease payments of \$109 million. These leases will commence between the second quarter of 2020 and 2023 with lease terms of 1 year to 20 years.

Note 11 – Fair Value Measurements and Disclosures

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

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

The following table is a summary of our financial assets measured on a recurring basis or disclosed at fair value and the level within the fair value hierarchy in which the measurement falls. The Company classifies its cash equivalents, short-term investments and investment in equity securities within Level 1 or Level 2 in the fair value hierarchy because it uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value, respectively. No transfers among the levels within the fair value hierarchy occurred during the quarters ended March 31, 2020 and 2019.

	Balance at March 31, 2020	Fair Value Measurement or Disclosure at March 31, 2020		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	\$ 440	\$ —	\$ 440	\$ —
Money market funds	182	182		
Total cash equivalents	622	182	440	—
Short-term investments:				
Time deposits	440		440	
Fixed rate debt securities ^(a)	50		50	
Total short-term investments	490	—	490	—
Other assets:				
Investment in equity securities	102	102		
Total	\$ 1,214	\$ 284	\$ 930	\$ —

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

	Balance at December 31, 2019	Fair Value Measurement or Disclosure at December 31, 2019		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	\$ 407		\$ 407	
Money market funds	331	331		
Total cash equivalents	738	331	407	—
Short-term investments:				
Time deposits	611		611	
Total short-term investments	611		611	
Other assets:				
Investment in equity securities	110	110		
Total	\$ 1,459	\$ 441	\$ 1,018	\$ —

Non-Recurring Fair Value Measurements

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

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

As a result of adopting ASU 2018-13 in the first quarter of 2020, the following disclosure was included in relation to significant unobservable inputs used in the fair value measurement. As of March 31, 2020, the fair value of restaurant-level assets, if determined to be impaired, are primarily represented by the price market participant would pay to sub-lease the operating lease ROU assets and acquire remaining restaurants assets, which reflects the highest and best use of the assets. Significant unobservable inputs used in the fair value measurement include market rental prices, which were valued by an independent valuation specialist. The direct comparison approach is used as the valuation technique by assuming sub-lease of each of these properties in its existing state with vacant possession. By making reference to lease transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as location and property size.

The following table presents amounts recognized from all non-recurring fair value measurements based on unobservable inputs (Level 3) during the quarters ended March 31, 2020 and 2019. These amounts exclude fair value measurements made for restaurants that were subsequently closed or refranchised prior to those respective period-end dates.

	Quarter Ended		Account Classification
	3/31/2020	3/31/2019	
Restaurant-level impairment ^(a)	\$ 9	\$ 12	Closure and impairment expenses, net
ROU impairment prior to the adoption of ASC 842 ^(b)	—	82	Retained Earnings
Total	\$ 9	\$ 94	

- (a) Restaurant-level impairment charges are recorded in Closure and impairment expenses, net and resulted from our impairment evaluation of long-lived assets of individual restaurants that were being operated at the time of impairment and had not been offered for refranchising. We performed an additional impairment evaluation in the first quarter of 2020, considering the adverse economic effects of the COVID-19 pandemic an impairment indicator. We also performed an additional impairment evaluation upon adoption of ASC 842 in the first quarter of 2019. The remaining net book value of assets measured at fair value for the quarter ended March 31, 2020 was \$29 million and the remaining net book value of assets measured at fair value for the quarter ended March 31, 2019 was insignificant.
- (b) ROU impairment prior to the adoption of ASC 842 represents an impairment charge on operating lease ROU assets arising from existing operating leases as of January 1, 2019. After netting with the related impact on deferred taxes of \$19 million and the impact on noncontrolling interests of \$3 million, we recorded a cumulative adjustment of \$60 million to retained earnings in accordance with the transition guidance for the new lease standard. For those restaurants under operating leases with full impairment on their long-lived assets (primarily property, plant and equipment) before January 1, 2019, an additional impairment charge would have been recorded before January 1, 2019 had the operating lease ROU assets been recognized at the time of impairment.

Note 12 – Income Taxes

	Quarter Ended	
	3/31/2020	3/31/2019
Income tax provision	\$ 32	\$ 93
Effective tax rate	32.7%	28.9%

The higher effective tax rate for the quarter ended March 31, 2020 was primarily due to a non-deductible loss in the first quarter of 2020, while non-taxable gain in the first quarter of 2019 related to our investment in equity securities of Meituan.

In December 2017, the U.S. enacted the Tax Cuts and Jobs Act (the “Tax Act”), which included a broad range of tax reforms. The U.S. Treasury Department and IRS released the final transition tax regulations in the first quarter of 2019. We completed the evaluation of the impact on our transition tax computation based on the final regulations released in the first quarter of 2019 and recorded an additional amount of \$8 million for the transition tax accordingly.

The Tax Act requires a U.S. shareholder to be subject to tax on Global Intangible Low Taxed Income (“GILTI”) earned by certain foreign subsidiaries. We have elected the option to account for current year GILTI tax as a period cost as incurred, and therefore included it in estimating the annual effective tax rate.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was enacted on March 27, 2020 in the U.S., includes measures to assist companies, including temporary changes to income and non-income-based tax laws. For the quarter ended March 31, 2020, the CARES Act had no material tax impact on our Condensed Consolidated Financial Statements. We continue to monitor additional guidance issued by the U.S. Treasury Department, the IRS and others.

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

Note 13 –Segment Reporting

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

	Quarter Ended 3/31/2020						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated ^(a)	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	\$ 1,269	\$ 324	\$ 21	\$ 140	1,754	\$ —	\$ 1,754
Inter-segment revenue	—	—	7	—	7	(7)	—
Total	\$ 1,269	\$ 324	\$ 28	\$ 140	\$ 1,761	\$ (7)	\$ 1,754

	Quarter Ended 3/31/2019						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated ^(a)	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	\$ 1,592	\$ 543	\$ 23	\$ 146	2,304	\$ —	\$ 2,304
Inter-segment revenue	—	—	9	—	9	(9)	—
Total	\$ 1,592	\$ 543	\$ 32	\$ 146	\$ 2,313	\$ (9)	\$ 2,304

	Quarter Ended	
	3/31/2020	3/31/2019
Operating Profit (Loss)		
KFC ^(b)	\$ 153	\$ 288
Pizza Hut	(28)	50
All Other Segments	(10)	(5)
Unallocated revenues from transactions with franchisees and unconsolidated affiliates ^(c)	139	145
Unallocated Other revenues	1	1
Unallocated expenses from transactions with franchisees and unconsolidated affiliates ^(c)	(135)	(143)
Unallocated Other operating costs and expenses	(1)	(1)
Unallocated and corporate G&A expenses	(21)	(33)
Unallocated Other (loss) income	(1)	1
Operating Profit	\$ 97	\$ 303
Interest income, net ^(a)	9	9
Investment (loss) gain ^(a)	(8)	10
Income Before Income Taxes	\$ 98	\$ 322

	Quarter Ended	
	3/31/2020	3/31/2019
Impairment Charges		
KFC ^(d)	\$ 4	\$ 8
Pizza Hut ^(d)	6	5
All Other Segments ^(d)	2	1
	\$ 12	\$ 14

	Total Assets	
	3/31/2020	12/31/2019
KFC ^(e)	\$ 3,034	\$ 3,160
Pizza Hut	887	950
All Other Segments	158	166
Corporate and Unallocated ^(f)	2,498	2,674
	<u>\$ 6,577</u>	<u>\$ 6,950</u>

- (a) Amounts have not been allocated to any segment for performance reporting purposes.
- (b) Includes equity income from investments in unconsolidated affiliates of \$20 million and \$23 million for the quarters ended March 31, 2020 and 2019, respectively.
- (c) Primarily includes revenues and associated expenses of transactions with franchisee and unconsolidated affiliates derived from the Company's central procurement model whereby the Company centrally purchases substantially all food and paper products from suppliers and then sells and delivers to restaurants, including franchisees and unconsolidated affiliates. Amounts have not been allocated to any segment for purposes of making operating decisions or assessing financial performance as the transactions are deemed corporate revenues and expenses in nature.
- (d) Primarily includes store closure impairment charges, restaurant-level impairment charges resulting from our additional impairment evaluation performed in the first quarter of 2020 in response to adverse impact from the COVID-19 pandemic, and additional impairment evaluation performed in the first quarter of 2019 as a result of adopting ASC 842 (See Note 11).
- (e) Includes investments in unconsolidated affiliates.
- (f) Primarily includes cash and cash equivalents, short-term investments, investment in equity securities, and inventories that are centrally managed.

Note 14 – Contingencies

Indemnification of China Tax on Indirect Transfers of Assets

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

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

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

Guarantees for Franchisees and Unconsolidated Affiliates

From time to time we have guaranteed certain lines of credit and loans of franchisees and unconsolidated affiliates. As of March 31, 2020, guarantees on behalf of franchisees were immaterial and no guarantees were outstanding for unconsolidated affiliates.

Legal Proceedings

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

Note 15 – Subsequent Events

Acquisition of a Controlling Interest in Huang Ji Huang

In April 2020, the Company completed the acquisition of a controlling interest in the Huang Ji Huang group, a leading Chinese-style casual dining franchise business, for cash consideration of approximately \$185 million. Upon completion of the acquisition, the Company held a 93.3% interest in Huang Ji Huang group. Founded in 2004 and headquartered in Beijing, Huang Ji Huang has over 640 restaurants in China and internationally. The acquisition was considered immaterial. As of the date of this filing, the Company has not yet completed the fair value assessment on the determination of identifiable assets acquired and the liabilities assumed in the acquisition.

Acquisition of Additional Interest in Unconsolidated Affiliate

In April 2020, the Company entered into a definitive agreement to acquire an additional 25% equity interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China ("Suzhou KFC"), for cash consideration of approximately \$149 million. Upon closing of the acquisition in the second half of the year, subject to the satisfaction of closing conditions, the Company is expected to increase its equity interest to 72%, allowing the Company to consolidate Suzhou KFC. The acquisition was considered immaterial.

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

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

Introduction

Yum China Holdings, Inc. is the largest restaurant company in China in terms of system sales, with over 9,200 restaurants as of March 31, 2020. Our growing restaurant base consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, COFFii & JOY, East Dawning and Taco Bell. We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Taiwan and Macau (the “PRC” or “China”), and own the intellectual property of the Little Sheep, COFFii & JOY and East Dawning concepts outright. We were the first major global restaurant brand to enter China in 1987 and with over 30 years of operations, we have developed deep operating experience in the China market. We have since grown to become one of China’s largest restaurant developers with locations in over 1,400 cities as of March 31, 2020. 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 cities.

KFC is the leading and the largest quick-service restaurant (“QSR”) brand in China in terms of system sales. As of March 31, 2020, KFC operated over 6,600 restaurants in over 1,400 cities across China.

Pizza Hut is the leading and the largest casual dining restaurant (“CDR”) brand in China in terms of system sales and number of restaurants. As of March 31, 2020, Pizza Hut operated over 2,200 restaurants in over 500 cities.

Overview

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

- The Company provides certain percentage changes excluding the impact of foreign currency translation (“F/X”). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the F/X impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.
- System sales growth reflects the results of all restaurants regardless of ownership, including Company-owned, franchise and unconsolidated affiliate restaurants that operate our concepts, except for sales from non-Company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise and unconsolidated affiliate restaurants typically generate ongoing franchise fees for the Company at a rate of approximately 6% of system sales. Franchise and unconsolidated affiliate restaurant sales are not included in Company sales in the Condensed Consolidated Statements of Income; however, the franchise fees are included in the Company’s revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

- Effective January 1, 2018, the Company revised its definition of same-store sales growth to represent the estimated percentage change in sales of food of all restaurants in the Company system that have been open prior to the first day of our prior fiscal year, excluding the period during which stores are temporarily closed. We refer to these as our “base” stores. Previously, same-store sales growth represented the estimated percentage change in sales of all restaurants in the Company system that have been open for one year or more, including stores temporarily closed, and the base stores changed on a rolling basis from month to month. This revision was made to align with how management measures performance internally and focuses on trends of a more stable base of stores.
- Company Restaurant profit (“Restaurant profit”) is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin percentage is defined as Restaurant profit divided by Company sales. Within the Company sales and Restaurant profit analysis, Store Portfolio Actions represent the net impact of new-unit openings, acquisitions, refranchising and store closures, and Other primarily represents the impact of same-store sales as well as the impact of changes in restaurant operating costs such as inflation/deflation.
- In addition to the results provided in accordance with GAAP throughout this MD&A, the Company provides measures adjusted for Special Items, which include Adjusted Operating Profit, Adjusted Net Income, Adjusted Earnings Per Common Share, Adjusted Effective Tax Rate and Adjusted EBITDA, which we define as net income including noncontrolling interests adjusted for income tax, interest income, net, investment gain or loss, depreciation and amortization, and other items, including store impairment charges and Special Items. The Special Item for the quarter ended March 31, 2020 represents share-based compensation cost recognized for a special award of performance stock units (“Partner PSU Awards”) granted to select employees. The Special Item for the quarter ended March 31, 2019 represents impact from the Tax Cuts and Jobs Act (the “Tax Act”). The Company excludes impact from Special Items for the purpose of evaluating performance internally. Special Items are not included in any of our segment results. In addition, the Company provides Adjusted EBITDA because we believe that investors and analysts may find it useful in measuring operating performance without regard to items such as income tax, interest income, net, investment gain or loss, depreciation and amortization, and other items, including store impairment charges and Special Items. These adjusted measures are not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of these adjusted measures provides additional information to investors to facilitate the comparison of past and present results, excluding those items that the Company does not believe are indicative of our ongoing operations due to their nature.

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

Results of Operations

Summary

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, East Dawning, Taco Bell, Daojia, COFFii & JOY and our e-commerce business, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. Additional details on our reportable operating segments are included in Note 13.

Quarterly highlights:

	% Change				
	System Sales(a)	Same-Store Sales(a)	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	(15)	(11)	+10	(47)	(45)
Pizza Hut	(38)	(31)	+1	NM	NM
All Other Segments(b)	(48)	(30)	+11	NM	NM
Total	(20)	(15)	+7	(68)	(67)

NM refers to changes over 100%, from negative to positive amounts or from zero to an amount.

- (a) System sales and same-store sales percentages as shown in tables exclude the impact of F/X. Effective January 1, 2018, temporary store closures are normalized in the same-store sales calculation by excluding the period during which stores are temporarily closed.
- (b) Sales from non-Company-owned restaurants, for which we do not receive a sales-based royalty, are excluded from system sales and same-store sales.

As of March 31, 2020, the Company operated over 9,200 units, predominately KFC and Pizza Hut restaurants, which are the leading and largest QSR and CDR brand, respectively, in mainland China in terms of system sales. 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 cities.

Starting in late January 2020, the COVID-19 pandemic has significantly impacted the Company's operations in the first quarter of 2020. The first three weeks of January were strong, but then the pandemic led to subsequent same-store sales declines of 40-50% compared to the comparable Chinese New Year holiday period in 2019. Approximately 35% of stores were closed by mid-February at the peak of the outbreak, with significant regional differences. For restaurants that remained open, same-store sales declined due to shortened operating hours and reduced traffic, with a significant portion of stores providing only delivery and takeaway services. As the quarter progressed, sales performance recovered gradually, with same-store sales down approximately 20% in late March. The pace of recovery is uneven with recent sales and traffic still below pre-outbreak levels as people continue to avoid going out and practice social distancing. As of the end of April, approximately 99% of our stores in China were either partially or fully open. However, in April same-store sales were still down by more than 10%.

As compared to the first quarter of 2019, Company sales in the first quarter of 2020 decreased 26%, or 24% if excluding the impact of F/X. The decrease in Company sales for the quarter, excluding the impact of F/X, was driven by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, partially offset by net unit growth.

The decrease in Operating profit for the quarter, excluding the impact of F/X, was primarily driven by same-store sales declines, temporary store closures, increased rider labor costs due to higher delivery sales, and commodity inflation, partially offset by labor efficiency, one-time reductions in social security contributions and lease concessions, lower G&A expenses mainly due to timing of government incentives received, and utilities savings.

The Consolidated Results of Operations for the quarters to date ended March 31, 2020 and 2019 are presented below:

	Quarter Ended		% B/(W) (a)	
	3/31/2020	3/31/2019	Reported	Ex F/X
Company sales	\$ 1,548	\$ 2,089	(26)	(24)
Franchise fees and income	35	39	(10)	(7)
Revenues from transactions with franchisees and unconsolidated affiliates	161	170	(5)	(2)
Other revenues	10	6	70	78
Total revenues	\$ 1,754	\$ 2,304	(24)	(21)
Restaurant profit	\$ 165	\$ 386	(57)	(56)
Restaurant Margin %	10.7%	18.5%	(7.8) ppts.	(7.8) ppts.
Operating Profit	\$ 97	\$ 303	(68)	(67)
Interest income, net	9	9	(7)	(4)
Investment (loss) gain	(8)	10	NM	NM
Income tax provision	(32)	(93)	65	65
Net Income - including noncontrolling interests	66	229	(71)	(70)
Net Income - noncontrolling interests	4	7	36	35
Net Income - Yum China Holdings, Inc.	\$ 62	\$ 222	(72)	(71)
Diluted Earnings Per Common Share	\$ 0.16	\$ 0.57	(72)	(72)
Effective tax rate	32.7%	28.9%		
Adjusted Operating Profit	\$ 98	\$ 303		
Adjusted Net Income - Yum China Holdings, Inc.	\$ 63	\$ 230		
Adjusted Diluted Earnings Per Common Share	\$ 0.16	\$ 0.59		
Adjusted Effective Tax Rate	32.4%	26.5%		
Adjusted EBITDA	\$ 219	\$ 428		

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

Performance Metrics

	Quarter Ended		% Increase
	3/31/2020	3/31/2019	
System Sales (Decline) Growth	(23)%		3%
System Sales (Decline) Growth, excluding F/X	(20)%		9%
Same-Store Sales (Decline) Growth	(15)%		4%
<u>Unit Count</u>			
Company-owned	7,432	6,974	7
Unconsolidated affiliates	924	834	11
Franchisees	939	845	11
	9,295	8,653	7

Special Items

Special Items, along with the reconciliation of the most directly comparable GAAP financial measures to the adjusted financial measures, are presented below.

Detail of Special Items	Quarter Ended	
	3/31/2020	3/31/2019
Share-based compensation expense for Partner PSU Awards ^(a)	\$ (1)	\$ —
Special Items, Operating Profit	(1)	—
Tax Expenses on Special Items ^(b)	—	—
Impact from the Tax Act ^(c)	—	(8)
Special items, net income – including noncontrolling interests	(1)	(8)
Special items, net income – noncontrolling interests	—	—
Special Items, Net income – Yum China Holdings, Inc.	\$ (1)	\$ (8)
Weighted-average diluted shares outstanding (in millions)	386	388
Special Items, Diluted Earnings Per Common Share	\$ —	\$ (0.02)
Reconciliation of Operating Profit to Adjusted Operating Profit		
Operating Profit	\$ 97	\$ 303
Special Items, Operating Profit	(1)	—
Adjusted Operating Profit	\$ 98	\$ 303
Reconciliation of Net Income to Adjusted Net Income		
Net Income - Yum China Holdings, Inc.	\$ 62	\$ 222
Special Items, Net Income – Yum China Holdings, Inc.	(1)	(8)
Adjusted Net Income - Yum China Holdings, Inc.	\$ 63	\$ 230
Reconciliation of EPS to Adjusted EPS		
Basic Earnings Per Common Share	\$ 0.16	\$ 0.59
Special Items, Basic Earnings Per Common Share	(0.01)	(0.02)
Adjusted Basic Earnings Per Common Share	\$ 0.17	\$ 0.61
Diluted Earnings Per Common Share	\$ 0.16	\$ 0.57
Special Items, Diluted Earnings Per Common Share	—	(0.02)
Adjusted Diluted Earnings Per Common Share	\$ 0.16	\$ 0.59
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate		
Effective tax rate (See Note 12)	32.7%	28.9%
Impact on effective tax rate as a result of Special Items ^{(b)(c)}	0.3%	2.4%
Adjusted effective tax rate	32.4%	26.5%

- (a) In February 2020, the Company granted Partner PSU Awards to select employees who were deemed critical to the Company's execution of its strategic operating plan. These PSU awards will only vest if threshold performance goals are achieved over a four-year performance period, with the payout ranging from 0% to 200% of the target number of shares subject to the PSU awards. Partner PSU Awards were granted to address increased competition for executive talent, motivate transformational performance and encourage management retention. Given the unique nature of these grants, the Compensation Committee does not intend to grant similar, special grants to the same employees during the performance period. The impact from these special awards is excluded from metrics that management uses to assess the Company's performance. The Company recognized share-based compensation cost of \$1 million associated with the Partner PSU Awards in the first quarter of 2020.
- (b) The tax expense was determined based upon the nature, as well as the jurisdiction, of each Special Item at the applicable tax rate.
- (c) We completed the evaluation of the impact on our transition tax computation based on the final regulations released by the U.S. Treasury Department and the IRS which became effective in the first quarter of 2019, and recorded an additional amount of \$8 million for the transition tax accordingly.

Adjusted EBITDA

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

	Quarter Ended	
	3/31/2020	3/31/2019
Reconciliation of Net Income to Adjusted EBITDA		
Net Income — Yum China Holdings, Inc.	\$ 62	\$ 222
Net Income — noncontrolling interests	4	7
Income tax provision	32	93
Interest income, net	(9)	(9)
Investment loss (gain)	8	(10)
Operating Profit	97	303
Special Items, Operating Profit	1	—
Adjusted Operating Profit	98	303
Depreciation and amortization	109	111
Store impairment charges	12	14
Adjusted EBITDA	\$ 219	\$ 428

Segment Results

KFC

	Quarter Ended			
			% B/(W)	
	3/31/2020	3/31/2019	Reported	Ex F/X
Company sales	\$ 1,220	\$ 1,539	(21)	(18)
Franchise fees and income	33	36	(8)	(5)
Revenues from transactions with franchisees and unconsolidated affiliates	16	17	(3)	—
Total revenues	\$ 1,269	\$ 1,592	(20)	(18)
Restaurant profit	\$ 166	\$ 309	(46)	(44)
Restaurant margin %	13.6%	20.0%	(6.4) ppts.	(6.4) ppts.
G&A expenses	\$ 46	\$ 49	5	2
Franchise expenses	\$ 16	\$ 19	12	10
Expenses for transactions with franchisees and unconsolidated affiliates	\$ 16	\$ 17	2	(1)
Closures and impairment expenses, net	\$ 1	\$ 7	86	85
Other income, net	\$ (17)	\$ (18)	(6)	(3)
Operating Profit	\$ 153	\$ 288	(47)	(45)

	Quarter Ended	
	3/31/2020	3/31/2019
System Sales (Decline) Growth	(18)%	5%
System Sales (Decline) Growth, excluding F/X	(15)%	11%
Same-Store Sales (Decline) Growth	(11)%	5%

<u>Unit Count</u>	<u>3/31/2020</u>	<u>3/31/2019</u>	<u>% Increase</u>
Company-owned	5,174	4,732	9
Unconsolidated affiliates	924	834	11
Franchisees	563	512	10
	<u>6,661</u>	<u>6,078</u>	10

Company Sales and Restaurant Profit

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

<u>Income (Expense)</u>	<u>Quarter Ended</u>				<u>3/31/2020</u>
	<u>3/31/2019</u>	<u>Store Portfolio Actions</u>	<u>Other</u>	<u>F/X</u>	
Company sales	\$ 1,539	\$ (110)	\$ (169)	\$ (40)	\$ 1,220
Cost of sales	(476)	31	40	13	(392)
Cost of labor	(320)	(2)	26	9	(287)
Occupancy and other operating expenses	(434)	(2)	49	12	(375)
Restaurant profit	<u>\$ 309</u>	<u>\$ (83)</u>	<u>\$ (54)</u>	<u>\$ (6)</u>	<u>\$ 166</u>

The decrease in Company sales and Restaurant profit for the quarter, excluding the impact of F/X, was primarily driven by the same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, increased rider labor costs due to higher delivery sales, and commodity inflation of 3%, partially offset by labor efficiency, one-time reductions in social security contributions and lease concessions, and utility savings.

Franchise Fees and Income

The decrease in Franchise fees and income for the quarter, excluding the impact of F/X, was primarily driven by same-store sales decline and temporary closures of restaurants operated by unconsolidated affiliates and franchisees, partially offset by the net unit growth.

G&A Expenses

The decrease in G&A expenses for the quarter, excluding the impact of F/X, was primarily driven by cost control measures to lower travel expenses and higher government incentives received, partially offset by higher compensation costs.

Operating Profit

The decrease in Operating profit for the quarter, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit, partially offset by lower store impairment charges.

Pizza Hut

	Quarter Ended			
			% B/(W)	
	3/31/2020	3/31/2019	Reported	Ex F/X
Company sales	\$ 322	\$ 541	(41)	(39)
Franchise fees and income	1	1	(1)	2
Revenues from transactions with franchisees and unconsolidated affiliates	1	1	2	6
Total revenues	\$ 324	\$ 543	(40)	(39)
Restaurant profit	\$ 1	\$ 77	(99)	(99)
Restaurant margin %	0.3%	14.3%	(14.0) ppts.	(14.0) ppts.
G&A expenses	\$ 24	\$ 24	3	(1)
Franchise expenses	\$ 1	\$ 1	2	(1)
Expenses for transactions with franchisees and unconsolidated affiliates	\$ 1	\$ 1	(23)	(27)
Closures and impairment expenses, net	\$ 5	\$ 3	(48)	(55)
Operating (Loss) Profit	\$ (28)	\$ 50	NM	NM

	Quarter Ended	
	3/31/2020	3/31/2019
System Sales (Decline)	(40)%	(3)%
System Sales (Decline) Growth, excluding F/X	(38)%	3%
Same-Store Sales (Decline) Growth	(31)%	1%

Unit Count	3/31/2020	3/31/2019	% Increase (Decrease)
Company-owned	2,166	2,190	(1)
Franchisees	105	59	78
	2,271	2,249	1

Company Sales and Restaurant Profit

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

Income (Expense)	Quarter Ended				
	3/31/2019	Store Portfolio Actions	Other	F/X	3/31/2020
Company sales	\$ 541	\$ (68)	\$ (141)	\$ (10)	\$ 322
Cost of sales	(159)	20	34	3	(102)
Cost of labor	(143)	11	24	4	(104)
Occupancy and other operating expenses	(162)	10	33	4	(115)
Restaurant profit	\$ 77	\$ (27)	\$ (50)	\$ 1	\$ 1

The decrease in Company sales and Restaurant profit for the quarter, excluding the impact of F/X, was primarily driven by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, increased rider labor costs due to higher delivery sales, and commodity inflation of 4%, partially offset by labor efficiency, one-time reductions in social security contributions and lease concessions, and lower promotion costs.

G&A Expenses

The increase in G&A expenses for the quarter, excluding the impact of F/X, was primarily driven by lower government incentives received and higher compensation costs, partially offset by cost control measures to lower travel expenses.

Operating (Loss) Profit

The Operating loss for the quarter, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit and higher store impairment charges.

All Other Segments

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

	Quarter Ended			
	3/31/2020	3/31/2019	% B/(W)	
			Reported	Ex F/X
Company sales	\$ 6	\$ 9	(32)	(30)
Franchise fees and income	1	2	(62)	(62)
Revenues from transactions with franchisees and unconsolidated affiliates	5	7	(36)	(34)
Other revenues	16	14	17	21
Total revenues	<u>\$ 28</u>	<u>\$ 32</u>	(14)	(11)
Restaurant loss	\$ (3)	\$ (1)	NM	NM
Restaurant margin %	(45.1)%	(5.6)%	(39.5) ppts.	(39.5) ppts.
G&A expenses	\$ 8	\$ 8	7	5
Expenses for transactions with franchisees and unconsolidated affiliates	\$ 4	\$ 6	44	42
Other operating costs and expenses	\$ 15	\$ 12	(30)	(35)
Closures and impairment expenses, net	\$ 2	\$ 1	NM	NM
Operating Loss	\$ (10)	\$ (5)	NM	NM

	Quarter Ended	
	3/31/2020	3/31/2019
Same-Store Sales Decline	(30)%	(15)%

The decrease in Company sales for the quarter, excluding the impact of F/X, was primarily driven by same-store sales declines and temporary store closures due to the impact of the COVID-19 pandemic.

The increase in Other revenue and Other operating costs and expenses for the quarter, excluding the impact of F/X, was primarily driven by the increase in demand of online orders of certain product categories (mainly fresh grocery products).

The increase in Operating loss for the quarter, excluding the impact of F/X, was primarily driven by the increase in Restaurant loss and higher store impairment charges.

Corporate and Unallocated

	Quarter Ended			
	3/31/2020	3/31/2019	% B/(W)	
			Reported	Ex F/X
Revenues from transactions with franchisees and unconsolidated affiliates	\$ 139	\$ 145	(4)	(1)
Other revenue	1	1	(34)	(32)
Expenses for transactions with franchisees and unconsolidated affiliates	135	143	6	3
Other operating costs and expenses	1	1	(17)	(21)
Corporate G&A expenses	21	33	36	35
Other unallocated (loss) income	(1)	1	NM	NM
Interest income, net	9	9	(7)	(4)
Investment (loss) gain	(8)	10	NM	NM
Income tax provision (See Note 12)	(32)	(93)	65	65
Effective tax rate (See Note 12)	32.7%	28.9%	(3.8)%	(3.8)%

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

The decrease in Revenues from transactions with franchisees and unconsolidated affiliates for the quarter, excluding the impact of F/X, was mainly driven by system sales decline of franchisees and unconsolidated affiliates, partially offset by an increase in the selling prices of food and paper products due to commodity inflation.

G&A Expenses

The decrease in Corporate G&A expenses for the quarter, excluding the impact of F/X, was mainly driven by higher government incentives received.

Investment Gain (Loss)

The Investment gain or loss represents the unrealized gain or loss related to our investment in equity securities of Meituan Dianping (“Meituan”). See Note 6.

Income Tax Provision

Our income tax provision includes tax on our earnings at the Chinese statutory tax rate of 25%, withholding tax on repatriation of earnings outside of China and U.S. corporate income tax, if any. Our effective tax rate was 32.7% and 28.9% for the quarters ended March 31, 2020 and 2019, respectively. The higher effective tax rate for the quarter was primarily due to a non-deductible loss in the first quarter of 2020, while non-taxable gain in the first quarter of 2019 related to our investment in equity securities of Meituan.

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

Impact of COVID-19 Pandemic

Starting in late January 2020, the COVID-19 pandemic has significantly impacted the Company's operations. The pace of recovery is uneven with recent sales and traffic still below pre-outbreak levels as people continue to avoid going out and practice social distancing. As of the end of April, approximately 99% of our stores in China were either partially or fully open. However, in April, same-store sales were still down by more than 10%.

Management cannot ascertain the full impact of the COVID-19 pandemic on the Company's operations, which depends on the evolving nature of the COVID-19 pandemic and governmental responses thereto, the economic recovery within China and globally, the impact on consumer behavior and other related factors. The Company expects that COVID-19 will have a material adverse impact on the Company's results of operations, cash flows and financial condition for the full year 2020. For further information on the risks associated with the COVID-19 pandemic, see "Item 1A. Risk Factors."

Tax Examination on Transfer Pricing

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

PRC Value-Added Tax ("VAT")

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

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

As of March 31, 2020, an input VAT credit asset of \$241 million and payable of \$2 million were recorded in Other assets and Accounts payable and other current liabilities, respectively, on the Consolidated Balance Sheets. The Company has not made an allowance for the recoverability of the input VAT credit asset, as the balance is expected to be utilized to offset against VAT payables more than one year from March 31, 2020. Any input VAT credit asset would be classified as Prepaid expenses and other current assets if the Company expected to use the credit within one year.

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

Foreign Currency Exchange Rate

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

Consolidated Cash Flows

Our cash flows for the years to date ended March 31, 2020 and 2019 were as follows:

Net cash provided by operating activities was \$60 million in 2020 as compared to \$344 million in 2019. The decrease was primarily driven by net income decrease and timing of payments for inventory along with other working capital changes.

Net cash provided by investing activities was \$2 million in 2020 as compared to \$267 million of net cash used in investing activities in 2019. The change is mainly due to the net impact on cash flow resulting from purchases and maturities of short-term investments.

Net cash used in financing activities was \$52 million in 2020 as compared to \$113 million in 2019. The decrease was primarily driven by a decrease in the number of shares repurchased in 2020.

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.

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 and to make capital expenditures, distributions to our stockholders and share repurchases as well as any acquisition or investment we may make. As a result of the COVID-19 pandemic, we have taken, and continue to take, certain actions to provide additional liquidity and flexibility, which include temporarily suspending our share repurchase program and, for the next two quarters, dividends, as well as increasing our credit facilities. 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, net cash from operations and credit facilities will be sufficient to fund our operations and anticipated capital expenditures for the next 12 months.

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

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

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

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

Share Repurchases and Dividends

Our Board of Directors has authorized an aggregate of \$1.4 billion for our share repurchase program. Yum China may repurchase shares under this program from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. During the quarters ended March 31, 2020 and 2019, the Company repurchased \$7 million or 0.2 million and \$65 million or 1.7 million shares of common stock, respectively, under the repurchase program.

For the quarters ended March 31, 2020 and 2019, the Company paid cash dividends of approximately \$45 million and \$46 million, respectively, to stockholders through quarterly dividend payments of \$0.12 per share.

Due to the unprecedented effects of the COVID-19 pandemic and associated economic uncertainty, the Company announced in April 2020 that it would temporarily suspend its share repurchases and, for the next two quarters, dividends.

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

Borrowing Capacity

As of March 31, 2020, the Company had credit facilities of RMB 3,216 million (approximately \$454 million), comprised of onshore credit facilities of RMB1,800 million (approximately \$254 million) in aggregate and offshore credit facilities of \$200 million in aggregate.

The credit facilities had remaining terms ranging from less than one year to three years as of March 31, 2020. Each credit facility bears interest based on the prevailing rate stipulated by the People’s Bank of China, Loan Prime Rate (“LPR”) published by the National Interbank Funding Centre of the PRC or London Interbank Offered Rate (“LIBOR”) administered by the ICE Benchmark Administration. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Some of the credit facilities contain covenants limiting, among other things, certain additional indebtedness and liens, and certain other transactions specified in the respective agreement. Some of the onshore credit facilities contain sublimits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of March 31, 2020, we had outstanding bank guarantees of RMB 86 million (approximately \$12 million) to secure our lease payment to landlords for certain Company-owned restaurants. The credit facilities were therefore reduced by the same amount, while there were no borrowings outstanding as of March 31, 2020.

Off-Balance Sheet Arrangements

See the Guarantees section of Note 14 for discussion of our off-balance sheet arrangements.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

See Note 2 for details of recently adopted accounting pronouncements.

New Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, *Income Tax (Topic 740), Simplifying the Accounting for Income Taxes* (“ASU 2019-12”), which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for the Company from January 1, 2021, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)* (“ASU 2020-01”), which clarifies the interaction for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for the Company from January 1, 2021, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

Cautionary Note Regarding Forward-Looking Statements

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

- Risks related to our business and industry, such as (a) food safety and food-borne illness concerns, (b) significant failure to maintain effective quality control systems for our restaurants, (c) significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering, (d) health concerns arising from outbreaks of viruses or other illnesses, including the COVID-19 pandemic, (e) the fact that we derive substantially all of our revenue from our operations in China, (f) the fact that the operation of our restaurants is subject to the terms of the master license agreement with YUM, (g) the fact that our success is tied to the success of YUM’s brand strength, marketing campaigns and product innovation, (h) shortages or interruptions in the availability and delivery of food products and other supplies, (i) fluctuation of raw materials prices, (j) our inability to attain our target development goals and the potential cannibalization of existing sales by aggressive development, (k) risks associated with leasing real estate, (l) inability to obtain desirable restaurant locations on commercially reasonable terms, (m) labor shortages or increases in labor costs, (n) the fact that our success depends substantially on our corporate reputation and on the value and perception of our brands, (o) the occurrence of security breaches and cyber-attacks, (p) failure to protect the integrity and security of our customer or employee personal, financial or other data or our proprietary or confidential information that is stored in our information systems or by third parties on our behalf, (q) failures or interruptions of service or security breaches in our information technology systems, (r) the fact that our business depends on the performance of, and our long-term relationships with, third-party mobile payment processors, internet infrastructure operators, internet service providers and delivery aggregators, (s) failure to provide timely and reliable delivery services by our restaurants, (t) our growth strategy with respect to COFFii & JOY may not be successful, (u) challenges and risks related to our e-commerce business, (v) the anticipated benefits of the acquisition of Daojia may not be realized in a timely manner or at all, (w) the Chinese government may determine that the VIE structure of Daojia does not comply with Chinese laws on foreign investment in restricted industries, (x) our inability or failure to recognize, respond to and effectively manage the impact of social media, (y) litigation and failure to comply with anti-bribery or anti-corruption laws, (z) U.S. federal income taxes, changes in tax rates, disagreements with tax authorities (including with respect to the transfer pricing audit) and imposition of new taxes, (aa) changes in consumer discretionary spending and general economic conditions, (bb) competition in the retail food industry, (cc) loss or failure to obtain or renew any or all of the approvals, licenses and permits to operate our business, (dd) our inability to adequately protect the intellectual property we own or have the right to use, (ee) YUM’s failure to protect its intellectual property, (ff) seasonality and certain major events in China, (gg) our failure to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties, (hh) changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters, (ii) failure of our insurance policies to provide adequate coverage for claims associated with our business operations, (jj) unforeseeable business interruptions, (kk) failure by us to maintain effective disclosure controls and procedures and internal control over financial reporting in accordance with the rules of the SEC, (ll) the fact that our success depends on the continuing efforts of our key management and experienced and capable personnel as well as our ability to recruit new talent, (mm) our investment in technology and innovation may not generate the expected level of returns, and (nn) our strategic investments or acquisitions may be unsuccessful;

- Risks related to doing business in China, such as (a) changes in Chinese political policies and economic and social policies or conditions, (b) uncertainties with respect to the interpretation and enforcement of Chinese laws, rules and regulations, (c) changes in trade relations between the United States and China, including the imposition of new or higher taxes on goods imported from the United States, (d) fluctuation in the value of the Chinese Renminbi, (e) limitations on our ability to utilize our cash balances effectively due to governmental control of currency conversion and payments of foreign currency, (f) changes in laws and regulations, (g) reliance on distributions by our operating subsidiaries in China to fund offshore cash requirements, (h) potential unfavorable tax consequences resulting from our classification as a China resident enterprise for Chinese enterprise income tax purposes, (i) uncertainty regarding indirect transfers of equity interests and enhanced scrutiny by Chinese tax authorities, (j) difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China against us, (k) inability to use properties due to defects caused by non-registration of lease agreements related to certain properties, (l) risk in relation to unexpected land acquisitions, building closures or demolitions, (m) potential fines for failure to comply with law, (n) restrictions on our ability to make loans or additional capital contributions to our Chinese subsidiaries due to Chinese regulation of loans to, and direct investment in, Chinese entities by offshore holding companies and governmental control of currency conversion and (o) difficulties in pursuing growth through acquisitions due to regulations regarding acquisitions;
- Risks related to the separation and related transactions, such as (a) incurring significant tax liabilities if the distribution does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes and the Company could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement, (b) being obligated to indemnify YUM for material taxes and related amounts pursuant to indemnification obligations under the tax matters agreement if YUM is subject to Chinese indirect transfer tax with respect to the distribution, (c) potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement and there being no assurance that the indemnity provided by YUM with respect to certain liabilities in connection with the separation will be sufficient to insure us against the full amount of such liabilities, (d) the possibility that a court would require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement and (e) potential liabilities due to fraudulent transfer considerations.

In addition, other risks and uncertainties not presently known to us or that we currently believe to be immaterial could affect the accuracy of any such forward-looking statements. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. You should consult our filings with the Securities and Exchange Commission (including the information set forth under the captions “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 and this Form 10-Q) for additional information regarding factors that could affect our financial and other results. You should not place undue reliance on forward-looking statements, which speak only as of the date of the filing of this Form 10-Q. We are not undertaking to update any of these statements, except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rate Risk

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

As substantially all of the Company's assets are located in China, the Company is exposed to movements in the RMB foreign currency exchange rate. For the quarter ended March 31, 2020, the Company's Operating profit would have decreased by approximately \$10 million if the RMB weakened 10% relative to the US\$. This estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

Commodity Price Risk

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

Investment Risk

In September 2018, we invested \$74 million in Meituan's ordinary shares. The equity investment is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. See Note 6 for further discussion on our investment in Meituan.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes with respect to the Company's internal control over financial reporting during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II – Other Information

Item 1. Legal Proceedings

Information regarding legal proceedings is incorporated by reference from Note 14 to the Company's Condensed Consolidated Financial Statements set forth in Part I of this report.

Item 1A. Risk Factors

We face a variety of risks that are inherent in our business and our industry, including operational, legal and regulatory risks. Such risks could cause our actual results to differ materially from our forward-looking statements, expectations and historical trends. Except as set forth below, there have been no material changes from the risk factors disclosed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on February 27, 2020.

Health concerns arising from outbreaks of viruses or other illnesses may have a material adverse effect on our business. We expect that the COVID-19 pandemic will have a material adverse impact on the Company's results of operations, cash flows and financial condition for the full year 2020, and it could also have material adverse impacts for an extended period of time thereafter.

Our business could be materially and adversely affected by the outbreak of a widespread health epidemic, such as the novel coronavirus (COVID-19), avian flu or African swine flu. Outbreaks of contagious illness occur from time to time around the world, including in China where virtually all of our restaurants are located. The occurrence of such an outbreak or other adverse public health developments could materially disrupt our business and operations, including if government authorities impose mandatory closures, seek voluntary closures or impose restrictions on operations of restaurants. Furthermore, the risk of contracting viruses or other illnesses that may be transmitted through human contact could cause employees or guests to avoid gathering in public places or interacting with other people, which could materially and adversely affect restaurant guest traffic or our ability to adequately staff restaurants. An outbreak could also cause disruption in our supply chain and adversely impact our ability to ensure supplies to the stores and to provide safety measures to protect our employees and customers, which could materially and adversely affect our continuous operations. Our operating costs may also increase in view of the additional protective supplies and sanitation procedures that may be required to operate our business during an outbreak. If an outbreak reaches pandemic levels, there may also be long-term effects on the economies of effected countries. Any of the foregoing would severely disrupt our operations and could have a material adverse effect on our business, results of operations, cash flows and financial condition.

For example, the COVID-19 pandemic has adversely affected our results of operations, cash flows and financial condition for the first quarter of 2020, and it is expected to have continuing adverse effects for full year 2020. At the peak of the COVID-19 outbreak in China, we closed approximately 35% of our restaurants. For restaurants that remained open, same-store sales declined due to shortened operating hours and reduced traffic, with a significant portion of stores providing only delivery and takeaway services. As of the end of April, approximately 99% of our stores in China were either partially or fully open. However, in April, same-store sales were still down by more than 10%. We expect an extended recovery period in China, and that the pace will be uneven across regions, dayparts and segments. We expect particularly acute impacts for business on weekends and holidays and, as a result of reduced traveling, in transportation hubs. It remains difficult to predict the full impact of the COVID-19 pandemic on the broader economy and how consumer behavior may change, and whether such change is temporary or permanent. Social distancing, telecommunicating and reductions in travel may become the new normal. These conditions could fundamentally impact the way we work and the services we provide, and could have continuing adverse effects on our results of operations, cash flows and financial condition beyond 2020. The extent to which our operations continue to be impacted by the pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including the possible reemergence and further spread of COVID-19 and the actions by the government authorities to contain the pandemic or treat its impact, among other things. Insurance may be unavailable to cover any losses we incur as a result of the pandemic. The COVID-19 pandemic also may have the effect of heightening other risks disclosed in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2019, such as, but not limited to, those related to supply chain management, labor shortage and cost, cybersecurity threats, as well as consumer perceptions of our brands.

Even if a virus or other illness does not spread significantly, the perceived risk of infection or health risk may affect our business. Our operations could also be disrupted if any of our employees or employees of our business partners were suspected of having a contagious illness or susceptible to becoming infected with a contagious illness, since this could require us or our business partners to screen and/or quarantine some or all of such employees or disinfect our restaurant facilities.

With respect to the avian flu, public concern over an outbreak 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.

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

Our Board of Directors authorized an aggregate of \$1.4 billion for our share repurchase program, including its most recent increase in authorization on October 31, 2018. The authorizations do not have an expiration date. As a result of the COVID-19 pandemic impact, we have taken, and are continuing to take, certain actions to provide additional liquidity and flexibility, which include temporarily suspending our share repurchase program.

The following table provides information as of March 31, 2020 with respect to shares of Yum China common stock repurchased by the Company during the quarter then ended:

Period	Total Number of Shares Repurchased (thousands)	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs (thousands)	Approximate Dollar Value of Shares that May Yet Be Repurchased under the Plans or Programs (millions)
1/1/20-1/31/20	127	\$ 43.38	127	\$ 693
2/1/20-2/29/20	36	\$ 43.87	36	\$ 692
3/1/20-3/31/20	—		—	\$ 692
Total	163	\$ 43.49	163	\$ 692

Item 6. Exhibits

Exhibit Number	Description of Exhibits
3.1	<u>Amended and Restated Certificate of Incorporation of Yum China Holdings, Inc. (incorporated by reference to Exhibit 3.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).</u>
3.2	<u>Amended and Restated Bylaws of Yum China Holdings, Inc. (incorporated by reference to Exhibit 3.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).</u>
10.1	<u>Form of Yum China Holdings, Inc. Long Term Incentive Plan Performance Share Units Agreement (Annual PSU Grants).*</u>
10.2	<u>Form of Yum China Holdings, Inc. Long Term Incentive Plan Performance Share Units Agreement (Partner PSU Awards).*</u>
10.3	<u>Form of Yum China Holdings, Inc. Long Term Incentive Plan Restricted Stock Units Agreement.*</u>
10.4	<u>Form of Yum China Holdings, Inc. Stock Appreciation Rights Agreement.*</u>
31.1	<u>Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
31.2	<u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
32.1	<u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</u>
32.2	<u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</u>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document *
101.SCH	Inline XBRL Taxonomy Extension Schema Document *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document *
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document *

* Filed or furnished herewith.

SIGNATURES

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

Yum China Holdings, Inc.

(Registrant)

Date: May 8, 2020

/s/ Xueling Lu

Controller and Principal Accounting Officer

YUM CHINA HOLDINGS, INC. LONG TERM INCENTIVE PLAN

PERFORMANCE UNIT AGREEMENT

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

1. **Award.**

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

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

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

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

employment has already been terminated), the Company (including the appointed broker) is authorized to sell such Stock at the market price (for the avoidance of doubt, the broker is under no obligation to arrange for the sale of stock at any particular price). Upon the sale of such Stock, the Company agrees to pay Participant the cash proceeds, less brokerage fees/commissions and tax-withholding, relating to such sale of Stock.

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

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

3. **Withholding of Tax.**

- (a) Participant acknowledges that regardless of any action taken by the Company or, if different, Participant's employer (the "Employer"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items arising out of Participant's participation in the Plan and legally applicable to Participant ("Tax-Related Items"), is and remains Participant's responsibility and may exceed the amount, if any, actually withheld by the Company and/or the Employer. Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance Units, including but not limited to, the grant, vesting or settlement of the Performance Units, the subsequent sale of Stock acquired under the Plan pursuant to such settlement and the receipt of any dividends or Dividend Equivalent Units; and (ii) do not commit and are under no obligation to structure the terms of the grant or any aspect of the grant or any aspect of the Performance Units to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Furthermore, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.
- (b) Prior to any relevant taxable, tax and/or social security contribution withholding event, as applicable, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy their withholding obligations with respect to Tax-Related Items by one or a combination of the following (i) withholding from Participant's wages or other cash compensation paid to Participant by the Company, the Employer, or any Subsidiary; or (ii) withholding from the proceeds of the sale of shares of Stock acquired upon settlement of the Performance Units either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization); or (iii) withholding in Stock to be issued upon settlement of the Performance Units, provided, however, that if Participant is a Section 16 officer of the Company under the Exchange Act, then Participant may elect the form of withholding from the alternatives

above in advance of any taxable or tax withholding event, as applicable, and in the absence of Participant's timely election, the Company will withhold from proceeds of the sale of Stock upon the relevant taxable or tax withholding event, as applicable, or the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) may determine that a particular method be used to satisfy any obligations for Tax-Related Items in advance of any taxable or tax withholding event, as applicable.

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

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

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
- (b) this award of Performance Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Performance Units, or benefits in lieu of Performance Units, even if Performance Units have been granted in the past;
- (c) this award of Performance Units and the shares of Stock subject to the Performance Units, and the income and value of same, are not part of normal or expected compensation or salary for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;
- (d) all decisions with respect to future grants of Performance Units or other awards, if any, will be at the sole discretion of the Company;
- (e) Participant's participation in the Plan is voluntary;
- (f) this award of Performance Units and any Stock acquired under the Plan, and the income and value of same, are not intended to replace any pension rights or compensation;
- (g) the future value of the Stock underlying the Performance Units is unknown, indeterminable and cannot be predicted with certainty;
- (h) no claim or entitlement to compensation or damages shall arise from termination of this award of Performance Units or diminution in value of the Stock acquired upon settlement resulting from Participant's separation from service (regardless of the reason for the termination and whether or not the termination is later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any);

- (i) unless otherwise provided in the Plan or by the Company in its discretion, the Performance Units and the benefits evidenced by this Agreement do not create any entitlement to have the Performance Units or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of Stock; and
- (j) the following provisions apply only if Participant is providing services outside the United States:
 - (i) the Performance Units and the shares of Stock subject to the Performance Units, and the income and value of same, are not part of normal or expected compensation or salary for any purpose; and
 - (ii) neither the Company, the Employer nor any other Subsidiary shall be liable for any foreign exchange rate fluctuation between his or her local currency and the United States Dollar that may affect the value of the Performance Units or of any amounts due to Participant pursuant to the settlement of the Performance Units or the subsequent sale of any shares of Stock acquired upon settlement.

5. **Compensation Recovery Policy**

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

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

7. **Adjustment for Change in Stock**. As set forth in Section 4.2 of the Plan, in the event of any change in the outstanding shares of Stock by reason of any stock split, stock dividend, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the number of shares of Stock which Participant may receive upon settlement of the Performance Units and the applicable performance goals set forth in the Award Notice shall be adjusted appropriately in the Committee’s sole discretion.

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

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

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

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

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

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

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

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

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

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

13. **Binding Effect.**

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

(b) This Agreement shall be binding upon and inure to the benefit of the Participant or his or her legal representative and any person to whom a Performance Unit may be transferred by will, the applicable laws of descent and distribution or consent of the Committee.

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

15. **Governing Law and Forum.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware. For purposes of resolving any dispute that may arise directly or indirectly from this Agreement, the parties hereby agree that any such dispute that cannot be resolved by the parties shall be submitted the Committee for resolution, and any decision by the Committee shall be final.

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

16. **Addendum.** Notwithstanding any provisions in this Agreement, the Award of Performance Units shall be subject to any special terms and conditions set forth in any Addendum to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Addendum, the special terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Addendum constitutes part of this Agreement.
17. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Performance Units and on any Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.
18. **Waiver.** Participant acknowledges that a waiver by the company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant.
19. **Section 409A Provisions.** Notwithstanding anything in this Agreement (or the Plan) to the contrary, if the Participant is subject to U.S. tax laws:
- (a) It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), and all regulations, guidance and other interpretive authority issued thereunder ("Code Section 409A") so as not to subject Participant to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to Participant. Notwithstanding the foregoing or any other provision of this Agreement, neither the Company nor any Subsidiary guarantees the tax treatment of the award evidenced by this Agreement (or other awards under the Plan).
 - (b) If any payment hereunder (whether separately or together with any other payments) is subject to Code Section 409A, and if such payment or benefit is to be paid or provided on account of Participant's termination of employment (or other separation from service or termination of employment) (i) and if Participant is a specified employee (within the meaning of Code Section 409A) and if any such payment is required to be made or provided prior to the first day of the seventh month following Participant's separation from service or termination of employment, such payment shall be delayed until the first day of the seventh month following Participant's separation from service or termination of employment (or, if earlier, Participant's death), (ii) the determination as to whether Participant has had a termination of employment (or separation from service) shall be made in accordance with the provisions of Code Section 409A without application of any alternative levels of reductions of bona fide services permitted thereunder, and (iii) to the extent any such payment is conditioned upon the Participant's execution of a release and such payment is to be paid or provided during a designated period that begins in one taxable year and ends in a second taxable year, such payment shall be paid or provided in the later of the two taxable years.
 - (c) If any payment hereunder (whether separately or together with any other payments) is subject to Code Section 409A, then in the event the Participant becomes entitled to shares under Section 2(d) upon a Change in Control in which the Performance Units are not effectively assumed, then such shares shall be paid upon such Change in Control only if the Change in Control is a "change in control event" within the meaning of Section 409A of the Code and the settlement of such Stock would be permissible under Code Section 409A; provided, however, in the event the Participant becomes entitled to shares under Section 2(d) following Participant's termination of employment following a Change in Control, such shares shall be paid at the time set forth in Section 2(d) only if the Change in Control is a "change in control event" within the meaning of Section 409A of the Code and, if applicable, such termination of employment occurs within two years following such Change in Control or the distribution would otherwise be permitted under Section 409A of the Code and, if the foregoing conditions are not satisfied, any shares deliverable under Section 2(d) shall be delivered at the time set forth in Section 2(c) or 2(g), as applicable.

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

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

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

By accepting the grant of the Performance Units and participating in the Plan, the Participant agrees to be bound by the terms and conditions in the Plan and this Agreement. This grant of Performance Units must be accepted by signing in the space below no later than the 60th day following the Grant Date.

Yum China Holdings, Inc.

By: _____
Its: _____

Participant

By: _____

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

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

Terms and Conditions

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

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

Notifications

This Addendum also includes information regarding exchange controls and certain other issues of which Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of **November 2016**. Such laws are often complex and change frequently. As a result, the Company strongly recommends that Participant not rely on the information in this Addendum as the only source of information relating to the consequences of Participant's participation in the Plan because the information may be out of date at the time that Performance Units vest or Participant sells Stock acquired at vesting of the Performance Units under the Plan.

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

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

CHINA

Terms and Conditions

The following provisions apply only to the Participant if based/residing in the Mainland of the People's Republic of China (the "PRC"), unless otherwise determined by the Company or required by the State Administration of Foreign Exchange ("SAFE"):

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

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

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

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

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

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

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

Notifications

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

YUM CHINA HOLDINGS, INC. LONG TERM INCENTIVE PLAN

PERFORMANCE UNIT AGREEMENT

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

1. **Award.**

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

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

- (a) **Assignment of Performance Units Prohibited.** The Performance Units may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of, except by will or the applicable laws of inheritance.
- (b) **Vesting.** Subject to the remainder of this Section 2, the Stock shall vest pursuant to the terms of this Agreement and the Plan based on the achievement of the performance goals set forth in the Award Notice over the performance period set forth in the Award Notice (the “Performance Period”), provided that Participant remains in continuous employment with the Company and its Subsidiaries (collectively, the “Company Group”) through the end of the Performance Period. Attainment of the performance goals shall be determined and certified by the Committee in writing prior to the settlement of the Performance Units.
- (c) **Termination of Employment during Performance Period.** If a Participant’s termination of employment occurs prior to the last day of the Performance Period, the Participant shall forfeit all Performance Units (including any additional Performance Units or dividend equivalents attributable to dividends allocated to the Participant) granted with respect to the Performance Period; provided, however, that if a Participant’s termination of employment occurs by reason of the Participant’s death, Retirement (as defined in Section 21) or involuntary termination by a member of the Company Group other than for Cause (as defined in Section 21), including without limitation, as a result of (i) a disposition (or similar transaction) with respect to an identifiable Company business or segment (“Business”), and in accordance with the terms of the transaction, Participant and a substantial portion of the other employees of the Business continue in employment with such Business or commence employment with its acquiror, (ii) the elimination of Participant’s position within the Company Group, or (iii) the selection of Participant for work force reduction (whether selection is voluntary or involuntary), in each case, prior to the end of the
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Performance Period, the Participant (or in the event of his death, his estate) shall receive, subject to Participant's execution and non-revocation of the Company's customary general release of claims in favor of the Company (the "Release"), the number of shares of Stock with respect to that Performance Period that the Participant would have received if such termination of employment did not occur during the Performance Period (and based on the actual performance for the entire Performance Period), but subject to a pro rata reduction to reflect the number of days remaining in the Performance Period after the date of such termination of employment. Distribution of shares of Stock under this Section 2(c) shall be made at the same time distribution would have been made with respect to the Performance Period determined as though the termination of employment had not occurred.

- (d) **Change in Control during Performance Period.** Notwithstanding the foregoing provisions of this Section 2, if Participant resigns from the Company Group due to Good Reason (as defined in Section 21) or Participant is involuntarily terminated other than for Cause upon or within two (2) years following a Change in Control and during the Performance Period, then performance shall be measured based on the greater of (i) actual performance for the Performance Period through the date of termination of employment and (ii) target performance, and, subject to the Participant's execution and non-revocation of the Release, shares of Stock with respect to such vested Performance Units shall be distributed within 60 days following the Participant's termination of employment; provided, however, in the event the Change in Control and termination of employment occurs during the first year of the Performance Period, performance for purposes of determining the number of Performance Units that vest shall be determined based on the target performance level. In the event of a Change in Control during the Performance Period pursuant to which the Performance Units are not effectively assumed or continued by the surviving or acquiring corporation in such Change in Control (with appropriate adjustments to the number and kind of shares, in each case, that preserve the material terms and conditions of the outstanding Performance Units as in effect immediately prior to the Change in Control), the Performance Units shall vest at the level specified in the Award Notice, and the Participant shall receive shares of Stock or other property with a value equal to the aggregate number of Performance Units that vest pursuant to this sentence multiplied by the Fair Market Value of a share of Stock as of the date of the Change in Control and such shares of Stock or property shall be distributed to the Participant within 60 days following such Change in Control.
- (e) **Dividend Equivalent Units.** Participant will be credited with additional units ("Dividend Equivalent Units") equal to the amount of dividends that would have been paid on the Performance Units if Participant actually owned the same number of shares of Stock during the Performance Period. Dividend Equivalent Units shall vest at the same time that the Performance Units vest; provided, however, that in the event the Performance Units are forfeited then any accumulated Dividend Equivalent Units shall also be forfeited.
- (f) **No Rights as Stockholder.** Except as provided for in Section 2(e) of this Agreement, Participant shall not be a shareholder of record and therefore shall have no voting or other shareholder rights prior to the issuance of shares of Stock at vesting.
- (g) **Settlement and Delivery of Stock.** Except as otherwise provided for in this Agreement and subject to Section 19 of this Agreement, payment of vested Performance Units shall be made as soon as administratively practicable after the end of the Performance Period but in no event later than 2-1/2 months following the end of the Performance Period. Settlement will be made by payment in shares of Stock. For a Chinese National, in the event of retirement, death, or involuntary termination under the terms stated in this Agreement during the Performance Period, with respect to the pro-rated Performance Units distributable upon vesting, if any (when the employment has already been terminated), the Company (including the appointed broker) is authorized to sell such Stock at the market price (for the avoidance of doubt, the broker is under no obligation to arrange for the sale of stock at any particular price). Upon the sale of such Stock, the Company agrees to pay Participant the cash proceeds, less brokerage fees/commissions and tax-withholding, relating to such sale of Stock.

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

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

3. **Withholding of Tax.**

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

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

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

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
- (b) this award of Performance Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Performance Units, or benefits in lieu of Performance Units, even if Performance Units have been granted in the past;
- (c) this award of Performance Units and the shares of Stock subject to the Performance Units, and the income and value of same, are not part of normal or expected compensation or salary for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;
- (d) all decisions with respect to future grants of Performance Units or other awards, if any, will be at the sole discretion of the Company;
- (e) Participant's participation in the Plan is voluntary;
- (f) this award of Performance Units and any Stock acquired under the Plan, and the income and value of same, are not intended to replace any pension rights or compensation;
- (g) the future value of the Stock underlying the Performance Units is unknown, indeterminable and cannot be predicted with certainty;
- (h) no claim or entitlement to compensation or damages shall arise from termination of this award of Performance Units or diminution in value of the Stock acquired upon settlement resulting from Participant's separation from service (regardless of the reason for the termination and whether or not the termination is later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or the terms of Participant's employment agreement, if any);
- (i) unless otherwise provided in the Plan or by the Company in its discretion, the Performance Units and the benefits evidenced by this Agreement do not create any entitlement to have the Performance Units or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of Stock; and

- (j) the following provisions apply only if Participant is providing services outside the United States:
- (i) the Performance Units and the shares of Stock subject to the Performance Units, and the income and value of same, are not part of normal or expected compensation or salary for any purpose; and
- (ii) neither the Company, the Employer nor any other Subsidiary shall be liable for any foreign exchange rate fluctuation between his or her local currency and the United States Dollar that may affect the value of the Performance Units or of any amounts due to Participant pursuant to the settlement of the Performance Units or the subsequent sale of any shares of Stock acquired upon settlement.

5. **Compensation Recovery Policy**

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

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

7. **Adjustment for Change in Stock.** As set forth in Section 4.2 of the Plan, in the event of any change in the outstanding shares of Stock by reason of any stock split, stock dividend, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the number of shares of Stock which Participant may receive upon settlement of the Performance Units and the applicable performance goals set forth in the Award Notice shall be adjusted appropriately in the Committee’s sole discretion.

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

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

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

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

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

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

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

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

11. **Committee's Powers.** No provision contained in this Agreement shall in any way terminate, modify or alter, or be construed or interpreted as terminating, modifying or altering any of the powers, rights or authority vested in the Committee or, to the extent delegated, in its delegate pursuant to the terms of the Plan or resolutions adopted in furtherance of the Plan, including, without limitation, the right to make certain determinations and elections with respect to the Performance Units.
12. **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.
13. **Binding Effect.**
 - (a) This Agreement shall be binding upon and inure to the benefit of any assignee or successor in interest to the Company, whether by merger, consolidation or the sale of all or substantially all of the Company's assets. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.
 - (b) This Agreement shall be binding upon and inure to the benefit of the Participant or his or her legal representative and any person to whom a Performance Unit may be transferred by will, the applicable laws of descent and distribution or consent of the Committee.
14. **Insider Trading Restrictions/Market Abuse Laws.** Participant acknowledges that Participant may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including the United States and the Participant's country, if different, which may affect Participant's ability to acquire or sell shares of Stock or rights to shares of Stock (e.g., Performance Units) under the Plan during such times as Participant is considered to have "inside information" regarding the Company (as defined by the laws in the applicable jurisdiction). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. Participant acknowledges that it is Participant's responsibility to comply with any applicable restrictions, and Participant is advised to speak to his or her personal advisor on this matter.
15. **Governing Law and Forum.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware. For purposes of resolving any dispute that may arise directly or indirectly from this Agreement, the parties hereby agree that any such dispute that cannot be resolved by the parties shall be submitted the Committee for resolution, and any decision by the Committee shall be final.

For purposes of litigating any dispute that arises under this grant, Participant's participation in the Plan or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Delaware and agree that such litigation shall be conducted in the courts of Delaware, or the federal courts for the United States for the District of Delaware, where this grant is made and/or to be performed.
16. **Addendum.** Notwithstanding any provisions in this Agreement, the Award of Performance Units shall be subject to any special terms and conditions set forth in any Addendum to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Addendum, the special terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Addendum constitutes part of this Agreement.

17. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Performance Units and on any Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.
18. **Waiver.** Participant acknowledges that a waiver by the company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant.
19. **Section 409A Provisions.** Notwithstanding anything in this Agreement (or the Plan) to the contrary, if the Participant is subject to U.S. tax laws:
- (a) It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), and all regulations, guidance and other interpretive authority issued thereunder ("Code Section 409A") so as not to subject Participant to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to Participant. Notwithstanding the foregoing or any other provision of this Agreement, neither the Company nor any Subsidiary guarantees the tax treatment of the award evidenced by this Agreement (or other awards under the Plan).
- (b) If any payment hereunder (whether separately or together with any other payments) is subject to Code Section 409A, and if such payment or benefit is to be paid or provided on account of Participant's termination of employment (or other separation from service or termination of employment) (i) and if Participant is a specified employee (within the meaning of Code Section 409A) and if any such payment is required to be made or provided prior to the first day of the seventh month following Participant's separation from service or termination of employment, such payment shall be delayed until the first day of the seventh month following Participant's separation from service or termination of employment (or, if earlier, Participant's death), (ii) the determination as to whether Participant has had a termination of employment (or separation from service) shall be made in accordance with the provisions of Code Section 409A without application of any alternative levels of reductions of bona fide services permitted thereunder, and (iii) to the extent any such payment is conditioned upon the Participant's execution of a release and such payment is to be paid or provided during a designated period that begins in one taxable year and ends in a second taxable year, such payment shall be paid or provided in the later of the two taxable years.
- (c) If any payment hereunder (whether separately or together with any other payments) is subject to Code Section 409A, then in the event the Participant becomes entitled to shares under Section 2(d) upon a Change in Control in which the Performance Units are not effectively assumed, then such shares shall be paid upon such Change in Control only if the Change in Control is a "change in control event" within the meaning of Section 409A of the Code and the settlement of such Stock would be permissible under Code Section 409A; provided, however, in the event the Participant becomes entitled to shares under Section 2(d) following Participant's termination of employment following a Change in Control, such shares shall be paid at the time set forth in Section 2(d) only if the Change in Control is a "change in control event" within the meaning of Section 409A of the Code and, if applicable, such termination of employment occurs within two years following such Change in Control or the distribution would otherwise be permitted under Section 409A of the Code and, if the foregoing conditions are not satisfied, any shares deliverable under Section 2(d) shall be delivered at the time set forth in Section 2(c) or 2(g), as applicable.

20. **Restrictive Covenants.** Participant acknowledges that the Company is engaged in a highly competitive business and that the preservation of the Company's confidential information to which Participant has been exposed or acquired, and will continue to be exposed to and acquire, is critical to the Company's continued business success. Participant also acknowledges that the Company's relationships with its business partners, are extremely valuable and that, by virtue of Participant's employment with the Company, Participant has had or may have contact with such business partners on behalf of and for the benefit of the Company. As a result, Participant engaging in or working for or with any business which is directly or indirectly competitive with the Company's business, given Participant's knowledge of the Company's confidential information, would cause the Company great and irreparable harm if not done in strict compliance with the provisions of this Section 20. Participant, therefore, acknowledges and agrees that in exchange for this award of Performance Units (and/or the compensation provided in the employment agreement) and/or access to the Company's confidential information, Participant will be bound by, and comply in all respects with, the provisions of this Section 20.

- (a) Except as authorized by the Company in further of Participant's employment duties with the Company or any of its affiliates, Participant shall not, at any time during Participant's employment by the Company or any of its affiliates and for one (1) year after the termination thereof by either party for any or no reason, be engaged or interested (whether as principal, agent, consultant or otherwise) in any trade or business in the Mainland and Hong Kong Special Administrative Region of the People's Republic of China Participant has been involved or with which Participant has been concerned as part of Participant's employment with the Company or any of its affiliates and which is similar to, and by virtue of its location, competes with, any trade or business being carried on as at the date on which Participant's employment terminates by the Company or any of its affiliates (i.e., the restaurant industry including without limitation McDonalds' (金拱门), Burger King, Starbucks, Wendy's, Dicos, Popeye, Domino's Pizza, Subway, Little Caesars Pizza, Papa John's, Shake Shack, Tim Hortons, Luckin coffee, Costa, Manner's Coffee, Ajisen Raman (味千拉面), Zhen Kungfu (真功夫), YUNG HO KING (永和大王), Haidilao (海底捞), Xiabu Xiabu (呷哺呷哺), Little Lamb (小尾羊), By Faigo (小辉哥), Dolar Shop (豆捞坊) and Happy Lamb (快乐小羊)). The list will be periodically reviewed and amended as and when deemed necessary. Participant will be timely communicated of and hereby gives Participant's pre-consent to the changes, if any.
- (b) Except as authorized by the Company in further of Participant's employment duties with the Company or any of its affiliates, Participant shall not, at any time during Participant's employment by the Company or any of its affiliates and for two (2) years after the termination thereof by either party for any or no reason, solicit or endeavor to entice away from the Company or any of its affiliates any other employee or person engaged (whether or not such a person would commit any breach of contract by reason of leaving the service of the Company or any of its Affiliates), or any customer of the Company or any of its affiliates.
- (c) Except as provided below, Participant shall at all times not use for Participant's own advantage, or disclose to any third party any information concerning the business or affairs of the Company or any of its affiliates, comprising trade secrets and business matters or information which Participant knows or ought reasonably have known to be confidential. Notwithstanding anything in this Agreement to the contrary, nothing in this Agreement prohibits Participant from confidentially or otherwise communicating or filing a charge or complaint with, participating in an investigation by, or giving truthful testimony, statements, or other disclosures to, a governmental agency or regulatory entity (including without limitation communication directly with the U.S. Securities and Exchange Commission about a possible securities law violation), in each case without receiving prior authorization from or having to disclose such conduct to the Company, or if properly subpoenaed or otherwise legally required to do so. This Agreement also does not prohibit Participant from receiving an award (if any) under applicable law for providing truthful information to a governmental agency or regulatory entity. U.S. federal law provides that an individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made (1) in confidence to a Federal, State, or local

government official (either directly or indirectly) or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law; or (2) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Nothing in this Agreement limits or otherwise affects any such rights or creates liability for any such protected conduct. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual—(A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.

- (d) In recognition of the facts that irreparable injury will result to the Company and/or its affiliates in the event of a breach by Participant of any of Participant's obligations under Sections 20(a) through 20(c) above, that monetary damages for such breach would not be readily calculable, and that the Company and/or its affiliates would not have an adequate remedy at law therefor, Participant acknowledges, consents and agrees that, in the event of any such breach, or the threat thereof, the Company and/or its affiliates shall be entitled, in addition to any other legal remedies and damages available (including but not limited to payment of liquidated damages, with such liquidated damages to include all of the Company's and/or its affiliates' actual losses and/or the Participant's actual gains and the Company's and/or its affiliates' costs and expenses of enforcement, plus an additional 30% penalty), to specific performance thereof and to temporary and permanent injunctive relief (without the necessity of posting a bond) to restrain the violation or threatened violation of such obligations by Participant. Notwithstanding the foregoing, if the Participant materially violates any of Participant's obligations under Sections 20(a) through 20(c) above and such violation occurs on or before the third anniversary of the date of the Participant's termination of employment: (i) the Award shall be forfeited and (ii) any and all Performance Unit Proceeds (as hereinafter defined) shall be immediately due and payable by the Participant to the Company to the extent permitted by applicable law. For purposes of this Section, "Performance Unit Proceeds" shall mean, with respect to any portion of the Award which becomes vested later than 24 months prior to the date of the Participant's termination of employment or service with the Company, the Fair Market Value of a share of Stock on the date such portion of the Award became vested, multiplied by the number of shares of Stock that became vested. The remedy provided by this Section shall be in addition to and not in lieu of any rights or remedies which the Company may have against the Participant in respect of a breach by the Participant of any duty or obligation to the Company. The Participant agrees that by accepting the award of Performance Units the Participant authorizes the Company and its affiliates to deduct any amount or amounts owed by the Participant pursuant to this Section 20 from any amounts payable by or on behalf of the Company or any affiliate to the Participant, including, without limitation, any amount payable to the Participant as salary, wages, vacation pay, bonus or the vesting or settlement of this award of Performance Units or any other stock-based award, to the extent permitted by applicable law. This right of setoff shall not be an exclusive remedy and the Company's or an affiliate's election not to exercise this right of setoff with respect to any amount payable to the Participant shall not constitute a waiver of this right of setoff with respect to any other amount payable to the Participant or any other remedy.

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

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

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

By accepting the grant of the Performance Units and participating in the Plan, the Participant agrees to be bound by the terms and conditions in the Plan and this Agreement. This grant of Performance Units must be accepted by signing in the space below no later than the 60th day following the Grant Date.

Yum China Holdings, Inc.

By: _____
Its: _____

Participant

By: _____

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

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

Terms and Conditions

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

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

Notifications

This Addendum also includes information regarding exchange controls and certain other issues of which Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of **November 2016**. Such laws are often complex and change frequently. As a result, the Company strongly recommends that Participant not rely on the information in this Addendum as the only source of information relating to the consequences of Participant's participation in the Plan because the information may be out of date at the time that Performance Units vest or Participant sells Stock acquired at vesting of the Performance Units under the Plan.

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

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

CHINA

Terms and Conditions

The following provisions apply only to the Participant if based/residing in the Mainland of the People's Republic of China (the "PRC"), unless otherwise determined by the Company or required by the State Administration of Foreign Exchange ("SAFE"):

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

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

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

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

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

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

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

Notifications

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

YUM CHINA HOLDINGS, INC. LONG TERM INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

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

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

1. **Award.**

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

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

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

(a) **Assignment of Restricted Stock Units Prohibited.** The Restricted Stock Units may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of, except by will or the applicable laws of inheritance.

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

(c) **Termination of Service.** In the event Participant's service with the Company Group is terminated either (i) voluntarily by Participant (other than in connection with a Change in Control as described below or as a result of death or Retirement, as defined in Section 20), or (ii) involuntarily by a member of the Company Group for Cause (as defined in Section 20), Participant shall, for no consideration, forfeit all Restricted Stock Units to the extent they are not fully vested at the time of separation from service. Except as described below, in the event of termination of Participant's service with the Company Group prior to a Vesting Date for any other reason, including but not limited to, death, Retirement, or involuntary termination by a member of the Company Group other than for Cause, including without limitation, as a result of (i) a disposition (or similar transaction) with respect to an identifiable Company business or segment ("Business"), and in accordance with the terms of the transaction, Participant and a substantial portion of the other employees of the Business continue in employment with such Business or commence employment with its acquiror, (ii) the elimination of Participant's position within the Company Group, or (iii) the selection of Participant for work force reduction (whether selection is voluntary or involuntary), then the Restricted Stock Units will pro rata vest on a monthly basis for the Vesting Period in which the termination occurs such that a portion of Participant's otherwise unvested Restricted Stock Units for the Vesting Period in which the termination occurs will vest based on the time Participant was employed during such Vesting Period up to the last day of employment (as determined in accordance with Section 8 of this Agreement) and all Restricted Stock Units that remain unvested will be forfeited and the date of termination shall be treated as a Vesting Date for purposes of this Agreement.¹

(d) **Change in Control.**

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

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

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

¹ NTD: Pro-rata vesting to be modified depending on Vesting Schedule on cover page (i.e., equal annual increments v. irregular vesting schedule).

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

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

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

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

3. **Withholding of Tax.**

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

(b) Prior to any relevant taxable, tax and/or social security contribution withholding event, as applicable, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy their withholding obligations with respect to Tax-Related Items by one or a combination of the following (i) withholding from Participant's wages or other cash compensation paid to Participant by the Company, the Employer, or any Subsidiary; or (ii) withholding from the proceeds of the sale of shares of Stock acquired upon settlement of the Restricted Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization); or (iii) withholding in Stock to be issued upon settlement of the Restricted Stock Units, provided, however, that if Participant is a Section 16 officer of the Company under the Exchange Act, then Participant may elect the form of withholding from the alternatives above in advance of any taxable or tax withholding event, as applicable, and in the absence of Participant's timely election, the Company will withhold from proceeds of the sale of Stock upon the relevant

taxable or tax withholding event, as applicable, or the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) may determine that a particular method be used to satisfy any obligations for Tax-Related Items in advance of any taxable or tax withholding event, as applicable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. **Compensation Recovery Policy**

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

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

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

7. **Adjustment for Change in Stock**. As set forth in Section 4.2 of the Plan, in the event of any change in the outstanding shares of Stock by reason of any stock split, stock dividend, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the number of shares of Stock which Participant may receive upon settlement of the Restricted Stock Units shall be adjusted appropriately in the Committee’s sole discretion.

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

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

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

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

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

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

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

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

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

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

13. **Binding Effect.**

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

(b) This Agreement shall be binding upon and inure to the benefit of the Participant or his or her legal representative and any person to whom a Restricted Stock Unit may be transferred by will, the applicable laws of descent and distribution or consent of the Committee.

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

15. **Governing Law and Forum.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware. For purposes of resolving any dispute that may arise directly or indirectly from this Agreement, the parties hereby agree that any such dispute that cannot be resolved by the parties shall be submitted the Committee for resolution, and any decision by the Committee shall be final.

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

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

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

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

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

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

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

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

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

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

Yum China Holdings, Inc.

By: _____

Its: _____

ADDENDUM TO
YUM CHINA HOLDINGS, INC. LONG TERM INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT

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

Terms and Conditions

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

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

Notifications

This Addendum also includes information regarding exchange controls and certain other issues of which Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of **November 2016**. Such laws are often complex and change frequently. As a result, the Company strongly recommends that Participant not rely on the information in this Addendum as the only source of information relating to the consequences of Participant's participation in the Plan because the information may be out of date at the time that Restricted Stock Units vest or Participant sells Stock acquired at vesting of the Restricted Stock Units under the Plan.

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

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

CHINA

Terms and Conditions

The following provisions apply only to the Participant if based/residing in the Mainland of the People's Republic of China (the "PRC"), unless otherwise determined by the Company or required by the State Administration of Foreign Exchange ("SAFE"):

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

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

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

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

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

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

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

Notifications

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

YUM CHINA HOLDINGS, INC.
LONG TERM INCENTIVE PLAN

STOCK APPRECIATION RIGHTS AGREEMENT

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

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

1. **Award.**

(a) **Stock Appreciation Rights.** Pursuant to the Yum China Holdings, Inc. Long Term Incentive Plan (the “Plan”), Participant is hereby awarded, as of the Grant Date, on the terms and conditions set forth in this Stock Appreciation Rights Agreement, including any country-specific terms set forth in the attached addendum (the “Addendum” and, together with the Stock Appreciation Rights Agreement, the “Agreement”) and the Plan, Stock Appreciation Rights with respect to the aggregate number of shares of Stock set forth above (the “Covered Shares”), with an Exercise Price equal to the price set forth above, which was the Fair Market Value of a share of Stock on the Grant Date.

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

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

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

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

3. **Termination of Service or Change in Control.**

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

determined in accordance with Section 10 of this Agreement) and all Stock Appreciation Rights that remain unvested will be forfeited. In the event Participant's employment with the Company Group is terminated for Cause, Participant's outstanding Stock Appreciation Rights, whether vested or unvested, will be forfeited and become unexercisable upon such termination unless otherwise provided by the Committee.

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

(d) **Change in Control.**

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

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

4. **Withholding of Tax.**

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

to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Further, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

- (b) Prior to any relevant taxable, tax and/or social security contribution withholding event, as applicable, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy their withholding obligations with respect to Tax-Related Items by one or a combination of the following: (i) withholding from Participant's wages or other cash compensation paid to him or her by the Company and/or the Employer; or (ii) withholding from the proceeds of the sale of shares acquired upon exercise of a Stock Appreciation Right, either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization); or (iii) withholding in Stock to be issued upon exercise of the Stock Appreciation Right, provided, however, that if Participant is a Section 16 officer of the Company under the Exchange Act, then Participant may elect the form of withholding from the alternatives above in advance of any taxable or tax withholding event, as applicable, and in the absence of Participant's timely election, the Company will withhold from proceeds of the sale of Stock upon the relevant taxable or tax withholding event, as applicable, or the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) may determine that a particular method be used to satisfy any obligations for Tax-Related Items in advance of any taxable or tax withholding event, as applicable.
- (c) Depending on the withholding method, the Company or the Employer may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case Participant may receive a refund of any over-withheld amount in cash and will have no entitlement to the Stock equivalent. If the obligation for Tax-Related Items is satisfied by withholding in Stock, for tax purposes, Participant is deemed to have been issued the full number of shares of Stock subject to the exercised Stock Appreciation Rights, notwithstanding that a number of shares are held back solely for the purpose of paying the Tax-Related Items.
- (d) Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Participant's participation in the Plan that cannot be satisfied by the means described in this Section 4. The Company may refuse to honor the exercise and refuse to issue or deliver the Stock or the proceeds of the sale of Stock if Participant fails to comply with Participant's obligations in connection with the Tax-Related Items.

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

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
- (b) this award of Stock Appreciation Rights is voluntary and occasional and does not create any contractual or other right to receive future grants of Stock Appreciation Rights, or benefits in lieu of Stock Appreciation Rights, even if Stock Appreciation Rights have been awarded in the past;
- (c) the award of Stock Appreciation Rights and the shares of Stock subject to the Stock Appreciation Rights, and the income and value of same, are not part of normal or expected compensation or salary for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

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

6. **Compensation Recovery Policy.**

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

7. **No Advice Regarding Grant.** The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or his or her acquisition or sale of the underlying shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.
8. **Adjustment for Change in Stock.** As set forth in Section 4.2 of the Plan, in the event of any change in the outstanding shares of Stock by reason of any stock split, stock dividend, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the number of shares which Participant may purchase pursuant to the Stock Appreciation Rights and the Exercise Price at which Participant may purchase such shares shall be adjusted appropriately in the Committee's sole discretion.
9. **Nontransferability.** These Stock Appreciation Rights are personal to Participant and, during his or her lifetime, may be exercised only by Participant. The Stock Appreciation Rights shall not be transferable or assignable, other than by will or the laws of descent and distribution, and any such purported transfer or assignment shall be null and void without the express consent of the Committee. In the event of Participant's death, the Stock Appreciation Rights may be exercised by Participant's designated beneficiary (or, if none, his or her legal representative).
10. **Employment Relationship.** For purposes of this Agreement, Participant shall be considered to be in the employment of the Company Group as long as Participant remains an employee of the Company or any of its Subsidiaries or any successor companies assuming or substituting a new award for this award of Stock Appreciation Rights.

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

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

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

Participant understands that the Company and the Employer may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any Stock or directorships held in the Company, details of all awards of Stock Appreciation Rights or any other entitlement to Stock or

equivalent benefits awarded, canceled, purchased, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.

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

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

To the extent Participant has been provided with a copy of this Agreement, the Plan, or any other documents relating to this Award in a language other than English, the English language documents will prevail in case of any ambiguities or divergences as a result of translation.
14. **Committee's Powers.** No provision contained in this Agreement shall in any way terminate, modify or alter, or be construed or interpreted as terminating, modifying or altering any of the powers, rights or authority vested in the Committee or, to the extent delegated, in its delegate pursuant to the terms of the Plan or resolutions adopted in furtherance of the Plan, including, without limitation, the right to make certain determinations and elections with respect to the Stock Appreciation Rights.

15. **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.
16. **Binding Effect.**
- (a) This Agreement shall be binding upon and inure to the benefit of any assignee or successor in interest to the Company, whether by merger, consolidation or the sale of all or substantially all of the Company's assets. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.
- (b) This Agreement shall be binding upon and inure to the benefit of Participant or his or her legal representative and any person to whom a Stock Appreciation Right may be transferred by will, the applicable laws of descent and distribution or consent of the Committee.
17. **Compliance with Law.** Notwithstanding any other provision of the Plan or this Agreement, unless there is an available exemption from any registration, qualification or other legal requirement applicable to the shares of Stock, the Company shall not be required to deliver any shares issuable upon exercise of the Stock Appreciation Rights prior to the completion of any registration or qualification of the shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the United States Securities and Exchange Commission ("SEC") or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval the Company shall, in its absolute discretion, deem necessary or advisable. The Company is under no obligation to register or qualify the shares with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the shares. The Company shall have unilateral authority to amend the Plan and the Agreement without Participant's consent to the extent necessary to comply with securities or other laws applicable to issuance of shares.
- Furthermore, Participant understands that the laws of the country in which he or she is working at the time of grant or exercise of the Stock Appreciation Rights or at the subsequent sale of Stock acquired by Participant pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor or other matters) may subject Participant to additional procedural or regulatory requirements he or she is solely responsible for and will have to independently fulfill in relation to ownership or sale of such Stock.
18. **Insider Trading Restrictions/Market Abuse Laws.** Participant acknowledges that Participant may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including the United States and Participant's country, if different, which may affect Participant's ability to acquire or sell shares of Stock or rights to shares of Stock (e.g., Stock Appreciation Rights) under the Plan during such times as Participant is considered to have "inside information" regarding the Company (as defined by the laws in the applicable jurisdiction). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. Participant acknowledges that it is Participant's responsibility to comply with any applicable restrictions, and Participant is advised to speak to his or her personal advisor on this matter.
19. **Governing Law & Venue.** Participant's participation in the Plan and this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof.

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

20. **Addendum.** Notwithstanding any provisions herein, Participant's participation in the Plan shall be subject to any special terms and conditions set forth in the Addendum to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Addendum, the special terms and conditions for such country will apply to Participant, to the extent Committee determines in its sole discretion that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Addendum constitutes part of this Agreement.
21. **Imposition of Other Requirements.** The Committee reserves the right to impose other requirements on Participant's participation in the Plan and on any Stock acquired under the Plan, to the extent the Committee determines it is necessary or advisable for legal or administrative reasons, and to require Participant to accept the terms of any additional agreements or undertakings that may be necessary to accomplish the foregoing.
22. **Waiver.** Participant acknowledges that a waiver by the company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant
23. **Definitions.** As used in this Agreement, the following terms shall have the meanings set forth below:
- (a) **"Cause"** shall have the meaning set forth in any then applicable employment or other similar written agreement (including such similar term or concept, as determined by the Committee) between Participant and a member of the Company Group, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable. If there is no such written agreement or if such agreement does not define "Cause," the term "Cause" shall mean (i) the willful failure by Participant to perform Participant's duties with the Company or its affiliates (other than any such failure resulting from Participant's incapacity due to physical or mental illness), (ii) Participant's willful misconduct that is demonstrably and materially injurious to the Company or its affiliates, monetarily or otherwise, (iii) Participant's commission of acts of dishonesty, fraud, misrepresentation or other acts of moral turpitude, (iv) Participant's conviction or plea of no contest to a felony (or equivalent crime in the People's Republic of China) or a crime of moral turpitude, or (v) any terminable events under the Company's Code of Conduct, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable.
- (b) **"Good Reason"** shall have the meaning set forth in any then applicable employment or other similar written agreement (including such similar term or concept, as determined by the Committee) between Participant and the Company or an affiliate, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable. If there is no such written agreement or if such agreement does not define "Good Reason," then "Good Reason" shall be deemed to exist if, and only if, without Participant's written consent there is: (i) a substantial adverse alteration in the nature or status of Participant's responsibilities from those in effect immediately prior to the Change in Control; (ii) a material reduction by the Company in Participant's annual base salary or target annual incentive award opportunity as in effect on the date hereof or as the same may be increased from time to time; provided, however, that Participant's annual base salary or target annual incentive award opportunity may be decreased as part of an across-the-board reduction in base salaries and target annual incentive award opportunities of all Company executive officers so long as the percentage reduction in Participant's annual base salary or target annual incentive award opportunity is not greater than the percentage reduction applicable to other executive officers, for the same period as the reduction in other executive officer's reduction in annual base salary or target annual incentive award opportunity and, in the event such reduction is later mitigated for other executive

officers, Participant's annual base salary or target annual incentive award opportunity is then increased by the same percentage applicable to other executive officers; or (iii) the relocation of Participant's principal place of employment to a location more than 50 miles from Participant's principal place of employment immediately prior to the Change in Control or the Company requiring Participant to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's or its affiliates' business to an extent substantially consistent with Participant's business travel obligations immediately prior to the Change in Control, subject to the relevant provisions of applicable law in the People's Republic of China to the extent mandatorily and preemptively applicable. In order to terminate due to Good Reason, (A) Participant must notify the Company in writing of the occurrence of the Good Reason condition within thirty (30) days of Participant having actual or constructive knowledge of the occurrence of such condition, (B) Participant cooperates in good faith with the Company's efforts at no cost to Participant, for a period not less than thirty (30) days following such notice (the "Cure Period"), to remedy the condition, (C) notwithstanding such efforts, the Good Reason condition continues to exist after the expiration of the Cure Period, and (D) Participant terminates Participant's employment within thirty (30) days after the expiration of the Cure Period. For the avoidance of doubt, if the Company cures the Good Reason condition during the Cure Period, Good Reason shall be deemed not to have occurred.

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

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

Yum China Holdings, Inc.

By: _____
Its: _____

ADDENDUM TO

YUM CHINA HOLDINGS, INC. LONG TERM INCENTIVE PLAN

STOCK APPRECIATION RIGHTS AGREEMENT

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

Terms and Conditions

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

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

Notifications

This Appendix also includes information regarding exchange controls and certain other issues of which the Participant should be aware with respect to his or her participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of **August 2016**. Such laws are often complex and change frequently. As a result, the Company strongly recommends that the Participant not rely on the information in this Appendix as the only source of information relating to the consequences of the Participant's participation in the Plan because the information may be out of date at the time that Stock Appreciation Rights vest or the Participant sells Stock acquired at vesting of the Stock Appreciation Rights under the Plan.

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

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

CHINA

Terms and Conditions

The following provisions apply only to the Participant if based/residing in the Mainland of the People's Republic of China (the "PRC"), unless otherwise determined by the Company or required by the State Administration of Foreign Exchange ("SAFE"):

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

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

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

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

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

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

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

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

Notifications

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

CERTIFICATION

I, Joey Wat, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yum China Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2020

/s/ Joey Wat

Joey Wat

Chief Executive Officer

CERTIFICATION

I, Andy Yeung, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yum China Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2020

/s/ Andy Yeung

Andy Yeung
Chief Financial Officer

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

In connection with the Quarterly Report of Yum China Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Joey Wat, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 8, 2020

/s/ Joey Wat

Joey Wat

Chief Executive Officer

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

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

In connection with the Quarterly Report of Yum China Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Andy Yeung, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 8, 2020

/s/ Andy Yeung

Andy Yeung

Chief Financial Officer

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