2021
ANNUAL REPORT

Dear Stockholders,

In 2021, the world continued to navigate the challenges arising from the COVID-19 pandemic, which changed our lives and habits, and caused disruptions to many businesses. The restaurant industry was no exception. Nevertheless, Yum China stayed agile, remained laser-focused on execution, and delivered solid results. Our core capabilities held strong: operational excellence, a robust supply chain and industry-leading digital capabilities protected our business from major disruptions. Our store development and people development capabilities enabled us to open new stores at a record pace amid regional outbreaks. I want to express to our employees once again my deepest gratitude for their dedication and their tireless efforts to make these results possible.

Winston Churchill once said, "Never let a good crisis go to waste." I have been reflecting on what we can learn from these challenges and how Yum China can emerge even stronger. I would summarize the learnings in three letters: **RGM**. RGM stands for **R**estaurant **G**eneral **M**anagers — our most important employees; and for **R**esilience, **G**rowth and **M**oat — our strategic framework.

Fortifying Resilience

Yum China has a **track record of delivering solid financial results**. Before the pandemic, from 2016 to 2019, total revenues grew at a CAGR of 7% and operating profit grew at a CAGR of 12%. We generated \$5.6 billion in operating cash flows in the last five years, of which \$2.2 billion was generated during the pandemic period. We have maintained a strong balance sheet. Sufficient liquidity allows us to deal with contingencies, honor payments on time, and invest for growth, while still returning capital to shareholders.

The past two years have demonstrated the **resilience of our operations and business model**. Our teams have overcome operational challenges time and again, managing to keep most of our stores open to serve our customers and communities through all the disruptions. Our supply chain team has managed complexities and ensured supplies to our 11,000+ store network. Our marketing team has acted quickly to adjust marketing promotions to drive sales and capture the shift to off-premises consumption. Our hybrid delivery model has enabled us to grow delivery sales by 60% over 2019, while dine-in foot traffic has been severely impacted. Our operations team and other support functions have worked seamlessly to ensure excellent execution.

Our operating results improved significantly in the first half of 2021, when the COVID-19 situation was relatively stable. In the second half of the year, our business was significantly affected by regional outbreaks and more stringent public health measures. For the full year, we generated operating profit of \$1.4 billion and adjusted operating profit of \$766 million. Adjusted operating profit grew 5% year-over-year, despite receiving \$90 million less one-time relief from the government and landlords than we did in 2020. These solid results reflect the resilience of our business and the tremendous efforts of our teams.

Looking ahead, we will continue to fortify our core capabilities to be even more resilient, so that we can thrive in good times and bad. We will also continue to strengthen the fundamentals of our brands to unlock their growth potential.

$ 9.9 billion	$ 1.4 billion	$ 766 million	$ 1.1 billion
Total Revenues	Operating Profit	Adjusted Operating Profit	Operating Cash Flows

"$" refers to U.S. Dollar.

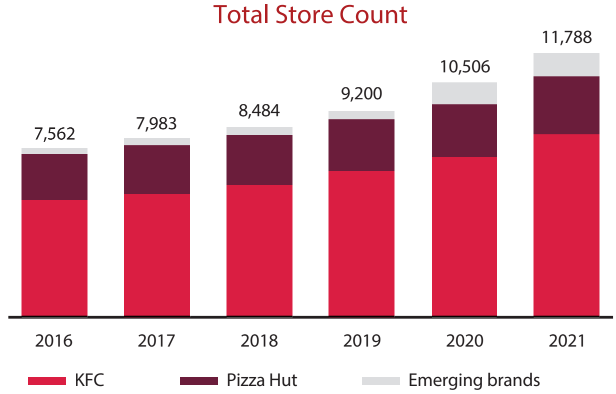
This letter contains "forward-looking statements". We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Refer to page 1 of our Annual Report on Form 10-K for additional information. This letter also refers to adjusted operating profit, a non-GAAP financial measure; refer to "Non-GAAP Measures" beginning on page 68 of our Annual Report on Form 10-K for additional information.

Average
5
new stores per day

Accelerating Growth

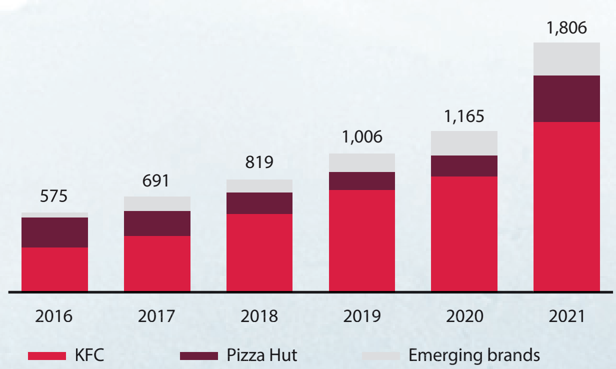
Over the past five years, we **accelerated expansion of our store footprint**, opening approximately 5,500 gross new stores. By the end of 2021, we had 11,788 stores, 55% more than five years ago.

Total Store Count



In 2021, with record openings of 1,806 gross new stores, we opened an average of five stores a day. But we are not just opening stores, we are opening quality stores. Our disciplined approach and systematic evaluation of each new store, combined with store format innovation, have enabled us to maintain **healthy store payback** periods of two years for KFC and three years for Pizza Hut.

Gross New Builds



We see tremendous growth opportunities in China, with continued urbanization, rising incomes, and lower store penetration than in more mature markets. We plan to expand our restaurant footprint further in existing cities and penetrate further into lower-tier cities. KFC and Pizza Hut will continue to lead the way on store growth among our brands. KFC has a presence in over 1,600 cities across China, yet there remain 1,100 cities where potential entry looks attractive. Even more cities remain untapped for Pizza Hut.

While still at an early stage in their development, our **emerging brands** are proving to be exciting growth opportunities. In particular, we are encouraged by the progress of our coffee businesses:

- K-Coffee remained a popular choice for consumers, with 170 million cups sold in 2021, over 20% more than a year ago.
- As we continued to fine-tune the business model of COFFii & JOY, same-store sales grew over 30% in 2021.
- Since opening the first Lavazza store in 2020, we have grown to 58 stores, covering all tier 1 cities and select tier 2 cities. We will focus on building brand awareness, improving the business model and driving sales.

Taco Bell grew from 12 to 37 stores in 2021. We are continuing to refine its business model to make the brand more relevant to Chinese consumers. I am confident that there is great potential for Taco Bell in China.

Huang Ji Huang and Little Sheep have been operating in a particularly tough environment for the past two years, given their greater reliance on dine-in. We will continue to focus on strengthening the fundamentals of both brands.

Widening Strategic Moat

Many competitive advantages underpin our success — unparalleled scale, extensive operating experience, advanced innovation capabilities, world-class supply chain management, and industry-leading digital capabilities. We intend to continue to widen our strategic moat.

We are committed to offering tasty food and great value through **product innovation.** In 2021, we again launched over 500 new and upgraded products. At KFC, we not only strengthened offerings of chicken products e.g., by introducing whole chicken and crispy chicken bone, we also added Angus and Wagyu beef burgers as permanent menu items. At Pizza Hut, we expanded the price range of our pizza offerings with more affordable options. We also introduced premium products such as Beef Wellington at very reasonable price points. At both KFC and Pizza Hut, we created new retail products (ready-to-cook, ready-to-heat and ready-to-eat) designed to capture higher demand for at-home consumption. With our extensive store network and online channels, we are well positioned to capitalize on this trend.

Our **world-class supply chain management** enabled our accelerated store growth and shielded us from material disruption throughout the pandemic. As we continue to grow our store network, it is essential that we expand our supply chain network apace. In 2021, we broke ground on new logistics centers in Chengdu and Jiangsu. We plan to reach 45 to 50 logistics centers over the next five years, enabling more extensive coverage across China. We are also transforming our supply chain with end-to-end intelligence enabled by advanced technologies such as the Internet of Things (IoT), Artificial Intelligence (AI) and automation.

Digital is another core growth enabler of Yum China — driving both sales and productivity.

Powered by mobile ordering and self-ordering kiosks, digital sales exceeded $7 billion, or over 85% of Company sales, in 2021. With 360 million members at the end of 2021, member sales accounted for approximately 60% of KFC and Pizza Hut total system sales. Our powerful digital capabilities and membership program enable us to reach our customers faster, serve them better, and at lower costs. Going forward, we are intent on building a customer-centric digital ecosystem to give our customers the service they deserve.

We are also actively applying digitization and automation to transform our back-of-house operations. With the help of technology, we have maintained a relatively stable base of employees, even as we have added more stores over the past few years. Going forward, we will continue to develop our back-of-house system, Super Brain, to streamline processes and aid our RGMs in making informed and timely decisions. We will also look for areas that we can automate to improve efficiency. To enhance digital solutions for our operations, we opened our digital R&D center in China in 2021. We also partner with industry experts to capture cutting-edge technologies.

>$ 7 billion
Digital Sales

~86 %
of Company Sales

Mission as a responsible corporate citizen

In these uncertain times, it is especially important to shoulder our responsibilities of being a corporate citizen, helping our employees and giving back to the communities we serve.

People

Our people are our **most important asset**. As we continue to expand, it is imperative to grow our people capabilities. We strive to develop high-caliber talent by empowering employees with individual skills and capabilities. We have a robust talent development strategy to build a leadership pipeline. Our systematic career planning program assists employees at all levels in progressing along their career development paths.

In appreciation of our front-line employees who have risen to meet the challenges of the pandemic, we have upgraded the medical insurance coverage of our RGMs, restaurant management teams and supervisors. These enhanced benefits cover around 100,000 frontline employees and their family members.

We are committed to fostering a **safe, inclusive and diverse organization**. We have set up 23 Angel Restaurants in China, striving to provide equal job opportunities for staff with special needs. At the end of 2021, women represented 65% of our total workforce and held 53% of our senior management level positions. In 2022, Yum China was certified a Top Employer in China and named to the Bloomberg Gender-Equality Index, both for the fourth consecutive year.

Community

We have a strong belief in **giving back to the communities** in which we work and live. During the pandemic, we ensured the continuity of vital services by keeping our restaurants open wherever possible. We provided donations, free meals, and volunteer service to medical workers on the frontline. We donated nearly 250,000 free meals to front-line workers in 2020 and 2021.

As a restaurant company, we are actively looking for opportunities for food waste reduction. Since 2020, our pilot food bank project, which provides unsold products to neighboring residents in need, has expanded to over 120 food banks in 27 cities across China.

Environment

Environmental responsibility is deeply ingrained throughout Yum China's value chain. We make every effort to minimize environmental impact, and our efforts have been recognized. We received an "A" rating in the latest MSCI Environmental, Social and Governance (ESG) Ratings and received one of the best scores in the Restaurant & Leisure Facilities Industry in the 2021 S&P Global Corporate Sustainability Assessment (CSA).

In 2021, we took an important and bold step forward by **committing to Science-Based Target initiatives,** including a goal to reach net zero value chain greenhouse gas (GHG) emissions by 2050. We are in the process of tracking and surveying GHG emissions for our entire value chain — comprising our own operations, franchisees, and upstream suppliers — in preparation for setting reduction targets and roadmaps. It will be a long journey, and we do not have all the solutions yet. But we are committed to making continuous progress because our responsibilities to future generations demand it.

Member of Dow Jones Sustainability Indices
Powered by the S&P Global CSA

MSCI ESG RATINGS A
CCC | B | BB | BBB | A | AA | AAA

top EMPLOYER 中国杰出雇主 CHINA 2022
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

Bloomberg Gender-Equality Index 2022

Joey Wat

Chief Executive Officer
Yum China Holdings, Inc.

Governance

Corporate governance has been a "secret ingredient" in our success. Incorporated in Delaware, Yum China upholds a **high standard of governance policies and practices**. All of my fellow board members are independent directors. They bring experience and skills from a wide range of companies and a diverse mix of regional, industry and professional expertise to Yum China. I would like to thank them for their wise counsel over the past few years, and I look forward to their continued engagement in making Yum China even stronger.

In March 2022, the U.S. Securities and Exchange Commission named Yum China a Commission-Identified Issuer under the Holding Foreign Companies Accountable Act (the "Act"). As a result, under the current terms of the Act we face possible delisting from the New York Stock Exchange in 2024. We have been working diligently and acting in the best interests of shareholders. We completed our secondary listing on the Hong Kong Stock Exchange in 2020. Shares listed on both stock exchanges are fully fungible and can be repositioned within a few days. Regardless of the final outcome of the Act, Yum China is committed to upholding the highest standards of corporate governance, business conduct and regulatory compliance.

Confident in the long-term opportunities despite near-term challenges

As I write this letter, China is battling its biggest COVID-19 outbreak yet. The situation has rapidly deteriorated since the beginning of March 2022. The highly transmissible Omicron variant has been surging across China, spreading to many provinces, including the economically important regions of Guangdong, Shanghai, Shandong and Jilin. In March alone, case counts including asymptomatic cases have surpassed that of the previous two years since COVID-19 first emerged. Stricter preventive health measures and containment measures have been imposed nationwide, including partial or complete city lockdowns with residents ordered to stay home. Our restaurant operations have been significantly impacted. But we are not standing still. We have been focusing on **execution and keeping our restaurants open** wherever and whenever it is possible and safe to do so. We have taken immediate actions to drive off-premise sales and control costs, such as promoting bulk orders for community delivery, simplifying menus and optimizing staff scheduling.

I am confident that our team can and will continue to hold the fort for our customers and shareholders by leveraging the experience gained from handling the various curve balls that have come our way over the years. I am equally confident that our solid business fundamentals will catapult us to new heights, once the world gets back to "normal".

Looking ahead, although we will continue to face near-term volatility and uncertainty, we have conviction that **long-term opportunities in China remain highly attractive**. In 2022, we are targeting 1,000 to 1,200 net new units. We expect capital investment to be in the range of $800 million to $1 billion, with more than half covering store opening and remodeling, while still providing for stepped-up investment in supply chain, infrastructure and digital. We also are committed to returning excess cash to shareholders: we resumed dividends in the fourth quarter of 2020 and share repurchases in the third quarter of 2021. In March 2022, the board of directors approved a further increase in the share repurchase authorization by $1 billion to an aggregate of $2.4 billion. The board's approval demonstrates Yum China's strong free cash flow generation capability and a powerful balance sheet.

I am confident that, with our **proven resiliency and strong capabilities**, Yum China is well-positioned to capture growth potential and generate shareholder value in the years ahead. Thank you for your trust and partnership; we are excited to continue on this journey with you.

Joey Wat
Chief Executive Officer

Yum China Holdings, Inc.

7100 Corporate Drive
Plano, Texas 75024
United States of America

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

April 14, 2022

Dear Fellow Stockholders:

We are pleased to invite you to attend the 2022 Annual Meeting of Stockholders of Yum China Holdings, Inc. (the "***Annual Meeting***"). The Annual Meeting will be held on Friday, May 27, 2022, at 8:00 a.m. Beijing/Hong Kong time (Thursday, May 26, 2022, at 8:00 p.m. U.S. Eastern time). Our Board of Directors determined that it is prudent to hold a virtual meeting again this year, in light of the continued public health concerns regarding the novel coronavirus (COVID-19) pandemic and related travel restrictions.

You may attend the Annual Meeting via the Internet at *www.virtualshareholdermeeting.com/YUMC2022*. To participate in the Annual Meeting, you will need the 16-digit control number which appears on your Notice of Internet Availability of Proxy Materials (the "***Notice***"), proxy card or the instructions that accompanied your proxy materials. The attached notice of annual meeting and proxy statement contain details of the business to be conducted at the Annual Meeting and the detailed procedures for attending, submitting questions and voting at the Annual Meeting. In addition, the Company's 2021 annual report, which is being made available to you along with the proxy statement, contains information about the Company and its performance.

Your vote is important. We encourage you to vote promptly, whether or not you plan to attend the Annual Meeting. You may vote your shares over the Internet or via telephone. If you received a paper copy of the proxy materials, you may complete, sign, date and mail the proxy card in the postage-paid envelope provided.

Sincerely,

Joey Wat
Chief Executive Officer

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Yum China Holdings, Inc.

Notice Of Annual Meeting Of Stockholders

Time and Date: 8:00 a.m. Beijing/Hong Kong time on Friday, May 27, 2022 /
8:00 p.m. U.S. Eastern time on Thursday, May 26, 2022.

Location: Online at *www.virtualshareholdermeeting.com/YUMC2022*.

Items of Business:

(1) To elect the 10 director nominees named in the accompanying proxy statement to serve for a one-year term expiring at the 2023 annual meeting of the Company's stockholders.

(2) To ratify the appointment of KPMG Huazhen LLP as the Company's independent auditor for 2022.

(3) To approve, on an advisory basis, the Company's named executive officer compensation.

(4) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Who Can Vote: You can vote if you were a stockholder of record as of the close of business on March 28, 2022.

Attending the Meeting: Stockholders of record as of the close of business on March 28, 2022 and the general public will be able to attend the Annual Meeting by visiting our Annual Meeting website at *www.virtualshareholdermeeting.com/YUMC2022*. To participate in the Annual Meeting, you will need the 16-digit control number included on your Notice, on your proxy card or on the instructions that accompanied your proxy materials.

The Annual Meeting will begin promptly at 8:00 a.m. Beijing/Hong Kong time on May 27, 2022 / 8:00 p.m. U.S. Eastern time on May 26, 2022. Online check-in will begin 15 minutes prior to the start of the meeting, and you should allow ample time for the online check-in procedures.

How to Vote: You may vote over the Internet or via telephone by following the instructions set forth in the accompanying proxy statement. If you received a paper copy of the proxy materials, you may also vote by completing, signing, dating and returning the proxy card. If you attend the Annual Meeting using your 16-digit control number, you may vote during the Annual Meeting. ***Your vote is important. Whether or not you plan to attend the Annual Meeting, please vote promptly.***

Date of Mailing: This notice of Annual Meeting, the accompanying proxy statement and the form of proxy are first being mailed to stockholders on or about April 14, 2022.

By Order of the Board of Directors,

Joseph Chan
Chief Legal Officer

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PROXY STATEMENT – TABLE OF CONTENTS

PROXY STATEMENT SUMMARY

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting.

MEETING INFORMATION

Time and Date:	8:00 a.m. Beijing/Hong Kong time on Friday, May 27, 2022 / 8:00 p.m. U.S. Eastern time on Thursday, May 26, 2022
Location:	Online at *www.virtualshareholdermeeting.com/YUMC2022*
Record Date:	March 28, 2022

HOW TO VOTE

Stockholders of record as of the close of business on March 28, 2022 may vote by using any of the following methods:

Before the Annual Meeting:

- Via **Internet** by following the instructions on *www.proxyvote.com*;
- Via **telephone** by calling 1 (800) 690-6903 (toll-free in the U.S.) and following the instructions provided by the recorded message; or
- Via **mail**, if you received your proxy materials by mail, by completing, signing, dating and mailing the proxy card in the postage-paid envelope provided.

Proxies submitted through the Internet or by telephone as described above must be received by 11:59 a.m. Beijing/Hong Kong time on May 26, 2022 / 11:59 p.m. U.S. Eastern time on May 25, 2022. Proxies submitted by mail must be received prior to the meeting.

During the Annual Meeting:

- Vote online **during the Annual Meeting**. You may vote during the Annual Meeting through *www.virtualshareholdermeeting.com/YUMC2022* using your 16-digit control number.

Even if you plan to attend the Annual Meeting, we encourage you to vote your shares by proxy. You may still vote your shares during the Annual Meeting even if you have previously voted by proxy.

If you hold your shares in the name of a bank, broker or other nominee, your ability to vote depends on their voting processes. Please follow the directions of your bank, broker or other nominee carefully.

ITEMS OF BUSINESS

Proposal	Board Voting Recommendation	Page Reference
1. Election of the 10 Director Nominees Named in this Proxy Statement to Serve for a One-Year Term	FOR each nominee	26
2. Ratification of the Appointment of KPMG Huazhen LLP as the Company's Independent Auditor for 2022	FOR	32
3. Advisory Vote on Named Executive Officer Compensation	FOR	34

COMPANY OVERVIEW

Yum China Holdings, Inc., a Delaware corporation (the "***Company***," "***we***," "***us***" or "***our***") is the largest restaurant company in China in terms of system sales, with $9.9 billion of revenues in 2021 and over 11,700 restaurants as of year-end 2021. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell and East Dawning. We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China (excluding Hong Kong, Macau and Taiwan), and own the intellectual property of the Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning concepts outright.

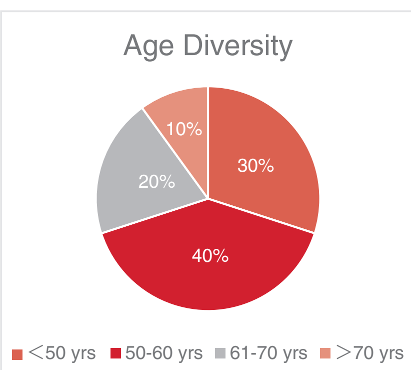
SUMMARY INFORMATION REGARDING NOMINEES

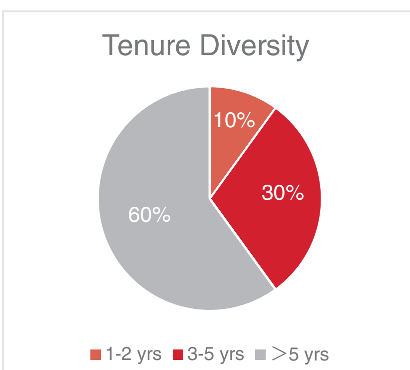
The following table provides summary information about each of the nominees to our board of directors (the "***Board of Directors***" or the "***Board***").

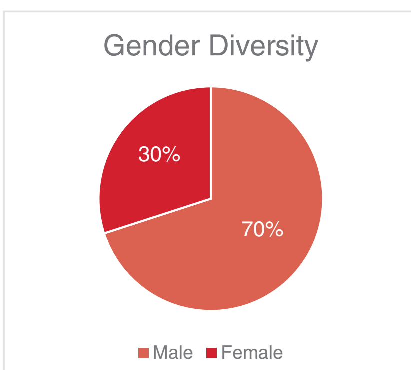
Name	Age	Director Since	Primary Occupation	Independent	Board Committee Membership as of April 14, 2022			
					A	C	G	F
Fred Hu (Chairman)	58	2016	Chairman and founder of Primavera Capital Group	✓			CC	
Joey Wat	50	2017	Chief Executive Officer of the Company					
Peter A. Bassi	72	2016	Former Chairman of Yum! Restaurants International	✓	CC			X
Edouard Ettedgui	70	2016	Non-Executive Chairman of Alliance Française, Hong Kong	✓		X	X	X
Cyril Han	44	2019	Chief Financial Officer of Ant Group Co., Ltd.	✓	X			
Louis T. Hsieh	57	2016	Global Chief Financial Officer of Hesai Technology	✓	X			X
Ruby Lu	51	2016	Venture capitalist	✓		CC	X	
Zili Shao	62	2016	Non-executive Chairman of Fangda Partners	✓	X			CC
William Wang	47	2017	Partner of Primavera Capital Group	✓		X		
Min (Jenny) Zhang	48	2021	Former Vice-chairlady of Huazhu Group Limited	✓	X	X	X	

A – Audit Committee; C – Compensation Committee; G – Nominating and Governance Committee; F – Food Safety and Sustainability Committee; CC – Committee Chair

The following charts summarize the diversity of our director nominees.







GOVERNANCE HIGHLIGHTS

The Board believes that good corporate governance is a critical factor in achieving business success and in fulfilling the Board's responsibilities to stockholders. The Board believes that its principles and practices align management and stockholder interests. Highlights include:

Director Independence

- Independent Board Chairman
- 9 of 10 director nominees are independent

Director Elections and Attendance

- Annual election of all directors
- Majority voting policy for elections of directors in uncontested elections
- Proxy access for director nominees by stockholders
- 99% director attendance at Board and committee meetings in 2021

Board Refreshment and Diversity

- Board Diversity Policy
- Directors with experience, qualifications and skills across a wide range of public and private companies
- Directors reflect diversity of age, gender, race and nationality
- Average director nominee age of 56 as of April 14, 2022
- Independent and non-management directors may generally not stand for re-election after age 75

Other Governance Practices

- Stockholders holding at least 25% of the Company's outstanding shares have the right to call special meetings
- Active stockholder engagement
- No shareholder rights plan (also known as a poison pill)
- Director and executive officer stock ownership policies
- Policy prohibiting hedging or other speculative trading of Company stock
- Policy regarding resignation if any director experiences a significant change in professional roles and responsibilities
- Board access to senior management and independent advisors

WHERE YOU CAN FIND ADDITIONAL INFORMATION

Our Investor Relations website is located at *ir.yumchina.com*. Although the information contained on or connected to our website is not part of this proxy statement, you can view additional information on our website, such as our 2021 annual report, the charters of our Board committees, our Corporate Governance Principles, our Code of Conduct and reports that we file with the Securities and Exchange Commission (the "***SEC***") and the Stock Exchange of Hong Kong Limited (the "***Hong Kong Stock Exchange***" or the "***HKEX***"). Copies of these documents may also be obtained free of charge by writing to Yum China Holdings, Inc., 7100 Corporate Drive, Plano, Texas 75024, or Yum China Holdings, Inc., Yum China Building, 20 Tian Yao Qiao Road, Shanghai 200030 People's Republic of China, Attention: Corporate Secretary.

QUESTIONS AND ANSWERS ABOUT THE MEETING AND VOTING

The Board of Directors of Yum China Holdings, Inc. solicits the enclosed proxy for use at the Annual Meeting to be held at 8:00 a.m. Beijing/Hong Kong time on Friday, May 27, 2022 / 8:00 p.m. U.S. Eastern time on Thursday, May 26, 2022. The Annual Meeting will be held in a virtual-only format, through a live audio webcast. The meeting will only be conducted via webcast; there will be no physical meeting location. This proxy statement contains information about the matters to be voted on at the Annual Meeting and the voting process, as well as information about our directors and most highly paid executive officers.

What is the purpose of the Annual Meeting?

At the Annual Meeting, stockholders will vote on several important Company matters. In addition, our management will report on the Company's performance over the last fiscal year and, following the meeting, respond to questions from stockholders.

Why am I receiving these materials?

You received these materials because our Board of Directors is soliciting your proxy to vote your shares at the Annual Meeting. As a stockholder of record as of the close of business on March 28, 2022, you are invited to attend the Annual Meeting and are entitled to vote on the items of business described in this proxy statement.

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?

As permitted by SEC rules, we are making this proxy statement and our 2021 annual report available to our stockholders electronically via the Internet. On or about April 14, 2022, we mailed to our stockholders the Notice containing instructions on how to access this proxy statement and our 2021 annual report and vote online. If you received a Notice by mail, you will not receive a printed copy of the proxy materials unless you request a copy. The Notice contains instructions on how to access and review all of the important information contained in the proxy statement and the annual report. The Notice also instructs you on how you may submit your proxy over the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials contained on the Notice.

We encourage you to take advantage of the availability of the proxy materials on the Internet in order to help lower the costs of delivery and reduce the Company's environmental impact.

Why is the Annual Meeting a virtual meeting this year?

In light of the continued public health concerns regarding the COVID-19 pandemic and related travel restrictions, the Board of Directors has determined that it is prudent to hold the Annual Meeting in a virtual-only format, conducted via live audio webcast.

The Board of Directors has been monitoring the impact of the COVID-19 pandemic, including with regard to the health and well-being of our employees and stockholders, as well as the related government-imposed restrictions on travel. Hosting the Annual Meeting in a virtual-only format protects our employees and stockholders during this time. It provides easy access for stockholders and facilitates participation without the need to travel, since stockholders can participate from any location around the world.

How do I attend the Annual Meeting?

The Annual Meeting will be held in a virtual-only format, through a live audio webcast. The Annual Meeting will only be conducted via webcast; there will be no physical meeting location. Stockholders of record as of the close of business on March 28, 2022 and the general public will be able to attend the Annual Meeting by visiting our Annual Meeting website at *www.virtualshareholdermeeting.com/YUMC2022*. To participate in the Annual Meeting, you will need the 16-digit control number included on your Notice, on your proxy card or on the instructions that accompanied your proxy materials.

The Annual Meeting will begin promptly at 8:00 a.m. Beijing/Hong Kong time on May 27, 2022 / 8:00 p.m. U.S. Eastern time on May 26, 2022. Online check-in will begin 15 minutes prior to the start of the meeting, and you should allow ample time for the online check-in procedures. We encourage our stockholders to access the meeting prior to the start time.

May stockholders ask questions?

Yes. Stockholders will have the ability to submit questions during the Annual Meeting via the Annual Meeting website. As part of the Annual Meeting, we will hold a live Q&A session, during which we intend to answer all questions submitted during the meeting in accordance with the Annual Meeting's Rules of Conduct which are pertinent to the Company and the meeting matters, as time permits.

What if I have technical difficulties or trouble accessing the Annual Meeting?

Beginning 30 minutes prior to the start of and during the Annual Meeting, you may contact 1 (844) 986-0822 (U.S.) or 1 (303) 562-9302 (International) for technical assistance.

Who may vote?

You may vote if you owned any shares of Company common stock as of the close of business on the record date, March 28, 2022. Each share of Company common stock is entitled to one vote. As of March 28, 2022, there were 423,694,283 shares of Company common stock outstanding.

What am I voting on?

You will be voting on the following three items of business at the Annual Meeting:

- The election of the 10 director nominees named in this proxy statement to serve for a one-year term;
- The ratification of the appointment of KPMG Huazhen LLP as the Company's independent auditor for 2022; and
- The approval, on an advisory basis, of the Company's named executive officer compensation.

We will also consider other business that properly comes before the meeting.

How does the Board of Directors recommend that I vote?

Our Board of Directors recommends that you vote your shares:

- **FOR** each of the 10 nominees named in this proxy statement for election to the Board;
- **FOR** the ratification of the appointment of KPMG Huazhen LLP as our independent auditor for 2022; and
- **FOR** the proposal on named executive officer compensation.

How do I vote before the Annual Meeting?

There are three ways to vote before the meeting:

- By **Internet**—we encourage you to vote online at *www.proxyvote.com* by following instructions on the Notice or proxy card;
- By **telephone**—you may vote by making a telephone call to 1 (800) 690-6903 (toll-free in the U.S.); or
- By **mail**—if you received your proxy materials by mail, you may vote by completing, signing, dating and mailing the proxy card in the postage-paid envelope provided.

Proxies submitted through the Internet or by telephone as described above must be received by 11:59 a.m. Beijing/Hong Kong time on May 26, 2022 / 11:59 p.m. U.S. Eastern time on May 25, 2022. Proxies submitted by mail must be received prior to the meeting.

If you hold your shares in the name of a bank, broker or other nominee, your ability to vote before the Annual Meeting depends on their voting processes. Please follow the directions of your bank, broker or other nominee carefully.

Can I vote during the Annual Meeting?

Yes. To vote during the Annual Meeting, you will need the 16-digit control number included on your Notice, on your proxy card, or on the instructions that accompanied your proxy materials. Even if you plan to attend the Annual Meeting, we encourage you to vote your shares by proxy. You may still vote your shares during the Annual Meeting even if you have previously voted by proxy.

If you hold your shares in the name of a bank, broker or other nominee, your ability to vote during the Annual Meeting depends on their voting processes. Please follow the directions of your bank, broker or other nominee carefully.

Can I change my mind after I vote?

You may change your vote at any time before the polls close at the Annual Meeting. You may do this by:

- signing another proxy card with a later date and returning it to us for receipt prior to the Annual Meeting;
- voting again through the Internet or by telephone prior to 11:59 a.m. Beijing/Hong Kong time on May 26, 2022 / 11:59 p.m. U.S. Eastern time on May 25, 2022;
- giving written notice to the Corporate Secretary of the Company prior to the Annual Meeting; or
- voting again during the Annual Meeting.

If you hold your shares in the name of a bank, broker or other nominee, your ability change your vote depends on their voting processes. Please follow the directions of your bank, broker or other nominee carefully.

Who will count the votes?

Representatives of Broadridge Financial Solutions will count the votes and will serve as the independent inspector of election.

What if I return my proxy card but do not provide voting instructions?

If you vote by proxy card, your shares will be voted as you instruct by the individuals named on the proxy card. If you sign and return a proxy card but do not specify how your shares are to be voted, the persons named as proxies on the proxy card will vote your shares in accordance with the recommendations of the Board set forth on page 2.

What does it mean if I receive more than one Notice or proxy card?

If you received more than one Notice or proxy card, it means that you have multiple accounts with brokers and/or our transfer agent. Please vote all of these shares. We recommend that you contact your broker and/or our transfer agent to consolidate as many accounts as possible under the same name and address. Our U.S. transfer agent is Computershare Trust Company, N.A., which may be reached at 1 (877) 854-0865 (U.S.) and 1 (781) 575-3102 (International). Computershare Investor Services Limited, which can be reached at 852-2862-8500 (Hong Kong), acts as our co-transfer agent to maintain the Hong Kong share register.

Will my shares be voted if I do not provide my proxy?

Your shares may be voted on certain matters if they are held in the name of a brokerage firm, even if you do not provide the brokerage firm with voting instructions. Brokerage firms have the authority under the New York Stock Exchange (the "***NYSE***") rules to vote shares for which their customers do not provide voting instructions on certain "routine" matters.

The proposal to ratify the appointment of KPMG Huazhen LLP as our independent auditor for 2022 is considered a routine matter for which brokerage firms may vote shares for which they have not received voting instructions. The other matters to be voted on at our Annual Meeting are not considered "routine" under applicable rules. When a matter is not a routine matter and the brokerage firm has not received voting instructions from the beneficial owner of the shares with respect to that matter, the brokerage firm cannot vote the shares on that proposal. This is called a "broker non-vote."

How many votes must be present to hold the Annual Meeting?

Your shares are counted as present at the Annual Meeting if you attend the Annual Meeting via webcast using your 16-digit control number or if you properly submit a proxy by Internet, telephone or mail. In order for us to conduct our Annual Meeting, a majority of the shares of Company common stock outstanding as of March 28, 2022 must be present via webcast or represented by proxy at the Annual Meeting. This is referred to as a "quorum." Abstentions and broker non-votes will be counted for purposes of establishing a quorum at the Annual Meeting.

How many votes are needed to elect directors?

You may vote "FOR" each nominee or "AGAINST" each nominee, or "ABSTAIN" from voting on one or more nominees. Unless you mark "AGAINST" or "ABSTAIN" with respect to a particular nominee or nominees or for all nominees, your proxy will be voted "FOR" each of the director nominees named in this proxy statement. In an uncontested election, a nominee will be elected as a director if the number of "FOR" votes exceeds 50% of the number of votes cast with respect to that director's election. Abstentions will be counted as present but not voted. Abstentions and broker non-votes will not affect the outcome of the election of directors. Full details of the Company's majority voting policy are set out in our Corporate Governance Principles and are described under "Governance of the Company—Majority Voting Policy."

How many votes are needed to approve the other proposals?

Proposals 2 and 3 must receive the "FOR" vote of a majority of the shares of our common stock, present via webcast or represented by proxy, and entitled to vote at the Annual Meeting. For each of these proposals, you may vote "FOR," "AGAINST" or "ABSTAIN." Abstentions will be counted as shares present and entitled to vote at the Annual Meeting. Accordingly, abstentions will have the same effect as a vote "AGAINST" Proposals 2 and 3. Broker non-votes will not be counted as shares present and entitled to vote with respect to the particular matter on which the broker has not voted. Thus, broker non-votes will not affect the outcome of either of these proposals.

When will the Company announce the voting results?

The Company will announce the voting results of the Annual Meeting on a Current Report on Form 8-K filed with the SEC within four business days of the Annual Meeting. The voting results will also be filed with HKEX simultaneously.

What if other matters are presented for consideration at the Annual Meeting?

The Company knows of no other matters to be submitted to the stockholders at the Annual Meeting, other than the proposals referred to in this proxy statement. If any other matters properly come before the stockholders at the Annual Meeting, it is the intention of the persons named on the proxy to vote the shares represented thereby on such matters in accordance with their best judgment.

GOVERNANCE OF THE COMPANY

The business and affairs of the Company are managed under the direction of the Board of Directors. The Board believes that good corporate governance is a critical factor in achieving business success and in fulfilling the Board's responsibilities to stockholders. The Board believes that its practices align management and stockholder interests.

The corporate governance section of our website makes available certain of the Company's corporate governance materials, including our Corporate Governance Principles, the charters for each committee and our Code of Conduct. To access these documents on our Investor Relations website, *ir.yumchina.com*, click on "About Yum China" and then "Corporate Governance."

Highlights of our corporate governance policies and practices are described below.

Director Independence	• Independent Board Chairman • 9 of 10 director nominees are independent
Director Elections and Attendance	• Annual election of all directors • Majority voting policy for elections of directors in uncontested elections • Proxy access for director nominees by stockholders • 99% director attendance at Board and committee meetings in 2021
Board Refreshment and Diversity	• Board Diversity Policy • Directors with experience, qualifications and skills across a wide range of public and private companies • Directors reflect diversity of age, gender, race and nationality • Average director nominee age of 56 as of April 14, 2022 • Independent and non-management directors may generally not stand for re-election after age 75
Other Governance Practices	• Stockholders holding at least 25% of the Company's outstanding shares have the right to call special meetings • Active stockholder engagement • No shareholder rights plan (also known as a poison pill) • Director and executive officer stock ownership policies • Policy prohibiting hedging or other speculative trading of Company stock • Policy regarding resignation if any director experiences a significant change in professional roles and responsibilities • Board access to senior management and independent advisors

What is the composition of the Board of Directors and how often are members elected?

Our Board of Directors presently consists of 10 directors, and all directors are standing for re-election at the Annual Meeting. Each director is elected for a one-year term.

How often did the Board meet in 2021?

Directors are expected, absent extraordinary circumstances, to attend all Board meetings and meetings of committees on which they serve. Our Board met 5 times and the committees collectively met 26 times during 2021. In 2021, overall attendance at Board and committee meetings was 99% and all directors attended at least 75% of the aggregate total of meetings of the Board and committees on which the director served. Our independent directors meet privately in executive session without management present at each regularly scheduled Board meeting. Our independent Chairman leads these Board executive sessions.

What is the Board's policy regarding director attendance at the Annual Meeting?

All directors are encouraged to attend the Annual Meeting. All incumbent directors attended the 2021 annual meeting of the Company's stockholders.

How are director nominees selected?

The Nominating and Governance Committee is responsible for recommending director candidates to the full Board for nomination and election at the annual meetings of stockholders. The Nominating and Governance Committee's charter provides that it may retain a third-party search firm to identify candidates from time to time. When the Nominating and Governance Committee engages a search firm, it provides the firm with guidance as to the skills, experience and qualifications that it is seeking in potential candidates, which may include, among other things, new directors who would contribute to the collective diversity of the Board. The Nominating and Governance Committee will interview a director candidate before the candidate is submitted to the full Board for approval.

The Nominating and Governance Committee will also consider director candidates recommended by stockholders or other sources in the same manner as nominees identified by the Committee. For a stockholder to submit a candidate for consideration by the Nominating and Governance Committee, a stockholder must notify the Company's Corporate Secretary by mail at Yum China Holdings, Inc., 7100 Corporate Drive, Plano, Texas 75024 or at Yum China Holdings, Inc., Yum China Building, 20 Tian Yao Qiao Road, Shanghai 200030, People's Republic of China.

In accordance with the Corporate Governance Principles, our Board seeks members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have experience in positions with a high degree of responsibility and be leaders in the companies or institutions with which they are affiliated, and are selected based upon contributions they can make to the Board and management. The Nominating and Governance Committee seeks to complete customary vetting procedures and background checks with respect to individuals suggested for potential Board membership by stockholders of the Company or other sources. We believe that each of our directors and director nominees has met the guidelines set forth in the Corporate Governance Principles.

The Company is party to a shareholders agreement with Primavera Capital Group ("***Primavera***"), and API (Hong Kong) Investment Limited, an affiliate of Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. (currently known as Ant Group Co., Ltd., "***Ant Group***") pursuant to which Primavera has identified two director designees, Dr. Fred Hu and Mr. William Wang. In addition, Mr. Cyril Han served as the non-voting Board observer designated by Ant Group since November 2016 and was elected as a director at the 2019 annual meeting of the Company's stockholders.

What are the directors' qualifications and skills?

As listed below, our directors have experience, qualifications and skills across a wide range of public and private companies spanning many different industries, possessing a broad spectrum of experience both individually and collectively. They possess a diverse mix of regional, industry and professional expertise.

	Executive Leadership	Industry	Information Technology	Regional (China/Asia Pacific)	Public Company Board
Fred Hu	✓		✓	✓	✓
Joey Wat	✓	✓		✓	✓
Peter A. Bassi	✓	✓			✓
Edouard Ettedgui	✓	✓		✓	✓
Cyril Han	✓		✓	✓	✓
Louis T. Hsieh	✓		✓	✓	✓
Ruby Lu	✓		✓	✓	✓
Zili Shao	✓			✓	✓
William Wang	✓		✓	✓	✓
Min (Jenny) Zhang	✓	✓		✓	✓

How does the composition of our Board reflect diversity?

The Nominating and Governance Committee seeks to recommend nominees that bring a unique perspective to the Board in order to contribute to the collective diversity of the Board. The Board believes that having directors of diverse backgrounds helps the Board better oversee the Company's management and operations and assess risk and opportunities for the Company's business model from a variety of perspectives. Under our Board Diversity Policy, diversity is broadly construed to mean a variety of perspectives, skills, personal and professional experiences and backgrounds, and other characteristics represented in both visible and non-visible ways that include, but are not limited to, age, gender, race and nationality. As a part of the director nominating process, the Nominating and Governance Committee considers several factors to ensure the entire Board collectively embraces a wide variety of characteristics. Each director nominee will generally exhibit different and varying degrees of these characteristics. With respect to the Company's current slate of director nominees, the Company also benefits from the diversity inherent from differences in Board member age, gender, race and nationality. Thirty percent of director nominees are women.

Can stockholders nominate directors for election to the Board?

Yes, under our Amended and Restated Bylaws (the "***Bylaws***"), stockholders may nominate persons for election as directors at an annual meeting by following the procedures described under "Additional Information."

What is the Board's leadership structure?

Our Board is currently led by an independent Chairman, Dr. Fred Hu. Our Board believes that Board independence and oversight of management are effectively maintained through a strong independent Chairman and through the Board's composition, committee system and policy of having regular executive sessions of non-management directors, all of which are discussed below this section. Further, separating the Chairman and Chief Executive Officer roles enables the Chairman to focus on corporate governance matters and the Chief Executive Officer to focus on the Company's business. We find that this structure works well to foster an open dialogue and constructive feedback among the independent directors and management. It further allows the Board to effectively represent the best interests of all stockholders and contribute to the Company's long-term success.

To promote effective independent oversight, the Board has adopted a number of governance practices discussed below.

What are the Company's governance policies and ethical guidelines?

- **Board Committee Charters.** The Audit Committee, Compensation Committee, Nominating and Governance Committee and Food Safety and Sustainability Committee of the Board of Directors operate pursuant to their respective written charters. These charters were approved by the Board of Directors and are reviewed annually by the respective committees. Each charter is available on the Company's website at *ir.yumchina.com*.

- **Governance Principles.** The Board of Directors has adopted Corporate Governance Principles, which are intended to embody the governance principles and procedures by which the Board functions. These principles are available on the Company's website at *ir.yumchina.com*.

- **Ethical Guidelines.** Yum China's Code of Conduct was adopted to emphasize the Company's commitment to the highest standards of business conduct. The Code of Conduct also sets forth information and procedures for employees to report ethical or accounting concerns, misconduct or violations of the Code of Conduct in a confidential manner. The Code of Conduct applies to all directors and employees of the Company, including the principal executive officer, the principal financial officer and the principal accounting officer. All employees of the Company are required, on an annual basis, to complete the Yum China Code of Conduct Questionnaire and certify in writing that they have read and understand the Code of Conduct. The Code of Conduct is available on the Company's website at *ir.yumchina.com*. The Company intends to post amendments to or waivers from the Code of Conduct (to the extent applicable to directors or executive officers and required by the rules of the SEC, NYSE or HKEX) on this website.

What other significant Board governance practices does the Company have?

- **Annual Election of Directors.** In accordance with our Amended and Restated Certificate of Incorporation, our directors are elected to serve a one-year term and until their successors are elected and qualified or until their earlier death, resignation or removal.

- **Role of Lead Director.** Our Corporate Governance Principles require the independent directors to appoint a Lead Director when the Chairman does not qualify as independent in accordance with the applicable rules of the NYSE. The Company currently does not have a Lead Director because the Chairman of the Board is independent.

- **Executive Sessions.** Our independent and non-management directors meet regularly in executive session. The executive sessions are attended only by the independent and non-management directors and are presided over by the independent Chairman. Our independent directors also meet in executive session at least once per year.

- **Board and Committee Evaluations.** The Board recognizes that a thorough, constructive evaluation process enhances our Board's effectiveness and is an essential element of good corporate governance. Each year, the Nominating and Governance Committee oversees the design and implementation of the evaluation process, focused on the Board's contribution to the Company and on areas in which the Board believes a better contribution could be made. In addition, each of the Audit Committee, the Compensation Committee, the Nominating and Governance Committee and the Food Safety and Sustainability Committee also conducts a similar annual self-evaluation pursuant to their respective charters. Written questionnaires completed by each director, as well as discussions with selected directors, solicit feedback on a wide range of issues, including Board/committee composition and leadership, meetings, responsibilities and overall effectiveness. A summary of the Board and committee evaluation results is discussed with the Board and with the respective committees, and policies and practices are updated in response to the evaluation results. Director suggestions for improvements to evaluation questionnaires and processes are considered for incorporation for the following year.

- **Retirement Policy.** Pursuant to our Corporate Governance Principles, independent or non-management directors may not stand for re-election to the Board after they have reached the age of 75, unless the Board unanimously elects to have the director stand for re-election.

- **Limits on Director Service on Other Public Company Boards.** Our Corporate Governance Principles provide that directors may serve on no more than four other public company boards. The Company's Chief Executive Officer, if a director, may serve on no more than one other public company board. All directors are expected to advise the Chairman and the Chair of the Nominating and Governance Committee prior to accepting any other public company directorship or any assignment to the audit committee or compensation committee of other public company boards.

- **Majority Voting Policy.** Our Bylaws require majority voting for the election of directors in uncontested elections. This means that director nominees in an uncontested election for directors must receive a number of votes "FOR" their election in excess of 50% of the number of votes cast with respect to that director's election. The Corporate Governance Principles further provide that any incumbent director who does not receive a majority of "FOR" votes will promptly tender to the Board his or her resignation from the Board. The resignation will specify that it is effective upon the Board's acceptance of the resignation. The Board will, through a process managed by the Nominating and Governance Committee and excluding the nominee in question, accept or reject the resignation and publicly disclose the Board's decision regarding the resignation and the rationale behind the decision within 90 days from the date of the certification of the election results.

- **Access to Management and Employees.** Our directors have complete and open access to senior members of management. Our Chief Executive Officer invites key employees of the Company to attend Board sessions at which the Chief Executive Officer believes they can meaningfully contribute to Board discussion.

- **Access to Outside Advisors.** The Board and Board committees have the right to consult and retain independent legal and other advisors at the expense of the Company. The Audit Committee has the sole authority to appoint, determine funding for and replace the independent auditor. The Compensation Committee has the sole authority to retain any advisor to assist it in the performance of its duties, after taking into consideration all factors relevant to the advisor's independence from management. The Nominating and Governance Committee has the sole authority to retain search firms to be used to identify director candidates. The Food Safety and Sustainability Committee has the authority to consult and retain any advisor to assist it in connection with the exercise of its responsibilities and authority.

What is the Board's role in risk oversight?

The Board maintains overall responsibility for overseeing the Company's risk management framework. In furtherance of its responsibility, the Board has delegated specific risk-related responsibilities to the Audit Committee, the Compensation Committee and the Food Safety and Sustainability Committee.

Audit Committee

The Audit Committee engages in substantive discussions with management regarding the Company's major risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies. Our Head of Corporate Audit reports directly to the Audit Committee, as well as our Chief Financial Officer. The Audit Committee also receives reports at each committee meeting regarding legal and regulatory risks from management and meets periodically in separate executive sessions with our independent auditor and our Head of Corporate Audit. The Chief Legal Officer reports regularly to the Audit Committee on the Company's key risk areas and compliance programs. The Audit Committee periodically provides a summary to the full Board of the risk areas reviewed together with any other risk-related subjects discussed at the Audit Committee meeting. Alternatively, the Board may review and discuss directly with management the major risks arising from the Company's business and operations.

Compensation Committee

The Compensation Committee considers the risks that may be implicated by our compensation programs through a risk assessment conducted by management and reports its conclusions to the full Board. This oversight helps ensure the Company's compensation programs align with the Company's goals and compensation philosophies and, along with other factors, operate to mitigate against the risk that such programs would encourage excessive or inappropriate risk-taking.

Food Safety and Sustainability Committee

The Food Safety and Sustainability Committee assists the Board in its oversight of the Company's practices, policies, procedures, strategies and initiatives relating to the protection of food safety. The Committee monitors trends, issues and concerns affecting the Company's food safety practices, and the risks arising therefrom, in light of the Company's overall efforts related to food safety.

The Food Safety and Sustainability Committee also assists the Board in its oversight of the Company's practices, policies, procedures, strategies and initiatives relating to sustainability, including environmental, supply chain and food nutrition and health. The Committee monitors trends, issues and concerns affecting the Company's sustainability practices, policies, procedures, strategies and initiatives.

How does the Board oversee food safety risk?

The Board and the Food Safety and Sustainability Committee are involved in oversight of the Company's food safety risk. The Food Safety and Sustainability Committee assists the Board in the oversight of food safety risk and regularly receives reports from management in connection with the Company's practices, procedures, strategies and initiatives relating to food safety and the risks arising therefrom. The Board and the Food Safety and Sustainability Committee also monitor and evaluate significant changes in regulatory requirements on food safety, material food safety incidents that could potentially affect the Company, as well as any severe public health situations, including the COVID-19 pandemic, that could adversely affect the Company's business and operations.

How does the Board oversee cybersecurity risk?

The Board and the Audit Committee are involved in oversight of the Company's cybersecurity risk. The Audit Committee assists the Board in the oversight of cybersecurity and other technology risks, discusses with management cybersecurity risk mitigation and incident management, and reviews management reports regarding the Company's cybersecurity governance processes, incident response system and applicable cybersecurity laws, regulations and standards, status of projects to strengthen internal cybersecurity, the evolving threat environment, vulnerability assessments, specific cybersecurity incidents and management's efforts to monitor, detect and prevent cybersecurity threats.

The Company's cybersecurity programs are regularly reviewed by independent third parties against established regulatory and industry standards. The Company has maintained ISO/IEC 27001:2013 certification since 2018 for certain e-commerce business. We incorporate regular information security training as part of our employee education and development program. To its knowledge, the Company has not experienced a significant cybersecurity breach within the last three years. The Company maintains cybersecurity insurance as part of its overall insurance portfolio.

How does the Board oversee sustainability risk?

The Company strives to establish a responsible ecosystem by building sustainable restaurants, creating a sustainable supply chain with partners, and building sustainable communities with all stakeholders. The Company has established sustainability management mechanisms all the way from the Board to the frontline restaurant teams. At the Board level, the Food Safety and Sustainability Committee assists the Board in its oversight of the Company's practices, policies, procedures, strategies and initiatives relating to sustainability, including environmental, supply chain and food nutrition and health. The Food Safety and Sustainability Committee monitors trends, issues and concerns affecting the Company's sustainability practices, policies, procedures, strategies and initiatives. The Food Safety and Sustainability Committee obtains reports from management as the Committee deems necessary or desirable. The Company has also established a Sustainability Committee comprised of selected leadership team members, the sustainability officer, and cross-functional teams. The Sustainability Committee members meet quarterly to track the implementation of material topics, evaluate sustainability risks, and develop risk management strategies and measures. The Board considers these sustainability matters at least annually in connection with the strategic plan.

How has the Board overseen the Company's response to COVID-19?

Since the outbreak of COVID-19, the Board and its committees took additional actions to ensure effective oversight of the Company's response plans to mitigate the risks related to the pandemic. In addition to a COVID-19 crisis management team comprised of cross-brand and cross-functional executives at the management level, the Board has formed a crisis management committee to support management during the COVID-19 pandemic.

Through regular updates and additional communications with management, the Board has actively participated in overseeing the Company's management of the COVID-19 crisis, including protecting the health and safety of our employees and customers, evaluating the impact of the pandemic on the Company's operations and strategies, monitoring continued compliance with applicable regulatory requirements, managing human capital and assessing the impact of the pandemic on the Company's liquidity and financial position. With the ongoing COVID-19 pandemic, it will continue to be a key focus of the Board's risk oversight activity.

What is the Board's role in management development and succession planning?

The Board considers management development and succession planning to be a critical part of our Company's long-term strategy. In accordance with our Corporate Governance Principles, the Board reviews the Company's succession planning, including succession planning in the case of retirement of the Chief Executive Officer of the Company. The Chief Executive Officer periodically reports to the Board with regard to his or her recommendations for potential successors to senior executive positions and development plans for such individuals. In addition, the Board reviews recommendations from an independent committee with regard to the performance evaluation of the Chief Executive Officer, which the committee conducts annually, in accordance with its charter.

How does the Board determine which directors are considered independent?

The Company's Corporate Governance Principles, adopted by the Board, require that a majority of the directors qualify as independent in accordance with the applicable rules of the NYSE. The Board also considers independence requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "***HK Listing Rules***"). The Board determines on an annual basis whether each director qualifies as independent pursuant to the applicable rules of the NYSE and the HK Listing Rules.

Pursuant to the Corporate Governance Principles, the Board undertook its annual review of director independence. During this review, the Board considered transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries and affiliates. As provided in the Corporate Governance Principles, the purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

As a result of the review, the Board affirmatively determined that all of the directors and director nominees are independent of the Company and its management under NYSE rules and the HK Listing Rules, with the exception of Joey Wat. Ms. Wat is not considered an independent director because she is the current Chief Executive Officer of the Company.

In reaching this conclusion, the Board determined that Dr. Hu, Messrs. Bassi, Ettedgui, Han, Hsieh, Shao and Wang and Mess. Lu and Zhang had no material relationship with the Company other than their relationship as a director.

How do stockholders communicate with the Board?

Stockholders or other parties who wish to communicate directly with the non-management directors, individually or as a group, or the entire Board may do so by writing to the Nominating and Governance Committee, c/o the Corporate Secretary, Yum China Holdings, Inc., 7100 Corporate Drive, Plano, Texas, 75024. The Nominating and Governance Committee of the Board has approved a process for handling correspondence received by the Company and addressed to non-management members of the Board or the entire Board. Under that process, the Corporate Secretary of the Company reviews all such correspondence and regularly forwards to a designated member of the Nominating and Governance Committee copies of all such correspondence (except commercial correspondence and correspondence that is duplicative in nature) and a summary of all such correspondence. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of any such correspondence. Written correspondence from stockholders relating to accounting, internal controls or auditing matters are brought to the attention of the Chairperson of the Audit Committee and to the internal audit department and are handled in accordance with procedures established by the Audit Committee with respect to such matters (described below). Correspondence from stockholders relating to Compensation Committee matters are referred to the Chairperson of the Compensation Committee.

Do stockholders have the right to call special meetings?

At the 2021 annual meeting of stockholders of the Company, the Company's stockholders approved an amendment to the Company's Amended and Restated Certificate of Incorporation to allow stockholders holding at least 25% of the Company's outstanding shares the right to call special meetings of stockholders, subject to the requirements and procedures set forth in the Company's Bylaws.

How do the Board and management engage with stockholders?

Our Board and management are committed to regular engagement with our stockholders. In 2021, we reached out to our top 25 stockholders, as well as selected stockholders who previously indicated interest in having engagement calls, which comprise holders of more than 50% of the outstanding shares of Company common stock, in order to solicit their input on important governance, executive compensation, sustainability and other matters. Additionally, our senior management team, including our Chief Executive Officer and Chief Financial Officer, regularly engage in meaningful dialogue with our stockholders, including through our quarterly earnings calls and investor conferences and meetings. Our senior management team regularly reports to our Board and, as applicable, committees of our Board, regarding stockholder views.

We regularly evaluate and respond to the views voiced by our stockholders. In response to the continuous stockholder focus on diversity, including Board diversity, we adopted the Board Diversity Policy in 2021, setting forth the factors to be considered in connection with director nominations and formalizing our approach to Board diversity.

We also discussed with our stockholders our commitment to environmental sustainability and our enhanced sustainability performance. In 2021, we announced our commitment to supporting the Paris Agreement by setting science-based emissions reduction targets, including a goal to reach net-zero value chain greenhouse gas emissions by 2050. We also disclosed the impacts of environmental risks and opportunities in our annual Sustainability Report and CDP questionnaires.

In addition, beginning with the 2021 annual incentive program, environmental, social and governance ("***ESG***") measures have been incorporated into the key performance indicators that are used to determine the individual performance factor for each leadership team member and we have expanded our disclosures on the ESG measures. See "Recent Compensation Highlights" and "2021 NEO Compensation and Performance Summary" under "Executive Compensation" for more information.

What are the Company's policies on reporting of concerns regarding accounting and auditing matters?

The Audit Committee has established policies on reporting concerns regarding accounting and auditing matters in addition to our policy on communicating with our non-management directors. Any employee may, on a confidential or anonymous basis, submit complaints or concerns regarding accounting or auditing matters to the Chief Legal Officer of the Company through the Company's Employee Hotline or by e-mail or regular mail. If an employee is uncomfortable for any reason contacting the Chief Legal Officer, the employee may contact the Chairperson of the Audit Committee. The Chief Legal Officer maintains a log of all complaints or concerns, tracking their receipt, investigation and resolution and prepares a periodic summary report thereof for the Audit Committee.

What are the Committees of the Board?

The Board of Directors has standing Audit, Compensation, Nominating and Governance and Food Safety and Sustainability Committees. Set forth below is a summary of the functions of each committee, the members of each committee as of April 14, 2022 and the number of meetings each committee held in 2021.

Audit Committee Peter A. Bassi, *Chair* Cyril Han Louis T. Hsieh Zili Shao Min (Jenny) Zhang Number of meetings held in 2021: 11	• Possesses sole authority regarding the selection and retention of the independent auditor • Reviews and has oversight over the Company's internal audit function • Reviews and approves all auditing services, internal control-related services and permitted non-audit services to be performed for the Company by the independent auditor • Reviews the independence, qualification and performance of the independent auditor • Reviews and discusses with management and the independent auditor any major issues as to the adequacy of the Company's internal controls, any special steps adopted in light of material control deficiencies and the adequacy of disclosures about changes in internal control over financial reporting • Reviews and discusses with management and the independent auditor the annual audited financial statements, results of the review of the Company's quarterly financial statements and significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements • Review and discuss with the independent auditor any critical audit matter ("***CAM***") addressed in the audit of the Company's financial statements and the relevant financial statement accounts and disclosures that relate to each CAM • Reviews the Company's accounting and financial reporting principles and practices, including any significant changes thereto • Advises the Board with respect to Company policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Conduct • Discusses with management the Company's major risk exposures and the steps management has taken to monitor and control such exposures; and assists the Board in the oversight of cybersecurity and other technology risks. Further detail about the role of the Audit Committee in risk assessment and risk management is included in the section entitled "What is the Board's role in risk oversight?" and "How does the Board oversee cybersecurity risk?"

The Board of Directors has determined that all of the members of the Audit Committee are independent within the meaning of applicable SEC regulations and the listing standards of the NYSE. The Board has also determined that each member of the Audit Committee is financially literate within the meaning of the listing standards of the NYSE and that each of Messrs. Bassi, Han and Hsieh and Ms. Zhang is qualified as an audit committee financial expert within the meaning of SEC regulations.

Compensation Committee Ruby Lu, *Chair* Edouard Ettedgui William Wang Min (Jenny) Zhang Number of meetings held in 2021: 7	• Oversees the Company's executive compensation plans and programs and reviews and recommends changes to these plans and programs • Monitors the performance of the Chief Executive Officer and other senior executives in light of corporate goals set by the Committee • Reviews and approves the corporate goals and objectives relevant to the Chief Executive Officer's and other senior executives' compensation and evaluates their performance in light of those goals and objectives • Determines and approves the compensation level of the Chief Executive Officer and other senior executive officers based on this evaluation • Reviews the Company's compensation plans, policies and programs to assess the extent to which they encourage excessive or inappropriate risk-taking or earnings manipulation

The Board has determined that all of the members of the Compensation Committee are independent within the meaning of the listing standards of the NYSE.

Nominating and Governance Committee Fred Hu, *Chair* Edouard Ettedgui Ruby Lu Min (Jenny) Zhang Number of meetings held in 2021: 5	• Identifies and proposes to the Board individuals qualified to become Board members and recommends to the Board director nominees for each committee • Advises the Board on matters of corporate governance • Reviews and reassesses from time to time the adequacy of the Company's Corporate Governance Principles and recommends any proposed changes to the Board for approval • Receives comments from all directors and reports annually to the Board with assessment of the Board's performance • Reviews annually and makes recommendations to the Board with respect to the compensation and benefits of directors • Reviews management succession planning and makes recommendations to the Board • Review emerging corporate governance issues and best practices

The Board has determined that all of the members of the Nominating and Governance Committee are independent within the meaning of the listing standards of the NYSE.

Food Safety and Sustainability Committee Zili Shao, *Chair* Peter A. Bassi Edouard Ettedgui Louis T. Hsieh Number of meetings held in 2021: 3	• Reviews, evaluates and advises the Board regarding the practices, procedures, strategies and initiatives to protect food safety • Reviews, evaluates and advises the Board regarding trends, issues and concerns which affect or could affect the Company's food safety practices, and the risks arising therefrom, in light of the Company's overall efforts related to food safety • Reviews and evaluates any corrective action taken by management to address any food safety related risks or incident, if any, and advises the Board regarding any proposed action in relation thereto • Reviews, evaluates and advises the Board regarding the Company's practices, policies, procedures, strategies and initiatives relating to sustainability, including environmental, supply chain and food nutrition and health • Reviews and evaluates the trends, issues and concerns which affect or could affect the Company's sustainability practices, policies, procedures, strategies and initiatives • Reviews and oversees the development and implementation of the goals the Company may establish from time to time with respect to its sustainability initiatives • Oversees the reporting and communication with stakeholders with respect to sustainability

What are the Company's policies and procedures with respect to related person transactions?

Under the Company's Related Person Transaction Policies and Procedures, the Audit Committee reviews the material facts of all related person transactions that require the Audit Committee's approval and either approves or disapproves of the entry into the related person transaction. In determining whether to approve or ratify a related person transaction, the Audit Committee will determine whether such transaction is in, or not opposed to, the best interest of the Company and will take into account, among other factors it deems appropriate, whether such transaction is on terms no less favorable to the Company than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related person's interest in the transaction. Transactions, arrangements or relationships or any series of similar transactions, arrangements or relationships in which (i) a related person has or will have a direct or indirect material interest, (ii) the Company is a participant and (iii) that exceed $120,000 in any calendar year are subject to the Audit Committee's review. Any director who is a related person with respect to a transaction under review may not participate in any discussion or approval of the transaction, except that the director will provide all material information concerning the transaction to the Audit Committee.

Related persons are directors, director nominees, executive officers, beneficial owners of 5% or more of the outstanding shares of Company common stock and their immediate family members. An immediate family member includes a person's children, stepchildren, parents, stepparents, spouse, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, and brothers- and sisters-in-law and anyone sharing such person's household (other than a tenant or employee).

After its review, the Audit Committee may approve or ratify the transaction. The policies and procedures provide that certain transactions are deemed to be pre-approved even if they will exceed $120,000. These transactions include employment of executive officers, director compensation and transactions with other companies if the aggregate amount of the transaction does not exceed the greater of $1 million or 2% of that company's total consolidated gross revenues and the related person is not an executive officer of the other company.

There were no transactions considered to be a related person transaction from January 1, 2021 through the date of this proxy statement.

Does the Company require stock ownership by directors?

The Board believes that the number of shares of Company common stock owned by each director is a personal decision. However, the Board strongly supports the position that directors should own a meaningful number of shares of Company common stock and expects that a director will not sell any shares received as director compensation until at least 12 months following the director's retirement or departure from the Board.

The Company's non-employee directors receive a significant portion of their annual compensation in shares of Company common stock. The Company believes that the emphasis on the equity component of director compensation serves to further align the interests of directors with those of our stockholders.

Does the Company require stock ownership by executive officers?

The Board has adopted Stock Ownership Guidelines, which require executive officers to own a substantial amount of Company common stock in order to promote an ownership mentality among management and align their interests with those of stockholders. See "Executive Compensation—Compensation Policies—Stock Ownership Guidelines and Retention Policy" for more information.

How many shares of Company common stock do the directors and executive officers own?

Stock ownership information for our directors and executive officers is shown under "Stock Ownership Information."

Does the Company have a policy on hedging or other speculative trading in Company common stock?

Directors, executive officers and certain other designated employees are prohibited from speculative trading in Company common stock, including trading in puts, calls or other hedging or monetization transactions.

How are directors compensated?

Employee directors do not receive additional compensation for serving on the Board of Directors. The annual compensation for each director who is not an employee of the Company is discussed under "2021 Director Compensation."

MATTERS REQUIRING STOCKHOLDER ACTION

ITEM 1. Election of Directors

Who are the director nominees?

Each of the director nominees currently serves as a director of the Company and has been nominated by the Board for election at the Annual Meeting to hold office for a one-year term. If elected, the nominees will hold office until the 2023 annual meeting of the Company's stockholders and until their respective successors have been duly elected and qualified or until their earlier death, resignation or removal.

The biographies of each of the nominees below contain information regarding the person's service as a director, business experience, director positions held currently or at any time during the last five years, information regarding involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes or skills that caused the Nominating and Governance Committee and the Board to determine that the person should serve as a director for the Company. In addition to the information presented below regarding each nominee's specific experience, qualifications, attributes and skills that led our Board to the conclusion that he or she should serve as a director, we also believe that all of our director nominees have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to the Company and our Board.

There are no family relationships among any of the directors, director nominees and executive officers of the Company. Ages are as of April 14, 2022.

What if a nominee is unwilling or unable to serve?

That is not expected to occur. If it does, proxies may be voted for a substitute nominated by the Board of Directors.

What vote is required to elect directors?

A nominee will be elected as a director if the number of "FOR" votes exceeds the number of "AGAINST" votes with respect to his or her election.

The Board of Directors recommends that you vote FOR the election of the 10 director nominees.

Director Nominees

Fred Hu
Age 58
Director Since 2016

Fred Hu has served as the chairman and founder of Primavera, a China-based global investment firm, since its inception in 2011. Prior to Primavera, Dr. Hu served in various roles at Goldman Sachs from 1997 to 2010, including as partner and chairman of Greater China at Goldman Sachs Group, Inc. From 1991 to 1996, he served as an economist at the International Monetary Fund (IMF) in Washington D.C. Dr. Hu currently is a member of the board of directors of Industrial and Commercial Bank of China Limited, a company listed on both the Hong Kong Stock Exchange (stock code: 1398) and the Shanghai Stock Exchange (SHA: 601398), and UBS Group AG, a company listed on both the SIX Swiss Stock Exchange (SIX: UBSG) and the New York Stock Exchange (NYSE: UBS). From May 2011 to May 2018, Dr. Hu served as an independent non-executive director of Hang Seng Bank Limited, a company listed on the Hong Kong Stock Exchange (stock code: 0011). From November 2014 to April 2021, he served as an independent non-executive director of Hong Kong Exchanges and Clearing Limited, a company listed on the Hong Kong Stock Exchange (stock code: 0388). Dr. Hu serves as an independent non-executive director for Ant Group since August 2020 and as a co-director of the National Center for Economic Research and a professor at Tsinghua University. Dr. Hu obtained his doctoral degree in economics from Harvard University. Dr. Hu brings to our Board extensive expertise in international affairs and the Chinese economy. In addition, Dr. Hu brings valuable business, strategic development and corporate leadership experience as well as expertise in economics, finance and global capital markets.

Joey Wat
Age 50
Director Since 2017

Joey Wat has served as a director of our Company since July 2017 and as the Chief Executive Officer of our Company since March 2018. She served as our President and Chief Operating Officer from February 2017 to February 2018 and the Chief Executive Officer, KFC from October 2016 to February 2017, a position she held at Yum! Restaurants China, from August 2015 to October 2016. Ms. Wat joined Yum! Restaurants China in September 2014 as President of KFC China and was promoted to Chief Executive Officer for KFC China in August 2015. Before joining YUM, Ms. Wat served in both management and strategy positions at A.S. Watson Group ("***Watson***"), an international health, beauty and lifestyle retailer, in the U.K. from 2004 to 2014. Her last position at Watson was managing director of Watson Health & Beauty U.K., which operates Superdrug and Savers, two retail chains specializing in the sale of pharmacy and health and beauty products, from 2012 to 2014. She made the transition from head of strategy of Watson in Europe to managing director of Savers in 2007. Before joining Watson, Ms. Wat spent seven years in management consulting including with McKinsey & Company's Hong Kong office from 2000 to 2003. Ms. Wat obtained a master of management degree from Kellogg School of Management at Northwestern University in 2000. Ms. Wat brings to our Board extensive knowledge of the Company's business and her industry acumen acquired in the course of a career that included several leadership roles in retail companies.

Proxy Statement

Peter A. Bassi
Age 72
Director Since 2016

Peter A. Bassi served as Chairman of Yum! Restaurants International from 2003 to 2005 and as its President from 1997 to 2003. Prior to that position, Mr. Bassi spent 25 years in a wide range of financial and general management positions at PepsiCo, Inc., Pepsi-Cola International, Pizza Hut (U.S. and International), Frito-Lay and Taco Bell. Mr. Bassi currently serves as lead independent director and chairman of the governance and nominating committee of BJ's Restaurant, Inc. (NASDAQ: BJRI), where he also serves on the audit committee and compensation committee. He has been a member of the board of BJ's Restaurant, Inc. since 2004. From January 2009 to May 2019, Mr. Bassi held various positions on the board of Potbelly Corporation (NASDAQ: PBPB). From June 2015 to December 2018, Mr. Bassi served on the value optimization board for Mekong Capital Partners, a private equity firm based in Vietnam. He also served on the board of supervisors of AmRest Holdings SE (WSE: EAT) from 2013 to 2015, and served on the board of the Pep Boys—Manny, Moe & Jack from 2002 to 2009. Mr. Bassi received his master's degree of business administration (MBA) from the University of Rhode Island in 1972. He brings to our Board knowledge of the restaurant industry and global franchising, as well as financial expertise and extensive public company board and corporate governance experience.

Edouard Ettedgui
Age 70
Director Since 2016

Edouard Ettedgui has served as the non-executive chairman of Alliance Française, Hong Kong since 2016. He also served as a non-executive director of Mandarin Oriental International Limited from April 2016 to May 2020, the company for which he was the group chief executive from 1998 to 2016. Prior to his time at Mandarin Oriental International, Mr. Ettedgui was the chief financial officer for Dairy Farm International Holdings, and he served in various roles for British American Tobacco ("***BAT***"), including as the business development director, group finance controller and group head of finance. From 1990 to 1996, he spent around six years with BAT Industries PLC in London, initially as the head of finance and later as the group finance controller and director for new business development. Mr. Ettedgui graduated from ESSEC Business School (France) in 1975. He brings to our Board senior management experience in various international consumer-product industries, extensive financial expertise and public company board experience.

Cyril Han

Age 44

Director Since 2019

Cyril Han has served as the chief financial officer of Ant Group, an innovative technology provider, since April 2020. Mr. Han joined Ant Group in May 2014 and previously served as senior director and vice president. He joined Alibaba Group, a Chinese multinational conglomerate, as senior director of the corporate finance department in 2011. Before joining Alibaba Group, Mr. Han worked at the investment banking division of China International Capital Corporation from July 2001 to September 2011. He has served as a non-executive director of Hundsun Technologies Inc., a company listed on the Shanghai Stock Exchange (SHA: 600570), since February 2016. He also served as a non-executive director of Zhong An Online P & C Insurance Co., Ltd., a company listed on the Hong Kong Stock Exchange (stock code: 6060), from October 2016 to January 2022. Mr. Han obtained his master's degree in economics from Tsinghua University. He brings to our Board deep knowledge and insights in the fields of finance and technology.

Louis T. Hsieh

Age 57

Director Since 2016

Louis T. Hsieh currently serves as the global chief financial officer, since April 2021, and a director, since June 2021, of Hesai Technology, a leader in lidar technology for autonomous driving and advanced driver assistance systems. Previous to that, Mr. Hsieh served as the chief financial officer of NIO Inc., an electric and autonomous vehicle developer that is listed on the New York Stock Exchange (NYSE: NIO), from May 2017 to October 2019. Mr. Hsieh has held various positions at New Oriental Education & Technology Group, a private educational service provider that is listed on the New York Stock Exchange (NYSE: EDU), including positions as a director since 2007, the president from 2009 to 2016 and the chief financial officer from 2005 to 2015. In addition, Mr. Hsieh serves as an independent director, member of the nominating and corporate governance committee and chairman of the audit committee for JD.com, Inc., an e-commerce company that is listed on the Nasdaq Stock Market (NASDAQ: JD) and the Hong Kong Stock Exchange (stock code: 9618). Previously, Mr. Hsieh served as an independent director and chairman of the audit committee for Nord Anglia Education, Inc. (NYSE: NORD). He also served as an independent director and the chairman of audit committee for both Perfect World Co., Ltd. and China Digital TV Holding Co., Ltd. Mr. Hsieh obtained a juris doctor degree from the University of California at Berkeley in 1990. He brings to our Board corporate leadership and public company board experience as well as his extensive financial and international business experience.

Proxy Statement

Ruby Lu
Age 51
Director Since 2016

Ruby Lu is a venture capitalist investing in technology start-ups in the U.S. and China. Ms. Lu founded Atypical Ventures, an early-stage technology venture investment firm, in 2019. In 2006, she co-founded DCM China, a venture capital firm. During her more than 12-year tenure at DCM, she invested in, and served as a board member for, many leading technology companies, including BitAuto Holdings Limited, Ecommerce China Dangdang Inc. and Pactera Technology International Ltd. Prior to joining DCM in 2003, Ms. Lu was a vice president in the investment banking group of technology, media and telecommunications at Goldman Sachs & Co. in Menlo Park, California. She is currently an independent director on the boards of Unilever (NYSE: UL) and Uxin Limited (NASDAQ: UXIN). She also served as an independent director and on the audit committee of iKang Healthcare Group, Inc. and as an independent director and Chairman of the special committee for iDreamSky Technologies Limited before these two companies were taken private, as well as an independent director of Blue City Holdings Limited (NASDAQ: BLCT). Ms. Lu obtained her master of arts from Johns Hopkins University in 1996. She brings to our Board public company board experience as well as extensive financial and global market experience.

Zili Shao
Age 62
Director Since 2016

Zili Shao has served as the non-executive chairman of Fangda Partners, a leading law firm, since June 2017. Mr. Shao also serves as an independent non-executive director of Bank of Montreal (China) Co., Ltd. and an independent member of the general and supervisory board of EDP – Energias de Portugal, S.A., a multinational energy company listed on the Euronext Lisbon Stock Exchange (stock code: EDP). Mr. Shao is the founder and chairman of MountVue Capital Management Co. Ltd. From September 2015 to January 2018, he served as a non-executive director of Elife Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 0223). From April 2015 to May 2017, he served as co-chairman and partner at King & Wood Mallesons China, a law firm. From 2010 to 2015, Mr. Shao held various positions at JP Morgan Chase & Co. ("***JP Morgan***"), a financial services company, including roles such as chairman and chief executive officer of JP Morgan China and vice chairman of JP Morgan Asia Pacific. Prior to JP Morgan, he was a former partner at Linklaters LLP, a leading international law firm, for 12 years. He acted as managing partner of Linklaters of Greater China and subsequently was appointed managing partner of the Asia Pacific region. Mr. Shao obtained his master's degree in law from the University of Melbourne in 1994. Mr. Shao brings to our Board extensive professional experience in Asia and public company board and corporate governance experience.

William Wang
Age 47
Director Since 2017

William Wang is one of the founding partners of Primavera. Prior to Primavera, Mr. Wang served as a managing director of Goldman Sachs Merchant Banking/Principal Investment Area, where he led significant successful investments in China for the group. Prior to that, Mr. Wang worked in the investment banking division and private equity group of China International Capital Corporation Limited. Mr. Wang currently serves as a director on the board of Geely Automobile Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 0175), and Sunlands Technology Group, a company listed on the New York Stock Exchange (NYSE: STG), in addition to directorships at Primavera's portfolio companies. Mr. Wang obtained a master of management degree in management science and engineering from Shanghai Jiao Tong University in 2000. He brings to our Board deep knowledge and investment insights of the Chinese market.

Min (Jenny) Zhang
Age 48
Director Since 2021

Min (Jenny) Zhang held various leadership positions in Huazhu Group Limited ("***Huazhu***"), a multi-brand hotel group listed on both the Nasdaq Stock Market (NASDAQ: HTHT) and the Hong Kong Stock Exchange (stock code: 1179) from September 2007 to August 2021, including as vice-chairlady from July 2020 to August 2021, executive vice-chairlady from November 2019 to July 2020, chief executive officer from May 2015 to November 2019, president from January 2015 to May 2015, chief financial officer from March 2008 to May 2015, chief strategic officer from November 2013 to January 2015 and senior vice president of finance from September 2007 to February 2008. Ms. Zhang also serves as an independent director of LAIX Inc., an artificial intelligence company listed on the New York Stock Exchange (NYSE: LAIX). She served as an independent non-executive director of Genscript Biotech Corporation, a company listed on the Hong Kong Stock Exchange (stock code: 1548), from August 2015 to November 2018, and an independent director of OneSmart Education Group Limited, a company listed on the New York Stock Exchange (NYSE: ONE), from March 2018 to February 2020. Ms. Zhang received a master of business administration degree from Harvard Business School in 2003. Ms. Zhang brings to our Board leadership experience in a consumer-focused industry in China, extensive financial expertise and public company board experience.

ITEM 2. Ratification of Independent Auditor

What am I voting on?

We are asking stockholders to approve a proposal to ratify the appointment of KPMG Huazhen LLP ("***KPMG***") as our independent auditor for 2022. KPMG has served as our independent auditor since 2016.

As part of its audit engagement process, the Audit Committee considers on at least an annual basis the engagement of the independent auditor. In deciding to engage KPMG as the independent auditor for 2022, the Audit Committee considered:

- KPMG's performance in 2021;
- KPMG's independence;
- The depth and expertise of the KPMG's audit team, including its understanding of the Company's industry, business, operations and systems, as well as accounting policies and processes;
- The appropriateness of KPMG's fees;
- A consideration of KPMG's known legal risks and significant proceedings that may impair its ability to perform the audit; and
- KPMG's tenure as the Company's independent auditor.

KPMG rotates its lead audit engagement partner every five years. The Audit Committee is directly involved in the evaluation of the lead audit engagement partner to ensure that the he or she is appropriately qualified to lead the Company's audit. After considering the criteria set forth above, the Audit Committee believes that retaining KPMG as the Company's independent auditor is in the best interests of the Company and its stockholders.

Will a representative of KPMG attend the Annual Meeting?

Representatives of KPMG will attend the Annual Meeting, will have the opportunity to make a statement if they desire and will be available to respond to appropriate questions from stockholders.

What vote is required to approve this proposal?

Approval of this proposal requires the affirmative vote of a majority of the shares present via webcast or represented by proxy and entitled to vote at the Annual Meeting. In the event this proposal is not approved, the Audit Committee will reconsider the selection of KPMG as the Company's independent auditor.

The Audit Committee and the Board of Directors recommend that you vote FOR approval of this proposal.

What were KPMG's fees for audit and other services for 2021 and 2020?

The following table presents fees for professional services rendered by KPMG for the audit of the Company's annual financial statements, and fees billed for audit-related services, tax services and all other services rendered by KPMG for 2021 and 2020. All KPMG services for 2021 and 2020 were approved in advance by the Audit Committee specifically or pursuant to procedures outlined below.

	2021	2020*
Audit fees(1)	$ 3,085,148	$ 3,840,887
Audit-related fees(2)	10,741	236,235
Tax fees(3)	37,766	29,253
All other fees	—	—
TOTAL FEES	$ 3,133,655	$ 4,106,375

(1) Audit fees include fees for the audit of the annual consolidated financial statements included in the Company's annual reports, reviews of the interim condensed consolidated financial statements included in the Company's quarterly reports, and services related to statutory filings or engagements.

(2) Audit-related fees consist principally of fees for the audit of certain employee benefit plans.

(3) Tax fees consist principally of fees for tax filling assistance and tax advisory services.

* Audit fees and Audit-related fees in 2020 also included fees for audit services and review of internal controls in connection with our global offering and secondary listing on the HKEX.

What is the Company's policy regarding the approval of audit and non-audit services?

The Audit Committee has implemented a policy for the pre-approval of all audit and permitted non-audit services, including tax services, proposed to be provided to the Company by its independent auditor. Under the policy, the Audit Committee may approve engagements on a case-by-case basis or pre-approve engagements on a categorical basis pursuant to the Audit Committee's pre-approval policy. The Audit Committee may delegate pre-approval authority to one of its independent members and has currently delegated pre-approval authority up to certain amounts to its Chairperson.

In considering pre-approvals, the Audit Committee considers the nature, scope and fees of the service to be provided to the Company as well as the principles and guidance established by the SEC and the Public Company Accounting Oversight Board ("***PCAOB***") with respect to auditor independence. Services as to which a general pre-approval has been granted on an annual basis are effective for the applicable year. Any proposed service for which the estimated fees would cause the total fees for that class of service to exceed the applicable estimated fee threshold requires specific approval by the Audit Committee or its delegate.

The Principal Accounting Officer monitors the performance of all services provided by the independent auditor and determines whether such services are in compliance with this policy. The Principal Accounting Officer reports periodically to the Audit Committee with respect to compliance with this policy and the status of outstanding engagements, including actual services provided by the independent auditor and associated fees, and must promptly report to the Chairperson of the Audit Committee any non-compliance (or attempted non-compliance) with this policy of which the Corporate Controller becomes aware.

ITEM 3. Advisory Vote on Named Executive Officer Compensation

What am I voting on?

In accordance with SEC rules, we are asking stockholders to approve, on a non-binding basis, the compensation of the Company's named executive officers as disclosed in this proxy statement. This non-binding advisory vote is also known as the "Say on Pay" vote. This is not a vote on the Company's general compensation policies or the compensation of the Board. At the 2021 annual meeting of the Company's stockholders, approximately 93% of the votes cast by our stockholders were voted in approval of the compensation of our named executive officers as disclosed in the 2021 proxy statement.

Our performance-based executive compensation program is designed to attract, reward and retain the talented leaders necessary for our Company to succeed in the highly competitive market for talent, while maximizing stockholder returns. This approach has made our management team a key driver in the Company's strong performance over both the long and short term. We believe that our compensation program has attracted and retained strong leaders, and is closely aligned with the interests of our stockholders.

In deciding how to vote on this proposal, we urge you to read the Compensation Discussion and Analysis section of this proxy statement, which discusses in detail how our compensation policies and procedures operate and are designed to meet our compensation goals and how our Compensation Committee makes compensation decisions under our programs.

Accordingly, we ask our stockholders to vote in favor of the following resolution at the Annual Meeting:

"RESOLVED, that the compensation paid to the named executive officers, as disclosed in the Compensation Discussion and Analysis, the compensation tables and related materials included in the proxy statement, is hereby approved."

What vote is required to approve this proposal?

Approval of this proposal requires the affirmative vote of a majority of shares present via webcast or represented by proxy and entitled to vote at the Annual Meeting. While this vote is advisory and non-binding on the Company, the Board of Directors and the Compensation Committee will review the voting results and consider stockholder concerns in their continuing evaluation of the Company's compensation program.

The Board of Directors recommends that you vote FOR approval of this proposal.

STOCK OWNERSHIP INFORMATION

Who are our largest stockholders?

The following table sets forth the number of shares of Company common stock beneficially owned as of March 28, 2022, except as otherwise noted, by (i) beneficial owners of more than 5% of the outstanding shares of Company common stock, (ii) each of the Company's named executive officers, (iii) each of the Company's directors and director nominees and (iv) all of the Company's directors and executive officers as a group.

In accordance with SEC rules, beneficial ownership includes all shares the stockholder actually owns beneficially or of record, all shares over which the stockholder has or shares voting or dispositive control and all shares the stockholder has the right to acquire within 60 days of March 28, 2022. Except as indicated in the footnotes to the table, the Company believes that the persons named in the table have sole voting and investment power with respect to all shares owned beneficially by them.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Shares(1)
More Than 5% Owners		
Invesco Ltd. 1555 Peachtree Street NE, Suite 1800 Atlanta, GA 30309	40,727,617(2)	9.6%
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	32,413,842(3)	7.7%
Named Executive Officers		
Joey Wat	338,571(4)	*
Andy Yeung	9,834	*
Joseph Chan	4,689	*
Johnson Huang	91,772(5)	*
Aiken Yuen	22,368(6)	*
Danny Tan	30,769(7)	*
Non-Employee Directors		
Peter A. Bassi	60,026	*
Edouard Ettedgui	32,085	*
Cyril Han	16,388	*
Louis T. Hsieh	61,670	*
Fred Hu	37,264	*
Ruby Lu	36,192	*
Zili Shao	32,201	*
William Wang	28,690	*
Min (Jenny) Zhang	2,001	*
Ownership of all directors and executive officers as a group (18 total)	**878,382**(8)	*

Proxy Statement

* Represents less than one percent

(1) Percentage ownership is determined based on a total of 423,694,283 shares of Company common stock outstanding as of March 28, 2022.

(2) Based on Amendment No. 3 to the Schedule 13G filed by Invesco Ltd. on February 10, 2022, which indicated that, as of December 31, 2021, Invesco Ltd. had sole voting power over 40,684,815 shares of Company common stock and sole dispositive power over 40,727,617 shares of Company common stock.

(3) Based on Amendment No. 6 to the Schedule 13G filed by BlackRock, Inc. on February 3, 2022, which indicated that, as of December 31, 2021, BlackRock, Inc. had sole voting power over 27,828,370 shares of Company common stock and sole dispositive power over 32,413,842 shares of Company common stock.

(4) Includes 116,485 shares issuable upon the exercise of vested stock appreciation rights ("***SARs***").

(5) Includes 49,409 shares issuable upon the exercise of vested SARs.

(6) Includes 15,007 shares issuable upon the exercise of vested SARs.

(7) Includes 314 shares issuable upon the exercise of vested SARs.

(8) Includes 242,396 shares issuable upon the exercise of vested SARs.

DELINQUENT SECTION 16(a) REPORTS

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and persons who own more than 10% of the outstanding shares of Company common stock to file with the SEC reports of their ownership and changes in their ownership of Company common stock. To our knowledge, based solely on a review of the copies of the reports filed by such persons with the SEC and representations by our directors and executive officers that no other reports were required, all of the reports required to be filed by such persons during 2021 were timely filed, except that a Form 4 filed on June 4, 2021 by Dr. Fred Hu reported one late transaction.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (our "***CD&A***") provides an overview of our executive compensation programs for 2021, the context under which our executive compensation decisions were determined, and how we performed within that environment.

Our named executive officers ("***NEOs***") consist of our Chief Executive Officer, our Chief Financial Officer, our three other most highly compensated executive officers who were serving as executive officers at the end of 2021, and our former Chief Supply Chain Officer. References to "continuing NEOs" in this CD&A refer to the NEOs other than our former Chief Supply Chain Officer.

For 2021, our NEOs were:

Name	Title
Joey Wat	Chief Executive Officer ("***CEO***")
Andy Yeung	Chief Financial Officer ("***CFO***")
Joseph Chan	Chief Legal Officer
Johnson Huang	General Manager, KFC
Aiken Yuen	Chief People Officer
Danny Tan*	Former Chief Supply Chain Officer

* Mr. Tan resigned as Chief Supply Chain Officer of the Company, effective November 8, 2021.

This CD&A is divided into four sections:

Executive Summary	• Context for Determining Executive Compensation Decisions • 2021 Business Overview and Performance Highlights • Company Total Shareholder Return Performance • Recent Compensation Highlights • Alignment of Executive Compensation Program with Business Performance • Pay Components • Executive Compensation Practices • Stockholder Engagement
Elements of the Executive Compensation Program	• Base Salary • Annual Performance-Based Cash Bonuses • Long-Term Equity Incentives • 2021 Chairman Grants • 2022 Lavazza ESOP Grants • Other Elements of Executive Compensation Program • 2021 NEO Compensation and Performance Summary

How Compensation Decisions Are Made	• Executive Compensation Philosophy • Role of the Compensation Committee • Role of the Independent Consultant • Competitive Market Review
Compensation Policies	• Compensation Recovery Policy • Equity-Based Awards Grant Policy • Stock Ownership Guidelines and Retention Policy • Hedging and Pledging of Company Stock

Executive Summary

Context for Determining Executive Compensation Decisions

A unique feature of the Company is that while it is incorporated in Delaware and listed on the NYSE and Hong Kong Stock Exchange, substantially all of its operations are located in China, with 11,788 restaurants in over 1,600 cities across China at the end of 2021. Our operating environment and regulatory requirements are complex and our leadership must be capable of adapting our businesses, and supporting our growth goals, amid these complexities. As a result, the operating environment and competitive market in China are significant factors in the Compensation Committee's decision-making process and the design of our compensation program. In making compensation decisions, the Compensation Committee considers our performance in the context of the Chinese operating environment, the restaurant industry in China and our China-based peers, as well as our performance against our U.S. peers. Importantly, because our operating environment and the restaurant industry in China may be uniquely, or more significantly, impacted by certain factors than on our U.S. peers, the Compensation Committee seeks to maintain flexibility to design and refine the Company's executive compensation program to be responsive to our operating environment even if that results in a compensation program that differs from our U.S. peers.

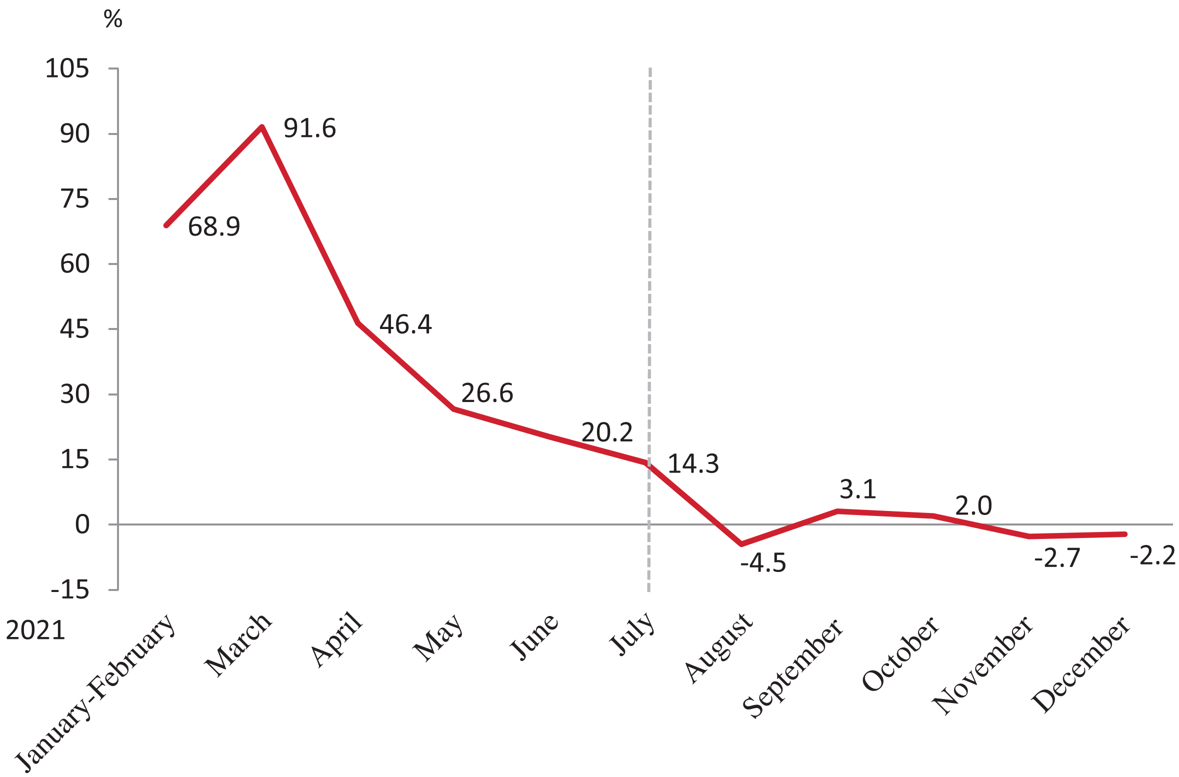
In addition, as a Delaware-incorporated company listed on both the NYSE and Hong Kong Stock Exchange, our leadership team must also possess, in addition to deep knowledge of the U.S. and Hong Kong governance requirements, the global perspectives and expertise required to resolve many novel and complex issues amid the evolving global regulatory landscape, including geopolitical challenges. Because the Company is designing an executive compensation program that attracts, retains and incentivizes global talent but with specific knowledge of the evolving Chinese regulatory and operating environment, including the challenges and complexities of managing the extensive supply chain and store operations, the Company's executive compensation program may differ from our U.S. peers to reflect the competitive market in China, the need to attract a global skillset with deep knowledge of both U.S. and Chinese regulatory regimes and the Company's desire to incentivize an entrepreneurial mindset to encourage actions that support our long-term growth and strategy. For these reasons, the Compensation Committee looked at the totality of factors the Company faces when it considers and determines executive compensation.

- *Operating Environment:* The COVID-19 pandemic continued to present significant volatility to the Company's operations in 2021. In the first half of 2021, the COVID-19 situation was relatively stable. However, multiple waves of Delta-variant outbreaks started in late July 2021 and spread to nearly all provinces in China. These widespread outbreaks resulted in stringent preventive public health measures across China, which included the lockdowns of several major cities, closures of many tourist locations resulting in substantially lower travel volume, cancelled summer holiday trips and fewer social activities. Eastern China, the most vibrant economic region and the most important market for us, was significantly impacted during the summer, our peak trading period. According to government statistics, the restaurant industry in China was considerably impacted in August 2021 with a revenue decline of approximately 10% compared to August 2019. At the

Proxy Statement

peak of the outbreak in August 2021, more than 500 of our stores in 17 provinces were closed or offered only takeaway and delivery services. In the fourth quarter 2021, total revenues of the restaurant industry in China declined year-over-year, a significant divergent trend comparing to the performance of the U.S. restaurant industry. The graph below shows China's 2021 restaurant industry monthly revenue growth compared to that of 2020:

China Restaurant Industry Monthly Revenue Growth, 2021 vs. 2020



Source: National Bureau of Statistics of China

- *Competitive Market:* Knowledge and expertise of U.S., China and Hong Kong regulatory regimes and business practices are required for many of the Company's executive officers. In addition, because our executive team is located in China, we are required to compete in the Chinese market for executive talent with this unique skillset. Given the unique skillset of our executives, the Company is increasingly competing for executive talent against China-based companies with, or planning for, listing outside of China. These competitors often offer compensation packages with significant one-time equity grants, which is a common practice in the Chinese executive compensation market. In determining executive compensation decisions, the Compensation Committee considers this increased competition and the related new-hire offers of significant one-time equity grants, coupled with an already challenging local market for international executive talent, and the Company's need to retain and motivate the Company's global and visionary leadership team.

- *Peer Company Performance Comparisons:* In assessing the performance of the Company and our executive team, the Compensation Committee considers performance against U.S. peers as well as peers in China, which allows the Compensation Committee to assess performance in the context of the operating market in China which can vary significantly as compared to the

U.S. operating market as was the case in 2021. Accordingly, in approving incentive compensation, the Compensation Committee considers the performance of restaurant companies in China and seeks to reward performance that reflects the Company's operating performance, as opposed to just a comparison to the Company's U.S. peers, which often are subject to a different operating environment than the Company. In terms of the total shareholder return ("***TSR***") performance, the MSCI China Index was down approximately 22% in 2021, while the S&P 500 Index was up approximately 27%. In particular, the MSCI China Consumer Discretionary Index was down approximately 36% in 2021, while the Company's TSR declined by approximately 12%.

- *Support Long-Term Strategy:* Despite the enormous challenges to drive sales and protect profits in the short-term, the Company is also committed to building core capabilities to achieve long-term sustainable growth. To support the Company's long-term growth, the Compensation Committee has sought to design a compensation program aligned with our long-term strategy, including accelerating store network development, expanding to new categories, growing emerging brands and reinforcing strategic capabilities. This desire to incentivize performance to achieve the Company's growth initiatives resulted in the inclusion of performance goals relating to delivery sales and member sales in the 2021 annual incentive program, as well as the granting of equity awards with respect to the joint venture (the "***Lavazza Joint Venture***") established by the Company and Lavazza Luigi S.p.A. ("***Lavazza Group***"). This Lavazza Joint Venture was established to explore and develop the Lavazza coffee shop concept in China, as part of the Company's strategy of making coffee a meaningful part of its business. The Compensation Committee believes that it is important to approach compensation in a way that supports a founder's mentality and the execution of goals linked to our long-term strategy, which will allow the Company to emerge from the pandemic even stronger than before.

- *Annual Incentive Program Adjustments.* In September 2021, in light of the changes in operating environment and the significant impact of the Delta-variant outbreaks on the Company's operating and financial performance since July 2021, the Compensation Committee considered potential real-time actions to help manage the immediate challenges, retain talent and motivate performance. While the Compensation Committee's practice has generally been to establish and communicate goals at the beginning of each year, the Compensation Committee also retains flexibility to modify the Company's executive compensation program when circumstances warrant, in order to continue to incentivize actions to drive operational performance and long-term strategies. Considering the significant impact of the COVID-19, and that the Company's incentive program targets were set in early 2021 based on the then operating environment with sequential improvement in operating results, the Compensation Committee determined to keep the original goals but that, instead of measuring performance with respect to the Adjusted Operating Profit Growth and Same Store Sales Growth over one performance period covering the entire fiscal year, it would instead measure performance with respect to these team performance measures over three separate performance periods: the first half of 2021 (weighted 50%); the third quarter of 2021 (weighted 25%); and the fourth quarter of 2021 (weighted 25%). The performance targets for each of these three distinct performance periods were derived from the performance goals established in early 2021, with the only difference being the segregation of performance into the three distinct performance periods. This change retained the same performance targets and performance-based program design, but helped in executive motivation, retention and business focus.

2021 Business Overview and Performance Highlights

As noted above, the COVID-19 pandemic continued to significantly impact the Company's operations in 2021. Our management team undertook immediate and strategic actions to drive sales and protect profits. These actions included:

- We continue to prioritize the safety and health of our employees and customers. In 2021, we enhanced the medical insurance coverage for our restaurant general managers, restaurant management team and service team leaders. The enhanced benefits are expected to cover around 100,000 front-line employees and their family members.

- We drove traffic and sales by delivering good food and great value. Leveraging our innovation capabilities, we launched over 500 new or upgraded products and expanded product categories, such as beef burgers and whole chicken, in 2021. We built on a well-established promotion mechanism to offer effective value promotions while minimizing margin impact.

- To capture the shift to off-premise demand, we quickly adjusted operations and marketing offers. We also increased store density to improve our coverage and better serve the customers. Delivery sales grew 60% in 2021 compared to 2019 and contributed to approximately 32% of Company sales for 2021. Combined with takeaway, off-premise services presented more than half of Company sales in 2021.

- Leveraging our vast member platform, we engaged with members to drive repeat purchases. We continued to improve the digital experience for our customers, including refining our apps for more convenient ordering and allowing for more personalization, while broadening our member base. Our loyalty program grew 20% in the past year to over 360 million members at the end of 2021, with member sales accounting for approximately 60% of our system sales in 2021. In addition, digital sales exceeded $7 billion, or over 85% of Company sales, in 2021.

- We proactively managed costs to alleviate cost pressures and continued to improve labor productivity and operating efficiency using technology and automation. For example, we have adopted AI-enabled technology to analyze and forecast transaction volume so that we can improve labor scheduling and inventory management. We have also upgraded our rider management platform to help optimize delivery order queuing, trade zone and rider routing.

- We strengthened our market leadership with record openings of 1,806 gross new stores, or 1,282 net new stores during the year and remodeled 842 stores.

With the tremendous effort from all of the employees led by the management team and despite the continued negative impact on our business as a result of the COVID-19 pandemic, the Company delivered substantial profits in 2021. Our 2021 performance highlights include the following:

- Total revenues increased 19% year-over-year to $9.85 billion from $8.26 billion (a 12% increase excluding foreign currency translation ("***F/X***")).

- Total system sales increased 10% year-over-year, excluding F/X.

- Operating Profit increased 44% to $1.39 billion from $961 million, with the year-over-year increase primarily due to the re-measurement gain of the Hangzhou KFC joint venture acquisition and a year-over-year increase of 5% in Adjusted Operating Profit from $732 million to $766 million, despite that we received approximately $90 million less in one-time relief from the government and landlords comparing to 2020.

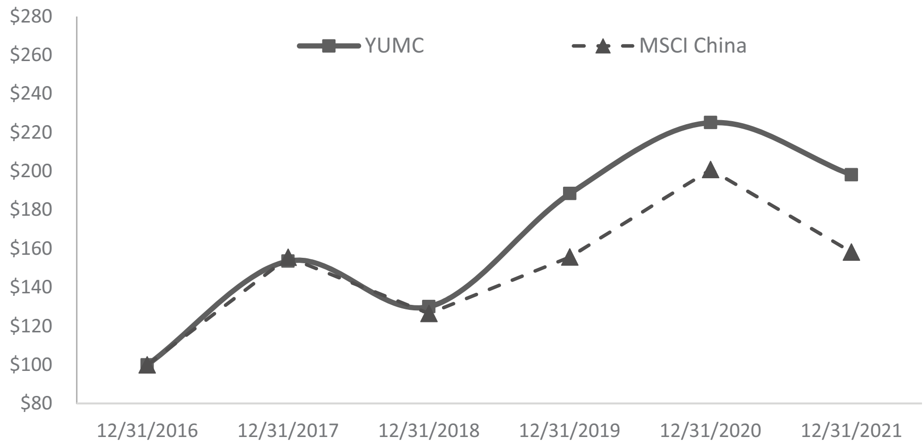
- Net Income increased 26% to $990 million from $784 million in the prior year, primarily due to the increase in Operating Profit. Adjusted Net Income declined 15% to $525 million from $615 million in the prior year (a 7% increase excluding the net loss of $52 million in 2021 and the $75 million net gain in 2020 from mark-to-market investments).

- Diluted Earnings Per Common Share increased 17% to $2.28 from $1.95 in the prior year, and Adjusted Diluted Earnings Per Common Share decreased 21% to $1.21 from $1.53 in the prior year (a 1% decrease excluding the net loss in 2021 and the net gain in 2020, respectively, from mark-to-market investments). Approximately 41.9 million shares of common stock were issued as a result of the secondary listing in Hong Kong in September 2020. On a year over year basis, the dilution impact from the weighted average share count was 7% in 2021.

See the Company's Annual Report on Form 10-K for the year ended December 31, 2021 for a reconciliation of the most directly comparable GAAP financial measures to the non-GAAP adjusted financial measures.

Company Total Shareholder Return Performance

The Board and the Compensation Committee believe that the leadership provided by the Company's management team was key to the Company's strong performance in delivering multi-year shareholder returns. The graph below shows our TSR as the cumulative return to stockholders over the past five years. As illustrated, a $100 investment in our common stock on December 31, 2016 would have grown to $198 on December 31, 2021, with dividends reinvested. The Company's shareholder return significantly outperformed that of the China market as measured by the MSCI China Index, which covers approximately 85% of the China equity market, and approximately 28% of its constituent companies are in the China Consumer Discretionary sector.



Recent Compensation Highlights

Although the key features of our executive compensation program are substantially unchanged, the Compensation Committee implemented several enhancements and changes to our executive compensation program, as set forth below. In approving these changes, the Compensation Committee considered our strategic priorities, stockholder feedback, market practices in both the U.S. and China, input from the Compensation Committee's compensation consultant, and the operating environment in China, as described further above.

- ***LTI (Annual PSU) Grants*—**In early 2021, in response to the uncertainty and challenges presented by the COVID-19 pandemic with respect to setting targets for the annual PSU grants (the "***Annual PSU Awards***"), the Compensation Committee determined to grant the Annual PSU Awards in two equally weighted grants, with the first grant occurring in February 2021 and vesting based on the Company's achievement of performance goals relating to relative total shareholder return ("***rTSR***") and the second grant occurring in May 2021 and vesting based on the Company's achievement of performance goals relating to growth in adjusted total revenue ("***Adjusted Total Revenue Growth***") and growth in adjusted diluted earnings per common share ("***Adjusted Diluted Earnings Per Common Share Growth***"). In particular, the Compensation Committee elected to include rTSR as an absolute goal, weighted 50% of the Annual PSU Awards, as compared to its prior practice of including rTSR as a payout modifier in recognition of the difficult and volatile operating environment due to the continuing COVID-19 pandemic. Given the uncertainty presented by the continuing COVID-19 pandemic, the Compensation Committee considered a number of options to design the Annual PSU Awards in a manner that served as an appropriate incentive vehicle while also aligning the long-term interests of recipients with our stockholders, including the possibility of setting annual performance goals for each year in the three-year performance period with respect to the Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Common Share Growth performance goals. In order to align the Annual PSU Awards with the long-term interest of the stockholders, the Compensation Committee ultimately decided to approve a three-year performance period, as compared to three annual performance periods. To obtain greater clarity on the operating environment and assess the rigor of these three-year performance goals, the Compensation Committee delayed the grant date by three months until May 2021 for the Annual PSU Awards with vesting tied to these two performance goals. Consistent with the Company's usual practice of granting annual LTI awards in February, the number of shares subject to the May 2021 portion of the PSU grant was determined based on the February 2021 stock price rather than the stock price on the grant date in May 2021.

- ***Annual Incentive Program Metrics*** — To support key objectives linked to the Company's long-term strategy, the Compensation Committee added delivery sales growth and member sales as performance goals to be used to determine payouts under the 2021 annual incentive program. To incentivize the achievement of these goals relating to the Company's long-term strategy, the Compensation Committee reduced its historical weightings assigned to the adjusted operating profit growth and same store sales growth goals and eliminated the customer satisfaction goal. As a result of this change, for 2021, annual incentive program payouts were determined based on adjusted operating profit growth, same store sales growth, delivery sales growth, system gross new builds, and member sales. These goals were designed to measure our success in the execution of both our annual and long-term operating plan.

- ***Annual Incentive Program Adjustments***—The team factor targets were set at the beginning of 2021 when the COVID-19 situation was relatively stable. However, multiple waves of Delta-variant outbreaks persisted throughout the second half of 2021. In September 2021, in light of the changes in operating environment and the significant impact of the Delta-variant outbreaks on the Company's operating and financial performance since July 2021, the Compensation Committee adjusted the performance periods for measuring performance with respect to the Adjusted Operating Profit Growth and Same Store Sales Growth over one performance period covering the entire fiscal year, it would instead measure performance with respect to these team performance measures over three separate performance periods: the first half of 2021 (weighted 50%); the third quarter of 2021 (weighted 25%); and the fourth quarter of 2021 (weighted 25%). The performance targets for each of these three distinct performance periods were derived from the performance goals established in early 2021, with the only difference being the segregation of performance into the three distinct performance periods. This change retained the same performance targets and performance-based program design, but helped to achieve executive motivation, retention and drive business focus. For details, see "Executive Summary—Context for Determining Executive Compensation Decisions—Annual Incentive Program Adjustments" and "Elements of the Executive Compensation Program—Annual Performance-Based Cash Bonuses—Team Performance Factors." When approving the final team factor for Company performance, the Compensation Committee applied discretion to reduce the result from 112% to 105%.

- ***2021 Chairman Grants***—As disclosed in last year's CD&A, in February 2021, the Compensation Committee awarded three-year cliff-vesting restricted stock unit ("***RSU***") awards to select Company executive officers and employees (the "***2021 Chairman Grants***"). These awards are intended to provide recognition for exemplary individual leadership demonstrated by select executives and employees during 2020, in particular in resolving many novel and complex regulatory issues to execute the Company's secondary listing on the Hong Kong Stock Exchange, which was viewed as a transformative step for the Company, and navigating the Company through the COVID-19 crisis. While in the midst of the constraints of a global pandemic, we completed the listing on an accelerated timeframe, resulting in the Company being the first Delaware and non-TMT company to qualify as an innovative company and successfully list on the Hong Kong Stock Exchange. The secondary listing on the Hong Kong Stock Exchange raised net proceeds of $2.2 billion and expanded the Company's stockholder base in China and Asia. Among the NEOs, our CEO, CFO and Chief Legal Officer were selected as recipients of the Chairman long-term equity grant. While these awards were granted in recognition of the significant individual achievements and leadership displayed by recipients during 2020, the Compensation Committee elected to deliver the 2021 Chairman Grants as stock-settled RSUs that cliff-vest on the third anniversary of the grant date to align their long-term interests with those of stockholders. While these awards are not a component of the Company's annual executive compensation program, the Compensation Committee determined that the 2021 Chairman Grants were appropriate to recognize the listing on the Hong Kong Stock Exchange and to incentivize similar actions that required significant efforts and innovativeness by select executives. The Compensation Committee believes that an equitable administration of the Company's compensation programs entails the periodic use of grants similar to the 2021 Chairman Grants, when warranted by facts and circumstances, so as to accomplish the Company's compensation objectives and support the execution of key business initiatives.

- ***Incorporated ESG Metrics into 2021 Annual Incentive Program***—Management and the Board have engaged in extensive discussions regarding how to further incentivize and assess performance with respect to specific ESG, Sustainability and Human Capital Management initiatives. Beginning with the 2021 annual incentive program, ESG measures have been incorporated into the key performance indicators that are used to determine the individual performance factor for each leadership team member. ESG performance goals are tailored for each member of the leadership team based on their roles and responsibilities and the Compensation Committee will assess their performance in these areas. ESG, Sustainability and Human Capital Management goals included goals relating to the publication of the Company's sustainability report, goals relating to climate, the Company's supply chain and environmental impact, initiatives relating to customer awareness of environmental goals, plastic reduction initiatives, goals relating to the KFC Food Banks, employee satisfaction and gender equality. As such, the NEOs' performance on ESG-related areas could significantly impact payouts under the Company's 2021 annual incentive program.

- ***Adopted Severance Plan for Termination without Cause***—In September 2021, the Compensation Committee adopted a severance plan ("***Executive Severance Plan"***) to provide severance benefits to certain key management employees, including each of the NEOs, upon an involuntary termination by the Company without cause or, for participants subject to the PRC law, termination for statutory reasons and subject to severance pay under PRC law, absent a change in control. The Executive Severance Plan aids in recruitment and retention and promotes smooth succession planning, while providing transitional pay for a limited period of time to executives whose employment is involuntarily terminated. Payments are conditioned upon the executive's execution of a release of claims in favor of the Company and compliance with restrictive covenants. Severance benefits payable under the Executive Severance Plan are equal to two times the sum of annual base salary plus annual target bonus for the CEO and one time the sum of annual base salary plus target annual bonus for the other NEOs, will be in lieu of any cash severance benefits under any other arrangement with the participant and are subject to recoupment in the event the executive violates his or her restrictive covenants with the Company.

- ***2022 Lavazza ESOP Grants***—As previously disclosed, the Company and Lavazza Group established the Lavazza Joint Venture to explore and develop the Lavazza coffee shop concept in China. In order to support a founder's mentality and to incentivize the efforts of employees of the Company, Lavazza Group and the Lavazza Joint Venture to execute on the Lavazza Joint Venture's business plan, including the target to open 1,000 Lavazza stores in China by 2025, the Lavazza Joint Venture established equity plans (the "***JV Equity Plans***") allowing for the grant of equity awards with respect to the Lavazza Joint Venture to key employees of the Lavazza Joint Venture, Lavazza Group and the Company. In February 2022, the Lavazza Joint Venture and the Compensation Committee approved equity awards under the applicable JV Equity Plan to certain employees of the Company, including the continuing NEOs, in the form of performance stock units. Under the JV Equity Plans, up to 15% of the equity in the Lavazza Joint Venture may be granted as equity awards under the JV Equity Plans, with employees and other eligible participants of the Lavazza Joint Venture eligible to receive up to 80% of the JV Equity Plan shares, or 12% of the equity in the Lavazza Joint Venture. The remaining JV Equity Plan shares will be allocated to the employees of the Company and Lavazza Group in accordance with their respective equity interest in the Lavazza Joint Venture, or up to 2% and 1%, respectively, of the equity in the Lavazza Joint Venture. The performance stock unit awards granted to the continuing NEOs are subject to both performance-based vesting conditions and the occurrence of a liquidity event, including an initial public offering of the Lavazza Joint Venture which must occur within seven years of the grant date. As discussed above, the JV Equity Plans and related grants to key contributors were adopted in order to help execute the Company's strategy for the Lavazza Joint Venture by aligning their interests to the success of the Lavazza Joint Venture.

- ***Stock Ownership Guidelines and Retention Policy.*** In January 2021, the Compensation Committee modified the Company's stock ownership guidelines to require stock retention of 50% of the after-tax value of shares until the guideline is met during the five-year compliance period to comply with the guidelines and 100% retention after the five-year compliance period has elapsed.

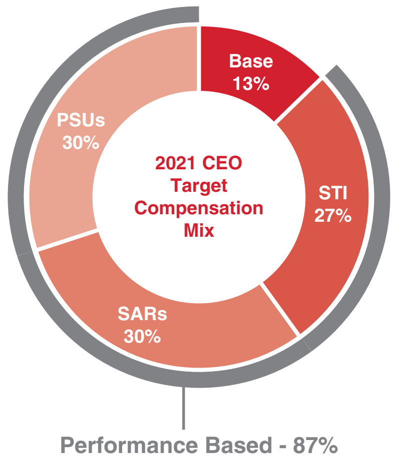
Alignment of Executive Compensation Program with Business Performance

Our pay-for-performance incentive compensation programs are designed to align the long-term interests of our executives with those of our stockholders and to attract and retain top talent in a competitive market. The Company's executive compensation program is structured to support the long-term sustainable growth of the Company and create value for stockholders by aligning our executives with business performance goals and motivating entrepreneurial and innovative thinking. As such, the Compensation Committee reviews and endorses performance goals that are deemed central to the Company's business performance, long-term strategy and stockholder value creation. Specifically, the Compensation Committee has selected performance goals under the Company's 2021 incentive programs that are based on metrics such as operating profit, same store sales, delivery sales, new builds, member sales, rTSR, adjusted total revenue growth, adjusted diluted earnings per share growth, and other key performance indicators described in greater detail below. These performance goals comprise an overall executive compensation program that the Compensation Committee believes appropriately reflects the Company's emphasis on increasing profitability and revenue, enhancing customer experience, supporting an entrepreneurial mindset, creating stockholder value, while at the same time supporting key ESG initiatives.

While the Compensation Committee's practice has generally been to establish and communicate goals at the beginning of each year, the Compensation Committee also retains flexibility to modify the Company's executive compensation program when circumstances warrant, in order to continue to incentivize actions to drive operational performance and long-term strategies. For 2021, in light of the changes in operating environment and the significant impact of the Delta-variant outbreaks on the Company's operating and financial performance since July 2021, the Compensation Committee adjusted the 2021 annual incentive program to measure performance with respect to the Adjusted Operating Profit Growth and Same Store Sales Growth, using the same performance goals as established at the beginning of the year, over three separate performance periods covering the first half of 2021, the third quarter of 2021 and the fourth quarter of 2021. The Compensation Committee believes that maintaining this flexibility allows the Company to appropriately reward performance in areas deemed critical to the Company's long-term strategy.

The following chart provides an overview of the 2021 target total direct compensation program applicable to our CEO, consisting of base salary, annual performance-based cash incentives (i.e., short-term incentives, or "***STI***"), and long-term equity incentives ("***LTI***"). As demonstrated by the following chart, 2021 compensation for our CEO was heavily weighted toward variable pay elements, and such elements represented approximately 87% of the 2021 annual target compensation for Ms. Wat (consisting of the target payout opportunity under the cash bonus plan, target annual performance stock units ("***PSUs***") and SARs). For purposes of this calculation, we have excluded the 2021 Chairman Grants described below, as such grants do not represent a component of the Company's annual executive compensation program.

2021 CEO Target Compensation Mix



Pay Components

The Company's executive compensation program has three primary pay components: (i) base salary; (ii) annual performance-based cash bonuses (i.e., short-term incentives); and (iii) long-term equity awards. We believe that these key elements are aligned with the Company's compensation philosophy and objectives, as illustrated in the following table.

Objective	Base Salary	Annual Performance-Based Cash Bonuses	Long-Term Equity Incentives
Attract and retain the right talent to achieve superior stockholder results — Competitive total reward program structure that enables pay to vary based on role, responsibility, experience, market value and future potential of talent in order to drive superior results year-over-year.	X	X	X
Reward performance — Motivate both short-term and long-term performance through annual and long-term equity programs. A majority of NEO annual target compensation is performance-based or variable and, therefore, at-risk.		X	X
Emphasize long-term value creation — The Company's belief is simple: if it creates long-term value for stockholders, then it shares a portion of that value with those responsible for the results. SARs and PSUs focus on the long-term performance of the Company and directly align the interests of the recipients with those of the Company's stockholders.			X
Drive ownership mentality — We require executives to invest in the Company's success by owning a substantial amount of Company stock.			X

Executive Compensation Practices

The Compensation Committee reviews on an ongoing basis the Company's executive compensation program to evaluate whether it supports the Company's executive compensation philosophies and objectives and is aligned with stockholder interests. Our executive compensation practices include the following, each of which the Compensation Committee believes reinforces our executive compensation philosophy and objectives:

Our Executive Compensation Practices

- ✓ We deliver a significant percentage of annual target compensation in the form of variable compensation tied to performance, with 87% of Ms. Wat's 2021 annual target compensation in the form of variable pay elements
- ✓ We deliver a significant portion of total compensation in the form of equity
- ✓ Maximum payout opportunity for STI and PSUs
- ✓ We have multi-year vesting periods for equity awards
- ✓ We perform market comparisons of executive compensation against a relevant peer group, recognizing the different geographic regions where executives are sourced and recruited
- ✓ The vesting of the rTSR portion of the PSU awards will be capped at target if our TSR performance is negative over the performance period
- ✓ We use an independent compensation consultant reporting directly to the Compensation Committee
- ✓ We have double-trigger vesting for equity awards in the event of a change in control under our long-term incentive plan
- ✓ We maintain stock ownership guidelines, which includes a retention requirement until the guideline is achieved
- ✓ We maintain a compensation recovery policy
- ✓ We maintain an equity-based awards grant policy specifying pre-determined dates for annual equity grants
- ✓ We hold an annual "say on pay" vote
- ✓ We maintain an annual stockholder engagement process
- ✓ Our Compensation Committee regularly meets in executive session without any members of management present

- X We do not pay dividends or dividend equivalents on PSUs unless and until they vest
- X We do not allow repricing of underwater SARs under our long-term incentive plan without stockholder approval
- X We do not allow hedging, short sales or pledging of our securities
- X We do not allow backdating of SARs
- X We do not provide for tax gross-ups relating to a change in control

Stockholder Engagement

In its compensation review process, the Compensation Committee focuses on structuring the executive compensation program to serve the interests of our stockholders. In that respect, as part of its ongoing review of our executive compensation program, the Compensation Committee considered the approval by approximately 93% of the votes cast for the Company's "say on pay" vote at our 2021 annual meeting of stockholders. Although the Compensation Committee was pleased with this favorable outcome and interpreted this level of support as an endorsement by our stockholders of our executive compensation program and policies, the Compensation Committee continuously evaluates program design and considers adjustments to the Company's compensation program based on stockholder feedback, market practices, operating environment and other considerations in order to deliver a program designed to be aligned with our business strategy, the creation of long-term value and our stockholders' interests.

During 2021, the Company reached out to its 25 largest stockholders and select stockholders who previously indicated interest for having engagement calls (which represented more than 50% of the Company's outstanding shares) to solicit feedback on a variety of corporate governance matters (including with respect to executive compensation), and the Company held discussions with all stockholders who accepted an invitation. Management shared this stockholder feedback with the Compensation Committee for its consideration in designing the Company's executive compensation program.

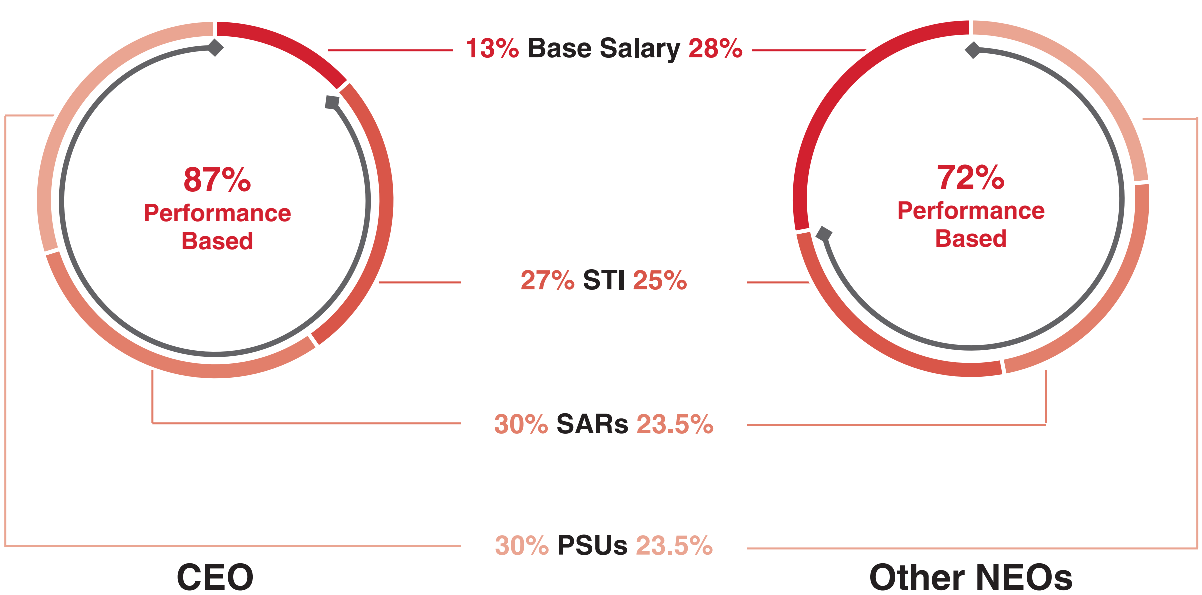
Based on feedback received during the Company's stockholder engagement efforts over the past several years, the Compensation Committee has approved changes to its compensation program, including the incorporation of ESG measures and targets into the key performance indicators that are used to determine the individual performance factor under the 2021 annual incentive program for each leadership team member.

Elements of the Executive Compensation Program

The Company's 2021 executive compensation program consists of three primary pay components: (i) base salary; (ii) annual performance-based cash bonuses (i.e., short-term incentives); and (iii) long-term equity awards. The following charts demonstrate that 2021 annual target compensation for Ms. Wat, our CEO, and the continuing NEOs was heavily weighted toward variable pay elements. Such elements represented approximately 87% of the 2021 annual target compensation for Ms. Wat and, on average, 72% of the 2021 annual target compensation for our other NEOs (consisting of the target payout opportunity under the cash bonus plan and target annual equity grants and excluding the 2021 Chairman Grants and all other compensation reported in the 2021 Summary Compensation Table).

2021 CEO Target Compensation Mix

2021 Other NEOs Average Target Compensation Mix



Base Salary

The Company provides a fixed level of cash compensation to attract and retain high-caliber talent. Base salary in the form of cash compensates executives for their primary roles and responsibilities. An executive's actual salary is dependent on factors such as the executive's role (including the market value of the role), level of responsibility, experience, individual performance and future potential. The Compensation Committee annually reviews salary levels of the Company's executive officers to maintain market competitiveness and reflect their evolving responsibilities.

Annual Performance-Based Cash Bonuses

The principal purpose of our cash-based annual incentive program is to motivate and reward short-term team and individual performance. The following is the formula used to calculate 2021 annual performance-based cash bonuses:

Base Salary	×	Target Bonus Percentage (As a % of Base Salary)	×	Team Performance Factor (0%-200%)	×	Individual Performance Factor (0%-150%)	=	Final Individual Performance Bonus Payout

Team Performance Factors

The Compensation Committee reviewed the performance measures used in the annual incentive plan to assess the program's alignment of the incentive payouts with key performance measures of the Company's overall business and operating segments. The Compensation Committee established the initial team performance measures, targets and weights for the 2021 bonus program at the beginning of the year after receiving input and recommendations from management and the Compensation Committee's compensation consultant. The team performance objectives and targets in 2021 were developed through the Company's annual financial planning process, which took into account growth strategies, historical performance, and the existing and expected future operating environment of the Company.

At the time the targets were set, the performance targets were designed to be challenging but achievable given the operating environment at the time and with strong management performance. A leverage formula for each team performance measure magnifies the potential impact that performance above or below the performance target will have on the calculation of the annual bonus. This leverage increases the payouts when targets are exceeded and reduces payouts when performance is below target, with a threshold level of performance required in order for any bonus associated with such metric to be paid and a cap on bonus payments.

The team performance targets and weights for each measure established at the beginning of 2021 for the Company's NEOs are outlined below. The Company's performance metrics were established as growth rate goals with 2020 as the base line measure. This methodology required performance better than in 2020 in order to receive a target payout.

Team Performance Measures	Target	Weighting
Adjusted Operating Profit Growth*	10%	40%
Same Store Sales Growth**	6.8%	15%
Delivery Sales Growth	20%	15%
System Gross New Builds	1,100	20%
Member Sales***	61.5%	10%

The incentive targets for the Team Performance Factor were set based on the operating environment at the beginning of 2021 when the COVID-19 situation was relatively stable. However, multiple waves of Delta-variant outbreaks persisted, and our business was significantly affected, in the second half of the year. For details, see "Executive Summary—Context for Determining Executive Compensation Decisions—Operating Environment."

In light of the changes in operating environment and the significant impact of the Delta-variant outbreaks on the Company's operating and financial performance since July 2021, in September 2021, the Compensation Committee determined to measure performance with respect to the Adjusted Operating Profit Growth and Same Store Sales Growth team performance measures over three separate performance periods: the first half of 2021 (weighted 50%); the third quarter of 2021 (weighted 25%); and the fourth quarter of 2021 (weighted 25%). The performance targets for each of these three distinct performance periods were derived from the performance goals established in early 2021, with the only difference being the segregation of performance into the three distinct performance periods. This change retained the same performance-based program design and kept the original goals, but helped address the volatility associated with the COVID-19 pandemic. The team performance targets, actual results, weights and overall performance for each measure following the adjustments described above are outlined below.

Team Performance Measures	Target	Actual	Earned As a % of Target	Weighting	Final Team Performance
Adjusted Operating Profit Growth*					
First Half of 2021	67%	132%	200%	20%	40
Third Quarter of 2021	-7%	-52%	0%	10%	0
Fourth Quarter of 2021	-31%	-92%	0%	10%	0
Same Store Sales Growth**					
First Half of 2021	8.1%	7.8%	97%	7.5%	7
Third Quarter of 2021	6.9%	-7.1%	0%	3.75%	0
Fourth Quarter of 2021	6.8%	-10.7%	0%	3.75%	0
Delivery Sales Growth	20%	18%	82%	15%	12
System Gross New Builds	1,100	1,806	200%	20%	40
Member Sales***	61.5%	62.1%	129%	10%	13
FINAL COMPANY TEAM FACTOR					112

* Adjusted Operating Profit Growth as a team performance measure is the adjusted operating profit growth, excluding the effects of RMB to USD translations (either positive or negative) because we believe that changes in the foreign exchange rate can cause Operating Profit Growth to appear more or less favorable than business results indicate. If measured on a full-year basis, actual result would be -2%.

** If measured on a full-year basis, actual result would be -0.9%.

*** Member Sales refers to member sales for the KFC and Pizza Hut brands as a percentage of total system sales.

As noted above, a team factor of 112% was achieved based on the five performance measures set out above with the performance periods for the performance measures of Adjusted Operating Profit Growth and Same Store Sales Growth being segregated into three distinct performance periods. With Adjusted Operating Profit Growth and Same Store Sales Growth measured on a full-year basis as established in early 2021, the team factor would have been 65% due to the volatility of COVID-19 on the Company's performance during 2021. Although the strong performance, particularly in the first half of 2021, and the extraordinary effort of the management team in containing cost and delivering positive profit amid the severe impact of COVID-19 in the second half of

2021, would have resulted in a team factor of 112%, the Compensation Committee applied discretion to reduce the result from 112% and approved a final team factor of 105% for Company performance.

Individual Performance Factors

In February 2021, the Compensation Committee approved the performance goals that would be used to determine the Individual Performance Factor for the CEO and provided input on the performance goals recommended by the CEO for the other NEOs, which would subsequently be used by the CEO to recommend to the Compensation Committee the Individual Performance Factor for each NEO. As part of the Company's annual performance evaluation process, the CEO, after having received input from the Compensation Committee and after consultation with each NEO, establishes that NEO's performance objectives for the coming year, which are ultimately approved by the Compensation Committee. These performance objectives are not intended to be rigid or formulaic, but rather to serve as the framework upon which the CEO evaluates the NEO's overall performance.

These annual performance goals generally fell within the performance categories of mitigating the impact of the COVID-19 pandemic, increasing stockholder returns, accelerating the growth of our brands, driving new business initiatives, and ESG objectives. Under each performance goal category, each NEO has a number of underlying pre-established goals against which the NEO's performance is assessed to determine whether the NEO has achieved the overall performance goal. The evaluation of an executive's performance relative to these goals is inherently subjective, involving a high degree of judgment based on the CEO's observations of, and interactions with, the executive throughout the year. As an additional input to the evaluation of an executive's performance, the CEO assesses the overall performance of the Company in light of the dynamics of the China market. As a result, no single performance goal or group of goals is determinative for the CEO's evaluation of the executive's performance.

The above evaluation provides the basis for the CEO's recommendation to the Compensation Committee for the executive's Individual Performance Factor. The Compensation Committee then meets with the CEO and discusses the CEO's recommendations and meets separately in executive session to discuss the CEO's recommendations and make a determination of the Individual Performance Factor for the NEOs, excluding the CEO.

The Compensation Committee applies similar factors in determining the Individual Performance Factor for the CEO. The Compensation Committee meets in executive session to discuss the CEO's individual performance and then consults with the Chairman of the Board for their collective determination of the CEO's Individual Performance Factor. The evaluation of the CEO's overall performance relative to these factors is also inherently subjective, involving a high degree of judgment. The Compensation Committee and the other independent directors assess the overall performance of the Company in light of the dynamics of the China market in which the Company operates. As a result, no single performance goal or group of goals is determinative for the evaluation of the CEO's performance.

The use of Individual Performance Factors provides the Company with a degree of flexibility (applied reasonably and in moderation by the Compensation Committee) to reward contributions to strategic business initiatives and the building of organizational capabilities supportive of the creation of long-term value.

Based on the foregoing, the Compensation Committee assigned 2021 Individual Performance Factors for the NEOs ranging from 100% to 130%, as described below under "2021 NEO Compensation and Performance Summary."

Long-Term Equity Incentives

The Company provides long-term equity compensation to its executives to encourage decision-making that creates long-term sustainable stockholder value. In determining the size of the annual equity awards, the Compensation Committee considers the following:

- Prior year individual and team performance;
- Expected contributions in future years;

- The market value of the executive's role compared with similar roles in the Company's peer group, based on compensation survey data; and
- Achievement of the Company's stock ownership guidelines.

Consistent with the 2020 annual equity grants, the 2021 annual equity grants consisted of SARs and PSUs, equally weighted. The entire portion of the annual equity grant is considered by the Compensation Committee to be performance-based as the PSUs will vest based only on the Company's achievement of performance goals relating to rTSR, Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Common Share Growth, and the SARs will realize value only to the extent the Company's stock price increases from the date of grant.

The SARs vest annually in equal installments of 25%, beginning on the first anniversary of the grant date and generally subject to continued employment through the applicable vesting date. The exercise price of each SAR grant is based on the closing market price of the underlying Company stock on the date of grant.

The Annual PSU Awards are designed to incentivize each NEO's performance over the performance period from January 1, 2021 to December 31, 2023 and to further align their interests with the interests of our stockholders. In early 2021, in response to the challenges presented by the COVID-19 pandemic with respect to setting targets for the Annual PSU Awards, the Compensation Committee determined to grant the Annual PSU Awards in two equally weighted grants, with the first grant occurring in February 2021 and to vest based on the Company's achievement of rTSR performance goals and the second grant occurring three months later in May 2021 and to vest based on the Company's achievement of performance goals relating to Adjusted Total Revenue Growth (weighted 50%) and Adjusted Diluted Earnings Per Common Share Growth (weighted 50%). Given the uncertainty presented by the continuing COVID-19 pandemic, the Compensation Committee considered a number of options to design the Annual PSU Awards in a manner that served as an appropriate incentive vehicle while also aligning the long-term interests of recipients with our stockholders, including the possibility of setting annual performance goals for each year in the three-year performance period with respect to the Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Common Share Growth performance goals. In order to align the Annual PSU Awards with the long-term interest of the stockholders, the Compensation Committee ultimately decided to approve a three-year performance period from January 1, 2021 to December 31, 2023, as compared to three annual performance periods. To obtain greater clarity on the operating environment and assess the rigor of these three-year performance goals, the Compensation Committee delayed the grant date by three months until May 2021 for the Annual PSU Awards with vesting tied to these two performance goals. Consistent with the Company's usual practice of granting annual LTI awards in February, the number of shares subject to the May 2021 portion of the PSU grant was determined based on the February 2021 stock price rather than the stock price on the grant date in May 2021. This resulted in larger grant date fair value as compared to the grant level approved in February 2021 due to higher stock price in May 2021.

The rTSR performance goal for the 3-year performance period from January 1, 2021 to December 31, 2023 is measured as achievement compared against constituents of the MSCI China Index. The vesting is capped at target if TSR performance is negative over the performance period. For Company performance at the 30th percentile, threshold shares (50% of target) would be earned, at the above median 55th percentile 100% of target shares would be earned, and at the 80th percentile or greater, maximum shares (200% of target) would be earned. The Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Share Growth goals use the 2020 results as a baseline from which to measure growth. Given the Company's performance in 2020 (and the first quarter of 2021 with respect to the Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Share Growth performance goals) and the Company's operating plan over the three-year performance period, the performance goals applicable to the Annual PSU Awards were designed to be challenging but achievable with strong management performance.

2021 represented the final year of the 2019-2021 performance period for PSUs granted in 2019. Under the 2019 PSU program, Ms. Wat's 2019 PSUs would be settled in shares of our common stock based on our rTSR performance over the 2019-2021 performance period relative to 143 of the 149 companies in the MSCI International China Index as of January 1, 2019 and that were still active as of December 31, 2021. Under the program, payout would be capped at target if the Company's TSR was negative over the three-year performance period.

		Threshold	Target	Maximum
TSR Percentile Rank Achieved	<30%	30%	55%	85%
Proportion of Target Award Vesting*	0%	35%	100%	200%

* Vesting proportion for performance between performance levels would be determined based on linear interpolation.

Based on the Company's 45.71% TSR performance during the three-year performance period, the Company ranked at the 72nd percentile as compared to the TSR performance of the active constituents of the MSCI International China Index at the end of the performance period, resulting in 157.43% of the target PSUs and dividend equivalents vesting, or 67,686 shares of our common stock.

2021 Chairman Grants

In February 2021, the Compensation Committee awarded the 2021 Chairman Grants to select Company executive officers and employees. Among the NEOs, Ms. Wat and Messrs. Yeung and Chan were selected as recipients of the Chairman long-term equity grant. These awards are intended to provide recognition for exemplary individual leadership demonstrated by select executives and employees during 2020, in particular in resolving many novel and complex regulatory issues to execute the Company's secondary listing on the Hong Kong Stock Exchange and navigating the Company through the COVID-19 crisis. The Company considers it important to retain the flexibility to make long-term equity awards to specifically reward demonstrated individual leadership actions and behaviors that are not factored into the corporate performance goals underlying the equity awards made to our entire management team, but which still recognize individual actions and behaviors that the Company wants to encourage and foster. While these awards were granted in recognition of the significant individual achievements and leadership displayed by recipients during 2020, the Compensation Committee elected to deliver the 2021 Chairman Grants as RSUs that cliff-vest on the third anniversary of the grant date to incentivize retention over this three-year period. Factors considered in awarding the Chairman Awards included:

- *Listing on the Stock Exchange of Hong Kong*—Management assumed a significant amount of additional duties to resolve many novel and complex regulatory issues to execute the Company's secondary listing on the Hong Kong Stock Exchange on an accelerated timeframe in the midst of the global pandemic to become the first Delaware and non-TMT company to qualify as an innovative company and successfully list on the exchange. The secondary listing on the Hong Kong Stock Exchange raised net proceeds of $2.2 billion and expanded the Company's stockholder base in China and Asia.

- *COVID-19 Responsiveness*—The management team led the implementation of key actions that we undertook to protect our employees, serve our customers, drive stockholder value-creation and give back to the community in connection with the COVID-19 pandemic, all of which we believe have contributed to our ability to navigate the pandemic in 2020. These actions included: implementing stringent health measures at our restaurants and workplaces and providing extended healthcare and other support to employees; keeping majority of our stores open even at the peak of the outbreak; launching contactless delivery, takeaway and corporate catering to support businesses during the time of reduced dine-in traffic; and addressing operational complexities and challenges in response to changes in regulatory requirements imposed by governmental authorities. Throughout the pandemic in 2020, management demonstrated their commitment to our long-term success by taking actions that were key to the Company's ability to effectively navigate the pandemic and emerge even stronger, even if such actions entail certain additional costs. For example, while many of our competitors elected to lay-off employees during the pandemic, we kept employees on our payroll to allow us to recall employees as soon as possible once restrictions eased and it was appropriate to open stores. Actions such as this allowed us to nimbly respond to changing circumstances and foster goodwill among our employees. During 2020, sales and traffic recovered sequentially since the first quarter of 2020. The Company also served over 170,000 free meals to 1,450 hospitals and medical centers.

- *Strong Execution Against the Company's Strategic Operating Plan*—In the context of a challenging year without precedent, the Company delivered strong results, including the opening of 1,165 new stores, bringing total store count to over 10,500 across more than 1,500 cities in China. The KFC and Pizza Hut loyalty programs exceeded 300 million members combined, with member sales accounted for approximately 60% of system sales in 2020. Leveraging its digital and delivery capabilities, the Company continued to capture dine-in and off-premise opportunities. These priorities were aligned with the Company's strategic operating plan in order to position the Company as a strong market leader.

The grants to Ms. Wat and Messrs. Yeung and Chan have a grant date fair value of $2,500,000, $1,600,000 and $1,500,000, respectively, and will cliff-vest on the three-year anniversary of the grant date based on continued service through the vesting date. The Compensation Committee elected to deliver the 2021 Chairman Grants as RSUs rather than as cash bonuses in order to further incentivize the retention of these key contributors over the applicable vesting period and to further align their interests with the interests of our stockholders. While these awards are not a component of the Company's annual executive compensation program, the Compensation Committee determined that the 2021 Chairman Grants were appropriate to recognize the listing on the Hong Kong Stock Exchange and to incentivize similar actions that required significant efforts and innovativeness by our select executives.

2022 Lavazza ESOP Grants

As previously disclosed, the Company and Lavazza Group established the Lavazza Joint Venture to explore and develop the Lavazza coffee business in China. In order to incentivize the efforts of employees of the Company, Lavazza Group and the Lavazza Joint Venture to execute on the Lavazza Joint Venture's business plan, including the target to open 1,000 Lavazza stores in China by 2025, the Lavazza Joint Venture established the JV Equity Plans allowing for the grant of equity awards with respect to the Lavazza Joint Venture to key employees of the Lavazza Joint Venture, as well as select employees of Lavazza Group and the Company. Under the JV Equity Plans, up to 15% of the equity in the Lavazza Joint Venture may be granted as equity awards under the JV Equity Plans, with employees and other eligible participants of the Lavazza Joint Venture, including general restaurant managers, eligible to receive up to 80% of the JV Equity Plan shares, or 12% of the equity in the Lavazza Joint Venture. The remaining JV Equity Plan shares will be allocated to the employees of the Company and Lavazza Group in accordance with their respective equity interest in the Lavazza Joint Venture, or up to 2% and 1%, respectively, of the equity in the Lavazza Joint Venture. The Compensation Committee has discretion to award the portion of the JV equity pool allocated to the Company to employees of the Company who have been key contributors to the efforts of the Lavazza Joint Venture and are deemed to be essential to the successful execution of the Lavazza Joint Venture's business plan. The JV Equity Plans and related grants were adopted in order to support entrepreneurial and innovative thinking and leadership through a compensation structure linked to brand expansion and our long-term strategy.

After considering the input of the Compensation Committee's compensation consultant with respect to form and amount of equity awards to be granted to Company employees, on February 10, 2022, the Lavazza Joint Venture and the Compensation Committee approved equity awards under the applicable JV Equity Plan to certain employees of the Company, including the continuing NEOs, in the form of PSUs. The PSUs are subject to both performance-based vesting conditions and the occurrence of a liquidity event. The performance-based vesting conditions relate to the Lavazza Joint Venture's performance with respect to revenue, store-level profitability, brand-level profitability and store count, each equally weighted, with performance to be measured on a rolling four-consecutive quarter basis over a four-year performance period. The liquidity event vesting condition, which includes the occurrence of an initial public offering of the Lavazza Joint Venture, must occur within seven years of the grant date. Any portion of the award that does not vest, either based on the achievement of the applicable performance-based vesting conditions or the non-occurrence of the liquidity event, will be forfeited in their entirety. To recognize the efforts of each of the continuing NEOs with respect to the Lavazza Joint Venture and to incentivize and galvanize their continued focus on the success of the Lavazza Joint Venture, the Compensation Committee granted PSUs with the following grant date fair values to each of the continuing NEOs: Ms. Wat, \$1,000,000; Mr. Yeung, \$200,000; Mr. Chan, \$200,000; Mr. Huang, \$200,000 and Mr. Yuen, \$200,000.

Other Elements of Executive Compensation Program

As with all Company employees, Company executive officers receive certain employment benefits. We believe the benefits we offer are an important part of retention and capital preservation for all levels of employees. Our benefits are designed to protect against unexpected catastrophic losses of health and earnings potential and provide a means to save and accumulate assets for retirement.

Post-Termination and Change in Control Compensation.

The Company provides certain post-termination and change in control compensation to help accomplish the Company's compensation philosophy of attracting and retaining executive talent.

Change in Control Severance Plan. The Company maintains a change in control severance plan that covers all NEOs. Severance benefits are payable only upon a qualifying termination, which is defined as a termination by the Company without cause or by the participant due to good reason, within 24 months following the consummation of a change in control of the Company. The Compensation Committee believes change in control compensation promotes management independence and helps retain, stabilize, and focus the executive officers in the event of a change in control.

Executive Severance Plan. As noted above, in September 2021, the Compensation Committee adopted the Executive Severance Plan to provide severance benefits to certain key management employees of the Company and its affiliates who are selected by the Compensation Committee to participate in the plan, including each of the NEOs. The Executive Severance Plan aids in recruitment and retention and promotes smooth succession planning, while providing transitional pay for a limited period of time to executives whose employment is involuntarily terminated. Payments are conditioned upon the executive's execution of a release of claims in favor of the Company and compliance with restrictive covenants. Severance benefits payable under the Executive Severance Plan are equal to two times the sum of annual base salary plus annual target bonus for the CEO and one time the sum of annual base salary plus target annual bonus for the other NEOs, will be in lieu of any cash severance benefits under any other arrangement with the participant and are subject to recoupment in the event the executive violates his or her restrictive covenants with the Company.

The terms of the Change in Control Severance Plan and Executive Severance Plan were determined after considering market data and the input of the compensation consultant. The award agreements with respect to the Company's outstanding equity awards also provide for pro-rata vesting in the event of certain qualifying terminations of employment, as described below.

Please see the "Potential Payments upon a Termination or a Change in Control" section below for a quantification of the amounts that would be payable to each of the continuing NEOs in connection with a termination of employment or change in control as of December 31, 2021.

Retirement Plans. The Company offers certain executives working in China retirement benefits under the Bai Sheng Restaurants China Holdings Limited Retirement Scheme ("***BSRCHLRS***"). Under the BSRCHLRS, executives may make personal contributions, and the Company provides a company-funded contribution ranging from 5% to 10% of a participating executive's base salary. During

2021, all of our NEOs were participants in the BSRCHLRS, and each NEO received a company-funded contribution.

Medical, Dental, and Life Insurance and Disability Coverage. The Company provides benefits such as medical, dental, and life insurance and disability coverage to its executive officers through the same benefit plans that are provided to all eligible China-based employees.

Perquisites. Certain perquisites are provided to certain Company executive officers relating to overseas assignments. These perquisites are governed by the Company's formal mobility policy, are offered on a case-by-case basis and reflect each executive's particular circumstances while also generally reflecting market practices for similarly situated, globally mobile executives working in international companies based in mainland China. For example, the Company may offer perquisites such as housing cost subsidies, dependent education, and home leave payments to executives performing services in China. These perquisites are considered to be a necessary component of the Company's executive compensation program in order to attract and retain high-performing executives from different countries who have the skill sets and experience to successfully manage and lead the Company in mainland China.

Prior to our spin-off from YUM! Brands, Inc. ("***YUM***"), certain of our NEOs were offered tax equalization benefits as an element of their compensation. These tax equalization benefits represent legacy compensation arrangements entered into with our former parent. After the spin-off, the Compensation Committee began to phase out tax equalization benefits for the NEOs (other than certain grandfathered benefits pursuant to the legacy arrangements).

See the 2021 All Other Compensation Table in this CD&A for details regarding the perquisites received by our NEOs during 2021.

2021 NEO Compensation and Performance Summary

Below is a summary of our NEOs' 2021 compensation—which includes base salary, annual cash bonus, and equity awards—and an overview of our NEOs' 2021 performance relative to the annual performance goals.

Joey Wat
Chief Executive Officer

2021 Performance Summary. The Compensation Committee determined Ms. Wat's performance to be above target with an Individual Performance Factor of 130%. At the beginning of the year, the Compensation Committee set individual performance goals for Ms. Wat covering five pre-defined performance areas: (1) financial performance as measured by sales and profit growth; (2) ESG; (3) accelerating growth of leading brands; (4) growing new business initiatives and (5) building people, culture and organization.

Further, Ms. Wat was recognized for leading the Company's crisis management team in tackling many challenges arising out of the COVID-19 pandemic in 2021 and continuing to execute the Company's business plan through a disciplined review process. While the COVID-19 pandemic heavily impacted the Company's business in the second half of 2021, Ms. Wat led the Company in delivering system sales growth of 10% and achieving delivery sales growth of 20% for KFC and 14% for Pizza Hut. Under Ms. Wat's leadership, Pizza Hut's revitalization program, which started in 2017, has significantly improved fundamentals, and Pizza Hut achieved remarkable growth in both sales and profit in 2021. The Company achieved record openings of 1,806 gross new stores with diversified store models and healthy unit economics. Since Ms. Wat's appointment as CEO in early 2018, the Company's TSR consistently outperformed that of the MSCI China Index. The Compensation Committee also attached importance to Ms. Wat's management of the Company's talent base. Under her direction, the Company initiated the building of a digital research and development center in three cities to support the multi-year end-to-end digitalization initiative. Ms. Wat also took an active role in guiding the Company's ESG efforts. The Company's 2021 ESG achievements included phasing-out disposable plastic cutlery, as well as gradually replacing non-degradable plastic bags with paper or biodegradable plastic bags. Ms. Wat also assembled a project team supported by external advisors to develop a long-term greenhouse gas emissions strategy leading to the Company's announcement of its commitment to setting the Science Based Targets.

2021 Compensation Decisions. Effective February 1, 2021, the Compensation Committee decided to bring Ms. Wat's 2021 target compensation levels closer in line with the median of the Company's compensation peer group, after taking into account Ms. Wat's experience in and knowledge of the China consumer market and global expertise. These decisions positioned Ms. Wat's total target direct compensation at the 42nd percentile of the Company's 2021 compensation peer group. After considering the advice of its compensation consultant, market practices, and Ms. Wat's individual performance, the Compensation Committee made the following compensation decisions.

- *Base Salary*. Ms. Wat's base salary was increased from $1,250,000 to $1,350,000, an increase of 8%.

- *Annual Incentive Plan Target and Payout Level*. Ms. Wat's annual cash bonus target increased from 150% to 200% of her base salary, resulting in a blended bonus target for the year of $2,642,671. Ms. Wat's 2021 annual cash bonus award payout was $3,607,246, reflecting a total payout of 137% of target based on the Team Performance Factor of 105% and Individual Performance Factor of 130%.

- *Long-Term Incentive Award*. The Compensation Committee approved an annual long-term incentive award of $6,000,000 to Ms. Wat in February 2021, delivered equally in SARs and PSUs, which was increased from an annual long-term incentive award of $5,000,000 in 2020. Consistent with the Company's usual practice of granting annual LTI awards in February, the number of shares subject to the May 2021 portion of Ms. Wat's PSU grant was determined based on the February 2021 stock price rather than the stock price on the grant date in May 2021, which resulted in larger grant date fair value of $6,203,901 as compared to the grant level approved in February 2021 due to higher stock price in May 2021. Ms. Wat also received a 2021 Chairman Grant with a grant date fair value of $2,500,000. Inclusive of the Chairman Grant, target total direct compensation awarded in 2021 was positioned at the 56th percentile of the Company's 2021 compensation peer group.

Andy Yeung
Chief Financial Officer

2021 Performance Summary. The Compensation Committee determined Mr. Yeung's performance to be above target with an Individual Performance Factor of 125%. Mr. Yeung was recognized for driving disciplined financial planning and vigorous cost management measures, achieving a year-over-year increase in Operating Profit despite the significant impact due to the resurgence of COVID-19 in the second half of 2021. He also led the development of the Company's multi-year capital allocation strategy. With the Company becoming newly listed on the Hong Kong Stock Exchange in September 2020, he led the efforts for the Company's compliance with the rules of the SEC and Hong Kong Stock Exchange. Mr. Yeung played an active role in ESG, including the Company's strategy and roadmap relating to setting Science Based Targets. For new growth initiatives, Mr. Yeung was instrumental in formulating the long-term joint venture agreement with Lavazza Group. He also devised and implemented robust monthly financial reviews on all new growth initiatives, including the Lavazza Joint Venture, to complement the leadership team's comprehensive business reviews on these growth initiatives and support disciplined, accelerated growth.

2021 Compensation Decisions. Effective February 1, 2021, the Compensation Committee set Mr. Yeung's 2021 compensation levels after considering the advice of its compensation consultant, market practices and Mr. Yeung's individual performance. Specifically, the compensation adjustments for Mr. Yeung were made to bring the components of his annual target total direct compensation closer in line with that of the median of the compensation peer group.

- *Base Salary*. Mr. Yeung's base salary was increased from $700,000 to $800,000.

- *Annual Incentive Plan Target and Payout Level*. Mr. Yeung's annual cash bonus target increased from 80% to 100% of his base salary, resulting in a blended bonus target for the year of $786,411. Mr. Yeung's 2021 annual cash bonus award payout was $ 1,032,164, reflecting a total payout of 131% of target based on the Team Performance Factor of 105% and Individual Performance Factor of 125%.

- *Long-Term Incentive Award*. The Compensation Committee approved an annual long-term incentive award of $1,500,000 to Mr. Yeung in February 2021, delivered equally in SARs and PSUs, which was increased from an annual long-term incentive award of $1,200,000 in 2020, which positioned Mr. Yeung's annual target total direct compensation at the 41st percentile of the compensation peer group. Consistent with the Company's usual practice of granting annual LTI awards in February, the number of shares subject to the May 2021 portion of Mr. Yeung's PSU grant was determined based on the February 2021 stock price rather than the stock price on the grant date in May 2021, which resulted in larger grant date fair value of $1,551,056 as compared to the grant level approved in February 2021 due to higher stock price in May 2021. Mr. Yeung also received a 2021 Chairman Grant with a grant date fair value of $1,600,000. Inclusive of the Chairman Grant, target total direct compensation awarded in 2021 was positioned between the median and the upper quartile of the compensation peer group.

Joseph Chan
Chief Legal Officer

2021 Performance Summary. The Compensation Committee determined Mr. Chan's performance to be above target with an Individual Performance Factor of 125%. Mr. Chan also contributed significantly to the building and updating of the Company's compliance and governance framework especially following its secondary listing on the Hong Kong Stock Exchange in September 2020. Mr. Chan also played an instrumental role in supporting the execution of strategic investments including transaction structuring, due diligence, definitive agreement drafting and negotiation and regulatory approvals. Mr. Chan also further enhanced the Company's capability to manage and mitigate emerging risks such as cybersecurity and intellectual property protection. Mr. Chan was recognized for serving as a core member of the Company's Sustainability Committee to lead and guide the Company's sustainability disclosures to follow evolving regulatory requirements and market practices. He made significant contributions in the ESG strategy and roadmap formulation, including the Company's commitment to setting Science Based Targets.

2021 Compensation Decisions. Effective February 1, 2021, the Compensation Committee set Mr. Chan's 2021 compensation levels after considering the advice of its compensation consultant, market practices and Mr. Chan's individual performance.

- *Base Salary*. Mr. Chan's base salary was increased from $540,000 to $600,000.

- *Annual Incentive Plan Target and Payout Level*. Mr. Chan's annual cash bonus target increased from 65% to 80% of his base salary, resulting in a blended bonus target for the year of $472,356. Mr. Chan's 2021 annual cash bonus award payout was $619,967, reflecting a total payout of 131% of target based on the Team Performance Factor of 105% and Individual Performance Factor of 125%.

- *Long-Term Incentive Award*. The Compensation Committee approved a long-term incentive award of $1,125,000 to Mr. Chan in February 2021, to be delivered equally in SARs and PSUs. Consistent with the Company's usual practice of granting annual LTI awards in February, the number of shares subject to the May 2021 portion of Mr. Chan's PSU grant was determined based on the February 2021 stock price rather than the stock price on the grant date in May 2021, which resulted in larger grant date fair value of $1,163,248 as compared to the grant level approved in February 2021 due to higher stock price in May 2021. Mr. Chan also received a 2021 Chairman Grant with a grant date fair value of $1,500,000.

Johnson Huang
General Manager, KFC

2021 Performance Summary. During 2021, Mr. Huang served as General Manager, KFC, after returning from medical leave of absence during 2020. The Compensation Committee determined that Mr. Huang's 2021 performance was on target with an Individual Performance Factor of 110%. Mr. Huang was recognized for driving KFC's prompt actions in response to the disruptions due to the multiple waves of the COVID-19 outbreaks especially in the second half of 2021. The KFC Brand, under Mr. Huang's leadership, delivered an 8% increase in system sales growth, and achieved delivery sales growth of 20%, openings of 1,232 gross new stores and new member acquisition of 55 million. Mr. Huang made significant progress in implementing KFC's strategy in both expanding regionally-inspired menu items and adopting diversified store models. He also led the efforts to improve restaurant productivity through the use of digital technologies and automation, leading to labor productivity improvement and wastage reduction. Mr. Huang supported the Company's ESG strategy by launching the first carbon neutral product and replacing disposable plastic straws, cutlery and bags, representing savings of over 7,000 tons of plastic in 2021. He supported the continued expansion of the KFC food bank project to 27 cities at the end of 2021.

2021 Compensation Decisions. Effective February 1, 2021, the Compensation Committee set Mr. Huang's 2021 compensation levels after considering the advice of its compensation consultant, market practices, Mr. Huang's individual performance and the strong performance of KFC.

- *Base Salary*. Mr. Huang's base salary remains unchanged at $740,000.
- *Annual Incentive Plan Target and Payout Level*. Mr. Huang's annual cash bonus target was increased from 90% to 100% of his base salary, resulting in a blended bonus target for the year of $733,715. Mr. Huang's 2021 annual cash bonus award payout was $847,441, reflecting a total payout of 116% of target based on the blended Team Performance Factor of 105% and Individual Performance Factor of 110%.
- *Long-Term Incentive Award*. The Compensation Committee approved a long-term incentive award of $1,250,000 to Mr. Huang in February 2021, to be delivered equally in SARs and PSUs, as the compensation review showed that the prior year award size, which had remained unchanged from that of the year before last, was under-competitive. Consistent with the Company's usual practice of granting annual LTI awards in February, the number of shares subject to the May 2021 portion of Mr. Huang's PSU grant was determined based on the February 2021 stock price rather than the stock price on the grant date in May 2021, which resulted in larger grant date fair value of $1,292,558 as compared to the grant level approved in February 2021 due to higher stock price in May 2021.

Aiken Yuen
Chief People Officer

2021 Performance Summary. The Compensation Committee determined Mr. Yuen's performance to be above target with an Individual Performance Factor of 125%. Mr. Yuen was recognized for his instrumental role in guiding and coordinating employees' health and safety measures against the multiple waves of the COVID-19 outbreaks especially in the second half of 2021. In 2021, the Company upgraded the medical insurance coverage of our restaurant general managers, restaurant management teams and supervisors. To build organizational capability, he contributed significantly in building the Company's digital research and development center and the Lavazza Joint Venture team from scratch. Mr. Yuen also served as a core member of the Company's Sustainability Committee. He provided valuable guidance and input in enhancing the Company's disclosures on human capital management in the Company's Annual Report and Sustainability Report. In 2021, the Company was named to the Bloomberg Gender-Equality Index and was certified as a Top Employer 2021 in China by the Top Employers Institute, both for the third consecutive year.

2021 Compensation Decisions. Effective February 1, 2021, the Compensation Committee set Mr. Yuen's 2021 compensation levels after considering the advice of its compensation consultant, market practices and Mr. Yuen's individual performance.

- *Base Salary*. Mr. Yuen's base salary was increased from $560,000 to $600,000.
- *Annual Incentive Plan Target and Payout Level*. Mr. Yuen's annual cash bonus target increased from 65% to 70% of his base salary, resulting in a blended bonus target for the year of $417,452. Mr. Yuen's 2021 annual cash bonus award payout was $547,906, reflecting a total payout of 131% of target based on the Team Performance Factor of 105% and Individual Performance Factor of 125%.
- *Long-Term Incentive Award*. The Compensation Committee approved a long-term incentive award of $700,000 to Mr. Yuen in February 2021, to be delivered

equally in SARs and PSUs, as the compensation review showed that the prior year annual long-term incentive award was under-competitive. Consistent with the Company's usual practice of granting annual LTI awards in February, the number of shares subject to the May 2021 portion of Mr. Yuen's PSU grant was determined based on the February 2021 stock price rather than the stock price on the grant date in May 2021, which resulted in larger grant date fair value of $723,892 as compared to the grant level approved in February 2021 due to higher stock price in May 2021.

Danny Tan

Former Chief Supply Chain Officer(through November 8, 2021) and Senior Advisor to the CEO (from November 9, 2021 to February 10, 2022)

2021 Performance Summary. The Compensation Committee determined Mr. Tan's performance to be on target with an Individual Performance Factor of 100%. Mr. Tan was recognized for his contribution in managing and optimizing cost of sales, leading to significant savings for raw materials and logistics cost. He also provided valuable input in planning for the expansion of the Company's logistics center network. In 2021, the Company acquired land for three logistics centers, of which the Company started greenfield construction for two. When serving as the chairperson of the Sustainability Committee, he was instrumental in formulating the Company's ESG strategy and roadmap, including the Company's commitment to setting Science Based Targets, and seeking alignment from key stakeholders. Under his leadership, the Company's ESG efforts achieved progressive improvements, as demonstrated by the assessment results from third-party agencies, including DJSI, ISS and MSCI.

2021 Compensation Decisions. Effective February 1, 2021, the Compensation Committee set Mr. Tan's 2021 compensation levels after considering the advice of its compensation consultant, market practices and Mr. Tan's individual performance.

- *Base Salary*. Mr. Tan's base salary was increased from $670,000 to $700,000.

- *Annual Incentive Plan Target and Payout Level*. Mr. Tan's annual cash bonus target was set at 80% of his base salary, unchanged from the prior year, resulting in a bonus target for the year of $ 560,000. Mr. Tan's 2021 annual cash bonus award payout was $588,000, reflecting a total payout of 105% of target based on the Team Performance Factor of 105% and Individual Performance Factor of 100%.

- *Long-Term Incentive Award*. The Compensation Committee approved a long-term incentive award of $1,000,000 to Mr. Tan in February 2021, to be delivered equally in SARs and PSUs, as the compensation review shows that the prior year long-term incentive award, which had remained unchanged from the prior year, was under-competitive. Consistent with the Company's usual practice of granting annual LTI awards in February, the number of shares subject to the May 2021 portion of Mr. Tan's PSU grant was determined based on the February 2021 stock price rather than the stock price on the grant date in May 2021, which resulted in larger grant date fair value of $1,034,078 as compared to the grant level approved in February 2021 due to higher stock price in May 2021.

Please see the "Potential Payments upon a Termination or a Change in Control" section below for a quantification of the amounts Mr. Tan received in connection with his separation.

How Compensation Decisions Are Made

Executive Compensation Philosophy

A unique feature of the Company is that while incorporated in Delaware and listed on the NYSE and Hong Kong Stock Exchange, substantially all of its operations are located in China. As a result, knowledge and expertise of both U.S. and China regulatory regimes and business practices are required for many of the Company's executive officers.

The Company's executive compensation program has been designed to attract and retain the talent necessary to achieve superior stockholder results and support the long-term sustainable growth of the Company while simultaneously holding our executives accountable to continuously achieve results year after year. In addition, the program has been designed to reward performance, emphasize long-term value creation and drive an ownership mentality.

Role of the Compensation Committee

The Compensation Committee reviews and approves goals and objectives relevant to the compensation of the CEO and other executive officers, sets the compensation levels of each of the executive officers, and together with the other independent directors of the Board, approves the compensation of the CEO. The Compensation Committee's responsibilities under its charter are further described in the "Governance of the Company" section of this Proxy Statement. While not members of the Compensation Committee, the CEO, the CFO, the Chief People Officer, and the Chief Legal Officer, when necessary, also attended meetings of the Compensation Committee in 2021 to contribute to and understand the Compensation Committee's oversight of, and decisions relating to, executive compensation. The CEO, the CFO, the Chief People Officer, and the Chief Legal Officer did not attend portions of the meetings relating to their own compensation. The Compensation Committee regularly conducts executive sessions without management present. The Compensation Committee also engages in an ongoing dialogue with its compensation consultant, the CEO, and the Chief People Officer for the evaluation and establishment of the elements of our executive compensation program.

Role of the Independent Consultant

During 2021, the Compensation Committee retained Mercer (Hong Kong) Limited ("***Mercer***") as its independent consultant to advise it on executive compensation matters. Mercer attended Compensation Committee meetings in 2021 and provided advice and guidance to the Compensation Committee on (i) the market competitiveness of the Company's executive pay practices and levels; (ii) incentive compensation plan design market practice, including regulatory developments, and institutional shareholder views, and in relation to equity awards under the applicable JV Equity Plan; (iii) executive severance plan design benchmarks; (iv) the 2022 compensation peer group; (v) the results of equity compensation analytics and award valuations; (vi) the 2021 Chairman Grants; (vii) the Company's stock ownership guidelines and retention policies; and (viii) pay disclosures, including this CD&A. The Compensation Committee has assessed the independence of Mercer pursuant to NYSE rules and conflicts of interest specifically enumerated by the SEC's six factors, and the Company has concluded that Mercer's work for the Compensation Committee does not raise any conflicts of interest. The Compensation Committee annually reviews its relationship with Mercer and determines whether to renew the engagement. Only the Compensation Committee has the right to approve the services to be provided by, or to terminate the services of, its compensation consultant.

Executive Compensation Peer Group

One of the key objectives of our executive compensation program is to retain and reward the right talent by providing reasonable and competitive compensation. One method that the Compensation Committee utilizes to attain this objective is by establishing a group of peer companies for comparison of executive compensation practices.

The peer group approved by the Compensation Committee based on the recommendations of Mercer consisted of companies in the restaurant, food and consumer services industries in the United States, Greater China and Europe, as these represent the sectors with which the Company competes for executive talent. In addition, Mercer suggested that, for purposes of benchmarking compensation levels for NEOs other than the CEO, the peer group data be supplemented with compensation survey data to provide a broader perspective on market practices. References in this CD&A to market data refer to the peer group or survey data, as appropriate.

After considering the advice of Mercer, the Compensation Committee approved a revised peer group for evaluating 2021 compensation decisions for the NEOs, which consisted of the companies below. As part of these revisions, the Compensation Committee added Beyond Meat, Inc., China Mengniu Dairy, eBay Inc., Expedia Group, Inc., Kellogg Company, Marriott International, Inc., and McCormick & Company, Incorporated and removed Hyatt Hotels Corporation, Melco International Development Limited, US Foods Holding Corp., Whitbread PLC, Wm Morrison Supermarkets PLC, Wynn Macau, Limited and X5 Retail Group N.V. These changes were made in order to further align the peer group with the Company's size and operations. Founder CEOs at Beyond Meat, Inc., Haidilao International Holdings Ltd., and Want Want China Holdings Limited were excluded from the competitive market review. Our peer group reflects a median market capitalization of $23.6 billion and median annual revenues of $11.2 billion, both as of June 30, 2021, and consists of 17 U.S. and 10 non-U.S. companies.

2021 Executive Compensation Peer Group

Previous Peer Group

Removed (-7)	Remaining for 2021		Added (+7)
Hyatt Hotels Corporation	Aramark Corporation	McDonald's Corporation	Beyond Meat, Inc.
Melco International Development Limited	Chipotle Mexican Grill, Inc.	Restaurant Brands International Inc.	China Mengniu Dairy
US Foods Holding Corp.	Compass Group PLC	Sodexo S.A.	eBay Inc.
Whitbread PLC	Conagra Brands, Inc.	Starbucks Corporation	Expedia Group, Inc.
Wm Morrison Supermarkets PLC	Darden Restaurants, Inc.	Techtronic Industries Company Limited	Kellogg Company
Wynn Macau, Limited	Domino's Pizza, Inc.	The Hershey Company	Marriott International, Inc.
X5 Retail Group N.V.	Haidilao International Holdings Ltd.	Tingyi (Cayman Islands) Holdings Corp.	McCormick & Company, Incorporated
	Hilton Worldwide Holdings Inc.	Want Want China Holdings Limited	
	Lenovo Group Limited	WH Group Limited	
	Link Real Estate Investment Trust	YUM! Brands, Inc.	

New Peer Group for 2021

Data from our 2021 peer group was supplemented by data from companies included in three executive compensation surveys conducted by Mercer in China, Hong Kong, and the U.S., size adjusted to reflect the Company's revenue. During 2021, the Compensation Committee reviewed a report summarizing compensation levels at the 25th, 50th and 75th percentiles of the peer group and, as applicable, of the survey data for positions comparable to our NEOs. The report compared target and actual total cash compensation (base salary and annual incentives) and total direct compensation (base salary plus annual incentives plus long-term incentives) for each of the NEOs against these benchmarks. The Compensation Committee also reviewed detailed tally sheets that captured comprehensive compensation, benefits and stock ownership details, and comparisons of the CEO's realized total direct compensation and realizable equity vis-à-vis that of the peer group.

In September 2021, the Compensation Committee revised the Company's compensation peer group and decided to remove four (4) companies and add three (3) companies for reasons of industry appropriateness and disclosed data availability. The Compensation Committee removed Beyond Meat, Inc., eBay Inc., WH Group Limited and Want Want China Holdings Limited, and added DoorDash, Inc., General Mills, Inc. and Chow Tai Fook Jewellery Group Limited. The new compensation peer group consists of 17 U.S. and nine non-U.S. peers. These changes were made in order to further align the peer group with the Company's size and operations. This revised peer group will be used to evaluate 2022 compensation decisions. The founder CEOs at DoorDash, Inc. and Haidilao International Holdings Ltd. are expected to be excluded from the CEO's competitive market review.

Competitive Positioning and Setting Compensation

At the beginning of 2021, the Compensation Committee considered executive compensation peer group data as a frame of reference for establishing target compensation levels for base salary and annual and long-term incentive awards for each NEO. The Compensation Committee conducted an extensive review of market data and made the decision to position target total direct compensation close to the market median, with variation based on the marketability, performance and potential of each NEO and the criticality of the role on the organization.

Compensation Policies

Compensation Recovery Policy

Pursuant to the Company's Compensation Recovery Policy, in the event of any restatement of the Company's financial statements due to material noncompliance with any financial reporting requirement under the securities laws, the Compensation Committee will recover or cancel any performance awards that were awarded to a current or former executive officer as a result of achieving performance targets that would not have been met under the restated results. The Company's recovery authority applies to any performance award received by a current or former executive officer during the three most-recently completed fiscal years immediately preceding the date on which the Company is required to prepare the restatement. Under the terms of the policy, a performance award means any cash or equity-based award that is made, vests or is payable based wholly or in part on the results of a financial reporting measure.

Equity-Based Awards Grant Policy

The Company's Equity-Based Awards Grant Policy provides for certain procedures with respect to the granting of equity awards, including specifying pre-determined dates for annual and off-cycle grants and specifying that the Company will not purposely accelerate or delay the public release of material information in consideration of pending equity grants. Generally, annual equity grants are effective as of the date that is two business days after the Company publicly discloses its results for the previous fiscal year.

Stock Ownership Guidelines and Retention Policy

To align the efforts of our executives with the long-term interests of our stockholders and to reinforce their commitment to the Company's long-term objectives, the Compensation Committee established a stock ownership and retention policy that applies to our Section 16 Officers and all members of our Leadership Team. Under the stock ownership and retention policy, the executives have a five-year period from July 1, 2017 or, if later, the date of appointment to a covered position to attain the required ownership level. During the five-year phase-in period, the executives must retain, until the required ownership guideline levels have been achieved, at least 50% of the after-tax shares resulting from the vesting or exercise of equity awards, including PSUs. If the guideline is not achieved after such five-year compliance period, the executive officer will be required to retain 100% of after-tax shares resulting from the vesting or exercise of equity awards until the guideline is achieved.

The chart below shows stock ownership requirements as a multiple of annual base salary for our continuing NEOs. As of the record date, each continuing NEO is in compliance with the Company's stock ownership requirements and retention policy.

NEO	Stock Ownership as a Multiple of Annual Base Salary
CEO	6X
CFO	3X
Chief Legal Officer	2X
General Manager, KFC	2X
Chief People Officer	2X

Hedging and Pledging of Company Stock

Under the Company's Code of Conduct, no employee or director is permitted to engage in securities transactions that would allow such employee or director either to insulate himself or herself from, or profit from, a decline in the Company's stock price. Similarly, no employee or director may enter into hedging transactions in Company stock. Such transactions include, without limitation, short sales as well as any hedging transactions in derivative securities (e.g., puts, calls, swaps or collars) or other speculative transactions related to the Company's stock. Pledging of Company stock by executive officers and directors is also prohibited.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management.

Based on such review and discussion with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Compensation Committee:
Ruby Lu (Chair)
Edouard Ettedgui
William Wang
Min (Jenny) Zhang

2021 SUMMARY COMPENSATION TABLE

The following table and footnotes summarize the total compensation awarded to, earned by or paid to the NEOs for fiscal year 2021 and, to the extent required by SEC executive compensation disclosure rules, fiscal years 2020 and 2019. The Company's NEOs for the 2021 fiscal year are its CEO, CFO, the three other most highly compensated executive officers serving as executive officers as of December 31, 2021, and its former Chief Supply Chain Officer.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)[(1)]	Option/ SAR Awards ($)[(2)]	Non-Equity Incentive Plan Compensation ($)[(3)]	All Other Compensation ($)[(4)]	Total ($)[(5)]	Adjusted Total Compensation Without Legacy Tax Reimbursements[(6)]
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Joey Wat	2021	1,341,667	—	5,703,920	3,000,004	3,607,246	2,902,835	16,555,672	13,993,639
Chief Executive Officer	2020	1,151,083	—	14,500,084	2,500,003	2,502,664	517,744	21,171,578	20,995,478
	2019	1,180,667	—	2,500,031	2,500,012	4,355,208	1,634,083	12,170,001	10,900,805
Andy Yeung	2021	791,512	—	2,401,075	750,014	1,032,164	135,769	5,110,534	5,110,534
Chief Financial Officer	2020	643,333	—	2,600,068	600,013	701,865	149,144	4,694,423	4,694,423
	2019	189,895	—	1,000,030	—	322,407	29,638	1,541,970	1,541,970
Joseph Chan	2021	595,000	—	2,100,748	562,502	619,967	177,468	4,055,685	4,055,685
Chief Legal Officer									
Johnson Huang	2021	740,000	—	667,558	625,000	847,441	320,245	3,200,244	3,108,580
General Manager, KFC	2020	516,814	—	2,600,068	600,013	251,021	209,701	4,177,617	4,177,617
	2019	695,833	—	440,013	440,007	1,682,635	386,480	3,644,968	3,466,790
Aiken Yuen	2021	595,236	—	373,881	350,011	547,906	596,068	2,463,102	2,066,736
Chief People Officer	2020	517,413	100,566	1,825,078	325,011	461,599	542,754	3,772,421	3,388,514
	2019	512,527	99,552	228,005	228,010	882,224	193,251	2,143,569	2,107,840
Danny Tan	2021	695,544	—	534,074	500,004	588,000	1,542,364	3,859,986	2,605,097
Chief Supply Chain Officer	2020	618,431	—	1,975,039	475,001	631,166	602,913	4,302,550	3,968,872
	2019	624,689	—	380,023	380,013	1,313,575	666,369	3,364,669	2,956,605

(1) The amounts reported in this column for 2021 represent the grant date fair value of the Annual PSU Awards granted to each Named Executive Officer and the 2021 Chairman Grants awarded in RSU granted to Ms. Wat and Messrs. Yeung and Chan, calculated in accordance with Accounting Standards Codification Topic 718 ("***ASC 718***"), Compensation—Stock Compensation. The grant date fair value for the Chairman Grants was calculated by multiplying the number of RSUs granted by the closing stock price of a share of Company common stock on the date of grant. The aggregate fair value of PSU awards with performance-based conditions are based on the closing price of our common stock on the date of grant and the probable satisfaction of the performance conditions for such awards as of the date of grant. The fair value of PSU awards with market–based conditions has been determined based on the outcome of a Monte-Carlo simulation model. The maximum value of the 2021 PSU awards at the grant date assuming that the highest level of performance conditions will be achieved is as follows: Ms. Wat, $4,907,768; Mr. Yeung, $1,227,058; Mr. Chan, $920,243; Mr. Huang, $1,022,582; Mr. Yuen, $572,710 and Mr. Tan, $818,107. See Note 15 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2021 (the "***Audited Financial Statements***") for further discussion of the relevant assumptions used in calculating these amounts.

(2) The amounts reported in this column for 2021 represent the grant date fair value of the annual SAR awards granted to each of the NEOs, calculated in accordance with ASC 718. See Note 15 to the Company's Audited Financial Statements for further discussion of the relevant assumptions used in calculating these amounts.

(3) Amounts in this column reflect the annual incentive awards earned for the applicable fiscal year performance periods under the annual bonus program, which is described further in our CD&A under the heading "Annual Performance-Based Cash Bonuses."

(4) The amounts in this column for 2021 are detailed in the 2021 All Other Compensation Table and footnotes to that table, which follow.

(5) Certain compensation included in the All Other Compensation column was denominated in Chinese Renminbi. Messrs. Tan and Yuen's salaries and 2021 annual incentive and bonus awards were denominated in Hong Kong dollars. Compensation paid in Chinese Renminbi or Hong Kong dollars was converted to U.S. dollars using an exchange rate of 6.4489 and 7.7725, respectively, for disclosure purposes.

(6) The amounts in this column are calculated by subtracting the legacy tax reimbursements reflected in the 2021 All Other Compensation Table below from the "Total" column. As noted in the CD&A, prior to our spin-off from YUM, certain of our NEOs were offered tax equalization benefits as an element of their compensation. These tax equalization benefits represent a legacy compensation arrangement entered into while we were a subsidiary of our former parent. After the spin-off, the Compensation Committee began to phase out tax equalization benefits with respect to the continuing NEOs (other than certain grandfathered benefits pursuant to the legacy arrangements from YUM). We are providing this supplemental Total as we believe it better reflects the compensation decisions made by the Compensation Committee because the compensation received pursuant to the grandfathered tax reimbursements represent legacy contractual agreements entered into prior to the spin-off. The amounts reported in this column differ from, and are not a substitute for, the amounts reported in the "Total" column, as calculated pursuant to the Summary Compensation Table rules.

2021 ALL OTHER COMPENSATION TABLE

The following table and footnotes summarize the compensation and benefits included under the "All Other Compensation" column in the 2021 Summary Compensation Table that were awarded to, earned by or paid to the Company's NEOs for the fiscal year ended December 31, 2021.

Name	Perquisites and Other Personal Benefits ($)[(1)]	Tax Reimbursements ($)[(2)]	Retirement Scheme Contributions ($)[(3)]	Other ($)[(4)]	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)
Ms. Wat	150,590	2,562,032	134,108	56,105	2,902,835
Mr. Yeung	62,934	—	39,566	33,269	135,769
Mr. Chan	99,963	—	29,737	47,768	177,468
Mr. Huang	112,430	91,664	73,966	42,185	320,245
Mr. Yuen	113,224	396,366	59,524	26,954	596,068
Mr. Tan	176,881	1,254,888	69,583	41,012	1,542,364

(1) Amounts in this column represent: for Ms. Wat, an education reimbursement ($28,960) and housing cost subsidy ($121,630); for Messrs. Yeung, Chan, Huang and Yuen, a housing cost subsidy; and for Mr. Tan, an education reimbursement ($44,765) and housing cost subsidy ($132,116). Such amounts are valued based on the amounts paid directly to the NEOs or the service providers, as applicable.

(2) Amounts in this column for Ms. Wat, Messrs. Huang, Yuen and Tan represent legacy tax reimbursements for gains realized in 2021 on equity awards granted before 2018, and do not represent any new benefits but rather the settlement of existing contractual agreements.

(3) This column represents contributions to the BSRCHLRS for all of our NEOs.

(4) This column reports the total amount of other benefits provided. Such amounts, which are reflective of market practice for similarly situated global executives working in international companies based in mainland China, are paid directly to the NEOs or service providers, as applicable. Other than for certain benefits described below, none of the other benefits individually exceeded the greater of $25,000 or 10% of the total amount of these other benefits and the perquisites and other personal benefits shown in column (b) for the NEO. These other benefits consist of amounts paid for utilities, home leave expenses, transportation allowances, and executive physicals. In 2021, Ms. Wat received home leave reimbursement of $27,478.

2021 GRANTS OF PLAN-BASED AWARDS

The following table provides information on the annual incentive program that the Company's NEOs participated in during 2021 and the SARs, Annual PSU Awards and Chairman Grants granted under the Company's Long Term Incentive Plan in 2021 to the Company's NEOs.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option/ SAR Awards: Number of Securities Underlying Options	Exercise or Base Price of Option/ SAR Awards	Grant Date Fair Value of Stock, Option and SAR Awards
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#)(2)	(#) (3)	($/Sh)(4)	($)(5)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Ms. Wat	—	—	2,642,671	7,928,013	—	—	—	—	—	—	—
	2/5/2021	—	—	—	—	—	—	—	171,989	57.39	3,000,004
	2/5/2021	—	—	—	—	—	—	43,562	—	—	2,500,023
	2/5/2021(6)	—	—	—	10,262	20,523	41,046	—	—	—	1,500,026
	5/25/2021(6)	—	—	—	13,069	26,137	52,274	—	—	—	1,703,871
Mr. Yeung . . .	—	—	786,411	2,359,233	—	—	—	—	—	—	—
	2/5/2021	—	—	—	—	—	—	—	42,998	57.39	750,014
	2/5/2021	—	—	—	—	—	—	27,880	—	—	1,600,033
	2/5/2021(6)	—	—	—	2,566	5,131	10,262	—	—	—	375,025
	5/25/2021(6)	—	—	—	3,268	6,535	13,070	—	—	—	426,017
Mr. Chan	—	—	472,356	1,417,068	—	—	—	—	—	—	—
	2/5/2021	—	—	—	—	—	—	—	32,248	57.39	562,502
	2/5/2021	—	—	—	—	—	—	26,137	—	—	1,500,002
	2/5/2021(6)	—	—	—	1,924	3,848	7,696	—	—	—	281,250
	5/25/2021(6)		—	—	2,451	4,901	9,802	—	—	—	319,496
Mr. Huang . . .	—	—	733,715	2,201,145	—	—	—	—	—	—	—
	2/5/2021	—	—	—	—	—	—	—	35,831	57.39	625,000
	2/5/2021(6)	—	—	—	2,138	4,276	8,552	—	—	—	312,533
	5/25/2021(6)	—	—	—	2,723	5,446	10,892	—	—	—	355,025
Mr. Yuen	—	—	417,452	1,252,356	—	—	—	—	—	—	—
	2/5/2021	—	—	—	—	—	—	—	20,066	57.39	350,011
	2/5/2021(6)	—	—	—	1,198	2,395	4,790	—	—	—	175,051
	5/25/2021(6)	—	—	—	1,525	3,050	6,100	—	—	—	198,830
Mr. Tan	—	—	560,000	1,680,000	—	—	—	—	—	—	—
	2/5/2021	—	—	—	—	—	—	—	28,665	57.39	500,004
	2/5/2021(6)	—	—	—	1,711	3,421	6,842	—	—	—	250,041
	5/25/2021(6)	—	—	—	2,179	4,357	8,714	—	—	—	284,033

(1) Amounts in columns (c), (d) and (e) provide the minimum, target and maximum amounts payable as annual incentive compensation to each NEO based on team and individual performance during 2021. The actual amounts of annual incentive compensation awards paid for 2021 performance are shown in the "Non-Equity Incentive Plan Compensation" column of the 2021 Summary Compensation Table. The performance measurements, performance targets and target bonus percentages are described in the CD&A, beginning under the heading "Annual Performance-Based Cash Bonuses."

(2) Amounts in column (i) represent the number of 2021 Chairman Grants awarded to selected Company executive officers and employees, including Ms. Wat and Messrs. Yeung and Chan. The 2021 Chairman Grants were granted in RSUs on February 5, 2021 and vest 100% on the third anniversary of the grant, subject to the recipient's

continued employment through the vesting date. During the vesting period, the RSUs will be adjusted to reflect the accrual of dividend equivalents, which will be distributed as additional Company shares at the same time and to the extent the underlying shares vest.

(3) SARs allow the grantee to receive the number of shares of the underlying common stock that is equal in value to the appreciation in the underlying common stock with respect to the number of SARs granted from the date of grant to the date of exercise. SARs become exercisable in equal installments on the first, second, third and fourth anniversaries of the grant date, subject to the recipient's continued employment through the applicable vesting date.

(4) The exercise price of the SARs equals the closing price of the underlying common stock on the grant date.

(5) The amounts reported in this column for 2021 represent the grant date fair value of the annual SAR awards, the Annual PSU Awards granted to each of the NEOs and the Chairman Grants awarded to Ms. Wat and Messrs. Yeung and Chan, calculated in accordance with ASC 718. The aggregate fair value of PSU awards with performance-based conditions are based on the closing price of our common stock on the date of grant and the probable satisfaction of the performance conditions as of the date of grant. The fair value of PSU awards with market –based conditions has been determined based on the outcome of a Monte-Carlo simulation model. The grant date fair value of the RSUs was determined based on the closing stock price of Company common stock on the date of grant. See Note 15 to the Company's Audited Financial Statements for further discussion of the relevant assumptions used in calculating the grant date fair value for the SAR, RSU and PSU awards.

(6) Amounts reported in this row and associated with columns (f), (g) and (h) provide the threshold, target and maximum numbers of shares of common stock that may be received by the grantee upon vesting of the Annual PSU Awards. The Annual PSU Awards granted to each of the NEOs on February 5, 2021 and May 25, 2021 will be settled in shares of common stock, subject to the achievement of performance goals relating to rTSR, Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Common Share Growth during a performance period beginning on January 1, 2021 and extending through December 31, 2023, and the NEO's continued employment through the last day of the performance period. Amounts reported in the "Threshold" column represent payout of 50% of target PSUs awarded, and amounts reported in the "Maximum" column represent payout of 200% of the target PSUs awarded.

OUTSTANDING EQUITY AWARDS AT 2021 YEAR-END

The following table shows the number of Company shares covered by exercisable and unexercisable SARs, unvested RSUs and unvested PSUs held by the Company's NEOs on December 31, 2021. This table excludes any YUM shares received by the NEOs upon conversion of their outstanding YUM equity awards in connection with the spin-off.

		Option/SAR Awards				Stock Awards			
Name	Grant Date	Number of Securities Underlying Unexercised Options/ SARs (#) Exercisable	Number of Securities Underlying Unexercised Options/ SARs (#) Unexercisable(1)	Option/ SAR Exercise Price ($)	Option/ SAR Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(4)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Ms. Wat	2/6/2015	27,063	—	22.32	2/6/2025	—	—	—	—
	3/25/2015	32,309	—	23.90	3/25/2025	—	—	—	—
	2/5/2016	41,316	—	21.06	2/5/2026	—	—	—	—
	11/11/2016	48,846	—	26.98	11/11/2026	—	—	—	—
	2/10/2017	111,774	—	26.56	2/10/2027	—	—	—	—
	2/9/2018	139,613	46,538(i)	40.29	2/9/2028	—	—	—	—
	2/7/2019	93,050	93,050(ii)	41.66	2/7/2029	—	—	—	—
	2/7/2020	46,765	140,298(iii)	42.71	2/7/2030	—	—	23,213(i)	1,156,926
	2/7/2020	—	—	—	—	—	—	312,666(ii)	15,583,273
	2/5/2021	—	171,989(iv)	57.39	2/5/2031	43,931(i)	2,189,536	10,262(iii)	511,433
	5/25/2021	—	—	—	—			13,069(iii)	651,334
Mr. Yeung	11/1/2019	—	—	—	—	8,335(ii)	415,440	—	—
	2/7/2020	11,224	33,672(iii)	42.71	2/7/2030	—	—	5,571(i)	277,669
	2/7/2020	—	—	—	—	—	—	52,112(ii)	2,597,262
	2/5/2021	—	42,998(iv)	57.39	2/5/2031	28,116(i)	1,401,319	2,566(iii)	127,865
	5/25/2021	—	—	—	—	—	—	3,268(iii)	162,852
Mr. Chan	9/3/2019	—	—	—	—	3,571(iv)	177,970	—	—
	2/7/2020	7,482	22,449(iii)	42.71	2/7/2030	—	—	3,714(i)	185,126
	2/7/2020	—	—	—	—	—	—	39,084(ii)	1,947,947
	2/5/2021	—	32,248(iv)	57.39	2/5/2031	26,359(i)	1,313,712	1,924(iii)	95,892
	5/25/2021	—	—	—	—	—	—	2,451(iii)	122,133
Mr. Huang	2/6/2013	9,652	—	19.00	2/6/2023	—	—	—	—
	2/5/2014	6,797	—	21.30	2/5/2024	—	—	—	—
	2/5/2014	9,516	—	21.30	2/5/2024	—	—	—	—
	2/6/2015	10,149	—	22.32	2/6/2025	—	—	—	—
	2/5/2016	13,772	—	21.06	2/5/2026	—	—	—	—
	11/11/2016	24,423	—	26.98	11/11/2026	—	—	—	—
	2/10/2017	37,258	—	26.56	2/10/2027	—	—	—	—
	2/9/2018	24,407	8,136(i)	40.29	2/9/2028	—	—	—	—
	2/7/2019	16,377	16,377(ii)	41.66	2/7/2029	10,819(iii)	539,194	—	—
	2/7/2020	11,224	33,672(iii)	42.71	2/7/2030	—	—	5,571(i)	277,669
	2/7/2020	—	—	—	—	—	—	52,112(ii)	2,597,262
	2/5/2021	—	35,831(iv)	57.39	2/5/2031	—	—	2,138(iii)	106,558
	5/25/2021	—	—	—	—	—	—	2,723(iii)	135,714

		Option/SAR Awards				Stock Awards			
Name	Grant Date	Number of Securities Underlying Unexercised Options/ SARs (#) Exercisable	Number of Securities Underlying Unexercised Options/ SARs (#) Unexercisable(1)	Option/ SAR Exercise Price ($)	Option/ SAR Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(4)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Mr. Yuen	2/6/2013	3,591	—	19.00	2/6/2023	—	—	—	—
	2/5/2014	3,602	—	21.30	2/5/2024	—	—	—	—
	2/6/2015	4,060	—	22.32	2/6/2025	—	—	—	—
	2/6/2015	4,060	—	22.32	2/6/2025	—	—	—	—
	2/5/2016	4,614	—	21.06	2/5/2026	—	—	—	—
	2/10/2017	11,364	—	26.56	2/10/2027	—	—	—	—
	2/9/2018	12,647	4,216(i)	40.29	2/9/2028	—	—	—	—
	2/7/2019	8,486	8,487(ii)	41.66	2/7/2029	5,606(iii)	279,398	—	—
	2/7/2020	6,079	18,240(ii)	42.71	2/7/2030	—	—	3,018(i)	150,417
	2/7/2020	—	—	—	—	—	—	39,084(ii)	1,947,947
	2/5/2021	—	20,066(iv)	57.39	2/5/2031	—	—	1,198(iii)	59,683
	5/25/2021	—	—	—	—	—	—	1,525(iii)	76,006
Mr. Tan(5)	11/11/2016	24,423	—	26.98	11/11/2026	—	—	—	—
	2/10/2017	37,258	—	26.56	2/10/2027	—	—	—	—
	2/9/2018	—	7,027	40.29	2/9/2028	—	—	—	—
	2/7/2019	—	14,144	41.66	2/7/2029	9,344	465,682	—	—
	2/7/2020	—	26,657	42.71	2/7/2030	—	—	4,410	219,814
	2/7/2020	—	—	—	—	—	—	39,084	1,947,947
	2/5/2021	—	28,665	57.39	2/5/2031	—	—	1,711	85,251
	5/25/2021	—	—	—	—	—	—	2,179	108,576

(1) The actual vesting dates for unexercisable SARs are as follows:

(i) Remainder of the unexercisable award vested on February 9, 2022.

(ii) One-half of the unexercisable award vested or will vest on each of February 7, 2022 and 2023.

(iii) One-third of the unexercisable award vested or will vest on each of February 7, 2022, 2023 and 2024.

(iv) One-fourth of the unexercisable award vested or will vest on each of February 5, 2022, 2023, 2024 and 2025.

(2) The RSUs reported in this column include additional RSUs received with respect to dividend equivalents, which remain subject to the same underlying vesting conditions. The actual vesting dates for unvested RSUs are as follows:

(i) The RSUs will vest in full on February 5, 2024.

(ii) The RSUs will vest on November 1, 2022.

(iii) The RSUs vested in full on February 7, 2022.

(iv) The RSUs will vest on September 3, 2022.

(3) The market value of each award is calculated by multiplying the number of shares covered by the award by $49.84, the closing price of the Company's stock on the NYSE on December 31, 2021.

(4) The awards reported in this column represent PSU awards granted to the NEOs with the following vesting terms:

(i) PSU awards that are scheduled to vest based on the Company's Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Common Share Growth, with a rTSR payout modifier, over the January 1, 2020 through December 31, 2022 performance period, subject to the NEO's continued employment through the last day of the performance period except as otherwise provided for in the underlying equity award agreement upon a qualifying termination of employment. In accordance with SEC disclosure rules, the amount reported for this award is reported assuming threshold payout. Based on performance, these PSUs will vest in full on December 31, 2022.

(ii) PSU awards that are scheduled to vest based on the absolute Company stock price hurdles, Adjusted Total Revenue Growth, Adjusted EBITDA Growth and transformational objectives, over the January 1, 2020 through December 31, 2023 performance period, subject to the NEO's continued employment through the last day of the performance period except as otherwise provided for in the underlying equity award agreement upon a qualifying termination of employment. The PSU swards are subject to different goals with different levels of projected performance and the amount reported for this award is reported assuming target payout. Based on performance, these PSUs will vest in full on December 31, 2023.

(iii) PSU awards that are scheduled to vest based on the Company's achievement of rTSR performance goals and the Company's Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Common Share Growth, over the January 1, 2021 through December 31, 2023 performance period, subject to the NEO's continued employment through the last day of the performance period except as otherwise provided for in the underlying equity award agreement upon a qualifying termination of employment. In accordance with SEC disclosure rules, the amount reported for this award is reported assuming threshold payout. Based on performance, these PSUs will vest in full on December 31, 2023.

(5) In accordance with the terms of the award agreements, Mr. Tan has 90 days from the last day of employment to exercise his vested SARs, and all of his unvested equity awards were forfeited upon his departure.

2021 OPTION/SAR EXERCISES AND STOCK VESTED

The table below shows the number of Company shares acquired during 2021 upon the exercise of Company SAR awards and the vesting of Company stock awards and before payment of applicable withholding taxes and broker commissions. This table does not include any shares acquired upon the exercise or vesting of outstanding YUM equity awards.

	Option/SAR Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
(a)	(b)	(c)	(d)	(e)
Ms. Wat	—	—	145,218	8,064,169(1)
Mr. Yeung	—	—	8,069	469,965
Mr. Chan	—	—	3,440	215,008
Mr. Huang	6,342	418,581	32,143	1,903,658
Mr. Yuen	1,480	81,570	5,812	354,909
Mr. Tan	34,112	1,668,564	9,688	591,535

(1) This amount includes the number of shares acquired upon the vesting of the 2019 PSU award based on performance during the 2019-2021 performance period, with the value realized on vesting determined based on the closing stock price of our common stock on December 31, 2021.

Nonqualified Deferred Compensation

The Company offers certain executives working in China retirement benefits under the BSRCHLRS. Under this program, executives may make personal contributions and the Company provides a company-funded contribution ranging from 5% to 10% of an executive's base salary. In 2021, Mr. Tan made a personal contribution to the BSRCHLRS equal to 5% of base salary. The Company's contribution for 2021 was equal to 5% of salary for Messrs. Yeung and Chan, and 10% of salary for each of Ms. Wat and Messrs. Huang, Yuen and Tan. Participants may elect a variety of mutual funds in which to invest their account balances under the plan. Additionally, upon termination, participants receive a lump sum equal to a percentage of the Company's contributions, including investment returns. This percentage is based on a vesting schedule that provides participants with a vested 30% interest upon completion of a minimum of three years of service, and an additional 10% vested interest for each additional completed year, up to a maximum of 100%. In connection with Mr. Tan's departure in February 2022, Mr. Tan received a lump sum distribution from the BSRCHLRS.

2021 NONQUALIFIED DEFERRED COMPENSATION TABLE

Name	Executive Contributions in Last Fiscal Year ($)(1)	Registrant Contributions in Last Fiscal Year ($)(2)	Aggregate Earnings in Last Fiscal Year ($)(3)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)(4)
	(a)	(b)	(c)	(d)	(e)
Ms. Wat	—	134,108	—	—	582,608(5)
Mr. Yeung	—	39,566	—	—	83,893(5)
Mr. Chan	—	29,737	—	—	71,240(5)
Mr. Huang	—	73,966	—	—	499,617(5)
Mr. Yuen	—	59,524	—	—	347,921(5)
Mr. Tan	34,792	69,583	—	—	465,553(5)

(1) Amounts in this column reflect Mr. Tan's personal contributions to the BSRCHLRS with respect to 2021.

(2) Amounts in this column reflect registrant contributions to the BSRCHLRS for the NEOs and which are reflected in the 2021 Summary Compensation Table.

(3) Under the Hong Kong Data Privacy Act, the administrator of the BSRCHLRS is restricted from disclosing individual account balances under the BSRCHLRS, and accordingly, the Company is unable to compile earnings information with respect to the BSRCHLRS. Under the terms of the BSRCHLRS, participants may elect a variety of mutual funds in which to invest their account balances under the BSRCHLRS.

(4) The amounts reflected in this column are the estimated year-end balances for the NEOs under the BSRCHLRS.

(5) This amount represents the aggregate amount of Company contributions, excluding investment returns. See note (3) to this table for further information regarding investment returns with respect to the BSRCHLRS. This amount was denominated in Hong Kong dollars and was converted to U.S. dollars using an exchange rate of 7.7725 Hong Kong dollars to U.S. dollars for disclosure purposes.

Potential Payments upon a Termination or a Change in Control

Termination of Employment without a Change in Control. As noted in the CD&A, during 2021, the Compensation Committee adopted the Executive Severance Plan, which provides severance benefits to our NEOs upon termination of employment by the Company without cause or, for participants subject to PRC law, termination for any statutory reason and subject to severance pay under PRC law (each, an "***Executive Severance Plan Qualifying Termination***"). In the event of an Executive Severance Plan Qualifying Termination, the NEO would receive, in lieu of any severance benefits under any other arrangement with the participant (including, without limitation, the Restrictive Covenant Letter Agreements and the Company's change in control severance plan, provided that in the event of a qualifying termination under the change in control severance plan, the terms of the change in control severance plan will govern), the following severance benefits:

- Cash severance benefits consisting of the greater of (i) the sum of statutory severance payable under PRC law and an amount equal to five times the participant's average monthly salary in the 12 months prior to the Executive Severance Plan Qualifying Termination as consideration for compliance with certain restrictive covenants, including covenants relating to non-competition as further described below and (ii) the sum of the participant's monthly base salary plus 1/12 of the participant's target annual bonus, multiplied by a severance multiple of 24, in the case of the CEO, and 12 for all other participants;

- Any accrued, but unpaid as of the date of the Executive Severance Plan Qualifying Termination, annual cash bonus for any completed fiscal year preceding an Executive Severance Plan Qualifying Termination; and
- If the Executive Severance Plan Qualifying Termination occurs on or after June 30, a pro-rated annual bonus for the year of the Executive Severance Plan Qualifying Termination based on actual performance and pro-rated for the employment period during the year.

In the event of a participant's material breach of a material obligation to the Company pursuant to any award or agreement between the participant and the Company, including a material breach of the restrictive covenants set forth in any offer letter, restrictive covenant or other agreement entered into by the participant with the Company or a determination that an event constituting "cause" has occurred, then the Compensation Committee may (i) terminate the participant's right to receive payments under the Executive Severance Plan and (ii) seek the recoupment of any payments previously made to the participant under the Executive Severance Plan, including through exercising rights of set-off, forfeiture or cancellation, to the full extent permitted by law, with respect to any other awards, benefits or payments otherwise due to the participant from the Company or any of its affiliates.

The Company is party to Restrictive Covenant Letter Agreements with each NEO. The Restrictive Covenant Letter Agreements include restrictive covenants relating to non-disclosure, non-competition, non-solicitation and non-disparagement, as well as cooperation in investigations and litigation clauses. As consideration for the restrictive covenants, the Company is obligated to pay an amount equivalent to five times the NEO's average monthly salary upon a termination of employment, other than in the case of a change-in-control-related termination or the NEO's death. Such amount would be offset by amounts otherwise owed under any other termination-related agreement between the employee and the Company (including the Executive Severance Plan) so that there is no duplication of payments.

The Company's equity awards provide for pro-rata vesting for terminations due to death, retirement (age 55 and ten years of service or age 65 and five years of service) or involuntary termination by the Company without cause, with PSUs determined based on actual performance. Outstanding equity awards are forfeited upon a termination for cause. If the NEOs' employment had terminated as of December 31, 2021 without cause or due to death or retirement, they would have been entitled to pro-rata vesting of their outstanding RSUs, SARs and PSUs as follows: Ms. Wat, $12,360,918; Mr. Yeung, $ 2,550,850; Mr. Chan, $1,955,632; Mr. Huang, $2,677,732 and Mr. Yuen, $1,712,176, assuming target performance for purposes of this disclosure. As of December 31, 2021, Messrs. Huang and Yuen were retirement eligible.

The below table shows the maximum amount of payments and other benefits that each continuing NEO would have received upon a qualifying termination under the Executive Severance Plan on December 31, 2021 and the Company's equity award agreements, assuming target performance of the PSUs for purposes of this disclosure.

	Wat $	Yeung $	Chan $	Huang $	Yuen $
Cash Severance	8,100,000	1,600,000	1,080,000	1,480,000	1,020,000
Release Payment	1,551	1,551	1,551	1,551	1,551
Pro-rata Vesting of SARs	1,061,916	73,358	48,908	205,978	108,461
Pro-rata Vesting of RSUs	669,025	497,421	460,735	524,216	271,637
Pro-rata Vesting of PSUs	10,629,977	1,980,070	1,445,989	1,947,537	1,332,078
TOTAL	20,462,469	4,152,400	3,037,183	4,159,282	2,733,727

Termination of Employment Following a Change in Control. As noted in the CD&A, the Company maintains a change in control severance plan, which provides severance benefits to our NEOs in the event of a termination of employment by the Company without "cause" or by the NEO due to "good reason," in each case within 24 months following a change in control (a "***CIC Qualifying Termination***"). Each NEO has executed a participation and restrictive covenant agreement to participate in the Change in Control Severance Plan, which contains restrictive covenants in favor of the Company relating to non-competition, non-solicitation, non-disclosure, and non-disparagement. In the event of a CIC Qualifying Termination under the Change in Control Severance Plan, the NEO would receive, in lieu of any severance benefits under any other arrangement with the participant, the following severance benefits:

- An amount equal to the "***Severance Multiple***" multiplied by the sum of (x) such NEO's monthly base salary in effect immediately prior to a CIC Qualifying Termination (or prior to any reduction for purposes of good reason) and (y) 1/12 of the greater of such NEO's annual target cash bonus for the calendar year in which the CIC Qualifying Termination occurs and the most recent annual cash bonus paid to the NEO, with such amounts payable over the 12-month period following the NEO's termination of employment. The Severance Multiple is 30 for the CEO and 24 for each of the other participating NEOs.

- Any accrued, but unpaid as of the date of the CIC Qualifying Termination, annual cash bonus for any completed fiscal year preceding a CIC Qualifying Termination, to be paid within 60 days of the CIC Qualifying Termination.

- Accrued benefits under any retirement plan or health or welfare plan.

- If permitted by the terms of the Company's health plan and applicable law, continued health insurance coverage, subsidized by the Company at active employee rates, through the earlier of the one-year anniversary of the participant's termination of employment and the participant becoming eligible for health insurance coverage under another employer's plan.

- Outplacement services, in an aggregate cost to the Company not to exceed $25,000, for a one-year period (or, if earlier, until the NEO accepts an offer of employment).

Under the terms of our equity agreements, all outstanding SARs and RSUs would fully and immediately vest following a change in control of the Company if the NEO is employed on the date of the change in control and is involuntarily terminated (other than for cause) on or within two years following the change in control. Under the terms of Annual PSU Awards starting from 2020 and the 2020 Partner PSU Awards, if the NEO is employed on the date of the change in control and resigns for good reason or is involuntarily terminated other than for cause within two years following a change in control, then vesting 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 (provided, however, that if the change in control and termination of employment occur during the first year of the performance period, then performance will be measured based on target performance). In addition, beginning with the 2020 equity awards, if awards are not effectively assumed in a change in control of the Company, then the awards will vest in full upon such change in control with any stock price performance goal vesting based on the per share transaction price in such change in control and the other performance goals vesting at the greater of actual performance through the date of the change in control and target performance (provided, however, if the change in control occurs during the first year of the performance period, then performance will be measured based on target performance).

The below table shows the maximum amount of payments and other benefits that each continuing NEO would have received upon a change in control and qualifying termination on December 31, 2021 under the terms of the change in control severance plan and the Company's equity award agreements, assuming target performance of the PSUs for purposes of this disclosure.

	Wat $	Yeung $	Chan $	Huang $	Yuen $
Cash Severance	10,125,000	3,200,000	2,160,000	2,960,000	2,123,198
Continued Health Insurance Coverage	18,885	11,517	17,770	11,517	13,487
Outplacement Services	25,000	25,000	25,000	25,000	25,000
Accelerated Vesting of SARs	2,205,912	240,081	160,061	451,744	239,738
Accelerated Vesting of RSUs	2,189,536	1,816,760	1,491,682	539,194	279,398
Accelerated Vesting of PSUs	21,063,899	3,920,908	2,882,072	3,823,308	2,628,266
TOTAL	35,628,232	9,214,266	6,736,585	7,810,763	5,309,087

Arrangement with Mr. Tan

In connection with Mr. Tan's departure, the Company entered into a post-termination agreement with Mr. Tan (the "***Tan Termination Agreement***"). Under the Tan Termination Agreement, the Company agreed to pay Mr. Tan's 2021 annual cash bonus based on actual performance, which was paid at the same time that the 2021 annual cash bonuses were paid to the other NEOs, a payment of HK$2,260,415 ($290,236, based on the exchange rate of 7.7882 Hong Kong dollars to U.S. dollars), representing five times Mr. Tan's average gross monthly salary in the past 12 months pursuant to the terms of his prior Restrictive Covenant Letter Agreement, as well as a release payment of RMB10,000 ($1,564, based on the exchange rate of 6.3949 RMB to U.S. dollars) and a long-service payment of HK$375,000 ($48,150, based on the exchange rate of 7.7882 Hong Kong dollars to U.S. dollars) in accordance with applicable local requirements. If Mr. Tan receives a tax rebate with respect to the long-service payment, Mr. Tan is required to return such rebate to the Company. In accordance with the terms of the award agreements, Mr. Tan has 90 days from the last date of employment to exercise his vested SARs, and all of his unvested equity awards were forfeited upon his departure. The Tan Termination Agreement provides for restrictive covenants in favor of the Company relating to non-competition, non-solicitation, non-disparagement, and non-disclosure.

PAY RATIO DISCLOSURE

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Company is providing the following disclosure about the relationship of the annual total compensation of our employees to the annual total compensation of Ms. Wat.

Identification of Median Pay Employee

The Company employed over 450,000 persons as of year-end 2021, and substantially all of them are based in China. Given the nature of its operations, approximately 90% of the Company's employees were restaurant crewmembers. Approximately 75% of the 405,000 crewmembers worked part-time, approximately 41% of whom attended university at the same time, and were paid on an hourly basis. Our wage rates for crewmembers are determined based on a number of factors, including but not limited to cost of living, labor supply and demand, and competitive market pay rates in the city in which the crewmember works.

We selected December 31, 2021, as the date on which to determine our median employee. For purposes of identifying the median employee from the employee population base (excluding Ms. Wat), we considered the total compensation of all of our employees, as compiled from our payroll records. In addition, we measured compensation for purposes of determining the median employee using December 2021 payroll records. Compensation paid in foreign currencies was converted to U.S. dollars based on a weighted average exchange rate for the relevant period.

Using this methodology, our median employee was identified as a part-time crewmember located in a second-tier city in China.

Ratio

For 2021:

- The annual total compensation of the median employee, as identified above, was $6,738.
- Ms. Wat's annual total compensation, as reported in the Total column of the 2021 Summary Compensation Table, was $16,555,672.
- Based on this information, the ratio of the annual total compensation of Ms. Wat to the median of the annual total compensation of all employees is approximately 2,457 to 1.

Our pay ratio is significantly impacted by the fact that substantially all of our employees are based in China, approximately 75% of our 405,000 crewmembers are employed on a part-time and hourly basis, and typical wages vary between the cities in which our restaurants are located.

The above ratio and annual total compensation amount of the median employee are reasonable estimates that have been calculated using methodologies and assumptions permitted by SEC rules. The ratio and annual total compensation amount may not be directly comparable to those of other companies because the methodologies and assumptions used to identify the median employee may vary significantly among companies.

To provide supplemental disclosure and not as a substitute for the pay ratio calculated in accordance with SEC executive compensation disclosure rules, we also reviewed the CEO pay ratio excluding the value of the one-time Chairman Awards granted in February 2021. Excluding such awards, the CEO's 2021 annual total compensation would have been $14,055,649 and the CEO pay ratio for fiscal 2021 would have been 2,086 to 1.

2021 DIRECTOR COMPENSATION

The Company primarily uses stock-based compensation to attract and retain qualified candidates to serve on the Board. In setting director compensation, the Board considers the significant amount of time that directors expend in fulfilling their duties to the Company as well as the skill level required by the Company of members of the Board. The Nominating and Governance Committee of the Board considers advice from the compensation consultant and reviews and makes recommendations to the Board with respect to the compensation and benefits of directors on an annual basis. The Company's director compensation structure for 2021 is discussed below.

Employee Directors. Employee directors do not receive additional compensation for serving on the Board of Directors. Please see the 2021 Summary Compensation Table for the compensation received by Ms. Wat during 2021 for her role as CEO of the Company.

Non-Employee Directors Retainer. Our non-employee directors were each compensated with an annual retainer equal to $275,000, payable in Company common stock or, if requested by a director, up to one-half in cash. The annual retainers were paid in June 2021 to compensate the directors for their services from June 1, 2021 to May 31, 2022.

Chairman and Committee Chairperson Retainer. In addition to the annual retainer paid to all non-employee directors, the Chairman of the Board (Dr. Hu) received an additional annual cash retainer of $225,000. The Chairperson of the Audit Committee (Mr. Bassi) received an additional $30,000 stock retainer, the Chairperson of the Compensation Committee (Ms. Lu) received an additional $20,000 stock retainer, the Chairperson of the Nominating and Governance Committee (Dr. Hu) received an additional $15,000 stock retainer, and the Chairperson of the Food Safety and Sustainability Committee (Mr. Shao) received an additional $15,000 stock retainer. All such retainers were paid in June 2021 to compensate the directors for their services from June 1, 2021 to May 31, 2022.

The table below summarizes cash compensation earned by and stock retainers granted to each non-employee director during 2021.

Name	Fees Earned or Paid in Cash($)	Stock Awards ($)[5]	All Other Compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(e)
Peter A. Bassi	137,500[1]	167,500	—	305,000
Edouard Ettedgui	—	275,000	—	275,000
Cyril Han	—	275,000	—	275,000
Louis T. Hsieh	137,500[1]	137,500	—	275,000
Fred Hu	225,000[2]	290,000	—	515,000
Ruby Lu	—	295,000	—	295,000
Zili Shao	—	290,000	—	290,000
William Wang	—	275,000	—	275,000
Min (Jenny) Zhang	137,500[3]	137,500	—	275,000
Christian L. Campbell	—	—	127,500[6]	127,500
Ed Yiu-Cheong Chan	—[4]	—	—	—

(1) Represents the portion of the annual retainer that Messrs. Bassi and Hsieh elected to receive in cash rather than equity.

(2) Represents the annual cash retainer paid to Dr. Hu as Chairman of the Board.

(3) Represents the portion of the annual retainer that Ms. Zhang elected to receive in cash rather than equity. Ms. Zhang was first elected to the Board at the 2021 Annual Meeting of Stockholders.

(4) Mr. Chan did not stand for re-election at the 2021 Annual Meeting of Stockholders. While Mr. Chan served as a director during 2021, he did not receive any compensation in 2021 with respect to such service, as his 2020 equity grant that was reported in the 2020 Director Compensation Table represented compensation for his service until May 2021.

(5) Represents the grant date fair value for annual stock retainer awards granted in 2021. Each director received shares of Company common stock determined by dividing the applicable annual retainer by the closing market price of a share of Company common stock on the date of grant, with any fractional shares paid in cash rather than equity.

(6) Mr. Campbell did not stand for re-election at the 2021 annual meeting of stockholders. While Mr. Campbell served as a director during 2021, he did not receive any compensation in 2021 with respect to such service, as his 2020 equity grant that was reported in the 2020 Director Compensation Table represented compensation for his service until May 2021. On July 15, 2021, Mr. Campbell entered into a senior advisor service contract with the Company, pursuant to which Mr. Campbell will provide governance and other advisory services to the Board from July 1, 2021 to May 31, 2022, with a monthly retainer of $21,000. Pursuant to the senior advisor service contract, hours in excess of 42 hours per quarter were paid at $1,500 per hour. The amount represents the advisory retainer paid to Mr. Campbell in 2021.

Stock Ownership Requirements. Although our directors are not subject to the Stock Ownership Guidelines, we nevertheless expect our directors to own a meaningful number of shares of Company common stock, and we have a share retention policy in place for directors. Pursuant to the share retention policy, no director may sell any shares received as director compensation until at least 12 months following the director's retirement or departure from the Board.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes, as of December 31, 2021, the equity compensation we may issue to our directors, officers, employees and other persons under the Company's Long Term Incentive Plan (the "***LTIP***"), which was approved by YUM as the Company's sole stockholder prior to the Company's spin-off from YUM.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	12,811,477[(1)]	31.65[(2)]	10,060,206[(3)]
Equity compensation plans not approved by security holders	—	—	—
TOTAL	12,811,477	31.65	10,060,206

(1) Includes 1,988,944 shares issuable in respect of RSUs and PSUs.

(2) RSUs and PSUs do not have an exercise price. Accordingly, this amount represents the weighted-average exercise price of outstanding SARs and stock options.

(3) After the spin-off, full value awards granted to the Company's employees under the LTIP, including RSUs and PSUs, will reduce the number of shares available for issuance by two shares. SARs granted to the Company's employees under the LTIP will reduce the number of shares available for issuance only by one share.

AUDIT COMMITTEE REPORT

Who serves on the Audit Committee of the Board of Directors?

The members of the Audit Committee are Peter A. Bassi (Chair), Cyril Han, Louis T. Hsieh, Zili Shao and Min (Jenny) Zhang, each of whom are independent within the meaning of applicable SEC regulations and the listing standards of the NYSE. For additional information about the members of the Audit Committee, see "Governance of the Company—What are the Committees of the Board?"

What document governs the activities of the Audit Committee?

The Audit Committee operates under a written charter adopted by the Board of Directors. The Audit Committee's responsibilities are set forth in the charter. The Audit Committee annually reviews and reassesses the adequacy of its charter and recommends any proposed changes to the Board for approval. The charter is available on our website at *ir.yumchina.com.*

What are the responsibilities of the Audit Committee?

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of the Company's financial statements, the adequacy of the Company's system of internal controls and procedures and disclosure controls and procedures, the Company's risk management, the Company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the Company's internal audit function and independent auditor. The Audit Committee has the authority to obtain advice and assistance from independent legal, accounting or other advisors as the Audit Committee deems necessary or appropriate to carry out its duties and receive appropriate funding, as determined by the Audit Committee, from the Company for such advice and assistance.

The Audit Committee has sole authority to appoint, determine funding for or replace the independent auditor and manages the Company's relationship with its independent auditor, which reports directly to the Audit Committee. Each year, the Audit Committee evaluates the performance, qualifications and independence of the independent auditor. In doing so, the Audit Committee considers whether the independent auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and internal auditor.

The members of the Audit Committee meet periodically in separate executive sessions with management (including the Company's Chief Financial Officer, Chief Legal Officer and Principal Accounting Officer), the internal auditors and the independent auditor, and have such other direct and independent interaction with such persons from time to time as the members of the Audit Committee deem appropriate. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

What matters have members of the Audit Committee discussed with management and the independent auditor?

As part of its oversight of the Company's financial statements, the Audit Committee reviews and discusses with both management and the Company's independent auditor all annual and quarterly financial statements prior to their issuance. During 2021, management advised the Audit Committee that each set of financial statements reviewed had been prepared in accordance with accounting principles generally accepted in the U.S. and reviewed significant accounting and disclosure issues with the Audit Committee. These reviews included discussions with the independent auditor of matters required to be discussed pursuant to applicable requirements of the PCAOB and the SEC, including the quality (not merely the acceptability) of the Company's accounting principles, the reasonableness of significant judgments, the clarity of disclosures in the financial statements, disclosures related to critical accounting practices, and critical audit matters during the course of the audit. The Audit Committee has also discussed with KPMG matters relating to its independence, including a review of audit and non-audit fees and the written disclosures and letter received from KPMG required by applicable requirements of the PCAOB regarding KPMG's communications with the Audit Committee concerning independence. The Audit Committee also considered whether non-audit services provided by the independent auditor are compatible with the independent auditor's independence. The Audit Committee also received regular updates, and written summaries as required by the PCAOB rules (for tax and other services), on the amount of fees and scope of audit, audit-related, tax and other services provided.

In addition, the Audit Committee reviewed key initiatives and programs aimed at strengthening the effectiveness of the Company's internal and disclosure control structure. As part of this process, the Audit Committee monitored the scope and adequacy of the Company's internal auditing program, reviewing staffing levels and steps taken to implement recommended improvements in internal procedures and controls. The Audit Committee also reviewed and discussed legal and compliance matters with management, and, as necessary or advisable, the Company's independent auditor.

Has the Audit Committee made a recommendation regarding the audited financial statements for fiscal 2021?

Based on the Audit Committee's discussions with management and the independent auditor and the Audit Committee's review of the representations of management and the report of the independent auditor to the Board of Directors, and subject to the limitations on the Audit Committee's role and responsibilities referred to above and in the Audit Committee Charter, the Audit Committee recommended to the Board of Directors that it include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 for filing with the SEC.

Who prepared this report?

This report has been furnished by the members of the Audit Committee:

Peter A. Bassi, *Chair*
Cyril Han
Louis T. Hsieh
Zili Shao
Min (Jenny) Zhang

ADDITIONAL INFORMATION

Who pays the expenses incurred in connection with the solicitation of proxies?

Expenses in connection with the solicitation of proxies will be paid by us. Proxies are being solicited principally by mail, by telephone and through the Internet. We have retained Georgeson Inc. to act as a proxy solicitor for a fee estimated to be $10,000, plus reimbursement of out-of-pocket expenses. In addition, our directors, officers and regular employees, without additional compensation, may solicit proxies personally, by e-mail, telephone, fax or special letter. We will reimburse brokerage firms and others for their expenses in forwarding proxy materials to the beneficial owners of shares of Company common stock.

How may I elect to receive stockholder materials?

For stockholders of our common stock registered on our U.S. register

Stockholders with shares registered directly in their name who received stockholder materials in the mail may elect to receive future annual reports and proxy statements from us and to vote their shares through the Internet instead of receiving copies through the mail. We are offering this service to provide stockholders with added convenience, to reduce our environmental impact and to reduce annual report printing and mailing costs.

To elect this option, go to *www.computershare.com*, click on Login to Investor Center, log in and locate the option to receive Company mailings via e-mail. Stockholders who elect this option will be notified by mail how to access the proxy materials and how to vote their shares on the Internet or by phone.

If you consent to receive future proxy materials electronically, your consent will remain in effect unless it is withdrawn by writing our transfer agent, Computershare Trust Company, N.A., 505000, Louisville, KY 40233-5000, or by logging onto *www.computershare.com* and following the applicable instructions. Also, while this consent is in effect, if you decide you would like to receive a hard copy of the proxy materials, you may call, write or e-mail Computershare Trust Company, N.A.

For stockholders of our common stock registered on our Hong Kong register

We will publish annual reports and proxy statements on our website and on HKEX's website in English and Chinese. We will provide printed copies of proxy materials in English and Chinese at no cost upon your request.

I share an address with another stockholder, and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

The Company has adopted a procedure called "householding," which has been approved by the SEC. The Company and some brokers household proxy materials, delivering a single Notice and, if applicable, this proxy statement and the annual report, to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders or they participate in electronic delivery of proxy materials.

Stockholders who participate in householding will continue to access and receive separate proxy cards. This process will help reduce our printing and postage fees, as well as save natural resources. If at any time you no longer wish to participate in householding and would prefer to receive a separate proxy statement, or if you are receiving multiple copies of the proxy statement and wish to receive only one, please notify your broker if your shares are held in a brokerage account or us if you hold registered shares. You can notify us by sending a written request to Yum China Holdings, Inc., 7100 Corporate Drive, Plano, Texas 75024, or to Yum China Holdings, Inc., Yum China Building, 20 Tian Yao Qiao Road, Shanghai 200030 People's Republic of China, Attention: Investor Relations.

May I propose actions for consideration at next year's annual meeting of the Company's stockholders or nominate individuals to serve as directors?

Under the rules of the SEC, if a stockholder wants us to include a proposal in our proxy statement and proxy card for presentation at the 2023 annual meeting of the Company's stockholders, the proposal must be received by our Corporate Secretary at our principal executive offices, Yum China Holdings, Inc., 7100 Corporate Drive, Plano, Texas 75024, or Yum China Holdings, Inc., Yum China Building, 20 Tian Yao Qiao Road, Shanghai 200030, People's Republic of China, by December 16, 2022. We strongly encourage any stockholder interested in submitting a proposal to contact our Chief Legal Officer in advance of this deadline to discuss the proposal. Stockholders may want to consult knowledgeable counsel with regard to the detailed requirements of applicable securities laws. Submitting a proposal does not guarantee that we will include it in our proxy statement.

In addition, our Bylaws include provisions permitting, subject to certain terms and conditions, stockholders owning at least 3% of the outstanding shares of Company common stock for at least three consecutive years to use our annual meeting proxy statement to nominate a number of director candidates not to exceed 20% of the number of directors in office, subject to reduction in certain circumstances (the "***Proxy Access***"). Pursuant to our Proxy Access bylaw, stockholder nomination of directors to be included in our proxy statement and proxy card for the 2023 annual meeting of the Company's stockholders must be received by our Corporate Secretary no earlier than November 15, 2022 and no later than December 15, 2022. Stockholders must also satisfy the other requirements specified in our Bylaws. You may contact the Company's Corporate Secretary at the addresses mentioned above for a copy of the relevant bylaw provisions regarding the requirements for nominating director candidates pursuant to Proxy Access.

Under our Bylaws, stockholders may also nominate persons for election as directors at an annual meeting or introduce an item of business that is not included in our proxy statement. These procedures provide that nominations for director nominees and/or an item of business to be introduced at an annual meeting must be submitted in writing to our Corporate Secretary at our principal executive offices, and the stockholder submitting any such nomination or item of business must include information set forth in our Bylaws. For the 2023 annual meeting of the Company's stockholders, we must receive the notice of your intention to introduce a nomination or to propose an item of business no earlier than January 27, 2023 and no later than February 26, 2023, unless we hold the 2023 annual meeting before April 27, 2023 or after June 26, 2023, in which case notice must be received no later than 10 days after notice of the date of the annual meeting is mailed or public disclosure of the date of the annual meeting is made, whichever first occurs. Stockholders must also satisfy the other requirements specified in our Bylaws. You may contact the Company's Corporate Secretary at the addresses mentioned above for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

In addition to satisfying the foregoing requirements under our Bylaws, to comply with the universal proxy rules (once effective), stockholders who intend to solicit proxies in support of director nominees other than our nominees must provide notice that sets forth the information required by Rule 14a-19 under the Securities Exchange Act of 1934, as amended, no later than March 28, 2023.

Is any other business expected to be conducted at the Annual Meeting?

The Board is not aware of any matters that are expected to come before the Annual Meeting other than those referred to in this proxy statement. If any other matter should come before the Annual Meeting, the individuals named on the form of proxy intend to vote the proxies in accordance with their best judgment.

The chairman of the Annual Meeting may refuse to allow the transaction of any business, or to acknowledge the nomination of any person, not made in compliance with the foregoing procedures.

Forward-Looking Statements

This proxy statement contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the fact that they do not relate strictly to historical or current facts and by the use of forward-looking words such as "expect," "expectation," "believe," "anticipate," "may," "could," "intend," "belief," "plan," "estimate," "target," "predict," "project," "likely," "will," "continue," "should," "forecast," "outlook" or similar terminology. These statements are based on current estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable under the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Forward-looking statements include, without limitation, statements regarding the future strategies, growth and business plans of Yum China, including Yum China's sustainability goals. Forward-looking statements are not guarantees of performance and are inherently subject to known and unknown risks and uncertainties that are difficult to predict and could cause our actual results or events to differ materially from those indicated by those statements. We cannot assure you that any of our expectations, estimates or assumptions will be achieved. The forward-looking statements included in this proxy statement are only made as of the date of this proxy statement, and we disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances, except as required by law. Numerous factors could cause our actual results or events to differ materially from those expressed or implied by forward-looking statements, including, without limitation: whether we are able to achieve development goals at the times and in the amounts currently anticipated, if at all, the success of our marketing campaigns and product innovation, our ability to maintain food safety and quality control systems, changes in public health conditions, including the COVID-19 pandemic and regional outbreaks caused by existing or new COVID-19 variants, our ability to control costs and expenses, including tax costs, as well as changes in political, economic and regulatory conditions in China. In addition, other risks and uncertainties not presently known to us or that we currently believe to be immaterial could affect the accuracy of any such forward-looking statements. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. You should consult our filings with the SEC (including the information set forth under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2021) for additional detail about factors that could affect our financial and other results.

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

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2021**

OR

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

YumChina

For the transition period from ________ to ________
Commission file number 001-37762
Yum China Holdings, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**81-2421743**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
7100 Corporate Drive **Plano, Texas 75024** **United States Of America**	**Yum China Building** **20 Tian Yao Qiao Road** **Shanghai 200030** **People's Republic Of China**

(Address, including Zip Code, of Principal Executive Offices)
Registrant's telephone number, including area code: **(469) 980-2898**
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.01 Per Share	YUMC	New York Stock Exchange
	9987	The Stock Exchange of Hong Kong Limited

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑
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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer: ☑	Accelerated filer: ☐
Non-accelerated filer: ☐	Smaller reporting company: ☐
	Emerging growth company: ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑
The aggregate market value of the voting stock (which consists solely of shares of common stock) held by non-affiliates of the registrant as of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $27.8 billion. Solely for purposes of this disclosure, shares of common stock held by executive officers and directors of the registrant as of such date have been excluded because such persons may be deemed to be affiliates. The number of shares of the registrant's common stock outstanding as of February 22, 2022 was 425,589,799 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the registrant's 2022 annual meeting of stockholders (the "2022 Proxy Statement"), to be filed not later than 120 days after the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K (this "Form 10-K") includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

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 current expectations, estimates, assumptions or projections concerning future results or events, including, without limitation, statements regarding our strategies to expand our restaurant network and restaurant portfolio, our strategies to improve store performance and develop new sources of revenue, plans to invest in technology and high-quality assets, plans to enhance digital and delivery capabilities, franchise development, logistics and supply chain management, anticipated effects of population and macroeconomic trends and the expected impact of the COVID-19 pandemic. 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 forward-looking statements. We cannot assure you that any of our expectations, estimates, assumptions or projections will be achieved. Factors that could cause actual results and events to differ materially from our expectations, estimates, assumptions or projections include (i) the risks and uncertainties described in the Risk Factors included in Part I, Item 1A of this Form 10-K and (ii) the factors described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this Form 10-K. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. We disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances, except as required by law.

PART I

ITEM 1. Business.

References to "Yum China" mean Yum China Holdings, Inc. and references to the "Company," "we," "us," and "our" mean Yum China and its subsidiaries.

"U.S. dollars", "$" or "US$" refers to the legal currency of the United States, and "RMB" or "Renminbi" refers to the legal currency of the People's Republic of China (the "PRC" or "China").

The KFC, Pizza Hut, Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell and East Dawning brands are collectively referred to as the "brands" or "concepts". Throughout this Form 10-K, the terms "brands" and "concepts" are used interchangeably and "restaurants," "stores" and "units" are used interchangeably.

General

Yum China is the largest restaurant company in China in terms of 2021 system sales. We had $9.9 billion of revenues in 2021 and over 11,700 restaurants as of December 31, 2021. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell and East Dawning.

We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Macau and Taiwan. We own the intellectual property of the Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning concepts outright. KFC was the first major global restaurant brand to enter China in 1987. With more than 30 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of 2021 system sales, with 11,788 restaurants covering over 1,600 cities primarily in China as of December 31, 2021. We believe that there are significant opportunities to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.

As of December 31, 2021, we owned and operated approximately 85% of our restaurants. Franchisees contribute to our revenue through the payment of upfront franchise fees and on-going royalties based on a percentage of sales, and payments for other transactions with us, such as purchases of food and paper products, advertising services and other services.

Restaurant Concepts

KFC

KFC is the leading and the largest quick-service restaurant ("QSR") brand in China in terms of 2021 system sales. Founded in Corbin, Kentucky by Colonel Harland D. Sanders in 1939, KFC opened its first restaurant in Beijing, China in 1987. As of December 31, 2021, there were over 8,100 KFC restaurants in over 1,600 cities across China. In addition to Original Recipe® chicken and other chicken products, KFC in China has an extensive menu featuring beef burgers, pork, seafood, rice dishes, congees, fresh vegetables, desserts, coffee, tea and many other products. KFC also seeks to increase revenue from different channels, including dine-in, delivery, takeaway and ready meals. KFC primarily competes with western QSR brands in China, such as McDonald's, Dicos and Burger King, among which we believe KFC had an approximate two-to-one lead over its nearest competitor in terms of store count as of the end of 2021.

Pizza Hut

Pizza Hut is the leading and the largest casual dining restaurant ("CDR") brand in China in terms of 2021 system sales and number of restaurants as of December 31, 2021, offering multiple dayparts, including breakfast, lunch, afternoon tea and dinner. Since opening its first China restaurant unit in Beijing in 1990, Pizza Hut has grown rapidly and, as of year-end 2021, there were over 2,500 Pizza Hut restaurants in over 600 cities across China. Pizza Hut has an extensive menu offering a broad variety of pizzas, steaks, pasta, rice dishes and other entrees, appetizers, beverages and desserts. Measured by number of restaurants, we believe Pizza Hut has an approximate six-to-one lead over its nearest western CDR competitor in China as of the end of 2021.

Other Concepts

In addition to KFC and Pizza Hut, our restaurant brand portfolio also includes Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell and East Dawning.

Little Sheep. Little Sheep, with its roots in Inner Mongolia, China, specializes in "Hot Pot" cooking, which is very popular in China, particularly during the winter months. Little Sheep had over 240 units in both China and international markets as of December 31, 2021. Of these, 220 units were franchise restaurants.

Huang Ji Huang. In April 2020, we completed the acquisition of a controlling interest in Huang Ji Huang. Founded in 2004, Huang Ji Huang had over 650 units in China and internationally as of December 31, 2021. Huang Ji Huang primarily operates a franchise model and is an industry-leading simmer pot brand.

Lavazza. In April 2020, we partnered with Luigi Lavazza S.p.A. ("Lavazza Group"), the world-renowned family-owned Italian coffee company, and established a joint venture ("Lavazza joint venture"), to explore and develop the Lavazza coffee shop concept in China. In September 2021, the Company and Lavazza Group entered into agreements to accelerate the expansion of Lavazza coffee shops, which offer a premium and authentic Italian coffee experience in China. As of December 31, 2021, there were 58 Lavazza units in China.

COFFii & JOY. COFFii & JOY is a coffee concept that we developed in 2018, featuring specialty coffee. As of December 31, 2021, there were 36 COFFii & JOY units in China.

Taco Bell. Taco Bell is the world's leading western QSR brand specializing in Mexican-style food, including tacos, burritos, quesadillas, salads, nachos and similar items. We opened our first Taco Bell restaurant in Shanghai, China, in December 2016. As of December 31, 2021, there were 37 Taco Bell units in China.

East Dawning. East Dawning is a Chinese food QSR brand located predominantly in transportation hubs. The brand was severely impacted by the COVID-19 pandemic. As a result, we have decided to wind down the operations of the brand. As of December 31, 2021, there were five East Dawning units in China and all of them are planned to be permanently closed in 2022.

Our Strategies

Our primary strategy is to grow sales and profits across our portfolio of brands through organic growth, growth of franchise restaurants and development of new restaurant concepts, along with growing our online business. We are accelerating our store network expansion to reach our next milestone of 20,000 stores. We will drive growth from our core brands, as well as emerging brands such as Lavazza. We will continue to invest in digitalization and supply chain, our key growth enablers.

Continue to strategically expand our restaurant network

We are confident in the long-term market opportunities in China. We believe we have the potential to grow to 20,000 restaurants or more in the future and we are currently tracking over 1,100 cities that do not have a KFC or Pizza Hut restaurant.

Further expand geographical coverage. Restaurant chains have a low penetration rate in China, especially in lower-tier cities. Given the rapidly expanding middle class and dining out population as a result of continued economic growth and urbanization, we believe there are significant opportunities to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities. For additional information on the risks associated with this growth strategy, see the section entitled "Item 1A. Risk Factors," including the risk factor entitled "We may not attain our target development goals; aggressive development could cannibalize existing sales; and new restaurants may not be profitable."

Restaurant development pipeline. We are keen to explore various new restaurant formats to support further store expansion, including different store designs or service models aimed at addressing the needs of different guests and for different occasions. We believe that our first-mover advantage and in-depth local know-how will help us to build robust development pipelines to seize the market opportunities.

Franchise opportunity. While we continue to focus on the operation of our Company-owned restaurant units, we will also continue to seek franchise opportunities for both our core and emerging brands. As of December 31, 2021, approximately 15% of our restaurants were operated by franchisees. We anticipate high franchisee demand for our brands, supported by strong unit economics, operational consistency and multiple store formats to drive restaurant growth. While the franchise market in China is still in an early stage compared to developed markets, we plan to continue to develop our franchisee-owned store portfolio over time, especially in select channels such as gas stations.

Grow emerging brands. Our key growth strategy for emerging brands, such as Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY and Taco Bell, focuses on exploring suitable business models to achieve sustainable growth. In addition, we plan to continue our efforts in product innovation and operational enhancement for these emerging brands to potentially scale up operations in the future.

Continue to improve unit-level performance and develop new sources of revenue

Food innovation and value proposition. We will continue to focus on food innovation and strengthen our value proposition. We are keenly aware of the strength of our core menu items. At the same time, we seek to continue to introduce innovative items to meet evolving consumer preferences and local tastes, drive guest engagement and continue to broaden our brand appeal. Each of our restaurant concepts has proprietary menu items, and emphasizes the preparation of food with high quality ingredients. We will continue to develop unique recipes, regionally-inspired menu items and special seasonings to provide appealing, tasty and convenient food choices at competitive prices. In addition, KFC plans to continue providing value with product offerings such as the bucket and increased combo options throughout the day and Pizza Hut plans to continue its multiple value campaigns. KFC and Pizza Hut will continue to promote their respective signature value campaigns "Crazy Thursday" and "Scream Wednesday," which offer selected menu items at attractive prices, and have received positive consumer feedback. We believe our continued food innovation and value proposition are pivotal to enhancing our unit-level performance by driving order frequency and order ticket size.

Daypart opportunities. We believe there are significant daypart opportunities across our brands. For example, KFC has expanded its daypart offerings, including late night street food and afternoon tea, and Pizza Hut continued to drive sales from breakfast and business lunch.

Best in-store experience. We continuously look for ways to improve the guest experience. For example, we plan to continue to invest in refurbishing our restaurants. Our brands also look to improve efficiency to drive sales growth. For instance, we have simplified menus and fine-tuned our in-store self-service order devices. We are also expanding our delivery business through our proprietary smartphone applications and pre-order services. To further enhance the guest experience, we are also evaluating the possibility of adopting other digital initiatives in our restaurants and will continue to invest in this area, as discussed more fully below.

Continue to invest in technology, with a focus to capture digital, delivery and off-premise consumption opportunities

We will continue to invest in technology to further empower and maintain our competitive advantages. We will focus on improving our overall technology infrastructure and digital and delivery capabilities. We believe these efforts will further support our sustainable growth, improve our operational efficiency and ensure quality. Our digital and delivery strategies are set forth below.

Digital. As of December 31, 2021, our loyalty programs had over 330 million members and approximately 110 million members for KFC and Pizza Hut, respectively. The programs have been effective in increasing order frequency and enhancing guest loyalty. Digital orders accounted for approximately 86% of KFC and Pizza Hut Company sales in 2021. Going forward, we will continue to leverage our powerful digital ecosystem to drive sales, improve the guest experience and increase operational efficiency. We plan to increase our investment in end-to-end digitalization, automation and artificial intelligence ("AI"), to more effectively connect online traffic with our offline assets. To improve our operational efficiency, we will focus on connecting our front-end, guest facing systems to back-end systems such as operations and supply chain.

Delivery. China is a world leader in the emerging online to offline, or O2O, market. This is where digital online ordering technologies interact with traditional brick and mortar retail to enhance the customer experience. We see considerable growth potential in the delivery market by aligning our proven restaurant operation capabilities with our delivery network that offers consumers the ability to order restaurant food anywhere. Delivery contributed approximately 32% of Company sales in 2021. Going forward, we will continue to optimize our delivery service by adopting innovative technologies, rolling out new delivery menu items and developing novel delivery service concepts, such as our rainy-day delivery menu.

New retail. As part of our strategy to drive growth from off-premise occasions, our new retail products are designed to capture at-home consumption demand by leveraging our online and offline channels. We launched ready meals such as fried rice, steak and pasta, as well as coffee capsules so customers can enjoy these products any time they want. We intend to continue to capture the opportunity with our capabilities in product innovation, supply chain and online and offline assets.

Strategically expand our restaurant portfolio

We aim to maintain our industry-leading position in the QSR and CDR markets in China with our core brands, and gain a stronger foothold and enhanced know-how in the Chinese cuisine space, which represents a significant share of the restaurant industry in China. In April 2020, we completed the acquisition of a controlling interest in Huang Ji Huang, a leading Chinese CDR franchise business. Following the acquisition of Huang Ji Huang, we established a Chinese dining business unit to manage our Chinese restaurant brands.

We are also building a coffee portfolio to capture today's underserved coffee market in China across different customer segments, including coffee products provided by KFC ("K-Coffee"), which offers convenience and value, balanced by our incubated concept COFFii & JOY, which offers specialty coffee for coffee lovers. In 2021, we sold 170 million cups of coffee at KFC. In April 2020, we also partnered with Lavazza to explore and develop the Lavazza coffee shop concept in China, targeting to open 1,000 Lavazza stores by 2025, to offer premium and authentic Italian coffee in an indulgent atmosphere. As of December 31, 2021, there were 58 Lavazza units in China.

Prudently pursue investments in high-quality assets

Our investment strategy primarily focuses on three areas, restaurant brands with excellent growth potential and synergy, joint ventures and the enablers that empower our brands (e.g. ecosystem, technology). We continue to identify and evaluate investment opportunities in high-quality brands to capture growth opportunities. Also, we look for potential opportunities to invest in digitalization and supply chain, our key growth enablers, to further enhance our competitiveness. We will prudently assess investment targets based on each candidate's strategic value, brand equity, business scale and financial performance, among other factors.

Operational Management

Restaurant Unit Management

Our restaurant management structure varies among our restaurant brands and restaurant size. Generally, each restaurant that we operate is led by a restaurant general manager, or RGM, together with one or more assistant managers. RGMs are skilled and highly trained, with most having a college-level education. The performance of RGMs is regularly monitored and coached by senior operations leaders. Each restaurant brand issues detailed manuals, which may then be customized to meet local regulations and customs. These manuals set forth standards and requirements for all aspects of restaurant operations. The restaurant management team is responsible for the day-to-day operation of each unit and for ensuring compliance with operating standards. Each RGM is also responsible for handling guest complaints and emergency situations.

Franchise Restaurant Management

As of December 31, 2021, approximately 15% of our restaurants were franchise restaurants. Our franchise program is designed to promote consistency and quality, and we are selective in granting franchises. Franchisees supply capital initially by paying a franchise fee to us and by purchasing or leasing the land use rights, building, equipment, signs, seating, inventories and supplies; and, over the longer term, by reinvesting in the business through expansion. Franchisees contribute to our revenue through the payment of upfront franchise fees and on-going royalties based on a percentage of sales, and payments for other transactions with us, such as purchases of food and paper products, advertising services and other services.

Our franchise agreements set out specific operational standards, which are consistent with standards required for Company-owned restaurants. Like our Company-owned restaurants, our franchise restaurants are also subject to our internal quality audits and reviews. There are no notable operational differences between Company-owned restaurants and franchise restaurants.

We believe that it is important to maintain strong and open relationships with our franchisees and their representatives. To this end, the Company invests a significant amount of time working with the franchisees and their representative organizations on key aspects of the business, including products, equipment, operational improvements and standards and management techniques.

Expansion Management

We believe that there are significant opportunities to expand within China and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities. We expanded our restaurant count from 7,562 at the end of 2016 to 11,788 at the end of 2021, representing a CAGR of approximately 9%. We expect to expand our business through organic growth, growth of franchise units and development of our emerging brands.

Our expansion strategy has been systematically focused on high potential locations across city tiers, including entering new commercial areas within existing cities and new cities. Each potential restaurant site is assessed and evaluated individually based on its site potential, potential financial return and potential impact to nearby stores. We take into account factors such as economic and demographic conditions and prospects, consumption patterns, GDP per capita and population density of the local community, presence of activity centers such as shopping complexes, schools and residential areas that generate guest traffic, and the presence of other restaurants in the vicinity during our site selection process. We also consider the guest traffic and distance from the existing restaurants under the same brand to reduce sales transfer that may occur from existing restaurant units. As we are opening more smaller format stores and actively managing costs, the average capital spending for each new KFC and Pizza Hut restaurant unit in 2021 was approximately RMB1.5 to 2.5 million.

Supply Chain Management

The Company's restaurants, including those operated by franchisees, are large purchasers of a number of food and paper products, equipment and other restaurant supplies. The principal items purchased include protein ingredients (including poultry, pork, beef and seafood), cheese, oil, flour, vegetables and paper and packaging materials. The Company has not experienced any significant, continuous shortages of supplies, and alternative sources for most of these products are generally available. Prices paid for supplies fluctuate. When prices increase, the brands may attempt to pass on such increases to customers, although there is no assurance that this can be done practically. We also control our raw material costs by entering into long-term bulk purchase agreements for our key food ingredients.

The Company partners with over 800 independent suppliers, which are mostly China-based. We implement a strict supplier qualification process that includes supplier compliance checks and on-site audits to ensure the supplier meets our food safety and quality control standards. We have formulated detailed specifications for food ingredients and consumables we procure. We believe supply chain management is crucial to the sustainability of our business and we are dedicated to applying digitalization and automation technologies in our supply chain management system. Our in-house and integrated supply chain management system employs more than 1,400 staff in food safety, quality assurance, procurement management, logistics, engineering and supply chain system.

In addition, we operate a tailor-made, world-class logistics management system, which is capable of accommodating large scale, wide coverage and advanced information dissemination as well as fast store expansions. To further strengthen our supply chain network, the Company acquired land in 2021 to build three new logistics centers. The Company, along with multiple independently owned and operated distributors, utilizes 32 logistics centers to distribute supplies to Company-owned and franchised stores, as well as to third-party customers. In addition, the Company owns seasoning facilities for its Chinese dining business unit, which manufacture and sell seasoning products to Huang Ji Huang and Little Sheep franchisees. The Company's supply chain strategy of working with multiple suppliers, as well as building a vast logistics network, allows for continuous supply of products in the event that supply from an individual supplier or logistics center becomes unfeasible.

To improve the efficiency and effectiveness of our procurement process, the Company has adopted a central procurement model, whereby the Company centrally purchases the vast majority of food and paper products from approved suppliers for most of the restaurants regardless of ownership. The Company believes this central procurement model allows the Company to maintain quality control and achieves better prices and terms through volume purchases.

Food Safety and Quality Control

Food safety is the top priority at the Company. Food safety systems include rigorous standards and training of employees in our restaurants and distribution system, as well as requirements for suppliers. These standards and training topics include, but are not limited to, employee health, product handling, ingredient and product temperature management and prevention of cross contamination. Food safety training is focused on illness prevention, food safety and regulation adherence in day-to-day operations. Our standards also promote compliance with applicable laws and regulations in China when building new or renovating existing restaurants. For further information on food safety issues, see "Item 1A. Risk Factors—Risks Related to Our Business and Industry—Food safety and foodborne illness concerns may have an adverse effect on our reputation and business."

Our quality assurance department regularly conducts unannounced food safety and operation excellence checks of all restaurants covering food safety, product quality and guest service. We also conduct regular product quality inspections on main menu items, and perform microbiological testing of restaurants' utensils, small wares, water, ice and food to ensure they meet the required standards.

For our delivery system, we have established our delivery service teams for KFC and Pizza Hut. We require all third-party delivery partners to sign and strictly implement a letter of commitment on the food safety and quality practice of delivery food, which stipulates clear requirements for regulatory compliance, staff management, catering, delivery facilities, equipment and strict management of third-party platforms.

Innovation and Digitalization

Our vision is to become the world's most innovative pioneer in the restaurant industry. We are dedicated to adopting innovations in our business model and restaurant operations, which enables us to comprehensively reach our guests and provide superior products and services in a technology-driven and happy way, as vividly demonstrated by our slogan "Tasty food, great fun, pleasant presentation with substance".

We believe we are a pioneer and first-mover among restaurant brands in China in utilizing and investing in emerging digital technologies to modernize our business operations and accelerate our growth, which is critical to empower and maintain our competitive advantage in China. In recent years, we have stepped up our investment in digitalization, embarking on end-to-end digitalization of our business operations. In 2021, we opened a digital R&D center with three sites in Shanghai, Nanjing and Xi'an, to strengthen our internal digital capabilities and support sustainable business growth by using advanced technology.

Dining Experience

Menu Innovations Offering appealing, tasty and convenient food at great prices is our value proposition. We have a dedicated food innovation team primarily focusing on the development and innovation of new recipes and improvement of existing products. In 2021, we launched over 500 new and improved products across all of our restaurant brands. Leveraging our local know-how and the wealth of consumer taste preference data accumulated, we have become a pioneer in food innovation, pushing the boundaries of QSR and CDR dining in China.

Our menu innovation endeavors are also supported by a world-class 27,000 square-foot innovation center in Shanghai for the development of new recipes, cooking methods and menu concepts. The innovation center is an integrated research and development facility that has been designed to generate new menu ideas and concepts with new ingredients and cooking methods to enable the rapid roll-out of innovative products catering to customers' local tastes.

Ordering KFC rolled out mobile pre-ordering service on a nationwide basis in December 2016, which allows guests to order online and pick up in store. Pizza Hut launched table-side mobile ordering in 2018, which enables guests to order by scanning a QR code with their mobile phone. Now mobile ordering is a standard feature of our Super Apps including the KFC Super App and the Pizza Hut Super App. Guests can also order through our proprietary mini programs embedded in WeChat. In addition, in certain commercial districts, in-store kiosks provide guests with convenient and fast digital ordering options. We continuously enhance our Super Apps to address the needs of customers and improve their digital experience. For example, in 2021, we launched a personalized menu display in the KFC Super App and introduced an "order together" feature in the Pizza Hut Super App. In 2021, digital orders accounted for approximately 86% of KFC and Pizza Hut Company sales.

Payment As early as June 2015, we started to partner with Alipay on digital payment functionalities, making us among the first batch of restaurant chains in China to make mobile payment available to guests. We commenced mobile payment cooperation with WeChat Pay in 2016. Digital payments accounted for an increasing percentage of our Company sales, from 33% in 2016 to 61% in 2017, and further to 81% in 2018, 91% in 2019, 97% in 2020 and 98% in 2021. The increasing percentage indicates growing consumer preference for this feature and reflects our ability to harness the power of technology in our business model. Adoption of digital and mobile payment technologies not only provides a better customer experience by, among other things, reducing guest waiting time and saving guests from having to reach for their wallets or even cellphones, but also reduces staffing needed for cash management and reduces potential risks associated with cash management. In addition to the above business relationships with major third-party mobile payment providers, we developed and launched YUMC Pay in partnership with UnionPay in the first quarter of 2019.

We were the first in the world to commercially implement facial recognition technologies for payment by introducing "Smile to Pay" in Hangzhou's KFC restaurant in September 2017. "Smile to Pay" enables our guests to make payments for their orders at digital kiosks without having to reach for their wallets. Following positive feedback, we have since implemented "Smile to Pay" in approximately 1,600 KFC restaurants across China as of December 31, 2021.

Guest loyalty and interaction China has entered into an age of Super Apps, which integrates multiple functions including messaging, e-commerce and payments in a single application by embedding mini programs or providing in-App links to other applications. In early 2016, the KFC Super App was implemented nationwide. Super Apps play a very important role in our overall digital ecosystem as they enable a digital guest experience by offering convenience, efficiency and interesting functionality before, during and after dining.

Member engagement is fostered through our Super Apps and WeChat mini programs, as these form the primary platform for consumers to sign up for our membership programs. Additionally, we continue to monetize our membership base by introducing privilege membership subscription programs that increase frequency and spend at our brands. These monetization opportunities rely heavily on our ability to engage with our users through our Super Apps. As of December 31, 2021, KFC and Pizza Hut loyalty programs exceeded 360 million members combined. Member sales increased to approximately 60% of system sales in 2021. We believe that creative and engaging interactions with our guests can help us enhance the guest experience and guest loyalty, which will ultimately lead to increased sales.

Delivery

We believe that food delivery is a significant growth driver in China. We were one of the first restaurant businesses in China to offer delivery services. As early as 2010, KFC established its own delivery platform and started to accept delivery orders placed on its mobile applications. Starting from 2015, we were also one of the first to partner with O2O aggregators to further generate delivery traffic. In addition to ordering through aggregators' platforms, guests may also place delivery orders through the KFC and Pizza Hut Super Apps. The ability to generate orders from our own channels allows us to be well-positioned in commercial collaborations with aggregators, and manage costs and commissions in a more competitive manner. In 2021, approximately one-third of KFC delivery sales, and approximately 20% of Pizza Hut delivery sales, were generated from our own channels.

In the past, we either used our own dedicated riders to deliver orders placed through aggregators' platforms or paid an additional commission for the delivery services provided by aggregators. Starting in 2019, we used our own dedicated riders to deliver orders placed through aggregators' platforms to customers of KFC and Pizza Hut stores, which we believe will give us greater control over delivery quality and improve our ability to make timely deliveries during peak hours. These dedicated riders are either contracted with us or the aggregators' platforms to deliver orders exclusively for KFC or Pizza Hut stores. In 2019, Company sales through delivery accounted for approximately 21% of total Company sales, which further increased to approximately 30% for 2020 and 32% in 2021, partially driven by the increased delivery orders as a result of the COVID-19 pandemic.

Restaurant Format Innovation

To supplement our growth, we are focusing on developing new restaurant formats and upgrading existing restaurants. We have developed multiple restaurant formats to meet different guest needs. For example, our smaller store formats, with reduced store size combined with other cost reduction initiatives, enable us to penetrate further into lower-tier cities and expand more flexibly in higher-tier cities. In addition, we continuously look for ways to improve the guest experience. We have accelerated restaurant upgrades and remodeling to implement the latest technology, equipment and infrastructure and improve the dining experience. Approximately 78% of KFC restaurant units and 89% of Pizza Hut restaurant units as of December 31, 2021 were remodeled or built in the past five years. Our brands also look to improve efficiency to drive sales growth. For example, we have simplified our menu items and fine-tuned our in-store self-service order kiosks.

Operational Efficiency

We have made significant investments to establish an efficient technological infrastructure, which serves as the foundation of our intelligent restaurant network management and facilitates efficient and innovative restaurant operation for all restaurants across our brands. We have adopted AI-enabled technology to analyze and forecast transaction volume so that we can improve labor scheduling and inventory management. For example, the "Super Brain," an end-to-end AI-enabled system, integrates data from store operations and aids the decision making of restaurant general managers. Moreover, managers and staff are also equipped with self-designed "smart watches", and in some pilot stores, "smart glasses", to closely monitor the real-time ordering and serving procedures of the restaurants and make timely staffing adjustments, which substantially improves management efficiency and guest satisfaction. We believe our digitalization along with automation, the Internet of Things and AI work together to enhance food safety, replace manual work and improve overall store efficiency.

Intellectual Property

Our use of certain material trademarks and service marks is governed by a master license agreement between Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of the Company, and Yum! Brands Inc. ("YUM"), through YRI China Franchising LLC, a subsidiary of YUM, effective from January 1, 2020 and previously through Yum! Restaurants Asia Pte. Ltd., another subsidiary of YUM, from October 31, 2016 to December 31, 2019. Pursuant to the master license agreement, we are the exclusive licensee of the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the PRC, excluding Hong Kong, Macau and Taiwan. The term of the license is 50 years with automatic renewals for additional consecutive renewal terms of 50 years each, subject only to us being in "good standing" and unless we give notice of our intent not to renew. In exchange, we pay a license fee to YUM equal to 3% of net system sales of the licensed brands. We have also agreed generally not to compete with YUM. In addition, we were granted a right of first refusal to develop and franchise in the PRC certain restaurant concepts that YUM may develop or acquire.

We were granted by YUM a royalty-free license to use the name and mark of "YUM" as part of our name, domain name and stock identification symbol pursuant to a name license agreement entered into between YUM and us on October 31, 2016. The name license agreement can be terminated by YUM in the event of, among other things, material breach of the agreement by us. Our use of certain other material intellectual property (including intellectual property in product recipes, restaurant operation and restaurant design) is likewise governed by the master license agreement with YUM.

We own registered trademarks and service marks relating to the Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning brands and pay no license fee related to these brands. Collectively, these licensed and owned marks have significant value and are important to our business. Our policy is to pursue registration of our important intellectual property rights whenever feasible and to oppose vigorously any infringement of our rights.

Competition

Data from the National Bureau of Statistics of China indicates that sales in the consumer food service market in China totaled approximately $738 billion in 2021. Industry conditions vary by region, with local Chinese restaurants and western chains present, but we possess the largest market share (as measured by system sales). While branded QSR units per million population in China are well below that of the United States, competition in China is increasing. We compete with respect to food taste, quality, value, service, convenience, restaurant location and concept, including delivery and shared kitchens. The restaurant business is often affected by changes in consumer tastes; national, regional or local economic conditions; demographic trends; traffic patterns; the type, number and location of competing restaurants; and disposable income. We compete not only for consumers but also for management and hourly personnel and suitable restaurant sites. KFC's competitors in China are primarily western QSR brands such as McDonald's, Dicos and Burger King, and to a lesser extent, domestic QSR brands in China. Pizza Hut primarily competes with western CDR brands, including Domino's and Papa John's, as well as other domestic CDR brands in China.

Seasonality

Due to the nature of our operations, we typically generate higher sales during Chinese festivities, holiday seasons as well as summer months, but relatively lower sales and lower operating profit during the second and fourth quarters.

Human Capital Management

As of December 31, 2021, the Company had around 450,000 employees, including approximately 147,000 full-time employees and approximately 303,000 part-time restaurant crew members. Our full-time employees primarily included 38,000 restaurant management team members and 102,000 restaurant crew members.

Our board of directors provides oversight on certain human capital matters, including inclusion and diversity, management succession planning, and our employee rewards and benefits program. Under the board's oversight, the Company regularly conducts a people planning review to attract, retain and develop a workforce that aligns with our values and strategies.

Culture and People Philosophy

The Company is committed to the "People First" philosophy by implementing our principle of "Fair, Care, Pride", which includes building employability, creating a diverse and inclusive working environment, providing fair and competitive benefits, empowering employees through digitalization and prioritizing occupational health and safety.

Diversity, Inclusion and Equal Opportunities

The Company is committed to fostering a working environment that is professional, inclusive and non-discriminatory for employees to unleash their potential. In our workplaces, differences are understood, appreciated and encouraged. Each employee, without regard to race, religion, color, age, gender or gender identity, disability, military or veteran status, sexual orientation, citizenship or national origin, is provided with fair opportunity on the Company's diverse platform.

Gender Equality The Company is committed to gender equality by providing fair recruitment, training and promotion opportunities for all employees. By the end of 2021, Yum China employed over 290,000 women, representing 65% of its total workforce. The Company continues to make progress in nurturing talented leaders across all management levels. By the end of 2021, women holding director and above positions represented 53% of our senior management workforce. In January 2022, the Company was named to the Bloomberg Gender Equality Index for the fourth consecutive year, and was one of only three companies from mainland China included in this index.

Barrier-free and Inclusive Workplace for People with Disabilities The Company strives to create a barrier-free and inclusive workplace for people with disabilities. The Company piloted the first "Angel Restaurant" in 2012, using modified equipment and operational processes, and provides trainings to assist "angel employees"— those with special needs—to perform a full range of jobs. By the end of 2021, we had opened 23 Angel Restaurants in 22 cities, providing jobs for over 200 people with special needs.

Training and Development

The Company values the growth of employees and continuously nurtures top talent through a systematic training system. Every employee is required to formulate a specific development goal to improve their competencies in addition to completing the key objectives of the role. We prepare employees not just for fulfilling current job requirements, but also for more challenging expanded job responsibilities in the future. In 2021, the number of total training hours exceeded 12 million.

Building Talent Pipeline The Company is well-known for its career development path—the "Bench Planning" — which enables most operation leaders to grow from within. Two signature programs—the KFC Business School and the Pizza Hut Management Institute—provide systematic training and development opportunities. A new college graduate can advance to RGMs in less than two years by participating in these programs and acquiring the operational, financial and managerial knowledge required for operating a restaurant. In the long run, the programs lay a solid foundation for their future success.

The Company offers a tailored and fast-tracked YUMC Management Trainee Program for fresh graduate trainees in its marketing and supply chain functions. Through job rotations and targeted trainings, they are offered an opportunity to gain a thorough understanding of the business and build a foundation for becoming industry-leading professionals.

Digitally-powered Training Platform Our training programs have tapped into the digitalization trends through the mobile learning platform, with the goal of equipping employees with the knowledge and skills necessary in the digital era and enabling their sustainable career development. The employees can easily access these training programs, even during the pandemic when face-to-face trainings may not be available.

Continuing Education Program The Company sponsors a continuing education program to help employees obtain college degrees. By the end of 2021, 3,800 employees were granted subsidies and achieved higher education degrees through our continuing education program. In addition, the Company also provides scholarships for eligible employees to achieve postgraduate degrees.

Total Rewards and Employee Benefits

The Company is committed to equal pay for equal work. Based on annual market research, it provides employees with fair and competitive compensation and benefits, recognizing and rewarding their contributions, performance and efforts.

In line with relevant labor laws and regulations, we provide full-time employees with pension insurance, medical insurance, unemployment insurance, work injury insurance and maternity insurance. Part-time employees are covered by employer liability insurance. Employees also enjoy paid leaves in accordance with labor laws.

The Company has launched equity incentive schemes such as CEO Awards and RGM Restricted Stock Units (RSUs). The scheme is part of Yum China's long-standing commitment to its RGM No. 1 corporate culture. The Company believes that its RGMs serve as the most important leaders and are key contributors to its long-term success. In 2016, Yum China announced a grant of RSUs valued at $2,000 to each qualified RGM. As of the end of 2021, this program has allowed more than 10,700 RGMs to become stockholders of Yum China. In addition, the Company granted RSUs valued at $3,000 to all eligible RGMs starting in February 2021, covering approximately 3,500 RGMs. The turnover rate of RGMs was 10.6% in 2021.

Recognizing the tremendous effort of our employees especially in navigating the COVID-19 pandemic, the Company upgraded the medical insurance coverage of its front-line employees. Medical insurance coverage for each eligible RGM was increased to RMB 1 million. Critical illness insurance was extended to service team leaders and coverage was increased for family members of both RGMs and other restaurant management team members. These enhanced benefits are expected to cover around 100,000 front-line employees and their family members.

For office staff, the Company expanded its flexible benefit platform in 2021 to cover more than 6,000 employees, allowing employees, based on their individual needs, to select benefits including family medical insurance, medical examination and recreational activities. Both office staff and RGMs are covered by the Company's housing subsidy scheme.

Health and Safety

The Company strictly complies with laws and regulations on safety and health. For activities imposing higher or distinct risks, the Company implements health and safety measures specifically formulated to protect employees against those risks. Yum China also incorporates compliance management, risk controls, inspections and supervisions in daily operations. The Company regularly inspects and upgrades employees' protective equipment, carries out workplace safety reviews, and trains all employees on the operation procedures and safety precautions.

The Company continues to place top priority on the health and safety of employees amid the fluid COVID-19 conditions. To further protect the health and safety of employees and customers, the Company encourages and rewards employees to get vaccinated against COVID-19.

In addition, Yum China's Employee Assistance Program ("EAP") continues to provide professional counseling and educational sessions to promote employees' physical and mental health. For example, by leveraging the EAP program, the Company was able to offer stress management tips to employees when they underwent quarantine during the pandemic.

Engagement and Wellbeing

The Top Employers Institute has certified the Company as a Top Employer China for the fourth consecutive year, with Yum China being the only restaurant company named among the top 20 employers.

The Company maintains multiple communication channels with employees, including organizational forums such as RGM Convention and Founders' Day. The Company also ensures effective communication of business strategies and corporate messages through various digital platforms such as corporate WeChat, Apps and intranet portals.

The Company complies with the Universal Declaration of Human Rights and the international conventions signed by the Chinese government to protect legitimate rights and interests of its employees. The Company strictly prohibits the use of child labor and forced labor. The Company deploys a comprehensive system that is built and renewed in accordance with labor laws and regulations, conducts regular internal and external audits from local labor authorities, as well as implements whistleblower policies to detect and deter violations of employees' rights.

Environmental Matters

We strive to reduce the environmental impact of our business activities and incorporate sustainability into the daily operations of our restaurants, focusing our effort on climate action, managing supply chain environmental impact, using sustainable packaging and waste management.

Climate Action

Climate action is a focus area for Yum China. We established a management system with specific goals and continuously leverage energy-saving technology to reduce electricity consumption and greenhouse gas ("GHG") emissions. We disclose the impacts of environmental risks and opportunities in our annual sustainability report and CDP questionnaires. In 2021, we announced our commitment to supporting the Paris Agreement by setting science-based emissions reduction targets in line with the Science Based Target initiative ("SBTi") criteria, and striving for net-zero value chain GHG emissions by 2050.

Supply Chain Environmental Impact

Building a sustainable supply chain is a key component of our sustainability strategy. We have set an ambitious goal to collaborate with our suppliers to achieve a zero-deforestation supply chain. By continuously strengthening the management of traceability in the upstream supply chain, we strive to promote sustainable sourcing of commodities, including our goal of sourcing 100% RSPO-certified palm oil and 100% FSC-certified paper packaging by 2025.

Sustainable Packaging

We continue to reduce packaging and waste from the source of use through the application of new packaging solutions, new materials, innovative technologies and various other methods. We are committed to ensuring that all customer facing, plastic-based packaging will be recyclable. We are working towards our target of a 30% reduction of non-degradable plastic packaging weight by 2025, as compared to a 2019 baseline.

Food Loss and Waste

We are working towards a goal of 10% reduction of food waste per restaurant by 2030, as compared to a 2020 baseline, through use of advanced technologies and innovative equipment. To reduce food waste, we continue to promote and extend our food bank project to more restaurants. With our pilot project on converting used cooking oil into biodiesel, we are committed to expanding this project to cover more restaurants.

Nutrition

We advocate a balanced diet and healthy eating habits through product innovation and other relevant measures. We have increased the offering of grains, fruits and vegetables, beans and nuts in our menus to create balanced food choices. In 2007, we partnered with the China Nutrition Society (CNS) to establish the China Nutrition Society (CNS)—Yum China Dietary Health Foundation. We cooperate with the China Foundation for Poverty Alleviation (CFPA) to encourage donations from the public to improve child nutrition in poor areas.

Information about our Executive Officers

The executive officers of the Company as of February 22, 2022, and their ages and current positions as of that date, are as follows:

Name	Age	Title
Joey Wat	50	Chief Executive Officer
Andy Yeung	49	Chief Financial Officer
Johnson Huang	59	General Manager, KFC
Jeff Kuai	41	General Manager, Pizza Hut
Leila Zhang	53	Chief Technology Officer
Joseph Chan	53	Chief Legal Officer
Aiken Yuen	62	Chief People Officer
Alice Wang	52	Chief Public Affairs Officer
Xueling Lu	48	Controller and Principal Accounting Officer

Joey Wat has served as our Chief Executive Officer since March 2018 and as a member of our board of directors since July 2017. She served as our President and Chief Operating Officer from February 2017 to February 2018 and the Chief Executive Officer, KFC from October 2016 to February 2017, a position she held at Yum! Restaurants China, from August 2015 to October 2016. Ms. Wat joined Yum! Restaurants China in September 2014 as President of KFC China and was promoted to Chief Executive Officer for KFC China in August 2015. Before joining YUM, Ms. Wat served in both management and strategy positions at A.S. Watson Group ("Watson"), an international health, beauty and lifestyle retailer, in the U.K. from 2004 to 2014. Her last position at Watson was managing director of Watson Health & Beauty U.K., which operates Superdrug and Savers, two retail chains specializing in the sale of pharmacy and health and beauty products, from 2012 to 2014. She made the transition from head of strategy of Watson in Europe to managing director of Savers in 2007. Before joining Watson, Ms. Wat spent seven years in management consulting including with McKinsey & Company's Hong Kong office from 2000 to 2003. Ms. Wat was ranked number 34 on Forbes World's Most Powerful Women list in 2020, named by FORTUNE magazine as one of the Top 25 China Most Powerful Women in Business in 2017, 2018 and 2020, and the Top 50 Most Powerful Women in International Business in 2018, 2019, 2020. She was also named to Business Insider 100 People Transforming Business Asia List in 2020.

Andy Yeung has served as our Chief Financial Officer since October 2019. Prior to joining Yum China, Mr. Yeung served as the chief financial officer of Smart Finance International Limited, a financial technology company, from April 2017 to August 2019. Between

January 2014 and March 2017, he served as the chief financial officer of Cheetah Mobile Inc., a NYSE-listed mobile internet company (NYSE: CMCM) where he led its successful IPO and built its finance, internal control and investor relations functions. From 2009 to 2013, Mr. Yeung worked at Oppenheimer & Co. Inc. as director, executive director and then managing director, responsible for research coverage of the internet and media sectors in China. From 2004 to 2009, Mr. Yeung was an associate in equity research at Thomas Weisel Partners. He has been a Chartered Financial Analyst charterholder since 2001.

Johnson Huang has served as General Manager, KFC since February 2017. He served as our Chief Information and Marketing Support Officer from October 2016 to February 2017, a position he held at Yum! Restaurants China from September 2014 to October 2016. Mr. Huang joined YUM in 2006 to lead the information technology department in China. He served as vice president of information technology from September 2008 to January 2013 and Chief Information Officer from January 2013 to September 2014. Mr. Huang has been the key architect of Yum! Restaurants China's digital strategy and information technology roadmap in China. Prior to joining YUM, Mr. Huang held various information technology and business leadership positions with Capgemini Asia Pacific Pte, Ltd. in Taiwan and the greater China region.

Jeff Kuai has served as the General Manager, Pizza Hut since November 2017. Mr. Kuai previously served as the General Manager, Pizza Hut Home Service from October 2016 to October 2017, a position he held at Yum! Restaurants China from January 2015 to October 2016. From March 2012 to August 2013, Mr. Kuai was Director of Delivery Support Center for Yum! Restaurants China, where he was instrumental in building its online ordering and e-commerce capabilities. Prior to that, Mr. Kuai spent nine years in the information technology department of Yum! Restaurants China, enhancing its information technology infrastructure and productivity.

Leila Zhang has served as the Chief Technology Officer of Yum China since March 2018. Ms. Zhang served as Vice President, Information Technology from October 2016 to March 2018, a position she held at Yum! Restaurants China from 2014 to October 2016. Ms. Zhang joined YUM in 1996, held various positions in the information technology department, and began leading the department in February 2017. Prior to joining YUM, Ms. Zhang was an engineer with Inventec Electronics (Shanghai) from 1992 to 1996.

Joseph Chan has served as our Chief Legal Officer since June 2019. Prior to joining Yum China, Mr. Chan was a partner at Sidley Austin, a U.S. based international law firm, in Shanghai, from November 2010 to May 2019, where he managed and executed large complex multi-jurisdictional legal matters with a focus on mergers and acquisitions and corporate finance transactions across a variety of industries. In addition, Mr. Chan spent over a decade with Pillsbury Winthrop Shaw Pittman, a U.S. based international law firm, in San Francisco and Shanghai, initially as an associate and then a partner. He established the Shanghai office of Pillsbury Winthrop Shaw Pittman in 2006 and served in various leadership positions, including serving as its inaugural managing partner. Mr. Chan is admitted to the bar in California and Pennsylvania in the U.S. and British Columbia in Canada. For many consecutive years he was ranked and recommended by Chambers Asia, IFLR and Legal 500 as a leading lawyer in Asia.

Aiken Yuen has served as the Chief People Officer of Yum China since March 2018. Mr. Yuen served as Vice President, Human Resources of Yum China from October 2016 to February 2018, a position he held at Yum! Restaurants China from March 2012 to October 2016. Mr. Yuen joined YUM in 2008 as the Talent Management and Development Director. Prior to joining YUM, Mr. Yuen served in senior HR management positions at American International Group ("AIG") in Hong Kong from 1998 to 2008. His last position at AIG was Vice President, Human Resources of AIA, AIG's life insurance business unit for South East Asia. He was responsible for overall human resources strategy formulation and execution for AIA's Head Office in Hong Kong and its operations in six Asian countries. Before that, he was the Senior Manager of Training and Development with Standard Chartered Bank from 1996 to 1998 and Manager of Management Training with HSBC from 1994 to 1996.

Alice Wang has served as the Chief Public Affairs Officer of Yum China since March 2018. Ms. Wang previously served as the Senior Vice President, Public Affairs of Yum China from March 2017 to February 2018 and as Vice President, Public Affairs from October 2016 to March 2017, a position she held at Yum! Restaurants China since she joined YUM in March 2015. Prior to joining YUM, Ms. Wang spent 22 years with Heinz China, a food products company, where she served as Vice President of Corporate Affairs, Greater China from August 2011 to February 2015.

Xueling Lu has served as Controller and Principal Accounting Officer of Yum China since January 2018. Ms. Lu previously served as Senior Director, Finance of Yum China, a position she held since she joined the Company in November 2016. Prior to joining the Company, Ms. Lu was the Asia Pacific Controller of Lear Corporation from 2013 to 2016. Before joining Lear Corporation, Ms. Lu spent 10 years in public accounting with Ernst & Young, specializing in audits and initial public offerings of companies listed in the U.S., SEC reporting and Sarbanes-Oxley compliance. Ms. Lu is a certified public accountant in California and a member of the American Institute of Certified Public Accountants.

Our History

Yum China was incorporated in Delaware on April 1, 2016. The Company separated from YUM on October 31, 2016 (the "separation"), becoming an independent, publicly traded company as a result of a pro rata distribution (the "distribution") of all outstanding shares of Yum China common stock to shareholders of YUM. On October 31, 2016, YUM's shareholders of record as of 5:00 p.m. Eastern Time on October 19, 2016 received one share of Yum China common stock for every one share of YUM common stock held as of the record date. Common stock of Yum China began trading "regular way" under the ticker symbol "YUMC" on the New York Stock Exchange on November 1, 2016. On September 10, 2020, the Company completed its secondary listing on the Main Board of the Hong Kong Stock Exchange ("HKEX") under the stock code "9987", in connection with a global offering (the "Global Offering") of shares of its common stock.

Government Regulation

The Company is subject to various laws affecting its business, including laws and regulations concerning cybersecurity, data privacy and security, labor, health, sanitation, environmental protection and safety. In accordance with the relevant laws and regulations in the PRC, we are required to obtain various approvals, licenses, permits, registrations and filings to operate our restaurant business, including the relevant food business license, environmental protection assessment and inspection registration or approval, and fire safety inspection acceptance approval or other alternatives. The Company has not historically been materially and adversely affected by such requirements or by any difficulty, delay or failure to obtain required approvals, licenses, permits, registrations or filings. The Company is also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment, as well as anti-bribery and corruption laws. Compliance with applicable laws and regulations has not had a material effect on the Company's capital expenditures, earnings and competitive position. However, we cannot predict the effect that the compliance with laws and regulations may have on our capital expenditures, earnings and competitive position in the future. See "Item 1A. Risk Factors" for a discussion of risks relating to federal, state, provincial, local and international governmental regulation of our business.

Regulations Relating to Dividend Distribution

The Chinese laws, rules and regulations applicable to our China subsidiaries permit payments of dividends only out of their accumulated profits, if any, determined in accordance with applicable accounting standards and regulations. In addition, under 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 China subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. At the discretion of their board of directors, as enterprises incorporated in China, our China subsidiaries may allocate a portion of their after-tax profits based on China accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Regulations Relating to Taxation

Enterprise Income Tax. Under the China Enterprise Income Tax Law (the "EIT Law") and its implementation rules, a China resident enterprise is subject to Chinese enterprise income tax in respect of its net taxable income derived from sources inside and outside China. The term "resident enterprise" refers to any enterprise established in China and any enterprise established outside China with a "de facto management body" within China.

Our China subsidiaries are regarded as China resident enterprises by virtue of their incorporation in China, and are generally subject to Chinese enterprise income tax on their worldwide income at the current uniform rate of 25%, unless reduced under certain specific qualifying criteria. Our China subsidiaries may deduct reasonable expenses that are actually incurred and are related to the generation of their income, including interest and other borrowing expenses, amortization of land use rights and depreciation of buildings and certain fixed assets, subject to any restrictions that may be imposed under the EIT Law, its implementation regulations and any applicable tax notices and circulars issued by the Chinese government or tax authorities.

Yum China and each subsidiary of Yum China that is organized outside of China intends to conduct its management functions in a manner that does not cause it to be a China resident enterprise, including by carrying on its day-to-day management activities and maintaining its key records, such as resolutions of its board of directors and resolutions of stockholders, outside of China. As such, we do not believe that Yum China or any of its non-Chinese subsidiaries should be considered a China resident enterprise for purposes of the EIT Law, and should not be subject to Chinese enterprise income tax on that basis. See "Item 1A. Risk Factors—Risks Related to Doing Business in China—Under the EIT Law, if we are classified as a China resident enterprise for Chinese enterprise income tax purposes, such classification would likely result in unfavorable tax consequences to us and our non-Chinese stockholders."

Value-Added Tax / Business Tax and Local Surcharges. Effective on May 1, 2016, a 6% value-added tax ("VAT") on output replaced the 5% business tax ("BT") that has historically been applied to certain restaurant sales under the China Provisional Regulations on Business Tax. Pursuant to Circular Caishui [2016] No. 36 jointly issued by the Ministry of Finance and the Chinese State Taxation Administration ("STA"), beginning May 1, 2016, any entity engaged in the provision of catering services in China is generally required to pay VAT at the rate of 6% on revenues generated from the provision of such services, less any creditable VAT already paid or borne by such entity upon purchase of materials and services. 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, primarily construction, transportation and leasing. However, the impact on our operating results is not expected to be significant. Local surcharges generally ranging from 7% to 13%, varying with the location of the relevant China subsidiary, are imposed on the amount of VAT payable.

Repatriation of Dividends from Our China Subsidiaries. Dividends (if any) paid by our China subsidiaries to their direct offshore parent company are subject to Chinese withholding income tax at the rate of 10%, provided that such dividends are not effectively connected with any establishment or place of the offshore parent company in China. The 10% withholding income tax rate may be reduced or exempted pursuant to the provisions of any applicable tax treaties or tax arrangements. Hong Kong has a tax arrangement with mainland China that provides for a 5% withholding tax on dividends upon meeting certain conditions and requirements, including, among others, that the Hong Kong resident enterprise directly owns at least 25% equity interests of the Chinese enterprise and is a "beneficial owner" of the dividends. We believe that our Hong Kong subsidiary, which is the equity holder of our Chinese subsidiaries, met the relevant requirements pursuant to the tax arrangement between mainland China and Hong Kong in 2018 and is expected to meet the requirements in subsequent years, thus, it is more likely than not that our dividends declared or earnings expected to be repatriated since 2018 are subject to the reduced withholding tax of 5%. However, if our Hong Kong subsidiary is not considered to be the "beneficial owner" of the dividends by the Chinese local tax authority, the withholding tax rate on dividends paid to it by our Chinese subsidiaries would be subject to a withholding tax rate of 10% with retrospective effect, which would increase our tax liability and reduce the amount of cash available to the Company. See "Item 1A. Risk Factors—Risks Related to Doing Business in China—We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries in China to fund offshore cash requirements."

Gains on Direct Disposal of Equity Interests in Our China Subsidiaries. Under the EIT Law and its implementation rules, gains derived by non-resident enterprises from the sale of equity interests in a China resident enterprise are subject to Chinese withholding income tax at the rate of 10%. The 10% withholding income tax rate may be reduced or exempted pursuant to applicable tax treaties or tax arrangements. The gains are computed based on the difference between the sales proceeds and the original investment basis. Stamp duty is also payable upon a direct transfer of equity interest in a China resident enterprise. The stamp duty is calculated at 0.05% on the transfer value, payable by each of the transferor and transferee. We may be subject to these taxes in the event of any future sale by us of a China resident enterprise.

Gains on Indirect Disposal of Equity Interests in Our China Subsidiaries. In February 2015, the STA issued the STA's Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises ("Bulletin 7"). Pursuant to Bulletin 7, an "indirect transfer" of Chinese taxable assets, including equity interests in a China resident enterprise ("Chinese interests"), by a non-resident enterprise, may be re-characterized and treated as a direct transfer of Chinese taxable assets, if such arrangement does not have reasonable commercial purpose and the transferor avoids payment of Chinese enterprise income tax. Where a non-resident enterprise conducts an "indirect transfer" of Chinese interests by disposing of equity interests in an offshore holding company, the transferor, transferee and/or the China resident enterprise being indirectly transferred may report such indirect transfer to the relevant Chinese tax authority, which may in turn report upward to the STA. Using general anti-tax avoidance provisions, the STA may treat such indirect transfer as a direct transfer of Chinese interests if the transfer avoids Chinese tax by way of an arrangement without reasonable commercial purpose. As a result, gains derived from such indirect transfer may be subject to Chinese enterprise income tax, and the transferee or other person who is obligated to pay for the transfer would be obligated to withhold the applicable taxes, currently at a rate of up to 10% of the capital gain in the case of an indirect transfer of equity interests in a China resident enterprise. Both the transferor and the party obligated to withhold the applicable taxes may be subject to penalties under Chinese tax laws if the transferor fails to pay the taxes and the party obligated to withhold the applicable taxes fails to withhold the taxes.

The above regulations do not apply if either (i) the selling non-resident enterprise recognizes the relevant gain by purchasing and selling equity of the same listed enterprise in the open market (the "listed enterprise exception"); or (ii) the selling non-resident enterprise would have been exempted from enterprise income tax in China pursuant to applicable tax treaties or tax arrangements, if it had directly held and transferred such Chinese interests that were indirectly transferred. The China indirect transfer rules do not apply to gains recognized by individual stockholders. However, in practice, there have been a few reported cases of individuals being taxed on the indirect transfer of Chinese interests and the law could be changed so as to apply to individual stockholders, possibly with retroactive effect. In addition, the PRC Individual Income Tax Law and relevant regulations ("IITL"), revised effective January 1, 2019, impose general anti-avoidance tax rules ("GAAR") on transactions conducted by individuals. As a result, if the China tax authority invokes the GAAR and deems that indirect transfers made by individual stockholders lack reasonable commercial purposes, any gains recognized on such transfers might be subject to individual income tax in China at the standard rate of 20%.

It is unclear whether Company stockholders that acquired Yum China stock through the distribution or the Global Offering (discussed under "—Our History") will be treated as acquiring Yum China stock in an open market purchase. If such acquisition of Yum China stock is not treated as acquired in an open market purchase, the listed transaction exception will not be available for transfers of such stock. We expect that transfers in open market transactions of our stock by corporate or other non-individual stockholders that have purchased our stock in open market transactions will not be taxable under the China indirect transfer rules due to the listed enterprise exception. Transfers, whether in the open market or otherwise, of our stock by corporate and other non-individual stockholders that acquired our stock in the distribution or the Global Offering or in non-open market transactions may be taxable under the China indirect transfer rules and our China subsidiaries may have filing obligations in respect of such transfers upon the request of relevant Chinese tax authorities. Transfers of our stock in non-open market transactions by corporate and other non-individual stockholders may be taxable under the China indirect transfer rules, whether or not such stock was acquired in open market transactions, and our China subsidiaries may have filing obligations in respect of such transfers upon the request of relevant China tax authorities. Corporate and other non-individual stockholders may be exempt from taxation under the Chinese indirect transfer rules with respect to transfers of our stock if they are tax resident in a country or region that has a tax treaty or arrangement with China that provides for a capital gains tax exemption and they qualify for that exemption.

Tax Cuts and Jobs Act (the "Tax Act"). In December 2017, the U.S. enacted the Tax Act, which included a broad range of tax reforms, including, but not limited to, the establishment of a flat corporate income tax rate of 21%, the elimination or reduction of certain business deductions, and the imposition of tax on deemed repatriation of accumulated undistributed foreign earnings. The Tax Act has impacted Yum China in two material aspects: (1) in general, all of the foreign-source dividends received by Yum China from its foreign subsidiaries will be exempted from taxation starting from the tax year beginning after December 31, 2017 and (2) Yum China recorded additional income tax expense in the fourth quarter of 2017, including an estimated one-time transition tax on its deemed repatriation of accumulated undistributed foreign earnings and additional tax related to the revaluation of certain deferred tax assets. The Tax Act also requires a U.S. shareholder to be subject to tax on Global Intangible Low Taxed Income ("GILTI") earned by certain foreign subsidiaries.

The U.S. Treasury Department and the Internal Revenue Services (the "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 additional income tax expense for the transition tax accordingly.

See "Item 1A. Risk Factors" for a discussion of risks relating to federal, state, local and international regulation relating to taxation of our business.

Available Information

For important news and information regarding Yum China, including our filings with the U.S. Securities and Exchange Commission (the "SEC") and the HKEX, visit Yum China's Investor Relations website at http://ir.yumchina.com. Yum China uses this website as a primary channel for disclosing key information to its investors, some of which may contain material and previously non-public information.

The Company makes available through the Investor Relations website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after electronically filing such material with the SEC. These reports may also be obtained by visiting the SEC's website at http://www.sec.gov.

The reference to the Company's website address and the SEC's website address is for informational purposes only, does not constitute incorporation by reference of the information contained on the websites and should not be considered part of this Form 10-K. These documents, as well as our SEC filings, are available in print free of charge to any stockholder who requests a copy from our Investor Relations Department by contacting Yum China at 7100 Corporate Drive, Plano, Texas 75024 United States of America, Attention: Investor Relations.

Item 1A. Risk Factors.

You should carefully consider each of the following risks, as well as the information included elsewhere in this report, before deciding to invest in our common stock or otherwise in connection with evaluating our business. Based on the information currently known to us, we believe that the following information identifies the most material risk factors affecting us in each of these categories of risk. However, additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business, financial condition or results of operations. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. If any of the following risks and uncertainties develops into actual events, these events could have a material adverse effect on our business, financial condition or results of operations. In such case, the trading price of our common stock could decline.

Summary of Risk Factors

We are exposed to a variety of risks, which have been separated into five general groups:

- Risks related to our business and industry, including (a) food safety and foodborne illness concerns, (b) significant failure to maintain effective quality assurance systems for our restaurants, (c) significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering, (d) health concerns arising from outbreaks of viruses or other illnesses, including the COVID-19 pandemic, (e) the fact that the operation of our restaurants is subject to the terms of the master license agreement with YUM, (f) the fact that substantially all of our revenue is derived from our operations in China, (g) the fact that our success is tied to the success of YUM's brand strength, marketing campaigns and product innovation, (h) shortages or interruptions in the availability and delivery of food products and other supplies, (i) fluctuation of raw materials prices, (j) our inability to attain our target development goals, the potential cannibalization of existing sales by aggressive development and the possibility that new restaurants will not be profitable, (k) risks associated with leasing real estate, (l) inability to obtain desirable restaurant locations on commercially reasonable terms, (m) labor shortages or increases in labor costs, (n) the fact that our success depends substantially on our corporate reputation and on the value and perception of our brands, (o) the occurrence of security breaches and cyber-attacks, (p) failure to protect the integrity and security of our customer or employee personal, financial or other data or our proprietary or confidential information that is stored in our information systems or by third parties on our behalf, (q) failures or interruptions of service or security breaches in our information technology systems, (r) the fact that our business depends on the performance of, and our long-term relationships with, third-party mobile payment processors, internet infrastructure operators, internet service providers and delivery aggregators, (s) failure to provide timely and reliable delivery services by our restaurants, (t) our growth strategy with respect to Lavazza and COFFii & JOY may not be successful, (u) the anticipated benefits of our acquisitions may not be realized in a timely manner or at all, (v) challenges and risks related to our new retail and e-commerce businesses, (w) our inability or failure to recognize, respond to and effectively manage the impact of social media, (x) failure to comply with anti-bribery or anti-corruption laws, (y) U.S. federal income taxes, changes in tax rates, disagreements with tax authorities and imposition of new taxes, (z) changes in consumer discretionary spending and general economic conditions, (aa) the fact that the restaurant industry in which we operate is highly competitive, (bb) loss of or failure to obtain or renew any or all of the approvals, licenses and permits to operate our business, (cc) our inability to adequately protect the intellectual property we own or have the right to use, (dd) our licensor's failure to protect its intellectual property, (ee) seasonality and certain major events in China, (ff) our failure to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties, (gg) the fact that our success depends on the continuing efforts of our key management and experienced and capable personnel as well as our ability to recruit new talent, (hh) our strategic investments or acquisitions may be unsuccessful; (ii) our investment in technology and innovation may not generate the expected level of returns, (jj) fair value changes for our investment in equity securities and lower yields of our short-term investments may adversely affect our financial condition and results of operations, and (kk) our operating results may be adversely affected by our investment in unconsolidated affiliates;

- Risks related to doing business in China, including (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) the audit report included in this annual report on Form 10-K is prepared by auditors who are not currently inspected by the Public Company Accounting Oversight Board and, as such, our stockholders are deprived of the benefits of such inspection and our common stock is subject to the risk of delisting from the New York Stock Exchange in the future, (d) changes in political, business, economic and trade relations between the United States and China, (e) fluctuation in the value of the Chinese Renminbi, (f) the fact that we face increasing focus on environmental sustainability issues, (g) limitations on our ability to utilize our cash balances effectively due to governmental control of currency conversion and payments of foreign currency and the Chinese Renminbi out of mainland China, (h) changes in the laws and regulations of China or noncompliance with applicable laws and regulations, (i) reliance on dividends and other distributions on equity paid by our principal subsidiaries in China to fund offshore cash requirements, (j) potential unfavorable tax consequences resulting from our classification as a China resident enterprise for Chinese enterprise income tax purposes, (k) uncertainty regarding indirect transfers of equity interests in China resident enterprises and enhanced scrutiny by Chinese tax authorities, (l) difficulties in effecting service of legal process, conducting investigations, collecting evidence, enforcing foreign judgments or bringing original actions in China against us, (m) the Chinese government may determine that the variable interest entity structure of Daojia does not comply with Chinese laws on foreign investment in restricted industries, (n) inability to use properties due to defects caused by non-registration of lease agreements related to certain properties, (o) risk in relation to unexpected land acquisitions, building closures or demolitions, (p) potential fines and other legal or administrative sanctions for failure to comply with Chinese regulations regarding our employee equity incentive plans and various employee benefit plans, (q) proceedings instituted by the SEC against certain China-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act, (r) restrictions on our ability to make loans or additional capital contributions to our Chinese subsidiaries due to Chinese regulation of loans to, and direct investment in, Chinese entities by offshore holding companies and governmental control of currency conversion, and (s) difficulties in pursuing growth through acquisitions due to regulations regarding acquisitions;

- Risks related to the separation and related transactions, including (a) incurring significant tax liabilities if the distribution does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes and the Company could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement, (b) being obligated to indemnify YUM for material taxes and related amounts pursuant to indemnification obligations under the tax matters agreement if YUM is subject to Chinese indirect transfer tax with respect to the distribution, (c) potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement, (d) the indemnity provided by YUM to us with respect to certain liabilities in connection with the separation may be insufficient to insure us against the full amount of such liabilities, (e) the possibility that a court would require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement, and (f) potential liabilities due to fraudulent transfer considerations;

- Risks related to our common stock, including (a) the fact that we cannot guarantee the timing or amount of dividends on, or repurchases of, our common stock, (b) the impact on the trading prices of our common stock due to different characteristics of the capital markets in Hong Kong and the U.S., (c) different interests between Primavera and Ant Financial and other holders of our common stock, and (d) the existence of anti-takeover provisions that may discourage or delay acquisition attempts that you might consider favorable; and

- General risk factors.

Risks Related to Our Business and Industry

Food safety and foodborne illness concerns may have an adverse effect on our reputation and business.

Foodborne illnesses, such as E. coli, hepatitis A and salmonella, have occurred and may re-occur within our system from time to time. In addition, food safety issues such as food tampering, contamination and adulteration occur or may occur within our system from time to time. Any report or publicity linking us, our competitors, our restaurants, including restaurants operated by us or our franchisees, to instances of foodborne illness or food safety issues could adversely affect our restaurants' brands and reputations as well as our revenues and profits and possibly lead to product liability claims, litigation and damages. If a customer of our restaurants becomes ill from foodborne illnesses or as a result of food safety issues, restaurants in our system may be temporarily closed, which would decrease our revenues. In addition, instances or allegations of foodborne illness or food safety issues, real or perceived, involving our or YUM's restaurants, restaurants of competitors, or suppliers or distributors (regardless of whether we use or have used those suppliers or distributors), or otherwise involving the types of food served at our restaurants, could result in negative publicity that could adversely affect our sales. The occurrence of foodborne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, which could result in disruptions in our supply chain and/or lower margins for us and our franchisees.

In October 2019, China's State Council amended the Regulation for the Implementation of the Food Safety Law (the "Regulation of Food Safety Law"), which became effective on December 1, 2019. The Regulation of Food Safety Law outlines detailed rules for food safety assessment, food safety standards, food production and food business, food inspection and other matters. Pursuant to the Regulation of Food Safety Law, certain violations of the food safety law may result in severe administrative and criminal penalties imposed on the Company, as well as its legal representatives, senior management members and other employees. If penalties are imposed on our senior management members, they may be prevented from performing their duties at the Company, which could in turn negatively affect our business operations. Such penalties could also have a material adverse impact on the Company's reputation.

Any significant failure to maintain effective quality assurance systems for our restaurants could have a material adverse effect on our business, reputation, results of operations and financial condition.

The quality and safety of the food we serve is critical to our success. Maintaining consistent food quality depends significantly on the effectiveness of our and our franchisees' quality assurance systems, which in turn depends on a number of factors, including the design of our quality control systems and employee implementation and compliance with those quality control policies and guidelines. Our quality assurance systems include, but are not limited to, supplier/food processing plant quality assurance, logistics quality assurance, and restaurant quality assurance. There can be no assurance that our and our franchisees' quality assurance systems will prove to be effective. Any significant failure of or deviation from these quality assurance systems could have a material adverse effect on our business, reputation, results of operations and financial condition.

Any significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering could adversely affect our business, reputation, results of operations and financial condition.

Being in the restaurant industry, we face an inherent risk of food contamination and liability claims. Our food quality depends partly on the quality of the food ingredients and raw materials provided by our suppliers, and we may not be able to detect all defects in our supplies. Any food contamination occurring in raw materials at our suppliers' food processing plants or during the transportation from food processing plants to our restaurants that we fail to detect or prevent could adversely affect the quality of the food served in our restaurants. Due to the scale of our and our franchisees' operations, we also face the risk that certain of our and our franchisees' employees may not adhere to our mandated quality procedures and requirements. Any failure to detect defective food supplies, or observe proper hygiene, cleanliness and other quality control requirements or standards in our operations could adversely affect the quality of the food we offer at our restaurants, which could lead to liability claims, complaints and related adverse publicity, reduced customer traffic at our restaurants, the imposition of penalties against us or our franchisees by relevant authorities and compensation awards by courts. Our sales have been significantly impacted by adverse publicity relating to supplier actions over the past decade. For example, our sales and perception of our brands were significantly impacted following adverse publicity relating to the failure of certain upstream poultry suppliers to meet our standards in late 2012 as well as adverse publicity relating to improper food handling practices by another supplier in mid-2014. There can be no assurance that similar incidents will not occur again in the future or that we will not receive any food contamination claims or defective products from our suppliers in the future. Any such incidents could materially harm our business, reputation, results of operations and financial condition.

Health concerns arising from outbreaks of viruses or other illnesses may have a material adverse effect on our business. The COVID-19 pandemic has had, and may continue to have, adverse effects on our results of operations, cash flows and financial condition.

Our business could be materially and adversely affected by the outbreak of a widespread health epidemic, such as 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 in China 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 the ability to adequately staff restaurants. An outbreak could also cause disruption in our supply chain, increase our raw material costs, increase operational complexity and adversely impact our ability 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 as a result of taking precautionary measures to protect the health and wellbeing of our customers and employees during an outbreak. If an outbreak reaches pandemic levels, there may also be long-term effects on the economies of affected countries. Any of the foregoing within China 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, starting in the first quarter of 2020, the COVID-19 pandemic significantly impacted the Company's operations, resulting in a significant decline in Operating profit mainly driven by same-store sales declines and temporary store closures. At the peak of the COVID-19 outbreak in China in 2020, 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. Our operations and financial results of second half of 2021 were also significantly affected by multiple waves of Delta-variant outbreaks, spreading to nearly all provinces in China. In January 2022, cases of the Omicron variant emerged in China, spreading to major cities including Beijing, Shanghai, Tianjin and Shenzhen. A lockdown in Xi'an, which started in December, lasted nearly the whole month of January. A number of regions were identified as medium to high risk with restrictive measures put in place. At the peak in January, over 500 of our stores were temporarily closed or offered only takeaway and delivery services, compared to nearly 300 stores in the fourth quarter. Many provinces have measures discouraging travel during the Chinese New Year holiday in 2022, which is one of the most important trading periods in the year. Comparing to 2021, same-store sales in the comparable Chinese New Year holiday period in 2022 declined year over year.

We expect that our operations will continue to be impacted by the COVID-19 pandemic, including outbreaks caused by existing or new COVID-19 variants and the actions taken by governmental authorities, such as regional lockdowns, measures restricting travel and large gatherings, and recommendations against dining out. 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 after the pandemic subsides. 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 resurgences and further spread of existing or new COVID-19 variants, the actions by the government authorities to contain the pandemic or treat its impact, the availability and effectiveness of vaccines, the economic recovery within China and globally, the impact on consumer behavior and other related factors. Our insurance policy does not 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 this report, 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.

The operation of our restaurants is subject to the terms of the master license agreement which, if terminated or limited, would materially adversely affect our business, results of operations and financial condition.

Under the master license agreement with YUM, we are required to meet a Sales Growth Metric, which requires the average annual Gross Revenue (as defined in the master license agreement) for each of the KFC, Pizza Hut and Taco Bell brands for each rolling five (5) calendar year period throughout the term of the master license agreement ("Measurement Period"), beginning January 1, 2017, to exceed the annual Gross Revenue of the calendar year immediately preceding the corresponding Measurement Period ("Benchmark Year"). To illustrate, the first Measurement Period is January 1, 2017 through December 31, 2021 (corresponding to the first Benchmark Year of January 1, 2016 through December 31,

2016) and the second Measurement Period is January 1, 2018 through December 31, 2022 (corresponding to the second Benchmark Year of January 1, 2017 through December 31, 2017).

The requirement regarding the Sales Growth Metric began at the end of the first Measurement Period on December 31, 2021. Within 60 days after the beginning of each calendar year following December 31, 2021, and during the term of the master license agreement, we are required to provide to YUM a written statement with the calculations of the Sales Growth Metric. If our calculations indicate that any of these restaurant brands failed to meet the Sales Growth Metric (an “SGM Breach”), there is a mechanism under the master license agreement for us to explain and remediate such breach in good faith. YUM has the right to terminate the master license agreement in the event of an SGM Breach. In the event of two consecutive SGM Breaches for KFC, Pizza Hut or Taco Bell, YUM shall be entitled to exercise its right to eliminate or modify the exclusivity of the license granted to us and conduct and further develop the relevant restaurant brand in our licensed territory or license one or more third parties to do so.

The master license agreement may also be terminated upon the occurrence of certain events, such as our insolvency or bankruptcy. We have not experienced any material breach of the master license agreement, and we actively monitor our compliance with the terms of the master license agreement on an on-going basis. Under the master license agreement, we will have the right to cure any breach of the agreement, except for the dissolution, liquidation, insolvency or bankruptcy of the Company or upon the occurrence of an unauthorized transfer or change of control or other breach that YUM determines will not or cannot be cured. Upon the occurrence of a non-curable breach, YUM will have the right to terminate the master license agreement (or our rights to a particular brand) on delivery of written notice. Upon the occurrence of a curable breach, YUM will provide a notice of breach that sets forth a cure period that is reasonably tailored to the applicable breach. If we do not cure the breach, YUM will have the right to terminate the master license agreement (or our rights to a particular brand). The master license agreement also contemplates remedies other than termination that YUM may use as appropriate. These remedies include: actions for injunctive and/or declaratory relief (including specific performance) and/or damages; limitations on our future development rights or suspension of restaurant operations pending a cure; modification or elimination of our territorial exclusivity; and YUM’s right to repurchase from us the business operated under an affected brand at fair market value, less YUM’s damages. If the master license agreement were terminated, or any of our license rights were limited, our business, results of operations and financial condition would be materially adversely affected.

We derive substantially all of our revenue from our operations in China and, as a result, our business is highly exposed to the risks of doing business in China.

Virtually all of our restaurants are located, and our revenues and profits originate, in China. As a consequence, our financial results are dependent on our results in China, and our business is highly exposed to all of the risks of doing business there. These risks are described further under the section “Risks Related to Doing Business in China.”

Our success is tied to the success of YUM’s brand strength, marketing campaigns and product innovation.

The KFC, Pizza Hut and Taco Bell trademarks and related intellectual property are owned by YUM and licensed to us in China, excluding Hong Kong, Macau and Taiwan. The value of these marks depends on the enforcement of YUM’s trademark and intellectual property rights, as well as the strength of YUM’s brands. Due to the nature of licensing and our agreements with YUM, our success is, to a large extent, directly related to the success of the YUM brand strength, including the management, marketing and product innovation success of YUM. Further, if YUM were to reallocate resources away from the KFC, Pizza Hut or Taco Bell brands, these brands and the license rights that have been granted to us could be harmed globally or regionally, which could have a material adverse effect on our results of operations and our competitiveness in China. In addition, strategic decisions made by YUM management related to its brands, marketing and restaurant systems may not be in our best interests and may conflict with our strategic plans.

Shortages or interruptions in the availability and delivery of food products and other supplies may increase costs or reduce revenues.

The products used in the operation of our restaurants are sourced from a wide variety of suppliers inside and outside of China. We are also dependent upon third parties to make frequent deliveries of food products and other supplies that meet our specifications at competitive prices. Shortages or interruptions in the supply of food products and other supplies to our restaurants could adversely affect the availability, quality and cost of items we use and the operations of our restaurants. Such shortages or disruptions could be caused by inclement weather, natural disasters such as floods, drought and hurricanes, increased demand, labor shortages, problems in production or distribution, restrictions on imports or exports, government levies, political instability in the countries in which suppliers and distributors are located, the financial instability of suppliers and distributors, suppliers' or distributors' failure to meet our standards, product quality issues, inflation, other factors relating to the suppliers and distributors and the countries in which they are located, food safety warnings or advisories or the prospect of such pronouncements or other conditions beyond our control. Despite our efforts in developing multiple suppliers for the same items where and when possible, a shortage or interruption in the availability of certain food products or supplies could still increase costs and limit the availability of products critical to restaurant operations, which in turn could lead to restaurant closures and/or a decrease in sales. In addition, failure by a principal supplier or distributor for us and/or our franchisees to meet its service requirements could lead to a disruption of service or supply until a new supplier or distributor is engaged, and any disruption could have an adverse effect on our business.

In addition, we centrally purchase the vast majority of food and paper products, then sell and deliver them to most of our restaurants. We believe this central procurement model allows us to maintain quality control and achieve better prices and terms through volume purchases. However, we may not be able to accurately estimate the demand from franchisees and unconsolidated affiliates, which may result in excessive inventory. We may also not be able to timely collect payments from franchisees and unconsolidated affiliates, which could have a material adverse effect on our business, results of operations and financial condition.

The prices of raw materials fluctuate, which may adversely impact our profit margin.

Our restaurant business depends on reliable sources of large quantities of raw materials such as protein (including poultry, pork, beef and seafood), cheese, oil, flour and vegetables (including potatoes and lettuce). Our raw materials are subject to price volatility caused by any fluctuation in aggregate supply and demand, or other external conditions, such as changes in international trade policies and international barriers to trade, the emergence of a trade war, climate and environmental conditions where weather conditions or natural events or disasters may affect expected harvests of such raw materials, as well as outbreak of viruses and diseases. For example, in 2019, the price of protein, including poultry, increased significantly in China as a result of the African swine flu. We cannot assure you that we will continue to purchase raw materials at reasonable prices, or that our raw materials prices will remain stable in the future. In addition, because we and our franchisees provide competitively priced food, our ability to pass along commodity price increases to our customers is limited. If we are unable to manage the cost of our raw materials or to increase the prices of our products, it may have an adverse impact on our future profit margin.

We may not attain our target development goals; aggressive development could cannibalize existing sales; and new restaurants may not be profitable.

Our growth strategy depends on our ability to build new restaurants in China. We are accelerating our store network expansion to reach our 20,000 store milestone. The successful development of new units depends in large part on our ability to open new restaurants and to operate these restaurants profitably. We cannot guarantee that we, or our franchisees, will be able to achieve our expansion goals or that new restaurants will be operated profitably.

Further, there is no assurance that any new restaurant will produce operating results similar to those of our existing restaurants. Other risks which could impact our ability to increase the number of our restaurants include prevailing economic conditions and our or our franchisees' ability to obtain suitable restaurant locations, negotiate acceptable lease or purchase terms for the locations, obtain required permits and approvals in a timely manner, hire and train qualified restaurant crews and meet construction schedules.

In addition, the new restaurants could impact the sales of our existing restaurants nearby. There can be no assurance that sales cannibalization will not occur or become more significant in the future as we increase our presence in existing markets in China.

Our growth strategy includes expanding our ownership and operation of restaurant units through organic growth by developing new restaurants that meet our investment objectives. We may not be able to achieve our growth objectives, and these new restaurants may not be profitable. The opening and success of new restaurants depends on various factors, including:

- our ability to obtain or self-fund adequate development financing;
- competition in current and future markets;
- our degree of penetration in existing markets;
- the identification and availability of suitable and economically viable locations;
- sales and margin levels at existing restaurants;
- the negotiation of acceptable lease or purchase terms for new locations;
- regulatory compliance regarding restaurant opening and operation;
- the ability to meet construction schedules;
- our ability to hire and retain qualified restaurant crews; and
- general economic and business conditions.

We are subject to all of the risks associated with leasing real estate, and any adverse developments could harm our business, results of operations and financial condition.

As a significant number of our restaurants are operating on leased properties, we are exposed to retail rental market conditions. As of year-end 2021, we leased approximately 10,000 properties in China for our Company-owned restaurants. For information regarding our leased properties, please refer to Item 2. "Properties." Accordingly, we are subject to all of the risks generally associated with leasing real estate, including changes in the investment climate for real estate, demographic trends, trade zone shifts, central business district relocations, and supply or demand for the use of the restaurants, as well as potential liability for environmental contamination.

We generally enter into lease agreements with initial terms of 10 to 20 years. Approximately 8% of our existing lease agreements expire before the end of 2022. Most of our lease agreements contain an early termination clause that permits us to terminate the lease agreement early if the restaurant's unit contribution is negative for a specified period of time. We generally do not have renewal options for our leases and need to negotiate the terms of renewal with the lessor, who may insist on a significant modification to the terms and conditions of the lease agreement.

The rent under the majority of our current restaurant lease agreements is generally payable in one of three ways: (i) fixed rent; (ii) the higher of a fixed base rent or a percentage of the restaurant's annual sales revenue; or (iii) a percentage of the restaurant's annual sales revenue. In addition to increases in rent resulting from fluctuations in annual sales revenue, certain of our lease agreements include provisions specifying fixed increases in rental payments over the respective terms of the lease agreements. While these provisions have been negotiated and are specified in the lease agreement, they will increase our costs of operation and therefore may materially and adversely affect our results of operation and financial condition if we are not able to pass on the increased costs to our customers. Certain of our lease agreements also provide for the payment of a management fee at either a fixed rate or fixed amount per square meter of the relevant leased property.

Where we do not have an option to renew a lease agreement, we must negotiate the terms of renewal with the lessor, who may insist on a significant modification to the terms and conditions of the lease agreement. If a lease agreement is renewed at a rate substantially higher than the existing rate, or if any existing favorable terms granted by the lessor are not extended, we must determine whether it is desirable to renew on such modified terms. If we are unable to renew leases for our restaurant sites on acceptable terms or at all, we will have to close or relocate the relevant restaurants, which would eliminate the sales that those restaurants would have contributed to our revenues during the period of closure, and could subject us to construction, renovation and other costs and risks. In addition, the revenue and any profit generated after relocation may be less than the revenue and profit previously generated before such relocation. As a result, any inability to obtain leases for desirable restaurant locations or renew existing leases on commercially reasonable terms could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to obtain desirable restaurant locations on commercially reasonable terms.

We compete with other retailers and restaurants for suitable locations, and the market for retail premises is very competitive in China. Our competitors may negotiate more favorable lease terms than our lease terms, and some landlords and developers may offer priority or grant exclusivity to some of our competitors for desirable locations for various reasons beyond our control. We cannot provide assurance that we will be able to enter into new lease agreements for prime locations on commercially reasonable terms, if at all. If we cannot obtain desirable restaurant locations on commercially reasonable terms, our business, results of operations and ability to implement our growth strategy may be materially and adversely affected.

Labor shortages or increases in labor costs could slow our growth and harm our business and results of operations.

Restaurant operations are highly service-oriented, and our success depends in part upon our ability to attract, retain and motivate a sufficient number of qualified employees, including restaurant managers, and other crew members. The market for qualified employees in our industry is very competitive. Any future inability to recruit and retain qualified individuals may delay the planned openings of new restaurants and could adversely impact our existing restaurants. Any such delays, material increases in employee turnover rate in existing restaurants or widespread employee dissatisfaction could have a material adverse effect on our business and results of operations. Competition for qualified employees could also compel us to pay higher wages to attract or retain key crew members, which could result in higher labor costs.

The Chinese Labor Contract Law that became effective on January 1, 2008 and amended on December 28, 2012 formalizes workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions, and provides for specific standards and procedures for employees' protection. Moreover, minimum wage requirements in China have increased and could continue to increase our labor costs in the future. The salary level of employees in the restaurant industry in China has been increasing in the past several years. We may not be able to increase our product prices enough to pass these increased labor costs on to our customers, in which case our business and results of operations would be materially and adversely affected.

In addition, our delivery business requires a large number of riders, which are either contracted with us or the aggregators' platforms to deliver orders exclusively for KFC or Pizza Hut stores. A shortage of riders could disrupt our delivery business and result in higher rider costs. Furthermore, an increase in the rates charged by the third-party rider companies could also result in higher delivery costs. Recent guidelines issued by regulatory authorities increased protection on rider safety and welfare, and the cost to comply with such requirements could be passed on to us.

Our success depends substantially on our corporate reputation and on the value and perception of our brands.

One of our primary assets is the exclusive right to use the KFC, Pizza Hut and Taco Bell trademarks in restaurants in China. Our success depends in large part upon our ability and our franchisees' ability to maintain and enhance the value of these brands and our customers' loyalty to these brands in China. Brand value is based in part on consumer perceptions on a variety of subjective qualities. Business incidents, whether isolated or recurring, and whether originating from us, our franchisees, competitors, suppliers and distributors or YUM and its other licensees or franchisees, competitors, suppliers and distributors outside China can significantly reduce brand value and consumer trust, particularly if the incidents receive considerable publicity or result in litigation. For example, our brands could be damaged by claims or perceptions about the quality or safety of our products or the quality of our suppliers and distributors, regardless of whether such claims or perceptions are true. Any such incidents (even if resulting from the actions of a competitor) could cause a decline directly or indirectly in consumer confidence in, or the perception of, our brands and/or our products and reduce consumer demand for our products, which would likely result in lower revenues and profits. Additionally, our corporate reputation could suffer from a real or perceived failure of corporate governance or misconduct by a company officer, employee or representative.

The occurrence of security breaches and cyber-attacks could negatively impact our business.

Technology systems, including our mobile or online platforms, mobile payment and ordering systems, loyalty programs and various other online processes and functions, are critical to our business and operations. For example, as of year-end 2021, KFC had over 330 million loyalty program members and Pizza Hut had approximately 110 million. KFC member sales represented approximately 62% of KFC's system sales and Pizza Hut member sales represented approximately 55% of Pizza Hut's system sales in 2021. Digital orders accounted for 86% of KFC and Pizza Hut Company sales in 2021. As we continue to expand our digital initiatives, the risks relating to security breaches and cyber-attacks against our systems, both internal and those we have outsourced, may increase.

Because of our brand recognition in China, we are consistently subject to attempts to compromise our security and information systems, including denial of service attacks, viruses, malicious software or ransomware, and exploitations of system flaws or weaknesses. Error or malfeasance or other irregularities may also result in the failure of our or our third-party service providers' cybersecurity measures and may give rise to a cyber incident. The techniques used to conduct security breaches and cyber-attacks, as well as the sources and targets of these attacks, change frequently and may not be recognized until launched against us or our third-party service providers. We or our third-party service providers may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. We have in the past and are likely again in the future to be subject to these types of attacks, although to date no attack has resulted in any material damages or remediation costs. The primary risks that could directly result from the occurrence of a cyber incident include operational interruption, misappropriation of company information or private data, deletion or modification of user information, damage to our relationships with customers, franchisees and employees, and damage to our reputation. If we or our third-party service providers are unable to avert security breaches and cyber-attacks, we could incur significantly higher costs, including remediation costs to repair damage caused by the breach (including business incentives to make amends with affected customers and franchisees), costs to deploy additional personnel and network protection technologies, train employees and engage third-party experts and consultants, as well as litigation costs resulting from the incident. These costs, which could be material, could adversely impact our results of operations in the period in which they are incurred and may not meaningfully limit the success of future attempts to breach our information technology systems.

Unauthorized access to, or improper use, disclosure, theft or destruction 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 could result in substantial costs, expose us to litigation and damage our reputation.

We have been using, and plan to continue to use, digital technologies to improve the customer experience and drive sales growth. We, directly or indirectly, receive and maintain certain personal, financial and other information about our customers in various information systems that we maintain and in those maintained by third-party service providers when, for example, receiving orders through mobile or online platforms, accepting digital payments, operating loyalty programs and conducting digital marketing programs. Our information technology systems, such as those we use for administrative functions, including human resources, payroll, accounting and internal and external communications, can contain personal, financial or other information of our over 450,000 employees. We also maintain important proprietary and other confidential information related to our operations and identifiable information about our franchisees. As a result, we face risks inherent in handling and protecting large volumes of information.

If our security and information systems or the security and information systems of third-party service providers are compromised for any reason, including as a result of data corruption or loss, security breach, cyber-attack or other external or internal methods, or if our employees, franchisees or service providers fail to comply with laws, regulations and practice standards, and this information is obtained by unauthorized persons, used or disclosed inappropriately or destroyed, it could subject us to litigation and government enforcement actions, cause us to incur substantial costs, liabilities and penalties and/or result in a loss of customer confidence, any and all of which could adversely affect our business, reputation, ability to attract new customers, results of operations and financial condition.

In addition, the use and handling of this information is regulated by evolving and increasingly demanding laws and regulations. The Chinese government has focused increasingly on regulation in the areas of information security and protection, including by implementing the PRC Cybersecurity Law effective June 1, 2017, which imposes tightened requirements on data privacy and cybersecurity practices. There are uncertainties with respect to the application of the cybersecurity law in certain circumstances. In addition, the PRC Data Security Law, which took effect on September 1, 2021, imposes data security and privacy obligations on entities and individuals carrying out data activities (including activities outside of the PRC), requires a national security review of data activities that may affect national security, and imposes restrictions on data transmissions. Furthermore, the PRC Personal Information Protection Law, which took effect on November 1, 2021, sets out the regulatory framework for handling and protection of personal information and transmission of personal information, and many specific requirements of the law remain to be clarified by the Cyberspace Administration of China and other regulatory authorities. Compliance with these laws, as well as additional regulations and standards regarding data privacy, data collection and information security that PRC regulatory bodies may enact in the future, may result in additional expenses to us as we may be required to upgrade our current information technology systems. Furthermore, as a result of legislative and regulatory rules, we may be required to notify the owners of information of any breach, theft or loss of their information, which could harm our reputation, as well as subject us to litigation or actions by regulatory bodies and adversely affect our financial results.

We expect that cybersecurity, data privacy and security will continue to be a focus of regulators, as well as attract continued or greater public scrutiny and attention going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with information security and protection. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business, shutdown of websites and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

Our operations are highly dependent upon our information technology systems and any failures or interruptions of service or security breaches in our systems may interrupt our operations and harm our business.

Our operations are dependent upon the successful and uninterrupted functioning of our computer and information technology systems. We rely heavily on information technology systems across our operations, including those we use for finance and accounting functions, supply chain management, point-of-sale processing, online and mobile platforms, mobile payment processing, loyalty programs and various other processes and functions, and many of these systems are interdependent on one another for their functionality. Additionally, the success of several of our initiatives to drive growth, including our priority to expand digital engagement with our customers, is highly dependent on the reliability, availability, integrity, scalability and capacity of our information technology systems. We also rely on third-party providers and platforms for some of these information technology systems and support.

Our operational safeguards may not be effective in preventing the failure of these systems to operate effectively and be continuously available to run our business. Such failures may be caused by various factors, including fire, natural disaster, power loss, telecommunications failure, problems with transitioning to upgraded or replacement systems, physical break-ins, programming errors, flaws in third-party software or services, disruptions or service failures of technology infrastructure facilities, such as storage servers, provided by third parties, errors or malfeasance by our employees or third-party service providers or breaches in the security of these systems or platforms, including unauthorized entry and computer viruses. We cannot assure you that we will resolve these system failures and restore our systems and operations in an effective and timely manner. Such system failures and any delayed restore process could result in:

- additional computer and information security and systems development costs;
- diversion of technical and other resources;
- loss of customers and sales;
- loss or theft of customer, employee or other data;
- negative publicity;
- harm to our business and reputation;
- negative impact on the availability and the efficiency of our restaurant operations; and
- exposure to litigation claims, government investigations and enforcement actions, fraud losses or other liabilities.

We will continue to upgrade and improve our information technology systems to support our business growth. However, we cannot assure you that we will be successful in executing these system upgrades and improvement strategies and the foregoing risks could intensify while we execute those upgrades and improvements. In particular, our systems may experience interruptions during upgrades, and the new technologies or infrastructures may not be fully integrated with the existing systems on a timely basis, or at all. If we are unsuccessful in upgrading and improving our systems, our ability to increase comparable store sales, improve operations, implement cost controls and grow our business may be constrained.

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.

Digital payments, including mobile payments, accounted for approximately 98% of Yum China Company sales in 2021. The ability to accept mobile payments is critical to our business. We accept payments through third-party mobile payment processors, such as WeChat Pay, Alipay and Union Pay. We also developed and launched YUMC Pay in the first quarter of 2019, in partnership with Union Pay, which offers a convenient payment option for users within a single App. If we fail to extend or renew the agreements with these mobile payment processors on acceptable terms, if these mobile payment processors are unwilling or unable to provide us with payment processing service or impose onerous requirements on us in order to access their services, or if they increase the fees they charge us for these services, our business and results of operations could be harmed.

Our business depends on the performance and reliability of the internet infrastructure in China. Almost all access to the internet in China is maintained through state-owned telecommunications operators under administrative control, and we obtain access to end-user networks operated by such telecommunications operators and internet service providers to give customers access to our websites. The satisfactory performance, availability and reliability of our websites, online platforms and Apps depends on telecommunications operators and other third-party providers for communications and storage capacity, including bandwidth and server storage, among other things. If we are unable to enter into and renew agreements with these providers on acceptable terms, if any of our existing agreements with such providers are terminated as a result of our breach or otherwise, or if these providers experience problems with the functionality and effectiveness of their systems or platforms, our ability to provide our services to our customers could be adversely affected. The failure of telecommunications operators to provide us with the requisite bandwidth could also interfere with the speed and availability of our websites and Apps. Frequent interruptions could frustrate customers and discourage them from attempting to place orders, which could cause us to lose customers and harm our operating results.

Furthermore, to the extent we rely on the systems of third parties in areas such as mobile payment processing, online and mobile delivery ordering, telecommunications and wireless networks, any defects, failures and interruptions in their systems could result in similar adverse effects on our business. Sustained or repeated system defects, failures or interruptions could materially impact our operations and results of operations.

Additionally, we have no control over the costs of the services provided by the telecommunications operators. If the prices that we pay for telecommunications and internet services rise significantly, our profit margins could be adversely affected. In addition, if internet access fees or other charges to internet users increase, our user traffic may decrease, which in turn may significantly decrease our revenues.

Our delivery business depends on the performance of, and our long-term relationships with, third-party delivery aggregators. We allow our products to be listed on and ordered through their mobile or online platforms. If we fail to extend or renew the agreements with these aggregators on acceptable terms, or at all, our business and results of operations may be materially and adversely affected. In addition, any increase in the commission rate charged by the aggregators could negatively impact our operating results.

Our restaurants offer delivery services. Any failure to provide timely and reliable delivery services by us may materially and adversely affect our business and reputation.

As of year-end 2021, over 8,900 KFC and Pizza Hut restaurants offer delivery services. Delivery contributed to approximately 32% of KFC and Pizza Hut Company sales for 2021. Customers may order delivery service through KFC and Pizza Hut's websites and Apps. KFC and Pizza Hut have also partnered with third-party delivery aggregators, allowing our products to be listed on and ordered through their mobile or online platforms.

Interruptions or failures in our delivery services could prevent the timely or successful delivery of our products. These interruptions may be due to unforeseen events that are beyond our control or the control of third-party aggregators and outsourced riders, such as inclement weather, natural disasters, transportation disruptions or labor unrest. The occurrence of food safety or product quality issues may also result in interruptions or failures in our delivery service. If our products are not delivered on time and in proper condition, customers may refuse to accept our products and have less confidence in our services, in which case our business and reputation may be adversely affected.

Our growth strategy with respect to Lavazza and COFFii & JOY may not be successful.

We are committed to making coffee a meaningful part of our business. As part of our strategy to tap into the growing China coffee market, we started to develop COFFii & JOY as our standalone specialty coffee concept in 2018. As of year-end 2021, we had 36 COFFii & JOY coffee stores in eight cities in China using different store formats.

In April 2020, we established a joint venture with Lavazza Group to explore and develop the Lavazza coffee shop concept in China. In September 2021, the Company and Lavazza Group entered into agreements to accelerate the expansion of Lavazza coffee shops to offer a premium and authentic Italian coffee experience in China. As of December 31, 2021, there were 58 Lavazza stores in China. We are targeting to open 1,000 Lavazza stores by 2025, which may require significant capital and management attention.

The success of Lavazza and COFFii & JOY depends in large part on our ability to secure optimal locations, introduce new and unique store formats, and operate these stores profitably. The effectiveness of our supply chain management to assure reliable coffee supply at competitive prices is one of the key factors to the success of Lavazza and COFFii & JOY.

There is no assurance that our growth strategy with respect to Lavazza and COFFii & JOY will be successful or generate expected returns in the near term or at all. If we fail to execute this growth strategy successfully, our business, results of operations and financial condition may be materially and adversely affected.

The anticipated benefits of our acquisitions may not be realized in a timely manner or at all.

In May 2017, we acquired a controlling interest in Daojia with the expectation that the acquisition will further enhance our digital and delivery capabilities, and accelerate growth by building know-how and expertise in the expanding delivery market. In 2018 and 2019, due to declining sales as a result of intensified competition among delivery aggregators, we recorded impairment charges of $23 million and wrote down the Daojia reporting unit goodwill and intangible assets to zero. In April 2020, we completed the acquisition of a 93.3% interest in Huang Ji Huang, a leading Chinese-style casual dining franchise business, for cash consideration of $185 million. With this acquisition, we aim to gain a stronger foothold and enhanced know-how in the Chinese dining space and create synergies. Achieving those anticipated benefits is subject to a number of uncertainties. The operation of the acquired businesses could also involve further unanticipated costs and divert management's attention away from day-to-day business concerns. We cannot assure you that we will be able to achieve the anticipated benefits of any business acquisitions. Additional information about the Company's goodwill and intangible assets acquired from our acquisitions is included in Note 9 to the Consolidated Financial Statements in Part II, Item 8. We evaluate indefinite-lived intangible assets and goodwill for impairment on an annual basis or more often if an event occurs or circumstances change that indicates impairment might exist.

Our new retail and e-commerce businesses may expose us to new challenges and risks and may adversely affect our business, results of operations and financial condition.

We operate a mobile e-commerce platform, V-Gold Mall, to sell products, including electronics, home and kitchen accessories and other general merchandise directly to customers. As part of our strategy to drive growth from off-premise occasions, we also launched new retail products, such as fried rice, steak, pasta and other ready meals, as well as coffee capsules, to capture at-home consumption demand. We expect to continue to develop our new retail and e-commerce businesses.

Our new retail and e-commerce businesses expose us to new challenges and risks associated with, for example, anticipating customer demand and preferences, managing inventory and handling more complex supply, product return and delivery service issues. We are relatively new to these businesses and our lack of experience may make it more difficult for us to keep pace with evolving customer demands and preferences. We may misjudge customer demand, resulting in inventory buildup and possible inventory write-downs and write-offs. We may also experience higher return rates on these products, receive more customer complaints about them and face costly product liability claims as a result of selling them, which would harm our brands and reputation as well as our financial performance. In addition, we will have to invest in, maintain and upgrade the necessary network infrastructure, system infrastructure and security to manage and process customer orders, and failures to process orders timely and accurately may also result in complaints and expose us to liability. Furthermore, we rely on third-party delivery companies to deliver the e-commerce products and a portion of the new retail products. Risks related to delivery services are described in further detail above under "—Our restaurants offer delivery services. Any failure to provide timely and reliable delivery services by us may materially and adversely affect our business and reputation." If we do not successfully address new challenges specific to the new retail and e-commerce businesses and compete effectively, our business, results of operations and financial condition may be materially and adversely affected.

Our inability or failure to recognize, respond to and effectively manage the impact of social media could materially adversely impact our business and results of operations.

As a customer-facing industry, the Company is heavily reliant on its brand, the perception of which may be significantly impacted by social media. In recent years, there has been a marked increase in the use of social media platforms, including weblogs (blogs), mini-blogs, WeChat and other chat platforms, social media websites, and other forms of internet-based communications, which allow individual access to a broad audience of consumers and other interested persons. Many social media platforms immediately publish the content their subscribers and participants' post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and/or may be inaccurate. The online dissemination of negative comments about our brands and business, including inaccurate or irresponsible information, could harm our business, reputation, prospects, results of operations and financial condition. The damage may be immediate and intense, without affording us an opportunity for redress or correction, and we may not be able to recover from any negative publicity in a timely manner or at all. If we fail to recognize, respond to and effectively manage the accelerated impact of social media, our reputation, business and results of operation could be materially and adversely affected.

Other risks associated with the use of social media include improper disclosure of proprietary information, exposure of personally identifiable information, fraud, hoaxes or malicious exposure of false information. The inappropriate use of social media by our customers or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation and adversely affect our results of operations.

Failure to comply with anti-bribery or anti-corruption laws could adversely affect our business and results of operations.

The U.S. Foreign Corrupt Practices Act and similar Chinese laws and other similar applicable laws prohibiting bribery of government officials and other corrupt practices are the subject of increasing emphasis and enforcement around the world. Although we continue to implement policies and procedures designed to duly comply with these laws, there can be no assurance that our employees, contractors, agents or other third parties will not take actions in violation of our policies or applicable law, particularly as we expand our operations through organic growth and acquisitions. Any such violations or suspected violations could subject us to civil or criminal penalties, including substantial fines and significant investigation costs, and could also materially damage our brands, as well as our reputation and prospects, business and results of operations. Publicity relating to any noncompliance or alleged noncompliance could also harm our reputation and adversely affect our business and results of operations.

As a U.S. company with operations concentrated in China, we are subject to both U.S. federal income tax and Chinese enterprise income tax, which could result in relatively higher taxes compared to companies operating primarily in the U.S.

Yum China is a Delaware corporation that indirectly owns the subsidiaries that conduct our business in China and is subject to both U.S. federal income tax and Chinese enterprise income tax. While U.S. tax law generally exempts all of the foreign-source dividends paid to the U.S. parent company, with operations primarily in China, we continue to be subject to the Chinese enterprise income tax at a rate of 25% and an additional 10% withholding tax on any earnings repatriated outside of China levied by the Chinese tax authorities, subject to any reduction or exemption set forth in relevant tax treaties or tax arrangements. This may put Yum China at a relative disadvantage compared to companies operating primarily in the U.S., which are currently subject to a U.S. corporate income tax rate of 21%.

In addition, U.S. tax law provides anti-deferral, anti-base erosion and other provisions that may subject the U.S. parent company to additional U.S. taxes under certain circumstances. If we are assessed with these taxes, it could cause our effective tax rate to increase and affect the amount of any distributions available to our stockholders.

Tax matters, including changes in tax rates, disagreements with tax authorities and imposition of new taxes could impact our results of operations and financial condition.

We are subject to income taxes as well as non-income based taxes, such as VAT, customs duty, property tax, stamp duty, environmental protection tax, withholding taxes and obligations and local surcharges, in China and income tax and other taxes in the U.S. and other jurisdictions. We are also subject to reviews, examinations and audits by Chinese tax authorities, the IRS and other tax authorities with respect to income and non-income based taxes, including transfer pricing. Our operations in respective jurisdictions generally remain subject to examination for tax years as far back as 2006, some of which years are currently under audit by local tax authorities. If Chinese tax authorities, the IRS or other tax authorities disagree with our tax positions, we could face additional tax liabilities, including interest and penalties. Payment of such additional amounts upon final settlement or adjudication of any disputes could have a material adverse impact on our results of operations and financial condition.

In addition, we are directly and indirectly affected by new tax legislation and regulation and the interpretation of tax laws and regulations worldwide. For example, the U.S. Tax Act implemented broad reforms to the U.S. corporate income tax system and significantly altered how U.S. multinational corporations are taxed on foreign earnings. In addition, the U.S. Presidential Administration has indicated support for proposals to increase the U.S. corporate income tax rate, which were passed by the House of Representatives in the November 2021 Build Back Better Act but stalled in the Senate. Any increases in tax rates or changes in tax laws or the interpretations thereof could have a material adverse impact on our results of operations and financial condition.

Moreover, the tax regime in China is rapidly evolving and there can be significant uncertainty for taxpayers in China as Chinese tax laws may change significantly or be subject to uncertain interpretations. Since 2012, the Chinese government launched a VAT pilot reform to replace BT to make reform to its retail tax structure by ending the co-existence of BT and VAT where BT would be gradually phased out and replaced by VAT. The retail tax structure reform is intended to be a progressive and positive shift to more closely align with a more modern service-based economy. Effective May 1, 2016, the retail tax structure reform has been rolled out to cover all business sectors nationwide where the BT has been completely replaced by VAT. 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. Changes in legislation, regulation or interpretation of existing laws and regulations in the U.S., China, and other jurisdictions where we are subject to taxation could increase our taxes and have an adverse effect on our results of operations and financial condition.

Our results of operations may be adversely impacted by changes in consumer discretionary spending and general economic conditions.

Purchases at our restaurants are discretionary for consumers and, therefore, our results of operations are susceptible to economic slowdowns and recessions. Our results of operations are dependent upon discretionary spending by consumers, which may be affected by general economic conditions in China. Some of the factors that impact discretionary consumer spending include unemployment rates, fluctuations in the level of disposable income, the price of gasoline, stock market performance and changes in the level of consumer confidence.

These and other macroeconomic factors could have an adverse effect on our sales, profitability or development plans, which could harm our results of operations and financial condition.

The restaurant industry in which we operate is highly competitive.

The restaurant industry in which we operate is highly competitive with respect to price and quality of food products, new product development, advertising levels and promotional initiatives, customer service, reputation, restaurant location, and attractiveness and maintenance of properties. We cannot assure you that we will continue to develop new products and maintain an attractive menu to suit changing customer tastes, nutritional trends, dine-in or at-home consumption patterns and general customer demands in China. Our failure to anticipate, identify, interpret and react to these changes could lead to reduced guest traffic and demand for our restaurants. Even if we do correctly anticipate, identify, interpret and react to these changes, there can be no assurance that our restaurants are able to compete successfully with other restaurant outlets in new and existing markets. As a result, our business could be adversely affected. We also face growing competition as a result of convergence in grocery, convenience, deli and restaurant services, including the offering by the grocery industry of convenient meals, including pizzas and entrees with side dishes. Competition from food delivery aggregators, other food delivery services and shared kitchens in China has also increased in recent years, all of which offer a wide variety of cuisine types across different brands, particularly in urbanized areas. Increased competition could have an adverse effect on our sales, profitability or development plans, which could harm our results of operations and financial condition.

In addition, increased awareness about nutrition and healthy lifestyles may cause consumers to demand more healthy foods. If we are unable to respond to such changes in consumer taste and preferences in a timely manner or at all, or if our competitors are able to address these concerns more effectively, our business, financial condition and results of operations may be materially and adversely affected.

Any inability to successfully compete with the other restaurants, food delivery aggregators, other food delivery services and shared kitchens in our markets may prevent us from increasing or sustaining our revenues and profitability and could have a material adverse effect on our business, results of operations, financial condition and/or cash flows. We may also need to modify or refine elements of our restaurant system in order to compete with popular new restaurant styles or concepts, including delivery aggregators, that develop from time to time. There can be no assurance that we will be successful in implementing any such modifications or that such modifications will not reduce our profitability.

We require various approvals, licenses and permits to operate our business and the loss of or failure to obtain or renew any or all of these approvals, licenses and permits could adversely affect our business and results of operations.

In accordance with the laws and regulations of China, we are required to maintain various approvals, licenses, permits, registrations and filings in order to operate our restaurant business. Each of our restaurants in China is required to obtain (1) the relevant food business license; (2) the environmental protection assessment and inspection registration or approval; and (3) the fire safety inspection acceptance approval or other alternatives. Some of our restaurants which sell alcoholic beverages are required to make further registrations or obtain additional approvals. These licenses and registrations are achieved upon satisfactory compliance with, among other things, the applicable food safety, hygiene, environmental protection, fire safety and alcohol laws and regulations. Most of these licenses are subject to periodic examinations or verifications by relevant authorities and are valid only for a fixed period of time and subject to renewal and accreditation. We did not obtain these licenses or approvals for a limited number of our restaurants in a timely manner in the past and there is no assurance that we or our franchisees will be able to obtain or maintain any of these licenses in the future.

We may not be able to adequately protect the intellectual property we own or have the right to use, which could harm the value of our brands and adversely affect our business and operations.

We believe that our brands are essential to our success and our competitive position. The fact that our trademarks are duly registered may not be adequate to protect these intellectual property rights. In addition, third parties may infringe upon the intellectual property rights we own or have the right to use or misappropriate the proprietary knowledge we use in our business, primarily our proprietary recipes, which could have a material adverse effect on our business, results of operations or financial condition. The laws of China may not offer the same protection for intellectual property rights as the U.S. and other jurisdictions with more robust intellectual property laws.

We are required under the master license agreement with YUM to police, protect and enforce the trademarks and other intellectual property rights used by us, and to protect trade secrets. Such actions to police, protect or enforce could result in substantial costs and diversion of resources, which could negatively affect our sales, profitability and prospects. Furthermore, the application of laws governing intellectual property rights in China is uncertain and evolving, and could involve substantial risks to us. Even if actions to police, protect or enforce are resolved in our favor, we may not be able to successfully enforce the judgment and remedies awarded by the court and such remedies may not be adequate to compensate us for our actual or anticipated losses.

In addition, we may face claims of infringement that could interfere with the use of the proprietary know-how, concepts, recipes or trade secrets we use in our business. Defending against such claims may be costly and, if we are unsuccessful, we may be prohibited from continuing to use such proprietary information in the future or be forced to pay damages, royalties or other fees for using such proprietary information, any of which could negatively affect our sales, profitability and prospects.

Our licensor may not be able to adequately protect its intellectual property, which could harm the value of the KFC, Pizza Hut and Taco Bell brands and branded products and adversely affect our business, results of operations and financial condition.

The success of our business depends in large part on our continued ability to use the trademarks, service marks, recipes and other components of the KFC, Pizza Hut and Taco Bell branded systems that we license from YUM pursuant to the master license agreement we entered into in connection with the separation.

We are not aware of any assertions that the trademarks, menu offerings or other intellectual property rights we license from YUM infringe upon the proprietary rights of third parties, but third parties may claim infringement by us or YUM in the future. Any such claim, whether or not it has merit, could be time consuming, result in costly litigation, cause delays in introducing new menu items in the future or require us to enter into additional royalty or licensing agreements with third parties. As a result, any such claims could have a material adverse effect on our business, results of operations and financial condition.

Our results of operations may fluctuate due to seasonality and certain major events in China.

Our sales are subject to seasonality. For example, we typically generate higher sales during Chinese festivities, holiday seasons as well as summer months, but relatively lower sales and lower operating profit during the second and fourth quarters. As a result of these fluctuations, softer sales during a period in which we have historically experienced higher sales (such as the disruption in operations from the COVID-19 outbreak) would have a disproportionately negative effect on our full-year results, and comparisons of sales and results of operations within a financial year may not be able to be relied on as indicators of our future performance. Any seasonal fluctuations reported in the future may differ from the expectations of our investors.

We may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties.

As we operate in the restaurant industry, we usually receive and handle relatively large amounts of cash in our daily operations. Instances of fraud, theft or other misconduct with respect to cash can be difficult to detect, deter and prevent, and could subject us to financial losses and harm our reputation.

We may be unable to prevent, detect or deter all such instances of misconduct. Any such misconduct committed against our interests, which may include past acts that have gone undetected or future acts, may have a material adverse effect on our business and results of operations.

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.

Our future success is significantly dependent upon the continued service of our key management as well as experienced and capable personnel generally. If we lose the services of any member of key management, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new staff, which could severely disrupt our business and growth. If any of our key management joins a competitor or forms a competing business, we may lose customers, know-how and key professionals and staff members. Our rapid growth also requires us to hire, train, and retain a wide range of talent who can adapt to a dynamic, competitive and challenging business environment and are capable of helping us conduct effective marketing and management. We will need to continue to attract, train and retain talent at all levels as we expand our business and operations. We may need to offer attractive compensation and other benefits packages, including share-based compensation, to attract and retain them. We also need to provide our employees with sufficient training to help them to realize their career development and grow with us. Any failure to attract, train, retain or motivate key management and experienced and capable personnel could severely disrupt our business and growth.

From time to time we may evaluate and potentially consummate strategic investments or acquisitions, which may be unsuccessful and adversely affect our operation and financial results.

To complement our business and strengthen our market-leading position, we may form strategic alliances or make strategic investments and acquisitions from time to time. Some of the risks and uncertainties that could cause actual results to differ materially include, but are not limited to, the fact that the integration of the target company may require significant time, attention and resources, potentially diverting management's attention from the conduct of our business, and the expected synergies from the acquisition may not be realized. We may experience difficulties in integrating our operations with new investments or acquired businesses, implementing our strategies or achieving expected levels of net revenues, profitability, productivity or other benefits. Therefore, we cannot assure you that our investments or acquisitions will benefit our business strategy, generate sufficient net revenues to offset the associated investment or acquisition costs, or otherwise result in the intended benefits.

Our investment in technology and innovation may not generate the expected level of returns.

We have invested and intend to continue to invest significantly in technology systems and innovation to enhance digitalization and the guest experience and improve the efficiency of our operations. We cannot assure you that our investments in technology and innovation will generate sufficient returns or have the expected effects on our business operations, if at all. If our technology and innovation investments do not meet expectations for the above or other reasons, our prospects and share price may be materially and adversely affected.

Fair value changes for our investment in equity securities and lower yields of our short-term investments may adversely affect our financial condition and results of operations.

We may invest in equity securities and short-term investments, such as time deposits, from time to time. In September 2018, we invested in the equity securities of Meituan Dianping, the fair value of which is determined based on the closing market price for the shares at the end of each reporting period, with subsequent fair value changes recorded in our consolidated statements of income. We recorded a related loss of $38 million and a related gain of $104 million for 2021 and 2020, respectively. Our short-term investments as of December 31, 2021 and December 31, 2020 amounted to $2,860 million and $3,105 million, respectively. We cannot guarantee that our investment in equity securities will not experience fair value losses, which may adversely affect our period-to-period earnings, financial condition and results of operations. In addition, our short-term investments may earn yields lower than anticipated, and any failure to realize the benefits we expected from these investments may adversely affect our financial results.

Our operating results may be adversely affected by our investment in unconsolidated affiliates.

We apply the equity method to account for the investments in unconsolidated affiliates over which we have significant influence but do not control. Our share of the earnings or losses and share of changes in other comprehensive income or losses of these unconsolidated affiliates are included in net income in our consolidated statements of income and other comprehensive income or losses, respectively. Even if there is no cash flow from unconsolidated affiliates until dividends are received, the performance of unconsolidated affiliates may affect our results of operations through our equity method accounting. In addition, we evaluate our investments in unconsolidated affiliates for impairment whenever events or circumstances indicate that a decrease in the fair value of an investment has occurred which is other than temporary. In addition, when we acquire additional equity interest in the unconsolidated affiliates to obtain control, it may result in gain or loss from re-measurement of our previously held equity interest and thus have a significant impact on our operating results. As a result of the acquisition of Hangzhou KFC, a former unconsolidated affiliate, in the fourth quarter of 2021, we recognized a gain of $618 million from the re-measurement of our previously held 47% equity interest at fair value.

Risks Related to Doing Business in China

Changes in Chinese political policies and economic and social policies or conditions may materially and adversely affect our business, results of operations and financial condition and may result in our inability to sustain our growth and expansion strategies.

Substantially all of our assets and business operations are located in China. Accordingly, our business, results of operations, financial condition and prospects may be influenced to a significant degree by political, economic and social conditions in China generally, by continued economic growth in China as a whole, and by geopolitical stability in the region. For example, our results of operations in the third quarter of 2016 were adversely impacted by an international court ruling in July 2016 regarding claims to sovereignty over the South China Sea, which triggered a series of regional protests and boycotts in China, intensified by social media, against a few international companies with well-known western brands.

The Chinese economy, markets and levels of consumer spending are influenced by many factors beyond our control, including current and future economic conditions, political uncertainty, unemployment rates, inflation, fluctuations in the level of disposable income, taxation, foreign exchange control, and changes in interest and currency exchange rates. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, foreign exchange control and fiscal measures and allocation of resources. Although the Chinese government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the restructuring of state assets and state-owned enterprises, and the establishment of improved corporate governance in business enterprises, a significant portion of productive assets in China is still owned or controlled by the Chinese government. The Chinese government also exercises significant control or influence over Chinese economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary and fiscal policies, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth in recent decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy but may also have a negative effect on us. Our results of operations and financial condition could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China. Since 2012, Chinese economic growth has slowed and any prolonged slowdown in the Chinese economy may reduce the demand for our products and adversely affect our business, results of operations and financial condition. Restaurant dining, and specifically casual dining, is discretionary for customers and tends to be higher during periods in which favorable economic conditions prevail. Customers' tendency to become more cost-conscious as a result of an economic slowdown or decreases in disposable income may reduce our customer traffic or average revenue per customer, which may adversely affect our revenues.

Uncertainties with respect to the interpretation and enforcement of Chinese laws, rules and regulations could have a material adverse effect on us.

Substantially all of our operations are conducted in China, and are governed by Chinese laws, rules and regulations. Our subsidiaries are subject to laws, rules and regulations applicable to foreign investment in China. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which legal cases may be cited for reference but have limited value as precedents. In the late 1970s, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. However, since these laws and regulations are relatively new and the Chinese legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties.

From time to time, we may have to resort to administrative and court proceedings to interpret and/or enforce our legal rights. However, since Chinese administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings, and the level of legal protection we enjoy, than in more developed legal systems. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Furthermore, the Chinese legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect.

As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

The audit report included in this annual report on Form 10-K is prepared by auditors who are not currently inspected by the Public Company Accounting Oversight Board and, as such, our stockholders are deprived of the benefits of such inspection and our common stock is subject to delisting from the New York Stock Exchange in the future.

As an auditor of companies that are publicly traded in the United States and a firm registered with the Public Company Accounting Oversight Board ("PCAOB"), our independent registered public accounting firm is required under the laws of the United States to undergo regular inspections by the PCAOB. However, because substantially all of our operations are conducted within China, our independent registered public accounting firm's audit documentation related to their audit report included in this annual report on Form 10-K is located in China. The PCAOB is currently unable to conduct full inspections in China or review audit documentation located within China without the approval of Chinese authorities, which has not been granted. Accordingly, the PCAOB has not inspected our independent registered public accounting firm or reviewed documentation related to the audit of our financial statements.

Inspections of other auditors conducted by the PCAOB outside of China have at times identified deficiencies in those auditors' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections of audit work undertaken in China prevents the PCAOB from evaluating our auditor's audits and its quality control procedures. As a result, our stockholders do not have the benefit of PCAOB inspections, and may lose confidence in our reported financial information and procedures and the quality of our financial statements.

On December 18, 2020, the Holding Foreign Companies Accountable Act (the "Act") was signed into law. The Act requires the SEC to prohibit the securities of any "covered issuer," including the Company, from being traded on any of the U.S. securities exchanges, including the New York Stock Exchange, or traded "over-the-counter," if the auditor of the covered issuer's financial statements is not subject to PCAOB inspection for three consecutive years, beginning in 2021. On December 2, 2021, the SEC adopted final rules implementing the Act, pursuant to which the SEC will identify companies subject to the Act, known as "Commission-Identified Issuers," as early as possible after the filing of their next annual report, and implement the trading prohibition as soon as practicable after they have been conclusively identified as Commission-Identified Issuers for three consecutive years. Under these rules, the Company may be identified as a Commission-Identified Issuer after the date of this Form 10-K.

On June 22, 2021, the U.S. Senate passed a bill which, if also passed by the U.S. House of Representatives and signed into law, would reduce the number of consecutive non-inspection years required to trigger the trading prohibition under the Act from three years to two (the "Senate Proposed Act Amendment"). On February 4, 2022, the U.S. House of Representatives passed a larger bill containing provisions identical to the Senate Proposed Act Amendment which, if also passed by the U.S. Senate and signed into law, would have the same effect (the "House Proposed Act Amendment").

Unless the Act is amended to exclude the Company or the PCAOB is able to conduct a full inspection of our independent registered public accounting firm's audit documentation related to their audit reports during the required timeframe, which is subject to a variety of factors outside our control including the approval of Chinese authorities, then our common stock will be delisted from the New York Stock Exchange in early 2024 or, if the House Proposed Act Amendment or Senate Proposed Act Amendment becomes law, in early 2023. Such delisting would limit the liquidity of our common stock and our access to U.S. capital markets, and as a result the market price of our common stock could be materially adversely affected.

Changes in political, business, economic and trade relations between the United States and China may have a material adverse impact on our business, results of operations and financial condition.

We cannot predict the possible changes in the economic, regulatory, social and political environment in the United States and China, nor can we predict their potential impact on political, economic and trade relations between the United States and China and on our business.

In 2019, the United States and China imposed new or higher tariffs on goods imported from each other. If the United States or China continues imposing such tariffs, or if additional tariffs or trade restrictions are implemented by the United States or by China, the resulting trade barriers could have a significant adverse impact on our business. The adoption and expansion of trade restrictions and tariffs, quotas and embargoes, sanctions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies, has the potential to adversely impact costs, our suppliers and the world economy in general, which in turn could have a material adverse effect on our business, results of operations and financial condition.

During 2020, political tensions between the United States and China escalated, with a number of actions taken by the U.S. government in response to perceived threats from Chinese-connected entities, such as the Clean Network program announced on August 5, 2020 to protect U.S. telecommunication and technology infrastructure, and the two executive orders issued by former President Trump on August 6, 2020 to ban any person or property subject to the jurisdiction of the United States from any transaction with ByteDance and from any transaction related to WeChat by any person or with respect to any property subject to the jurisdiction of the United States, to the extent that any such transaction is identified by the Secretary of Commerce as being subject to the prohibitions stated in the executive orders. In addition, on January 5, 2021, former President Trump signed an executive order banning transactions by any person, or with respect to any property, subject to the jurisdiction of the United States with persons that develop or control the following Chinese-connected software applications: Alipay, CamScanner, QQ Wallet, SHAREit, Tencent QQ, VMate, WeChat Pay, and WPS Office, some of which are critical to the operation of our business. These executive orders were revoked on June 9, 2021 by President Biden, who then signed an executive order directing the Department of Commerce to launch a national security review of apps with links to foreign adversaries (which is defined to include China) and issue recommendations for regulatory and legislative action to address the associated risks. Digital orders, including delivery, mobile orders and kiosk orders, accounted for approximately 86% of KFC and Pizza Hut's Company sales in 2021, and digital payments, including mobile payments, accounted for approximately 98% of Yum China Company sales in 2021. As a result, the implementation of this executive order could adversely affect our business in a material way.

We cannot foresee whether and how developments in similar policy actions or any other policy actions taken by the U.S. or Chinese government will impact our business and financial performance. In addition, changes in political, business, economic and trade relations between the United States and China may trigger negative customer sentiment towards western brands in China, potentially resulting in a negative impact on our business, results of operations and financial condition.

Fluctuation in the value of RMB may result in foreign currency exchange losses.

The conversion of the Renminbi ("RMB") into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China ("PBOC"). Historically, the exchange rate between RMB and the U.S. dollar has showed higher volatility in certain years while staying within a narrow range in other years. The value of RMB against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. It is difficult to predict how market forces or Chinese or U.S. government policy may impact the exchange rate between RMB and the U.S. dollar in the future.

Substantially all of our revenues and costs are denominated in RMB. As a Delaware holding company, we may rely on dividends and other fees paid to us by our subsidiaries in China. Any significant revaluation of RMB may materially affect our cash flows, net revenues, earnings and financial position, and the value of, and any dividends payable on, our common stock in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. Conversely, a significant depreciation of RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our common stock. If we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our common stock, strategic acquisitions or investments or other business purposes, the appreciation of the U.S. dollar against RMB would have a negative effect on U.S. dollar amounts available to us.

Few hedging options are available in China to reduce our exposure to exchange rate fluctuations. In addition, our currency exchange loss may be magnified by Chinese exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates and restrictions on exchange may have a material adverse effect on your investment.

The increasing focus on environmental sustainability issues may create operational challenges for us, increase our costs and harm our reputation.

There has been increasing public focus by governmental and non-governmental organizations and other stakeholders on environmental sustainability matters, including climate change and deforestation. In line with the national standards and local requirements to reduce plastic waste in China, we have launched a series of plastic reduction and environmentally friendly packaging initiatives across our brands. We are committed to gradually replacing existing plastic packaging with paper straws, wooden cutleries, paper bags, and biodegradable plastic bags, and working towards a 30% reduction on non-degradable plastic packaging weight by 2025. We may face operational challenges in sourcing suitable alternative packaging materials. In addition, we may incur significant costs for using alternative packaging materials, which in turn may have an adverse impact on our profit margins. In 2021, we committed to a net-zero GHG reduction goal by 2050 in line with SBTi criteria to limit global temperature rise to 1.5°C above pre-industrial levels. We face related risks including setting appropriate targets and taking actions to meet the commitments we made, and also the increased pressure to make new sustainability commitments, which could expose us to additional operational challenges, execution costs and reputational risks.

Governmental control of currency conversion and payments of foreign currency and RMB out of mainland China may limit our ability to utilize our cash balances effectively and affect the value of your investment.

The Chinese government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of both foreign currency and RMB out of mainland China. Under our current corporate structure as a Delaware holding company, our income is primarily derived from the earnings from our Chinese subsidiaries. Substantially all revenues of our Chinese subsidiaries are denominated in RMB. Shortages in the availability of foreign currency and control on payments out of mainland China may restrict the ability of our Chinese subsidiaries to remit sufficient foreign currency and/or RMB to pay dividends or to make other payments to us, or otherwise to satisfy their obligations. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, license fee payments and expenditures from trade-related transactions, can be made in foreign currencies or RMB without prior approval from China's State Administration of Foreign Exchange ("SAFE") and the PBOC by complying with certain procedural requirements. However, for any Chinese company, dividends can be declared and paid only out of the retained earnings of that company under Chinese law. Furthermore, approval from SAFE or its local branch may be required where RMB are to be converted into foreign currencies, and approval from SAFE and the PBOC or their branches may be required where foreign currency and/or RMB are to be remitted out of mainland China. Specifically, under the existing restrictions, without a prior approval from SAFE and the PBOC, cash generated from the operations of our subsidiaries in China may not be used to pay dividends to Yum China, pay the license fee to YUM, pay employees who are located outside mainland China, pay off debt owed by our subsidiaries to entities outside mainland China, or make capital expenditures outside mainland China.

The Chinese government may also at its discretion restrict access in the future to foreign currencies or further restrict payments of foreign currency and RMB out of mainland China. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands or restricts us from paying the license fee to YUM, we may not be able to pay dividends to our stockholders, fulfill our license fee payment obligation, pay out service fees to vendors and repay our indebtedness when due.

Furthermore, because repatriation of funds and payment of license fees require the prior approval of SAFE and PBOC, such repatriation and payment could be delayed, restricted or limited. There can be no assurance that the rules and regulations pursuant to which SAFE and PBOC grant or deny approvals will not change in a way that adversely affects the ability of our Chinese subsidiaries to repatriate funds out of mainland China or pay license fees. Any such limitation could materially and adversely affect our ability to pay dividends or otherwise fund and conduct our business.

Changes in the laws and regulations of China or noncompliance with applicable laws and regulations may have a significant impact on our business, results of operations and financial condition.

Our business and operations are subject to the laws and regulations of China, which continue to evolve. For example, on January 9, 2021, China's Ministry of Commerce ("MOFCOM") issued the Rules on Blocking Improper Extraterritorial Application of Foreign Legislation and Other Measures (the "Blocking Rules"), which established a blocking regime in China to counter the impact of foreign sanctions on Chinese persons. The Blocking Rules have become effective upon issuance, but have only established a framework of implementation, and the rules' effects will remain unclear until the Chinese government provides clarity on the specific types of extraterritorial measures to which the rules will apply. At this time, we do not know the extent to which the Blocking Rules will impact our operations. There is no assurance that we will be able to comply fully with applicable laws and regulations should there be any amendment to the existing regulatory regime or implementation of any new laws and regulations. In addition, the interpretations of many laws and regulations are not always uniform and enforcement of these laws and regulations involve uncertainties.

The continuation of our operations depends upon compliance with, among other things, applicable Chinese environmental, health, safety, labor, social security, pension and other laws and regulations. Failure to comply with such laws and regulations could result in fines, penalties or lawsuits.

Furthermore, our business and operations in China require the procurement of licenses and permits from the relevant authorities. Rapidly evolving laws and regulations and inconsistent interpretations and enforcements thereof could impede our ability to obtain or maintain the required permits, licenses and certificates required to conduct our businesses in China. Difficulties or failure in obtaining the required permits, licenses and certificates could result in our inability to continue our business in China in a manner consistent with past practice. In such an event, our business, results of operations and financial condition may be adversely affected.

We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries in China to fund offshore cash requirements.

We are a holding company and conduct all of our business through our operating subsidiaries. We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries for our cash requirements. As noted above, distributions to us from our subsidiaries may result in incremental tax costs.

The laws, rules and regulations applicable to our Chinese subsidiaries permit payments of dividends only out of their accumulated profits, if any, determined in accordance with applicable Chinese accounting standards and regulations. In addition, under Chinese law, an enterprise incorporated in China is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. As a result, our Chinese subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. At the discretion of the board of directors, as an enterprise incorporated in China, each of our Chinese subsidiaries may allocate a portion of its after-tax profits based on Chinese accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of our Chinese subsidiaries to pay dividends or make other distributions to us could limit our ability to make investments or acquisitions outside of China that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, the EIT Law and its implementation rules provide that a withholding tax at a rate of 10% will be applicable to dividends payable by Chinese companies to companies that are not China resident enterprises unless otherwise reduced according to treaties or arrangements between the Chinese central government and the governments of other countries or regions where the non-China resident enterprises are incorporated. Hong Kong has a tax arrangement with mainland China that provides for a 5% withholding tax on dividends distributed to a Hong Kong resident enterprise, upon meeting certain conditions and requirements, including, among others, that the Hong Kong resident enterprise directly owns at least 25% equity interests of the Chinese enterprise and is a "beneficial owner" of the dividends. We believe that our Hong Kong subsidiary, which is the equity holder of our Chinese subsidiaries, met the relevant requirements pursuant to the tax arrangement between the mainland China and Hong Kong in 2018 and is expected to meet the requirements in subsequent years, thus, it is more likely than not that our dividends declared or earnings expected to be repatriated since 2018 are subject to the reduced withholding tax of 5%. However, if our Hong Kong subsidiary is not considered to be the "beneficial owner" of the dividends by the Chinese local tax authority, any dividend paid to it by our Chinese subsidiaries would be subject to a withholding tax rate of 10% with retrospective effect, which would increase our tax liability and reduce the amount of cash available to our company.

Restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to pay dividends or make distributions or remittances to us. These restrictions could reduce the amount of dividends or other distributions we receive from our subsidiaries, which in turn could restrict our ability to return capital to our stockholders in the future.

Under the EIT Law, if we are classified as a China resident enterprise for Chinese enterprise income tax purposes, such classification would likely result in unfavorable tax consequences to us and our non-Chinese stockholders.

Under the EIT Law and its implementation rules, an enterprise established outside China with a "de facto management body" within China is considered a China resident enterprise for Chinese enterprise income tax purposes. A China resident enterprise is generally subject to certain Chinese tax reporting obligations and a uniform 25% enterprise income tax rate on its worldwide income. Furthermore, under the EIT Law, if we are a China resident enterprise (i) dividends paid by us to our non-Chinese stockholders would be subject to a 10% dividend withholding tax or a 20% individual income tax if the stockholder is an individual and (ii) such non-Chinese stockholders may become subject to Chinese tax and filing obligations as well as withholding with respect to any disposition of our stock, subject to certain treaty or other exemptions or reductions.

Yum China and each subsidiary of Yum China that is organized outside of China intends to conduct its management functions in a manner that does not cause it to be a China resident enterprise, including by carrying on its day-to-day management activities and maintaining its key records, such as resolutions of its board of directors and resolutions of stockholders, outside of China. As such, we do not believe that Yum China or any of its non-Chinese subsidiaries should be considered a China resident enterprise for purposes of the EIT Law. However, given the uncertainty regarding the application of the EIT Law to us and our future operations, there can be no assurance that we or any of our non-Chinese subsidiaries will not be treated as a China resident enterprise now or in the future for Chinese tax law purposes.

We and our stockholders face uncertainty with respect to indirect transfers of equity interests in China resident enterprises through transfer of non-Chinese-holding companies. Enhanced scrutiny by the Chinese tax authorities may have a negative impact on potential acquisitions and dispositions we may pursue in the future.

In February 2015, the STA issued Bulletin 7, pursuant to which an "indirect transfer" of Chinese taxable assets, including equity interests in a Chinese resident enterprise, by a non-resident enterprise may be re-characterized and treated as a direct transfer of Chinese taxable assets, if such arrangement does not have reasonable commercial purpose and the transferor avoids payment of Chinese enterprise income tax. Where a non-resident enterprise conducts an "indirect transfer" of Chinese interests by disposing of equity interests in an offshore holding company that directly or indirectly owns Chinese interests, the transferor, transferee and/or the China resident enterprise may report such indirect transfer to the relevant Chinese tax authority, which may in turn report upward to the STA. Using general anti-tax avoidance provisions, the STA may treat such indirect transfer as a direct transfer of Chinese interests if the transfer avoids Chinese tax by way of an arrangement without reasonable commercial purpose. As a result, gains derived from such indirect transfer may be subject to Chinese enterprise income tax, and the transferee or other person who is obligated to pay for the transfer would be obligated to withhold the applicable taxes, currently at a rate of up to 10% of the capital gain in the case of an indirect transfer of equity interests in a China resident enterprise. Both the transferor and the party obligated to withhold the applicable taxes may be subject to penalties under Chinese tax laws if the transferor fails to pay the taxes and the party obligated to withhold the applicable taxes fails to withhold the taxes. However, the above regulations do not apply if either (i) the selling non-resident enterprise recognizes the relevant gain by purchasing and selling equity of the same listed enterprise in the open market (the "listed enterprise exception"); or (ii) the selling non-resident enterprise would have been exempted from enterprise income tax in China pursuant to applicable tax treaties or tax arrangements, if it had directly held and transferred such Chinese interests that were indirectly transferred. The China indirect transfer rules do not apply to gains recognized by individual stockholders. However, in practice, there have been a few reported cases of individuals being taxed on the indirect transfer of Chinese interests and the law could be changed so as to apply to individual stockholders, possibly with retroactive effect. In addition, the PRC Individual Income Tax Law and relevant regulations ("IITL"), revised effective January 1, 2019, impose general anti-avoidance tax rules ("GAAR") on transactions conducted by individuals. As a result, if the China tax authority invokes the GAAR and deems that indirect transfers made by individual stockholders lack reasonable commercial purposes, any gains recognized on such transfers might be subject to individual income tax in China at the standard rate of 20%.

It is unclear whether stockholders that acquired our stock through the distribution or the Global Offering will be treated as acquiring such stock in an open market purchase. If such stock is not treated as acquired in an open market purchase, the listed transaction exception will not be available for transfers of such stock. We expect that transfers in open market transactions of our stock by corporate or other non-individual stockholders that have purchased our stock in open market transactions will not be taxable under the China indirect transfer rules due to the listed enterprise exception. Transfers, whether in the open market or otherwise, of our stock by corporate and other non-individual stockholders that acquired our stock in the distribution or the Global Offering or in non-open market transactions may be taxable under the China indirect transfer rules and our China subsidiaries may have filing obligations in respect of such transfers, upon the request of relevant Chinese tax authorities. Transfers of our stock in non-open market transactions by corporate and other non-individual stockholders may be taxable under the China indirect transfer rules, whether or not such stock was acquired in open market transactions, and our China subsidiaries may have filing obligations in respect of such transfers upon the request of relevant Chinese tax authorities. Corporate and other non-individual stockholders may be exempt from taxation under the China indirect transfer rules with respect to transfers of our stock if they are tax resident in a country or region that has a tax treaty or arrangement with China that provides for a capital gains tax exemption and they qualify for that exemption.

In addition, we may be subject to these indirect transfer rules in the event of any future sale of a China resident enterprise through the sale of a non-Chinese holding company, or the purchase of a China resident enterprise through the purchase of a non-Chinese holding company. Our company and other non-resident enterprises in our group may be subject to filing obligations or taxation if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions.

There may be difficulties in effecting service of legal process, conducting investigations, collecting evidence, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us and our management.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. Some of our directors and executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China upon these persons, including with respect to matters arising under applicable U.S. federal and state securities laws. In addition, there are significant legal and other obstacles in China to providing information needed for regulatory investigations or litigation initiated by regulators outside China. Overseas regulators may have difficulties in conducting investigations or collecting evidence within China. It may also be difficult for investors to bring an original lawsuit against us or our directors or executive officers based on U.S. federal securities laws in a Chinese court. Moreover, China does not have treaties with the United States providing for the reciprocal recognition and enforcement of judgments of courts. Therefore, even if a judgment were obtained against us or our management for matters arising under U.S. federal or state securities laws or other applicable U.S. federal or state law, it may be difficult to enforce such a judgment.

The Chinese government may determine that the variable interest entity structure of Daojia does not comply with Chinese laws on foreign investment in restricted industries.

Through the acquisition of Daojia, we also acquired a variable interest entity ("VIE") and subsidiaries of the VIE in China effectively controlled by Daojia.

Chinese laws and regulations restrict and impose conditions on foreign investment in certain internet business, such as internet content services. For example, foreign investors are generally not permitted to own more than 50% of the equity interests in an internet content provider or other value-added telecommunication service provider. Accordingly, a VIE structure has been adopted by many China-based companies, including Daojia, to obtain necessary licenses and permits in such industries that are currently subject to foreign investment restrictions in China. Daojia operates these businesses in China through its consolidated affiliated entities. Daojia has entered into a series of contractual arrangements with its consolidated affiliated entities and the nominee shareholders of its consolidated affiliated entities. These contractual arrangements allow Daojia to:

- receive substantially all of the economic benefits and absorb all of the expected losses from its consolidated affiliated entities;
- exercise effective control over its consolidated affiliated entities; and
- hold an exclusive option to purchase all or part of the equity interests in its consolidated affiliated entities when and to the extent permitted by Chinese law.

However, the VIE structure and contractual arrangements described above may not be as effective in providing control over Daojia's consolidated affiliated entities as direct ownership. The VIE structure may result in unauthorized use of indicia of corporate power or authority, such as chops and seals. Control over Daojia's consolidated affiliated entities may also be jeopardized if the shareholders holding equity interest in the consolidated affiliated entities breach the terms of the contractual agreements.

In addition, there are substantial uncertainties regarding the interpretation and application of current Chinese laws, rules and regulations related to VIE structure. It is also uncertain whether any new Chinese laws, rules or regulations relating to VIE structure will be adopted, or if adopted, what their implications would be on Daojia. If the VIE structure is found to be in violation of any existing or future Chinese laws, rules or regulations, the relevant PRC regulatory bodies would have broad discretion to take action in dealing with these violations, including revoking the business and operating licenses of Daojia's consolidated affiliated entities, requiring Daojia to restructure its operations or taking other regulatory or enforcement actions against Daojia. The contractual arrangements may also be (i) disregarded by the PRC tax authorities and result in increased tax liabilities; or (ii) found by Chinese government authorities, courts or arbitral tribunals to be unenforceable. Any of the foregoing could result in a material adverse effect on Daojia's business operations.

Certain defects caused by non-registration of our lease agreements related to certain properties occupied by us in China may materially and adversely affect our ability to use such properties.

As of December 31, 2021, we leased approximately 10,000 properties in China, and to our knowledge, the lessors of most properties leased by us, most of which are used as premises for our restaurants, had not registered the lease agreements with government authorities in China.

According to Chinese laws, a lease agreement is generally required to be registered with the relevant land and real estate administration bureau. However, the enforcement of this legal requirement varies depending on the local regulations and practices and, in cities where we operate a significant number of restaurants, the local land and real estate administration bureaus no longer require registration or no longer impose fines for failure to register the lease agreements. In addition, our standard lease agreements require the lessors to make such registration and, although we have proactively requested that the applicable lessors complete or cooperate with us to complete the registration in a timely manner, we are unable to control whether and when such lessors will do so.

A failure to register a lease agreement will not invalidate the lease agreement but may subject the parties to a fine. Depending on the local regulations, the lessor alone or both the lessor and lessee are under the obligation to register a lease agreement with the relevant land and real estate administration bureau. In the event that a fine is imposed on both the lessor and lessee, and if we are unable to recover from the lessor any fine paid by us based on the terms of the lease agreement, such fine will be borne by us.

To date, the operation of our restaurants has not been materially disrupted due to the non-registration of our lease agreements. No fines, actions or claims have been instituted against us or, to our knowledge, the lessors with respect to the non-registration of our lease agreements. However, we cannot assure you that our lease agreements relating to, and our right to use and occupy, our premises will not be challenged in the future.

Our restaurants are susceptible to risks in relation to unexpected land acquisitions, building closures or demolitions.

The Chinese government has the statutory power to acquire any land use rights of land plots and the buildings thereon in China in the public interest subject to certain legal procedures. Under the Regulations for the Expropriation of and Compensation for Housing on State-owned Land, issued by the State Council, which became effective as of January 21, 2011, there is no legal provision that the tenant of an expropriated property is entitled to compensation. Generally speaking, only the owner of such property is entitled to compensation from the government. The claims of the tenant against the landlord will be subject to the terms of the lease agreement. In the event of any compulsory acquisition, closure or demolition of any of the properties at which our restaurants or facilities are situated, we may not receive any compensation from the government or the landlord. In such event, we may be forced to close the affected restaurant(s) or relocate to other locations, which may have an adverse effect on our business and results of operations.

Any failure to comply with Chinese regulations regarding our employee equity incentive plans may subject Chinese plan participants or us to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, China residents who participate in share incentive plans in overseas non-publicly listed companies may submit applications to SAFE or its local branches for foreign exchange registration with respect to offshore special purpose companies. We and our directors, executive officers and other employees who are Chinese citizens or who have resided in China for a continuous period of not less than one year and who have been granted restricted shares, restricted stock units ("RSUs"), performance share units ("PSUs"), stock appreciation rights ("SARs"), or stock options (collectively, the "share-based awards") are subject to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, according to which, employees, directors, supervisors and other management members participating in any stock incentive plan of an overseas publicly-listed company who are Chinese citizens or who are non-Chinese citizens residing in China for a continuous period of not less than one year, subject to limited exceptions, are required to register with SAFE through a domestic qualified agent, which could be a Chinese subsidiary of such overseas listed company, and complete certain other procedures. Failure to complete SAFE registrations may result in fines and legal sanctions and may also limit our ability to make payments under our equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprises in China and limit our wholly-foreign owned enterprises' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our directors and employees under Chinese law.

In addition, the STA has issued circulars concerning employees' share-based awards. Under these circulars, employees working in China who exercise share options and SARs, or whose restricted shares, RSUs or PSUs vest, will be subject to Chinese individual income tax. The Chinese subsidiaries of an overseas listed company have obligations to file documents related to employees' share-based awards with relevant tax authorities and to withhold individual income taxes of those employees related to their share-based awards. Although we currently intend to withhold income tax from our Chinese employees in connection with their exercise of options and SARs and the vesting of their restricted shares, RSUs and PSUs, if the employees fail to pay, or our Chinese subsidiaries fail to withhold, their income taxes according to relevant laws, rules and regulations, our Chinese subsidiaries may face sanctions imposed by the tax authorities or other Chinese government authorities.

Failure to make adequate contributions to various employee benefit plans as required by Chinese regulations may subject us to penalties.

Companies operating in China are required to participate in various government-sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their businesses. While we believe we comply with all material aspects of relevant regulations, the requirements governing employee benefit plans have not been implemented consistently by the local governments in China given the different levels of economic development in different locations. If we are subject to late fees or fines in relation to the underpaid employee benefits, our results of operations and financial condition may be adversely affected.

Proceedings instituted by the SEC against certain China-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese member firms of the "big four" accounting firms, including our independent registered public accounting firm. The Rule 102(e) proceedings initiated by the SEC relate to the failure of these firms to produce certain documents, including audit work papers, in response to a request from the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002. The auditors located in China claim they are not in a position lawfully to produce such documents directly to the SEC because of restrictions under Chinese law and specific directives issued by the China Securities Regulatory Commission ("CSRC"). The issues raised by the proceedings are not specific to our auditor or to us, but potentially affect equally all PCAOB-registered audit firms based in China and all businesses based in China (or with substantial operations in China) with securities listed in the United States. In addition, auditors based outside of China are subject to similar restrictions under Chinese law and CSRC directives in respect of audit work that is carried out in China which supports the audit opinions issued on financial statements of entities with substantial China operations.

In January 2014, the administrative judge reached an initial decision that the Chinese member firms of the "big four" accounting firms should be barred from practicing before the SEC for a period of six months. In February 2015, the Chinese member firms of the "big four" accounting firms reached a settlement with the SEC. As part of the settlement, each of the "big four" accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute with the SEC and stay the proceedings for four years; under the terms of the settlement, the proceedings were deemed dismissed with prejudice in February 2019. It remains unclear whether the SEC will commence new administrative proceedings against all four firms.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC, and we are unable to timely find another independent registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to delisting of our common stock from the New York Stock Exchange. Moreover, any negative news about the proceedings against these audit firms may adversely affect investor confidence in companies with substantial China-based operations listed on securities exchanges in the United States. All of these factors could materially and adversely affect the market price of our common stock and our ability to access the capital markets.

Chinese regulation of loans to, and direct investment in, Chinese entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from making loans or additional capital contributions to our Chinese subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business.

We are a Delaware holding company conducting our operations in China through our Chinese subsidiaries. We may make loans to our Chinese subsidiaries, or we may make additional capital contributions to our Chinese subsidiaries, or we may establish new Chinese subsidiaries and make capital contributions to these new Chinese subsidiaries, or we may acquire offshore entities with business operations in China in an offshore transaction.

Most of these uses are subject to Chinese regulations and approvals. For example, loans by us to our wholly-owned Chinese subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterparts of SAFE. If we decide to finance our wholly-owned Chinese subsidiaries by means of capital contributions, in practice, we might be still required to obtain approval from the MOFCOM or its local counterparts.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 142 provides that RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within China with limited exceptions (*e.g.*, by holding companies, venture capital or private equity firms). In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from the foreign currency registered capital of a foreign-invested company. The use of such RMB capital may not be altered without SAFE approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Such requirements are also known as the "payment-based foreign currency settlement system" established under SAFE Circular 142. Violations of SAFE Circular 142 could result in monetary or other penalties. Furthermore, SAFE promulgated a circular on November 9, 2010, known as Circular 59, and another supplemental circular on July 18, 2011, known as Circular 88, which both tightened the examination of the authenticity of settlement of foreign currency capital or net proceeds from overseas listings. SAFE further promulgated the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45, on November 9, 2011, which expressly prohibited foreign-invested enterprises from using registered capital settled in RMB converted from foreign currencies to grant loans through entrustment arrangements with a bank, repay intercompany loans or repay bank loans that have been transferred to a third party. Circular 142, Circular 59, Circular 88 and Circular 45 may significantly limit our ability to make loans or capital contributions to our Chinese subsidiaries and to convert such proceeds into RMB, which may adversely affect our liquidity and our ability to fund and expand our business in China.

Furthermore, on April 8, 2015, SAFE promulgated the Circular on the Reform of the Administrative Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 19, which became effective as of June 1, 2015. This Circular 19 is to implement the so-called "conversion-at-will" of foreign currency in capital account, which was established under a circular issued by SAFE on August 4, 2014, or Circular 36, and was implemented in 16 designated industrial parks as a reform pilot. The Circular 19 now implements the conversion-at-will of foreign currency settlement system nationally, and it abolishes the application of Circular 59 and Circular 45 on March 19, 2015 as well as Circular 142, Circular 88 and Circular 36 starting from June 1, 2015. Among other things, under Circular 19, foreign-invested enterprises may either continue to follow the payment-based foreign currency settlement system or elect to follow the conversion-at-will of foreign currency settlement system. Where a foreign-invested enterprise follows the conversion-at-will of foreign currency settlement system, it may convert any or 100% of the amount of the foreign currency in its capital account into RMB at any time. The converted RMB will be kept in a designated account known as "Settled but Pending Payment Account," and if the foreign-invested enterprise needs to make further payment from such designated account, it still needs to provide supporting documents and go through the review process with its bank. If under special circumstances the foreign-invested enterprise cannot provide supporting documents in time, Circular 19 grants the banks the power to provide a grace period to the enterprise and make the payment before receiving the supporting documents. The foreign-invested enterprise will then need to submit the supporting documents within 20 working days after payment. In addition, foreign-invested enterprises are now allowed to use their converted RMB to make equity investments in China under Circular 19. However, foreign-invested enterprises are still required to use the converted RMB in the designated account within their approved business scope under the principle of authenticity and self-use. It remains unclear whether a common foreign-invested enterprise, other than such special types of enterprises as holding companies, venture capital or private equity firms, can use the converted RMB in the designated account to make equity investments if equity investment or similar activities are not within their approved business scope.

In light of the various requirements imposed by Chinese regulations on loans to and direct investment in Chinese entities by offshore holding companies as discussed above, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, or at all, with respect to future loans by us to our Chinese subsidiaries or with respect to future capital contributions by us to our Chinese subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our Chinese operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Regulations regarding acquisitions may impose significant regulatory approval and review requirements, which could make it more difficult for us to pursue growth through acquisitions.

Under the PRC Anti-monopoly Law, companies undertaking certain investments and acquisitions relating to businesses in China must notify the anti-monopoly enforcement agency in advance of any transactions which are deemed a concentration and where the parties' revenues in the China market exceed certain thresholds as stipulated in the Provisions of the State Council on the Thresholds for Declaring Concentration of Business Operators. In addition, on August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State-Owned Assets Supervision and Administration Commission, the STA, the State Administration for Industry and Commerce of the People's Republic of China, the CSRC and the SAFE, jointly adopted the Provisions of the Ministry of Commerce on M&A of a Domestic Enterprise by Foreign Investors ("M&A Rules"), which came into effect on September 8, 2006 and was amended on June 22, 2009. Under the M&A Rules, the approval of MOFCOM must be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire domestic companies affiliated with PRC enterprises or residents. Applicable PRC laws, rules and regulations also require certain merger and acquisition transactions to be subject to security review.

Due to the level of our revenues, our proposed acquisition of control of, or decisive influence over, any company with revenues within China of more than RMB400 million in the year prior to any proposed acquisition would be subject to the State Administration for Market Regulation ("SAMR") merger control review. As a result of our size, many of the transactions we may undertake could be subject to SAMR merger review. Complying with the requirements of the relevant regulations to complete these transactions could be time consuming, and any required approval processes, including approval from SAMR, may be uncertain and could delay or inhibit our ability to complete these transactions, which could affect our ability to expand our business maintain our market share or otherwise achieve the goals of our acquisition strategy.

Our ability to carry out our investment and acquisition strategy may be materially and adversely affected by the regulatory authorities' current practice, which creates significant uncertainty as to the timing of receipt of relevant approvals and whether transactions that we may undertake would subject us to fines or other administrative penalties and negative publicity and whether we will be able to complete investments and acquisitions in the future in a timely manner or at all.

Risks Related to the Separation and Related Transactions

If the distribution does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, the Company could be subject to significant tax liabilities, and, in certain circumstances, the Company could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement.

The distribution was conditioned on YUM's receipt of opinions of outside advisors regarding the tax-free treatment of the distribution for U.S. federal income tax purposes. The opinions relied on various assumptions and representations as to factual matters made by YUM and us which, if inaccurate or incomplete in any material respect, would jeopardize the conclusions reached by such advisors in their opinions. The opinions are not binding on the IRS or the courts, and there can be no assurance that the IRS or the courts will not challenge the conclusions stated in the opinions or that any such challenge would not prevail.

If, notwithstanding receipt of the opinions, the distribution were determined to be a taxable transaction, YUM would be treated as having sold shares of the Company in a taxable transaction, likely resulting in a significant taxable gain. Pursuant to the tax matters agreement, the Company and YCCL agreed to indemnify YUM for any taxes and related losses resulting from any breach of covenants regarding the preservation of the tax-free status of the distribution, certain acquisitions of our equity securities or assets, or those of certain of our affiliates or subsidiaries, and any breach by us or any member of our group of certain representations in the documents delivered by us in connection with the distribution. Therefore, if the distribution fails to qualify as a transaction that is generally tax-free as a result of one of these actions or events, we may be required to make material payments to YUM under this indemnity.

YUM may be subject to Chinese indirect transfer tax with respect to the distribution, in which event we could be required to indemnify YUM for material taxes and related amounts pursuant to indemnification obligations under the tax matters agreement.

As noted above, Bulletin 7 provides that in certain circumstances a non-resident enterprise may be subject to Chinese enterprise income tax on an "indirect transfer" of Chinese interests. YUM concluded, and we concurred, that it believes that the distribution had a reasonable commercial purpose and that it is more likely than not that YUM will not be subject to this tax with respect to the distribution. However, there are uncertainties regarding the circumstances in which the tax will apply, and there can be no assurances that the Chinese tax authorities will not seek to impose this tax on YUM.

Pursuant to the tax matters agreement, the Company and YCCL have agreed to indemnify YUM for a portion (tied to the relative market capitalization of YUM and the Company during the 30 trading days after the distribution) of any taxes and related losses resulting from the application of Bulletin 7 to the distribution. Alternatively, if Bulletin 7 applies to the distribution as a result of a breach by the Company or Company group members of certain representations or covenants, or due to certain actions of the Company or Company group members following the distribution, the Company and YCCL generally will indemnify YUM for all such taxes and related losses. Therefore, if YUM is subject to such Chinese tax with respect to the distribution, we may be required to make material payments to YUM under this indemnity. Such payments could have a material adverse effect on our financial condition.

Potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement could materially and adversely affect our business, results of operations and financial condition.

We separated from YUM on October 31, 2016, becoming an independent, publicly traded company under the ticker symbol "YUMC" on the New York Stock Exchange on November 1, 2016. As part of the separation and distribution agreement, we agreed to indemnify YUM for claims against YUM relating to Yum China's business prior to the spin-off in 2016 as well as other liabilities. These liabilities include, among others, (i) our failure to pay, perform or otherwise promptly discharge any liabilities or contracts relating to the Company business, in accordance with their respective terms, whether prior to, at or after the distribution; (ii) any guarantee, indemnification obligation, surety bond or other credit support agreement, arrangement, commitment or understanding by YUM for our benefit, unless related to liabilities primarily associated with the YUM business; (iii) certain tax liabilities related to Bulletin 7 under PRC tax laws, which provides that in certain circumstances a non-resident enterprise may be subject to Chinese enterprise income tax on an "indirect transfer" of Chinese interests; (iv) any breach by us of the separation and distribution agreement or any of the ancillary agreements or any action by us in contravention of our amended and restated certificate of incorporation or amended and restated bylaws; and (v) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the information statement relating to the distribution or any other disclosure document that describes the separation or the distribution or the Company and its subsidiaries or primarily relates to the transactions contemplated by the separation and distribution agreement, subject to certain exceptions. If we are required to indemnify YUM under the circumstances set forth in the separation and distribution agreement, we may be subject to substantial liabilities.

In connection with the separation, YUM has agreed to indemnify us for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to insure us against the full amount of such liabilities, or that YUM's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the separation and distribution agreement and certain other agreements we entered into with YUM, YUM has agreed to indemnify us for certain liabilities set forth in the separation and distribution agreement. However, third parties could also seek to hold us responsible for any of the liabilities that YUM has agreed to retain, and there can be no assurance that the indemnity from YUM will be sufficient to protect us against the full amount of such liabilities, or that YUM will be able to fully satisfy its indemnification obligations. In addition, YUM's insurers may attempt to deny us coverage for liabilities associated with certain occurrences of indemnified liabilities prior to the separation. Moreover, even if we ultimately succeed in recovering from YUM or such insurance providers any amounts for which we are held liable, we may be temporarily required to bear these losses. Each of these risks could negatively affect our business, results of operations, financial condition and cash flows.

A court could require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement.

Under the separation and distribution agreement and related ancillary agreements, from and after the separation, each of YUM and the Company will be generally responsible for the debts, liabilities and other obligations related to the business or businesses which they own and operate following the consummation of the separation. Although we do not expect to be liable for any obligations that are not allocated to us under the separation and distribution agreement, a court could disregard the allocation agreed to between the parties, and require that we assume responsibility for obligations allocated to YUM (for example, tax and/or environmental liabilities), particularly if YUM were to refuse or were unable to pay or perform the allocated obligations.

Potential liabilities may arise due to fraudulent transfer considerations, which would adversely affect our results of operations and financial condition.

In connection with the separation and distribution, YUM completed several corporate reorganization transactions involving its subsidiaries which, along with the separation and distribution, may be subject to federal and state fraudulent conveyance and transfer laws. If, under these laws, a court were to determine that, at the time of the separation and distribution, any entity involved in these reorganization transactions or the separation and distribution:

- was insolvent;
- was rendered insolvent by reason of the separation and distribution or a related transaction;
- had remaining assets constituting unreasonably small capital; or
- intended to incur, or believed it would incur, debts beyond its ability to pay these debts as they matured,

then the court could void the separation and distribution, in whole or in part, as a fraudulent conveyance or transfer. The court could then require our stockholders to return to YUM some or all of the shares of Company common stock issued in the distribution, or require YUM or the Company, as the case may be, to fund liabilities of the other company for the benefit of creditors. The measure of insolvency will vary depending upon the jurisdiction whose law is being applied. Generally, however, an entity would be considered insolvent if the fair value of its assets was less than the amount of its liabilities, or if it was unable to pay its liabilities as they mature.

Risks Related to Our Common Stock

The Company cannot guarantee the timing or amount of dividends on, or repurchases of, its common stock.

We intend to retain a significant portion of our earnings to finance the operation, development and growth of our business. Our board of directors commenced a quarterly cash dividend in October 2017, which was temporarily suspended during part of 2020 due to the impacts of the COVID-19 pandemic. Any future determination to declare and pay cash dividends will be at the discretion of our board of directors and will depend on, among other things, our financial condition, results of operations, actual or anticipated cash requirements, tax considerations, contractual or regulatory restrictions and such other factors as our board of directors deems relevant. Our board of directors has also authorized a $1.4 billion share repurchase program, which was temporarily suspended during part of 2020 and 2021 due to the impacts of the COVID-19 pandemic. Repurchases under the program will be at the discretion of management and we cannot guarantee the timing or amount of any share repurchases. For more information, see Item 5. "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

The different characteristics of the capital markets in Hong Kong and the U.S. may negatively affect the trading prices of our shares.

We are subject to both New York Stock Exchange and Hong Kong Stock Exchange listing and regulatory requirements concurrently. The Hong Kong Stock Exchange and the New York Stock Exchange have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of shares of our common stock may not be the same on the two exchanges, even allowing for currency differences. Certain events having significant negative impact specifically on the U.S. capital markets may result in a decline in the trading price of our shares on the Hong Kong Stock Exchange notwithstanding that such event may not impact the trading prices of securities listed in Hong Kong generally or to the same extent, or vice versa. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historical market prices of our shares may not be indicative of the trading performance of the shares in the future.

As a company with a secondary listing on the Hong Kong Stock Exchange under Chapter 19C of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"), we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange. If 55% or more of the total worldwide trading volume, by dollar value, of our shares over our most recent fiscal year takes place on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange will regard us as having a dual primary listing in Hong Kong and we will no longer enjoy certain exemptions or waivers from strict compliance with the requirements under the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Codes on Takeovers and Mergers and Share Buy-backs and the Securities and Futures Ordinance, which could result in our incurring of incremental compliance costs.

The interests of the Investors may differ from the interests of other holders of Company common stock.

In connection with the separation and distribution, Pollos Investment L.P., an affiliate of Primavera Capital Group ("Primavera"), and API (Hong Kong) Investment Limited, an affiliate of Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. ("Ant Financial" and together with Primavera, the "Investors") received shares of common stock, representing approximately 4.3% of the outstanding shares of Company common stock as of December 31, 2021. In addition, the Investors have the ability to acquire additional shares of Company common stock in the open market (subject to an aggregate beneficial ownership interest limit of 19.9%).

The interests of the Investors may differ from those of other holders of Company common stock in material respects. For example, the Investors may have an interest in pursuing acquisitions, divestitures, financings or other transactions that could enhance their respective equity portfolios, even though such transactions might involve risks to holders of Company common stock. The Investors may, from time to time in the future, acquire interests in businesses that directly or indirectly compete with certain portions of the Company's business or are suppliers or customers of the Company. Additionally, the Investors may determine that the disposition of some or all of their interests in the Company would be beneficial to the Investors at a time when such disposition could be detrimental to the other holders of Company common stock.

Anti-takeover provisions in our organizational documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions, summarized below, that could make it more difficult to acquire control of the Company by means of a tender offer, a proxy contest or otherwise, or to remove incumbent officers and directors. Further, as a Delaware corporation, we are subject to provisions of Delaware law, which may impair a takeover attempt that our stockholders may find beneficial. These provisions might discourage certain types of coercive takeover practices and takeover bids that our board of directors may consider inadequate or delay acquisition attempts for us that holders of Company common stock might consider favorable.

- Our amended and restated bylaws provide that such bylaws may be amended by our board of directors or by the affirmative vote of a majority of our stockholders entitled to vote.
- Our amended and restated certificate of incorporation expressly eliminates the right of our stockholders to act by written consent. Accordingly, stockholder action must take place at the annual or a special meeting of our stockholders.
- Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of our board of directors or a committee of our board of directors.
- Our amended and restated certificate of incorporation does not provide for cumulative voting, which means that stockholders are denied the right to cumulate votes in the election of directors.
- Our board of directors has the authority to issue preferred stock, which could potentially be used to discourage attempts by third parties to obtain control of our company through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly.

General Risk Factors

We could be party to litigation that could adversely affect us by increasing our expenses, diverting management attention or subjecting us to significant monetary damages and other remedies.

We are involved in legal proceedings from time to time. These proceedings do or could include consumer, employment, real estate-related, tort, intellectual property, breach of contract and other litigation. As a public company, we may in the future also be involved in legal proceedings alleging violation of securities laws or derivative litigation. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may not be accurately estimated. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, such litigation may be expensive to defend and may divert resources and management attention away from our operations and negatively impact reported earnings. With respect to insured claims, a judgment for monetary damages in excess of any insurance coverage could adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also adversely affect our reputation, which in turn could adversely affect our results of operations.

In addition, the restaurant industry around the world has been subject to claims that relate to the nutritional content of food products, as well as claims that the menus and practices of restaurant chains have led to customer health issues, including weight gain and other adverse effects. We may also be subject to these types of claims in the future and, even if we are not, publicity about these matters (particularly directed at the quick-service and fast-casual segments of the restaurant industry) may harm our reputation and adversely affect our business, results of operations and financial condition.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our results of operations and financial condition.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including revenue recognition, long-lived asset impairment, impairment of goodwill and other intangible assets, lease accounting, share-based compensation and recoverability of deferred tax assets are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. New accounting guidance may require systems and other changes that could increase our operating costs and/or change our financial statements. For example, implementing the new lease standard issued by Financial Accounting Standards Board requires us to make significant changes to our lease management system and other accounting systems, and results in changes to our financial statements. The adoption of the new accounting standard for leases may result in a higher amount of impairment loss on newly recognized right-of-use assets and negatively impact our results of operations. Upon adoption of Accounting Standards Update No. 2016-02, Leases (Topic 842) ("ASC 842") on January 1, 2019, an impairment charge of $60 million (net of related impact on deferred taxes and noncontrolling interests) on right-of-use assets arising from existing operating leases as of January 1, 2019 was recorded as an adjustment to retained earnings, as the additional impairment charge would have been recorded before adoption had the operating lease right-of-use assets been recognized at the time of impairment. See Note 13 for details on the impairment charge recorded upon adoption of ASC 842 as well as subsequent impairment charges.

Our insurance policies may not provide adequate coverage for all claims associated with our business operations.

We have obtained insurance policies that we believe are customary and appropriate for businesses of our size and type and at least in line with the standard commercial practice in China. However, there are types of losses we may incur that cannot be insured against or that we believe are not cost effective to insure, such as loss of reputation. If we were held liable for uninsured losses or amounts or claims for insured losses exceeding the limits of our insurance coverage, our business and results of operations may be materially and adversely affected.

Unforeseeable business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by natural disasters, such as fires, floods and earthquakes, war, terrorism, power failures and power shortages, hardware and software failures, computer viruses and other events beyond our control. In particular, our business is dependent on prompt delivery and reliable transportation of our food products by our logistics partners. Unforeseeable events, such as adverse weather conditions, natural disasters, severe traffic accidents and delays, non-cooperation of our logistics partners, and labor strikes, could lead to delay or lost deliveries to our restaurants, which may result in the loss of revenue or in customer claims. There may also be instances where the conditions of fresh, chilled or frozen food products, being perishable goods, deteriorate due to delivery delays, malfunctioning of refrigeration facilities or poor handling during transportation by our logistics partners. This may result in a failure by us to provide quality food and services to customers, thereby affecting our business and potentially damaging our reputation. Any such events experienced by us could disrupt our operations. In addition, insurance may not be available to cover losses due to business interruptions resulting from public health issues.

Failure by us to maintain effective disclosure controls and procedures and internal control over financial reporting in accordance with the rules of the SEC could harm our business and results of operations and/or result in a loss of investor confidence in our financial reports, which could have a material adverse effect on our business.

We are required to maintain effective disclosure controls and procedures and effective internal control over financial reporting in connection with our filing of periodic reports with the SEC under the Exchange Act.

We may fail to maintain effective disclosure controls and procedures and internal control over financial reporting, and our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This may in turn cause investors to lose confidence in our financial statements and negatively impact the trading price of our common stock. Furthermore, we have incurred substantial costs, and may need to incur additional costs and use additional management and other resources, to comply with these requirements going forward.

If we fail to remedy any material weakness, our financial statements may be inaccurate and we may face restricted access to the capital markets, which could adversely affect our business, results of operations and financial condition.

The Company's stock price may fluctuate significantly.

The trading price of shares of our common stock can be volatile and could fluctuate widely in response to a variety of factors, many of which are beyond our control. In addition, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong and/or the United States may affect the volatility in the prices of and trading volumes for our shares. Some of these companies have experienced significant volatility. The trading performances of these companies' securities at the time of or after their offerings may affect the overall investor sentiment towards other companies with business operations located mainly in China and listed in Hong Kong and/or the United States and consequently may impact the trading performance of our shares. In addition to market and industry factors, the prices and trading volumes for our shares may be highly volatile for specific business reasons, including:

- actual or anticipated fluctuations in the our results of operations;
- significant liability claims, health concerns, food contamination complaints from our customers, shortages or interruptions in the availability of food or other supplies, or reports of incidents of food tampering;
- foreign exchange issues;
- geopolitical instability, conflict, or social unrest in the markets in which we operate, in Hong Kong, the United States or worldwide;
- changes in the regulatory, legal and political environment in which we operate, in Hong Kong, the United States or worldwide;

- the domestic and worldwide economies as a whole; or
- the delisting of our common stock from the New York Stock Exchange. See "—Risks Related to Doing Business in China—The audit report included in this annual report on Form 10-K is prepared by auditors who are not currently inspected by the Public Company Accounting Oversight Board and, as such, our stockholders are deprived of the benefits of such inspection and our common stock is subject to delisting from the New York Stock Exchange in the future."

Any of these factors may result in large and sudden changes in the volume and trading price of our shares.

Substantial future sales or perceived potential sales of our shares in the public market could cause the price of our shares to decline significantly.

Sales of shares of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our shares to decline significantly. Divesture in the future of our shares by stockholders, the announcement of any plan to divest our shares, or hedging activity by third-party financial institutions in connection with similar derivative or other financing arrangements entered into by stockholders, could cause the price of our shares to decline.

Your percentage of ownership in the Company may be diluted in the future.

In the future, your percentage ownership in the Company may be diluted because of equity awards that we grant to our directors, officers and employees or otherwise as a result of equity issuances for acquisitions or capital market transactions. The Company's and certain of YUM's employees have equity awards with respect to Company common stock as a result of conversion of their YUM equity awards (in whole or in part) to Company equity awards in connection with the distribution. From time to time, the Company will issue additional stock-based awards to its employees under the Company's employee benefit plans. Such awards will have a dilutive effect on the Company's earnings per share, which could adversely affect the market price of Company common stock.

In addition, our amended and restated certificate of incorporation authorizes us to issue, without the approval of the Company's stockholders, one or more classes or series of preferred stock that have such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over Company common stock respecting dividends and distributions, as our board of directors generally may determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of Company common stock. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred stock could affect the residual value of the common stock.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

As of year-end 2021, the Company had 10,051 Company-owned units in China. Of these Company-owned units, 9,999 units were leased properties and 52 units were owned properties. The leased Company-owned units are further detailed as follows:

- KFC leased properties for 7,399 units.
- Pizza Hut leased properties for 2,439 units.
- Other restaurant concepts leased properties for 161 units.

Company-owned restaurants in China are generally leased for initial terms of 10 to 20 years and generally do not have renewal options.

We also lease our corporate headquarters in Shanghai and Dallas, Texas in the U.S., and regional offices and an innovation center in China, and own building, land use rights, or both for 10 non-store properties, which primarily include logistics centers, seasoning facilities and office buildings for Little Sheep and Huang Ji Huang. We sublease over 160 properties to franchisees and other third parties. Additional information about the Company's leased properties is included in Note 12 to the Consolidated Financial Statements in Part II, Item 8. We believe that our properties are generally in good operating condition and are suitable for the purposes for which they are being used.

ITEM 3. Legal Proceedings.

We are subject to various lawsuits covering a variety of allegations from time to time. We believe that the ultimate liability, if any, in excess of amounts already provided for these matters in the Consolidated Financial Statements, is not likely to have a material adverse effect on the Company's annual results of operations, financial condition or cash flows. Matters faced by the Company from time to time include, but are not limited to, claims from landlords, employees, guests and others related to operational, contractual or employment issues. We are not involved in any material legal proceedings as of December 31, 2021.

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market for Yum China Common Stock

Yum China common stock trades on the New York Stock Exchange ("NYSE") under the symbol YUMC. Yum China common stock commenced trading on the NYSE on a "when-issued" basis on October 17, 2016 and began "regular way" trading on November 1, 2016. On September 10, 2020, the Company completed a secondary listing of its common stock on the Main Board of the HKEX under the stock code "9987". The shares listed on the HKEX are fully fungible with the shares listed on the NYSE.

As of February 22, 2022, there were 38,971 holders of record of Yum China's common stock. The number of registered holders does not include holders who are beneficial owners, but whose shares are held in street name by brokers and other nominees.

Dividends and Share Repurchases

We intend to retain a significant portion of our earnings to finance the operation, development and growth of our business. Since declaring an initial dividend of $0.10 per share in the fourth quarter of 2017, we have paid a quarterly cash dividend on Yum China common stock. Beginning in the fourth quarter of 2018, we have paid a quarterly cash dividend of $0.12 per share. However, due to the unprecedented effects of the COVID-19 pandemic, the Company suspended its dividend payments in the second and third quarter of 2020. Cash dividends totaling $203 million were paid to stockholders in 2021. Any determination to declare and pay future cash dividends will be at the discretion of our board of directors and will depend on, among other things, our financial condition, results of operations, actual or anticipated cash requirements, contractual or regulatory restrictions, tax considerations and such other factors as our board of directors deems relevant.

In addition, 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.

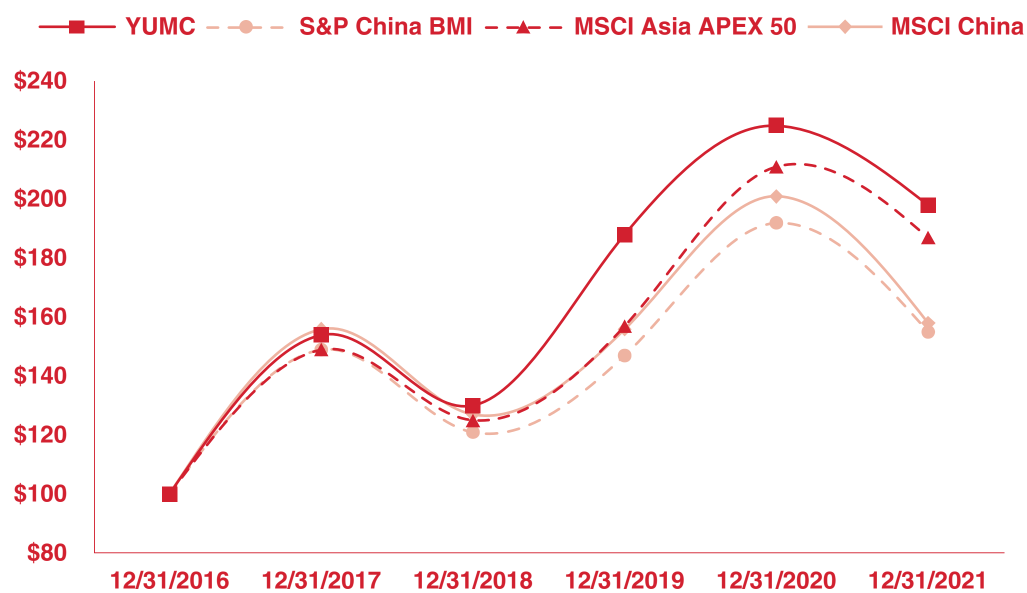
Our board of directors has authorized an aggregate of $1.4 billion for our share repurchase program, including its most recent increase in authorization on October 31, 2018. Yum China may repurchase shares under this program from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. Starting in the second quarter of 2020, our share repurchases were suspended due to the impacts of the COVID-19 pandemic. On July 28, 2021, our board of directors approved the resumption of share repurchases. The following table provides information, as of December 31, 2021, with respect to shares of common stock repurchased by Yum China under the authorization during the quarter then ended:

Period	Total Number of Shares Purchased (thousands)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (thousands)	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (millions)
10/1/21-10/31/21	251	$ 59.19	251	$ 643
11/1/21-11/30/21	492	$ 53.86	492	$ 617
12/1/21-12/31/21	—	—	—	$ 617
Cumulative total	743	$ 55.66	743	$ 617

Stock Performance Graph

This graph compares the cumulative total return of our common stock from December 31, 2016 through December 31, 2021, with the comparable cumulative total return of the S&P China BMI, MSCI Asia APEX 50, and MSCI China Index. The graph assumes that the value of the investment in our common stock and each index was $100 on December 31, 2016 and that all dividends were reinvested. We selected the S&P China BMI and MSCI Asia APEX 50 for comparison, as YUMC is an index member of both of these indices. We also selected MSCI China Index, as our relative total shareholder return against this index is one of the measures to determine the payout of certain PSU awards.

	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
YUMC	$ 100	$ 154	$ 130	$ 188	$ 225	$ 198
S&P China BMI	$ 100	$ 149	$ 121	$ 147	$ 192	$ 155
MSCI Asia APEX 50	$ 100	$ 149	$ 125	$ 157	$ 211	$ 187
MSCI China	$ 100	$ 156	$ 127	$ 156	$ 201	$ 158



ITEM 6. [RESERVED].

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Consolidated Financial Statements in Item 8, the "Forward-Looking Statements" section at the beginning of this Form 10-K and the "Risk Factors" section set forth in Item 1A.

All Note references in this MD&A refer to the Notes to the Consolidated Financial Statements included in Item 8. of this Form 10-K. Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding. Throughout this Form 10-K when we refer to the "financial statements," we are referring to the "Consolidated Financial Statements," unless the context indicates otherwise. This MD&A includes a discussion of our results of operations for the year ended December 31, 2021 compared to the year ended December 31, 2020. For a discussion of the year ended December 31, 2020 compared to the year ended December 31, 2019, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2020.

Overview

Yum China Holdings, Inc. is the largest restaurant company in China in terms of system sales, with $9.9 billion of revenues in 2021 and over 11,700 restaurants as of year-end 2021. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell and East Dawning. We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, (excluding Hong Kong, Macau and Taiwan), and own the intellectual property of the Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning concepts outright. We also established a joint venture with Lavazza Group, the world-renowned family-owned Italian coffee company, to explore and develop the Lavazza coffee shop concept in China. KFC was the first major global restaurant brand to enter China in 1987. With more than 30 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of 2021 system sales, with 11,788 restaurants covering over 1,600 cities primarily in China as of December 31, 2021. We believe that there are significant opportunities to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.

KFC is the leading and the largest quick-service restaurant ("QSR") brand in China in terms of system sales. As of December 31, 2021, KFC operated over 8,100 restaurants in more than 1,600 cities across China. KFC primarily competes with western QSR brands in China, such as McDonald's, Dicos and Burger King, among which we believe KFC had an approximate two-to-one lead over its nearest competitor in terms of store count as of the end of 2021. In the third quarter of 2020, the Company completed the acquisition of an additional 25% interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China ("Suzhou KFC"), increasing our equity interest to 72% and allowing the Company to consolidate the entity. In the fourth quarter of 2021, the Company completed the acquisition of a 28% equity interest in Hangzhou Catering Service Group ("Hangzhou Catering"), which holds a 45% equity interest in an unconsolidated affiliate that operates KFC stores in and around Hangzhou, China ("Hangzhou KFC"), increasing our equity interest to approximately 60% directly and indirectly, and allowing the Company to consolidate Hangzhou KFC.

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 December 31, 2021, Pizza Hut operated over 2,500 restaurants in over 600 cities. Measured by number of restaurants, we believe Pizza Hut had an approximate six-to-one lead over its nearest western CDR competitor in China as of the end of 2021.

We have two reportable segments: KFC and Pizza Hut. Our remaining non-reportable operating segments, including the operations of Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell, East Dawning, 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 the aggregate. Additional details on our reportable operating segments are included in Note 18 to the Consolidated Financial Statements.

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

- The Company provides certain percentage changes excluding the impact of foreign currency translation ("F/X"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the F/X impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

- System sales growth reflects the results of all restaurants regardless of ownership, including Company-owned, franchise and unconsolidated affiliate restaurants that operate our concepts, except for sales from non-Company-owned restaurants, for which we do not receive a sales-based royalty. Sales of franchise and unconsolidated affiliate restaurants typically generate ongoing franchise fees for the Company at an average rate of approximately 6% of system sales. Franchise and unconsolidated affiliate restaurant sales are not included in Company sales in the 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. Prior years have been adjusted accordingly.

- Company sales represent revenues from Company-owned restaurants. Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin percentage is defined as Restaurant profit divided by Company sales. Within the Company sales and Restaurant profit analysis, Store Portfolio Actions represent the net impact of new-unit openings, acquisitions, refranchising and store closures, and Other primarily represents the impact of same-store sales as well as the impact of changes in restaurant operating costs such as inflation/deflation.

Results of Operations

Summary

All comparisons within this summary are versus the same period a year ago. Refer to Item 1. Business for a discussion of the seasonality of our operations.

The COVID-19 pandemic has adversely affected, and will continue to adversely affect, our operations and financial results for the foreseeable future. Starting in the first quarter of 2020, the COVID-19 pandemic significantly impacted the Company's operations, resulting in a significant decline in Operating profit mainly driven by same-store sales declines and temporary store closures. While operating results improved sequentially in the last three quarters of 2020 and the first half of 2021, multiple waves of Delta-variant outbreaks persisted throughout the second half of 2021, spreading to nearly all provinces in China. As a result, the Company's operations and financial results were significantly affected in the second half of 2021.

In 2021, the Company's total revenues increased 19%, or 12% excluding the impact of F/X, mainly attributable to new-unit openings of 1,806 and the acquisition of Suzhou KFC and Hangzhou KFC, fewer temporary store closures compared to 2020 when approximately 35% of our restaurants were temporarily closed at the peak of the COVID-19 outbreak and same-store sales growth of 7% at Pizza Hut, partially offset by same-store sales decline of 3% at KFC. Operating profit increased 44%, or 34% excluding the impact of F/X, primarily driven by a net increase in re-measurement gain of our previously held equity interest in Hangzhou KFC, Lavazza and Suzhou KFC at fair value upon acquisition in 2021 and 2020, respectively, the increase in restaurant profit and a decrease of $18 million in store impairment expenses, partially offset by an increase in G&A expenses primarily due to higher compensation cost and lapping one-time reductions in social security contributions in 2020. Net income for 2021 increased 26%, or 16% excluding the impact of F/X, mainly due to the increase in operating profit, partially offset by the investment loss in 2021 lapping the investment gain in 2020 primarily from the fair value change of investments in equity securities and higher income tax expenses in line with the increase in pre-tax income.

2021 financial highlights are below:

	% Change				
	System Sales[(a)]	Same-Store Sales[(a)]	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	+8	(3)	+14	+3	(3)
Pizza Hut	+14	+7	+10	+77	+66
All Other Segments[(b)]	+29	(2)	+5	NM	NM
Total	+10	(1)	+12	+44	+34

NM refers to not meaningful.

(a) System Sales and Same-Store Sales percentages as shown in 2021 financial highlights 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.

The Consolidated Results of Operations for the years ended December 31, 2021 and 2020 and other data are presented below:

	2021	2020	% B/(W)[a] Reported	% B/(W)[a] Ex F/X
Company sales	$ 8,961	$ 7,396	21	14
Franchise fees and income	153	148	3	(4)
Revenues from transactions with franchisees and unconsolidated affiliates	663	647	3	(4)
Other revenues	76	72	6	—
Total revenues	$ 9,853	$ 8,263	19	12
Restaurant profit	$ 1,227	$ 1,098	12	5
Restaurant margin %	13.7%	14.9%	(1.2) ppts.	(1.2) ppts.
Operating Profit	$ 1,386	$ 961	44	34
Interest income, net	60	43	39	33
Investment (loss) gain	(54)	104	NM	NM
Income tax provision	(369)	(295)	(25)	(18)
Net income—including noncontrolling interests	1,023	813	26	16
Net income—noncontrolling interests	33	29	(15)	(8)
Net Income—Yum China Holdings, Inc.	$ 990	$ 784	26	16
Diluted Earnings Per Common Share	$ 2.28	$ 1.95	17	8
Effective tax rate	26.5%	26.6%		
Supplementary information—Non-GAAP Measures[b]				
Adjusted Operating Profit	$ 766	$ 732		
Adjusted Net Income	$ 525	$ 615		
Adjusted Diluted Earnings Per Common Share	$ 1.21	$ 1.53		
Adjusted Effective Tax Rate	27.8%	26.8%		
Adjusted EBITDA	$ 1,330	$ 1,248		

(a) Represents year-over-year change in percentage.

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

Performance Metrics

	2021 % Change
System Sales Growth	18%
System Sales Growth, excluding F/X	10%
Same-Store Sales Decline	(1)%

Unit Count	2021	2020	% Increase (Decrease)
Company-owned[a]	10,051	8,190	23
Unconsolidated affiliates	—	681	(100)
Franchisees	1,737	1,635	6
	11,788	10,506	12

(a) As a result of the acquisition of Hangzhou KFC and Suzhou KFC as disclosed in Note 1, the units of Hangzhou KFC and Suzhou KFC were transferred from unconsolidated affiliates to Company-owned upon the acquisition date.

Non-GAAP Measures

In addition to the results provided in accordance with GAAP throughout this MD&A, the Company provides non-GAAP measures adjusted for Special Items, which include Adjusted Operating Profit, Adjusted Net Income, Adjusted Earnings Per Common Share ("EPS"), Adjusted Effective Tax Rate and Adjusted EBITDA, which we define as net income including noncontrolling interests adjusted for income tax, interest income, net, investment gain or loss, certain non-cash expenses, consisting of depreciation and amortization as well as store impairment charges, and Special Items.

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

Non-GAAP Reconciliations	2021	2020
Reconciliation of Operating Profit to Adjusted Operating Profit		
Operating Profit	$ 1,386	$ 961
Special Items, Operating Profit	620	229
Adjusted Operating Profit	$ 766	$ 732
Reconciliation of Net Income to Adjusted Net Income		
Net Income—Yum China Holdings, Inc.	$ 990	$ 784
Special Items, Net Income—Yum China Holdings, Inc.	465	169
Adjusted Net Income—Yum China Holdings, Inc.	$ 525	$ 615
Reconciliation of EPS to Adjusted EPS		
Basic Earnings Per Common Share	$ 2.34	$ 2.01
Special Items, Basic Earnings Per Common Share	1.10	0.43
Adjusted Basic Earnings Per Common Share	$ 1.24	$ 1.58
Diluted Earnings Per Common Share	$ 2.28	$ 1.95
Special Items, Diluted Earnings Per Common Share	1.07	0.42
Adjusted Diluted Earnings Per Common Share	$ 1.21	$ 1.53
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate		
Effective tax rate (See Note 17)	26.5%	26.6%
Impact on effective tax rate as a result of Special Items	(1.3)%	(0.2)%
Adjusted effective tax rate	27.8%	26.8%

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

	2021	2020
Reconciliation of Net Income to Adjusted EBITDA		
Net Income—Yum China Holdings, Inc.	$ 990	$ 784
Net income—noncontrolling interests	33	29
Income tax provision	369	295
Interest income, net	(60)	(43)
Investment loss (gain)	54	(104)
Operating Profit	1,386	961
Special Items, Operating Profit	(620)	(229)
Adjusted Operating Profit	766	732
Depreciation and amortization	516	450
Store impairment charges	48	66
Adjusted EBITDA	$ 1,330	$ 1,248

Form 10-K

Details of Special Items are presented below:

Details of Special Items	2021	2020
Gain from re-measurement of equity interest upon acquisition[a]	$ 628	$ 239
Share-based compensation expense for Partner PSU Awards[b]	(8)	(7)
Derecognition of indemnification assets related to Daojia[c]	—	(3)
Special Items, Operating Profit	620	229
Tax effect on Special Items[d]	(155)	(60)
Special Items, net income—including noncontrolling interests	465	169
Special Items, net income—noncontrolling interests	—	—
Special Items, Net Income—Yum China Holdings, Inc.	$ 465	$ 169
Weighted-Average Diluted Shares Outstanding (in millions)	434	402
Special Items, Diluted Earnings Per Common Share	$ 1.07	$ 0.42

(a) In the fourth and third quarter of 2021, as a result of the consolidation of Hangzhou KFC and the Lavazza joint venture, the Company recognized a gain of $618 million and $10 million, respectively, from the re-measurement of our previously held equity interest at fair value. In the third quarter of 2020, the Company recognized a re-measurement gain of $239 million as a result of the consolidation of Suzhou KFC. The re-measurement gains were not allocated to any segment for performance reporting purposes. (See Note 3 for additional information.)

(b) 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 $8 million and $7 million associated with the Partner PSU Awards for the year ended December 31, 2021 and 2020, respectively.

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

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

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

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

Segment Results

KFC

KFC delivered a resilient performance in 2021 by accelerating store expansion with attractive returns and maintaining solid profitability. KFC continued to focus on innovative products, creating abundant value for our customers, as well as on upgrading ingredients to meet Chinese consumers' needs. KFC also continued its digital and delivery initiatives to enhance the customer experience. KFC's loyalty program members exceeded 330 million at year-end 2021 and contributed approximately 62% of system sales at KFC in 2021. Delivery sales accounted for approximately 31% of Company sales at KFC in 2021 with store and city coverage of 87% and 97%, respectively, at the end of 2021.

			% B/(W)	
	2021	2020	Reported	Ex F/X
Company sales	$ 6,816	$ 5,633	21	13
Franchise fees and income	120	125	(4)	(10)
Revenues from transactions with franchisees and unconsolidated affiliates	59	61	(4)	(10)
Other revenues	$ 8	$ 2	NM	NM
Total revenues	$ 7,003	$ 5,821	20	13
Restaurant profit	$ 1,013	$ 920	10	3
Restaurant margin %	14.9%	16.3%	(1.4) ppts.	(1.4) ppts.
G&A expenses	$ 240	$ 200	(20)	(13)
Franchise expenses	$ 59	$ 62	4	11
Expenses for transactions with franchisees and unconsolidated affiliates	$ 58	$ 61	5	11
Other operating costs and expenses	$ 4	$ 1	NM	NM
Closure and impairment expenses, net	$ 20	$ 25	17	22
Other income, net	$ (8)	$ (42)	(82)	(83)
Operating Profit	$ 827	$ 801	3	(3)

	2021 % Change
System Sales Growth	16%
System Sales Growth, excluding F/X	8%
Same-Store Sales Decline	(3)%

Unit Count	2021[(a)]	2020	% Increase (Decrease)
Company-owned	7,437	5,872	27
Unconsolidated affiliates	—	677	(100)
Franchisees	731	617	18
	8,168	7,166	14

	2020	New Builds	Acquired[(a)]	Closures	Refranchised	2021
Company-owned	5,872	978	788	(199)	(2)	7,437
Unconsolidated affiliates	677	116	(780)	(13)	—	—
Franchisees	617	138	(8)	(18)	2	731
Total	7,166	1,232	—	(230)	—	8,168

(a) As a result of the acquisition of Hangzhou KFC as disclosed in Note 1, the units of Hangzhou KFC were transferred from unconsolidated affiliates to Company-owned.

Company Sales and Restaurant Profit

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

Income (Expense)	2020	Store Portfolio Actions	Other	F/X	2021
Company sales	$ 5,633	$ 912	$ (159)	$ 430	$ 6,816
Cost of sales	(1,801)	(291)	72	(138)	(2,158)
Cost of labor	(1,247)	(218)	(74)	(103)	(1,642)
Occupancy and other operating expenses	(1,665)	(231)	21	(128)	(2,003)
Restaurant profit	$ 920	$ 172	$ (140)	$ 61	$ 1,013

In 2021, the increase in Company sales, excluding the impact of F/X, was primarily driven by net unit growth including the acquisition of Suzhou KFC and Hangzhou KFC and fewer temporary store closures compared to 2020, partially offset by same-store sales decline. The increase in Restaurant profit, excluding the impact of F/X, was primarily driven by the increase in Company sales and commodity deflation of 4%, largely offset by higher promotion costs from value campaigns, a decrease of $55 million in temporary relief provided by landlords and government agencies, wage inflation of 4%, increased rider cost associated with a rise of approximately three percentage points in delivery sales from the prior year as consumers remain cautious about dine-in and higher costs associated with the phase-out of certain plastic packaging and other packaging upgrades.

Franchise Fees and Income

In 2021, the decrease in Franchise fees and income, excluding the impact of F/X, was primarily driven by the acquisition of Suzhou KFC and Hangzhou KFC, partially offset by the net unit growth.

G&A Expenses

In 2021, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by the acquisition of Suzhou KFC and Hangzhou KFC, merit increases and lapping one-time reductions in social security contributions in 2020.

Operating Profit

In 2021, the decrease in Operating profit, excluding the impact of F/X, was primarily driven by lower equity income from our unconsolidated affiliates due to the consolidation of Suzhou KFC and Hangzhou KFC upon acquisition and higher G&A expenses, partially offset by the increase in Restaurant profit.

Pizza Hut

During 2021, we continued to focus on strengthening Pizza Hut's fundamentals, including investments in products, strengthening our digital capabilities, developing delivery and other channels and enhancing our asset portfolio to drive growth. Pizza Hut's loyalty program members approximated 110 million at year-end 2021 and contributed approximately 55% of system sales at Pizza Hut in 2021. Delivery sales accounted for approximately 36% of Company sales at Pizza Hut in 2021 with store and city coverage of 94% and 98%, respectively, at the end of 2021.

	2021	2020	% B/(W) Reported	% B/(W) Ex F/X
Company sales	$ 2,092	$ 1,721	22	14
Franchise fees and income	8	5	31	23
Revenues from transactions with franchisees and unconsolidated affiliates	6	4	41	33
Other revenue	$ 3	$ —	NM	NM
Total revenues	$ 2,109	$ 1,730	22	14
Restaurant profit	$ 224	$ 181	24	16
Restaurant margin %	10.7%	10.5%	0.2 ppts.	0.2 ppts.
G&A expenses	$ 111	$ 96	(15)	(7)
Franchise expenses	$ 4	$ 3	(25)	(17)
Expenses for transactions with franchisees and unconsolidated affiliates	$ 6	$ 4	(36)	(28)
Other operating costs and expenses	$ 2	$ —	NM	NM
Closure and impairment expenses, net	$ 7	$ 25	70	72
Operating Profit	$ 111	$ 62	77	66

	2021 % Change
System Sales Growth	22%
System Sales Growth, excluding F/X	14%
Same-Store Sales Growth	7%

Unit Count	2021	2020	% Increase
Company-owned	2,452	2,230	10
Franchisees	138	125	10
	2,590	2,355	10

	2020	New Builds	Closures	Acquired	2021
Company-owned	2,230	316	(95)	1	2,452
Franchisees	125	19	(5)	(1)	138
Total	2,355	335	(100)	—	2,590

Company Sales and Restaurant Profit

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

Income (Expense)	2020	Store Portfolio Actions	Other	F/X	2021
Company sales	$ 1,721	$ 127	$ 111	$ 133	$ 2,092
Cost of sales	(529)	(38)	(29)	(41)	(637)
Cost of labor	(471)	(35)	(54)	(38)	(598)
Occupancy and other operating expenses	(540)	(34)	(19)	(40)	(633)
Restaurant profit	$ 181	$ 20	$ 9	$ 14	$ 224

In 2021, the increase in Company sales, excluding the impact of F/X, was primarily driven by same-store sales growth and fewer temporary store closures compared to 2020. The increase in Restaurant profit, excluding the impact of F/X, was primarily driven by the increase in Company sales and commodity deflation of 5%, partially offset by a decrease of $22 million in temporary relief provided by landlords and government agencies, wage inflation of 6% and higher promotion costs from value campaigns.

G&A Expenses

In 2021, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs and lapping one-time reductions in social security contributions in 2020.

Operating Profit

In 2021, the increase in Operating profit, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit and a decrease of $16 million in store impairment expenses, partially offset by higher G&A expenses.

All Other Segments

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

	2021	2020	% B/(W) Reported	% B/(W) Ex F/X
Company sales	$ 53	$ 42	27	19
Franchise fees and income	25	18	38	30
Revenues from transactions with franchisees and unconsolidated affiliates	98	60	63	54
Other revenues	297	122	NM	NM
Total revenues	$ 473	$ 242	96	85
Restaurant loss	$ (10)	$ (3)	NM	NM
Restaurant margin %	(20.8)%	(6.3)%	(14.5) ppts.	(14.5) ppts.
G&A expenses	$ 42	$ 39	(11)	(3)
Franchise expenses	$ 1	$ —	NM	NM
Expenses for transactions with franchisees and unconsolidated affiliates	$ 88	$ 48	(81)	(72)
Other operating costs and expenses	$ 294	$ 110	NM	NM
Closure and impairment expenses, net	$ 7	$ 5	(12)	(4)
Other loss, net	$ 7	$ 2	NM	NM
Operating Loss	$ (29)	$ (7)	NM	NM

Total Revenues

In 2021, the increase in Total revenues, excluding the impact of F/X, was primarily driven by the revenue generated by our delivery team for services provided to KFC and Pizza Hut restaurants and the consolidation of Huang Ji Huang.

Operating Loss

In 2021, the increase in Operating loss, excluding the impact of F/X, was primarily driven by the increase of Operating loss from certain emerging brands, partially offset by Operating profit generated by Huang Ji Huang.

Corporate & Unallocated

	2021	2020	% B/(W) Reported	% B/(W) Ex F/X
Revenues from transactions with franchisees and unconsolidated affiliates[(a)]	500	522	(4)	(10)
Other revenues	20	6	NM	NM
Expenses for transactions with franchisees and unconsolidated affiliates[(a)]	497	520	4	11
Other operating costs and expenses	17	4	NM	NM
Corporate G&A expenses	171	144	(18)	(14)
Other unallocated income	642	245	NM	NM
Interest income, net	60	43	39	33
Investment (loss) gain	(54)	104	NM	NM
Income tax provision (See Note 17)	(369)	(295)	(25)	(18)
Effective tax rate (See Note 17)	26.5%	26.6%	0.1 ppts	0.1 ppts

(a) Primarily includes revenues and associated expenses of transactions with franchisees and unconsolidated affiliates derived from the Company's central procurement model whereby food and paper products are centrally purchased and then mainly sold to KFC and Pizza Hut franchisees and unconsolidated affiliates. Amounts have not been allocated to any segment for purposes of making operating decisions or assessing financial performance as the transactions are corporate revenues and expenses in nature.

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

In 2021, the decrease in Revenues from transactions with franchisees and unconsolidated affiliates, excluding the impact of F/X, was mainly driven by the impact from the acquisition of Suzhou KFC and Hangzhou KFC, partially offset by the increase in revenue driven by system sales growth.

Other Revenues/Operating Costs and Expenses

In 2021, the increase in Other revenues/operating costs and expenses was mainly driven by logistics and warehousing services provided to third parties.

Corporate G&A Expenses

In 2021, the increase in Corporate G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs and lapping one-time reductions in social security contributions in 2020.

Other Unallocated Income

Other unallocated income primarily includes a gain of $618 million and $10 million in 2021 and $239 million in 2020 recognized from the re-measurement of our previously held equity interest in connection with the consolidation of Hangzhou KFC, the Lavazza joint venture and Suzhou KFC, respectively. See Note 3 for additional information.

Interest Income, Net

The increase in interest income, net for 2021 was primarily driven by the cash increase from the proceeds of $2.2 billion raised from the issuance of common stock in connection with our global offering and secondary listing on the Main Board of HKEX in September 2020.

Investment (Loss) Gain

The investment loss or gain primarily relates to the change in fair value of our investment in Meituan Dianping ("Meituan"), as well as Fujian Sunner Development Co., Ltd. ("Sunner") before the equity method of accounting was applied. See Note 3 for additional information.

Income Tax Provision

Our income tax provision primarily includes tax on our earnings at the Chinese statutory tax rate of 25%, withholding tax on planned or actual repatriation of earnings outside of China, and U.S. corporate income tax, if any. Our effective tax rate was 26.5% and 26.6% in 2021 and 2020, respectively.

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

Impact of COVID-19 Pandemic

Starting in late January 2020, the COVID-19 pandemic has significantly impacted the Company's operations and financial results. While operating results improved sequentially in the last three quarters of 2020 and first half of 2021, multiple waves of Delta-variant outbreaks persisted throughout the second half of 2021, spreading to nearly all provinces in China. In January, Omicron-variant cases emerged in China, spreading to several major cities. A number of regions were identified as medium- to high-risk with restrictive measures put in place. COVID-19 conditions remain fluid and we expect that our operations will continue to be impacted by COVID-19 pandemic, including outbreaks caused by existing or new COVID-19 variants, and the actions taken by governmental authorities, such as regional lockdowns, measures restricting travel and large gatherings, and recommendations against dining out.

Management at this time cannot ascertain the extent to which our operations will continue to be impacted by the COVID-19 pandemic, which depends largely on future developments that are highly uncertain and cannot be accurately predicted, including resurgences and further spread of existing or new COVID-19 variants, the actions by government authorities to contain or treat its impact, the availability and effectiveness of vaccines, the economic recovery within China and globally, the impact on consumer behavior and other related factors. The Company expects that further developments related to the COVID-19 pandemic may continue to have a material and extended adverse impact on the Company's results of operations, as well as the Company's cash flows and financial condition. For further information on the risks associated with the COVID-19 pandemic, see "Item 1A. Risk Factors—Risks Related to Our Business and Industry—Health concerns arising from outbreaks of viruses or other illnesses may have a material adverse effect on our business. The COVID-19 pandemic has had, and may continue to have, adverse effects on our results of operations, cash flows and financial condition."

Tax Examination on Transfer Pricing

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

PRC Value-Added Tax

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 December 31, 2021, an input VAT credit asset of $322 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 December 31, 2021. Any input VAT credit asset would be classified as Prepaid expenses and other current assets if the credit expected to be used within one year can be reasonably determined.

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

Foreign Currency Exchange Rate

The reporting currency of the Company is the US$. Most of the revenues, costs, assets and liabilities of the Company are denominated in RMB. Any significant change in the exchange rate between US$ 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 7A. Quantitative and Qualitative Disclosures About Market Risk" for a further discussion.

Consolidated Cash Flows

Net cash provided by operating activities was $1,131 million in 2021 as compared to $1,114 million in 2020. The increase was primarily driven by higher Operating profit, excluding the non-cash gain of $618 million and $239 million recognized from the re-measurement of our previously held equity interest in Hangzhou KFC and Suzhou KFC at fair value upon acquisition in 2021 and 2020, respectively, partially offset by working capital changes.

Net cash used in investing activities was $855 million in 2021 as compared to $3,109 million in 2020. The decrease was mainly due to the net impact on cash flow resulting from purchases and maturities of short-term investments and lapping the impact of cash consideration paid for the acquisitions of Huang Ji Huang and Suzhou KFC in 2020, partially offset by the increase in capital spending, the cash consideration paid for the acquisition of Hangzhou KFC, and acquisitions of other equity investments in 2021.

Net cash used in financing activities was $313 million in 2021 as compared to net cash provided by financing activities of $2,058 million in 2020. The change was primarily due to lapping the impact of $2.2 billion in proceeds raised from issuance of common stock in connection with our global offering and secondary listing on the Main Board of HKEX in September 2020, the increase in dividends paid on common stock due to our temporary suspension of dividends in the second and third quarter of 2020, the increase in dividends paid to noncontrolling interests and the increase in share repurchases due to the resumption of share repurchases in 2021.

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 global offering in September 2020 provided us with $2.2 billion in net proceeds.

Our ability to fund our future operations and capital needs will primarily depend on our ongoing ability to generate cash from operations. We believe our principal uses of cash in the future will be primarily to fund our operations and capital expenditures for accelerating store network expansion and store remodeling, step up investments in digitalization, automation and logistics infrastructure, provide returns to our stockholders, as well as explore opportunities for acquisitions or investments that build and support our ecosystem. We believe that our future cash from operations, together with our funds on hand and access to 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. We currently expect our fiscal year 2022 capital expenditures will be in the range of approximately $800 million to $1 billion.

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

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

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

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

Dividends and Share Repurchases

Our board of directors has authorized an aggregate of $1.4 billion for our share repurchase program. Yum China may repurchase shares under this program from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. Starting in the second quarter of 2020 through July 2021, our share repurchases were suspended due to the impact of the COVID-19 pandemic. During the years ended December 31, 2021 and 2020, the Company repurchased $75 million or 1.3 million shares and $7 million or 0.2 million shares of common stock, respectively, under the repurchase program.

The Company paid a cash dividend of $0.12 per share for the first and fourth quarter of 2020 and each quarter of 2021. Total cash dividends of $203 million and $95 million were paid to stockholders in 2021 and 2020, respectively.

On February 8, 2022, the board of directors declared a cash dividend of $0.12 per share, payable on March 29, 2022, to stockholders of record as of the close of business on March 8, 2022.

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 December 31, 2021, the Company had credit facilities of RMB 3,471 million (approximately $546 million), comprised of onshore credit facilities of RMB 2,200 million (approximately $346 million) in the aggregate and offshore credit facilities of $200 million in the aggregate.

The credit facilities had remaining terms ranging from less than one year to two years as of December 31, 2021. Each credit facility bears interest based on the prevailing rate stipulated by the People's Bank of China, the Loan Prime Rate ("LPR") published by the National Interbank Funding Centre of the PRC or the 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 sub-limits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of December 31, 2021, we had outstanding bank guarantees of RMB 177 million (approximately $28 million) mainly to secure our lease payments 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 December 31, 2021.

Material Cash Requirements

Our material short-term and long-term cash requirements as of December 31, 2021 included:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Finance Leases[a]	$ 58	$ 6	$ 11	$ 10	$ 31
Operating Leases[a]	3,389	644	1,024	738	983
Purchase Obligations[b]	196	56	53	35	52
Transition Tax[c]	35	4	18	13	—
Total	$ 3,678	$ 710	$ 1,106	$ 796	$ 1,066

(a) These obligations, which are shown on a nominal basis, relate primarily to approximately 10,000 Company-owned restaurants. See Note 12 for additional information.

(b) Purchase obligations relate primarily to supply and service agreements. We have excluded agreements that are cancelable without penalty or have a remaining term not in excess of one year. Such commitments are generally near term in nature, will be funded from operating cash flows, and are not significant to the Company's overall financial position.

(c) This amount represents transition tax payable on the deemed repatriation of accumulated undistributed foreign earnings after utilizing existing qualified foreign tax credits, which is to be paid over a maximum of eight years beginning in 2018.

We have not included in the table above approximately $25 million of liabilities for unrecognized tax benefits related to the uncertainty with regard to the deductibility of certain business expenses incurred as well as related accrued interest and penalties. These liabilities may increase or decrease over time as a result of tax examinations, and given the status of the examinations, we cannot reliably estimate the period of any cash settlement with the respective taxing authorities. These liabilities exclude amounts that are temporary in nature and for which we anticipate that over time there will be no net cash outflow.

In addition to the material cash requirements listed above, the Company and Lavazza Group have committed to contributing $100 million to the Lavazza joint venture, in proportion to their respective equity interest of 65% and 35%, respectively, by the end of the second quarter of 2023. The cash will be used to further accelerate the expansion of Lavazza stores in China.

We have no material contingent obligations as of December 31, 2021. Please see Note 19 to the Consolidated Financial Statements for further discussion.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

See Note 2 for details of recently adopted accounting pronouncements.

New Accounting Pronouncements Not Yet Adopted

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)* ("ASU 2020-06"), which eliminates two of the three models in ASC 470-20 that require separate accounting for embedded conversion features and eliminates some of the conditions for equity classification in ASC 815-40 for contracts in an entity's own equity. The guidance also requires entities to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and generally requires them to include the effect of share settlement for instruments that may be settled in cash or shares. We will adopt this standard in the first quarter of 2022, and do not expect the adoption of this standard will have a material impact on our financial statements.

In May 2021, the FASB issued ASU 2021-04, *Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options* ("ASU 2021-04"). It requires issuers to account for a modification or exchange of freestanding equity-classified written call options that remain equity classified after the modification or exchange based on the economic substance of the modification or exchange. We will adopt this standard in the first quarter of 2022, and do not expect the adoption of this standard will have a material impact on our financial statements.

In July 2021, the FASB issued ASU 2021-05, *Lessors—Certain Leases with Variable Lease* ("ASU 2021-05"). It requires lessors to classify leases as operating leases if they have variable lease payments that do not depend on an index or rate and would have selling losses if they were classified as sales-type or direct financing leases. We will adopt this standard in the first quarter of 2022, and do not expect the adoption of this standard will have a material impact on our financial statements.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805)—Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"). It requires issuers to apply ASC 606 *Revenue from Contracts with Customers* to recognize and measure contract assets and contract liabilities from contracts with customers acquired in a business combination. ASU 2021-08 is effective for the Company from January 1, 2023, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832)—Disclosures by Business Entities about Government Assistance* ("ASU 2021-10"). It requires issuers to make annual disclosures about government assistance, including the nature of the transaction, the related accounting policy, the financial statement line items affected and the amounts applicable to each financial statement line item, as well as any significant terms and conditions, including commitments and contingencies. We will adopt this standard in 2022, and do not expect the adoption of this standard will have a material impact on our financial statements.

Critical Accounting Policies and Estimates

Our reported results are impacted by the application of certain accounting policies that require us to make subjective or complex judgments. These judgments involve estimations of the effect of matters that are inherently uncertain and may significantly impact our quarterly or annual results of operations or financial condition. Changes in the estimates and judgments could significantly affect our results of operations, financial condition and cash flows in future years. A description of what we consider to be our most significant critical accounting policies and estimates follows.

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 in the 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.

Breakage Revenue

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.

Impairment or Disposal of Long-Lived Assets

We review long-lived assets of restaurants (primarily operating lease right-of-use assets and property, plant and equipment ("PP&E")) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate recoverability based on the restaurant's forecasted undiscounted cash flows, which are based on our entity-specific assumptions, to the carrying value of such assets. The forecasted undiscounted cash flows incorporate our best estimate of sales growth based upon our operation plans for the unit and actual results at comparable restaurants. For restaurant assets that are deemed not to be recoverable, we write down the impaired restaurant to its estimated fair value. In determining the fair value of restaurant-level assets, we consider the highest and best use of the assets from market participants' perspective, which is represented by the higher of the forecasted discounted cash flows of operating restaurants and the price market participants would pay to sub-lease the operating lease right-of-use assets and acquire remaining restaurant assets, even if that use differs from the current use by the Company. Key assumptions in the determination of fair value include reasonable sales growth assumption in generating after-tax cashflows that would be used by a franchisee in the determination of a purchase price for the restaurant, and market rental assumption for estimating the price market participants would pay to sub-lease the operating lease right-of-use assets. Estimates of forecasted cash flows of operating restaurants are highly subjective judgments and can be significantly impacted by changes in the business or economic conditions. Estimates of the price market participants would pay to sub-lease the operating lease right-of-use assets are based on comparable market rental information that could be reasonably obtained for the property. In situations where the highest and best use of the restaurant-level assets from market participants' perspective is represented by sub-leasing the operating lease right-of-use assets and acquiring the 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.

When we believe it is more likely than not a restaurant or groups of restaurants will be refranchised for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. Expected net sales proceeds are generally based on actual bids from the buyer.

The discount rate used in the fair value calculations is our estimate of the required rate-of-return that a franchisee would expect to receive when purchasing a similar restaurant or groups of restaurants and the related long-lived assets. The discount rate incorporates rates of returns for historical refranchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

We evaluate indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicates impairment might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. When we evaluate these assets for impairment, we have the option to first perform a qualitative assessment to determine whether an intangible asset group is impaired. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of the intangible asset group is less than its carrying amount, we will then perform a quantitative assessment. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future after-tax cash flows associated with the intangible asset. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive. These estimates are highly subjective, and our ability to achieve the forecasted cash is affected by factors such as changes in our operating performance and business strategies and changes in economic conditions. Our indefinite-lived intangible assets had a book value of $141 million and $138 million as of December 31, 2021 and 2020, respectively, representing two material indefinite-lived intangible assets, which are our Little Sheep and Huang Ji Huang trademarks.

In the year ended December 31, 2021, considering the continuing adverse effects of the COVID-19 pandemic, we performed a quantitative impairment assessment for the Little Sheep trademark and the fair value estimate exceeded its carrying amount. Fair value of the Little Sheep trademark was determined using a relief-from-royalty valuation approach that was based on unobservable inputs, including estimated future revenues as well as the selection of an appropriate discount rate based on weighted-average cost of capital and company-specific risk premium, which are considered Level 3 inputs. In the year ended December 31, 2021, we elected to perform the qualitative impairment assessment for the Huang Ji Huang trademark by evaluating all pertinent factors, including but not limited to macroeconomic conditions, industry and market conditions and financial performance. Based on our qualitative assessment, it was more likely than not that the carrying value of the Huang Ji Huang trademark was not impaired and therefore the quantitative assessment was not required. In the year ended December 31, 2020, we also elected to perform the qualitative impairment assessment for both our Little Sheep and Huang Ji Huang trademarks. No impairment charges on trademarks related to Little Sheep and Huang Ji Huang were recorded in 2021 and 2020.

Our finite-lived intangible assets that are not allocated to an individual restaurant are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed not recoverable on a undiscounted basis is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the finite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

Impairment of Goodwill

We evaluate goodwill for impairment on an annual basis as of the beginning of our fourth quarter or more often if an event occurs or circumstances change that indicates impairment might exist. When we evaluate goodwill for impairment, we have the option to first perform a qualitative assessment to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying amount. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we will then perform a quantitative assessment. Our reporting units are our individual operating segments. Fair value is the price a willing buyer would pay for the reporting unit, and is generally estimated using discounted expected future after-tax cash flows from the business operation of the reporting unit.

Future cash flow estimates and the discount rate are the key assumptions when estimating the fair value of a reporting unit. Future cash flows are based on growth expectations relative to recent historical performance and incorporate sales growth and margin improvement assumptions that we believe a third-party buyer would assume when determining a purchase price for the reporting unit. The sales growth and margin improvement assumptions that factor into the discounted cash flows are highly correlated as cash flow growth can be achieved through various interrelated strategies such as product pricing and restaurant productivity initiatives. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. These estimates are highly subjective, and our ability to achieve the forecasted cash is affected by factors such as changes in our operating performance and business strategies and changes in economic conditions.

Our goodwill of $2,142 million as of December 31, 2021 was related to the KFC, Pizza Hut, Huang Ji Huang and Lavazza reporting units. We performed a qualitative impairment assessment for each of our individual reporting units in 2021. Based on our qualitative assessment, the Company concluded that no changes in events or circumstances have occurred that indicated impairment may exist and it was more likely than not that the fair value of the reporting units exceeds their carrying amount and therefore no quantitative assessment was required. No impairment charge on goodwill was recorded in 2021 and 2020.

If we record goodwill upon acquisition of a restaurant(s) from a franchisee and such restaurant(s) is then sold within two years of acquisition, the goodwill associated with the acquired restaurant(s) is written off in its entirety. If the restaurant is refranchised two years or more subsequent to its acquisition, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising and the portion of the reporting unit that will be retained.

Share-Based Compensation

We account for share awards issued to employees in accordance with Accounting Standards Codification Topic 718 ("ASC 718"), *Compensation-Stock Compensation*. Share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period. We recognize share-based compensation expense for awards granted to employees and non-employee directors using the straight-line method.

We estimated the fair value of stock options and SARs at the grant date using the Black-Scholes option-pricing model ("the BS model"). It should be noted that the option-pricing model requires the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate and, as a result, our operating profit and net income. PSUs have performance and/or market conditions that are based on the closing price of Yum China's stock, shareholder return performance relative to peer group in the MSCI International China Index, or relative shareholder return against the MSCI China Index measured over the performance period. The fair values of PSUs have been determined based on the outcome of a Monte-Carlo Simulation model (the "MCS model") and the closing price of the Company's stock on the date of the grant.

Under the BS and MCS models, we made a number of assumptions regarding the fair value of the share-based awards, including:

- the expected future volatility of the price of shares of Yum China common stock;
- the risk-free interest rate;
- the expected dividend yield; and
- the expected term.

We estimated the expected future volatility of the price of shares of Yum China common stock based on the historical price volatility of the publicly traded shares of common stock of comparable companies in the same business as Yum China as well as the historical volatility of the Company's common stock. The risk-free interest rate was based on the U.S. Treasury zero-coupon yield in effect with maturity terms equal to the expected term or performance measurement period of the awards. The dividend yield was estimated based on the Company's dividend policy. We use historical turnover data to estimate the expected forfeiture rate.

PRC Value-Added Tax

As of December 31, 2021, an input VAT credit asset of $322 million and payable of $2 million were recorded in Other assets and Accounts payable and other current liabilities, respectively, on the Consolidated Balance Sheets. At each balance sheet date, the Company reviews the outstanding balance of any 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 include significant assumptions subject to change. Key assumptions include the following:

- Estimated growth rate for revenues;
- Estimated restaurant expenses and other costs;
- Estimated new-unit development and asset upgrades.

We also consider qualitative factors including the fact that such assets can be carried forward indefinitely to offset future VAT payables, our ability to manage the accumulation of the input VAT credits and potential changes in VAT rates. We did not make an allowance for the recoverability of the input VAT credit asset as of December 31, 2021 and 2020. Changes in any of the assumptions could materially impact the amount of VAT asset and its recoverability and, as a result, our operating income and net income.

Income Taxes

Uncertain Tax Positions

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS and other tax authorities with respect to income and non-income based taxes. We recognize the benefit of positions taken or expected to be taken in our tax returns when it is more likely than not that the position would be sustained upon examination by these tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. At December 31, 2021 and 2020, we had $20 million and $21 million, respectively, of unrecognized tax benefits related to the uncertainty with regard to the deductibility of certain business expenses incurred. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

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

Unremitted Earnings of Foreign Subsidiaries

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. Except for the planned but yet to be distributed earnings, we have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The Company's separation from YUM was intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting basis over tax basis in our investment in the China business continuing to be indefinitely reinvested. The excess of financial reporting basis over tax basis as of December 31, 2017 was subject to the one-time transition tax under the Tax Act as a deemed repatriation of accumulated undistributed earnings from the foreign subsidiaries. However, we continue to believe that the portion of the excess of financial reporting basis over tax basis (including earnings and profits subject to the one-time transition tax) is indefinitely reinvested in our foreign subsidiaries for foreign withholding tax purposes. We estimate that our total temporary difference for which we have not provided foreign withholding taxes is approximately $3 billion at December 31, 2021. The foreign withholding tax rate on this amount is 5% or 10% depending on the manner of repatriation and the applicable tax treaties or tax arrangements.

See Note 17 of the Consolidated Financial Statements for a further discussion of our income taxes.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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 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 year ended December 31, 2021, the Company's operating profit would have decreased approximately $130 million if RMB weakened 10% relative to the U.S. dollar. This estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

Commodity Price Risk

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

Investment Risk

In September 2018, we invested $74 million in 8.4 million of Meituan's ordinary shares. The Company sold 4.2 million of its ordinary shares of Meituan in the second quarter of 2020 for proceeds of approximately $54 million. The equity investment is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. The investment in Sunner was recorded at fair value on a recurring basis before it became subject to the equity method of accounting when the Company established significant influence over the operating and financial policies of Sunner in May 2021. See Note 3 of the Consolidated Financial Statements for a further discussion on our investment in Meituan and Sunner.

ITEM 8. Financial Statements and Supplementary Data.

INDEX TO FINANCIAL INFORMATION

Financial Statement Schedules

No schedules are required because either the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the above-listed financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Yum China Holdings, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Yum China Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired Hangzhou KFC Co., Ltd. ("Hangzhou KFC") during 2021, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, the internal control over financial reporting of Hangzhou KFC. Hangzhou KFC's total assets represented 3.9% of the Company's total consolidated assets, excluding goodwill and net intangible assets which were included within the scope of assessment and total revenues of less than 1% of total consolidated revenues of the Company, as of and for the year ended December 31, 2021. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Hangzhou KFC.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of impairment of long-lived assets of restaurants

As discussed in Notes 2, 8 and 12 to the consolidated financial statements, property, plant and equipment, net and operating lease right-of-use assets were US$2,251 million and US$2,612 million, respectively, as of December 31, 2021, which included the long-lived assets of the Company's restaurants. For restaurant assets with indicators that the carrying value may not be recoverable, the Company evaluates recoverability of these assets by comparing the forecasted undiscounted cash flows of the restaurant's operations to the carrying value of such assets. For restaurant assets that are not deemed to be recoverable, the Company writes down the restaurant assets to the estimated fair value. The Company determines the fair value of the restaurant assets based on the higher of the forecasted discounted cash flows of the restaurant's operations and the price market participants would pay to sub-lease the operating lease right-of-use assets and acquire the remaining restaurant assets.

We identified the assessment of impairment of long-lived assets of restaurants as a critical audit matter. A high degree of auditor judgment was required in assessing the sales growth rates used to estimate the forecasted undiscounted cash flows of the restaurants' operations. In addition, specialized skills and knowledge were needed to assess the Company's market rental assumptions to estimate the fair values of the operating lease right-of-use assets.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's long-lived assets of restaurants impairment assessment process. This included controls related to the determination of the sales growth rates and the market rentals. To evaluate the sales growth rates, we compared the sales growth rates of a sample of restaurants to the historical sales growth rates and the Company's operation plans for the respective restaurants. We performed sensitivity analyses over the sales growth rates for a selection of restaurants to assess their impact on the restaurants' forecasted undiscounted cash flows. We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Comparing the market rentals of a sample of restaurants to respective market rental ranges that we independently developed using external data; and
- Developing independent estimates of the fair values of the operating lease right-of-use assets based on the price that market participants would pay to sub-lease the right-of-use assets for a sample of restaurants and comparing the results of our estimates to the Company's estimates.

Evaluation of uncertain tax position

As discussed in Notes 2 and 17 to the consolidated financial statements, the Company recognizes the benefit of positions taken or expected to be taken in tax returns in the financial statements when it is more likely than not (more than a 50% likelihood) that the position would be sustained upon examination by tax authorities. Since 2016, the Company has been under a national audit on transfer pricing by the Chinese State Taxation Administration ("STA") regarding the related party transactions for the period from 2006 to 2015.

We identified the evaluation of the Company's uncertain tax position pertaining to the transfer pricing used in the related party transactions under audit by the STA as a critical audit matter. A high degree of auditor judgment and specialized skills and knowledge were required in evaluating the Company's interpretation of the applicable tax laws and regulations and the estimate of the more likely than not assessment of tax position being sustained under examination by tax authorities.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of the internal control related to the Company's assessment process pertaining to the transfer pricing audit, including the control related to the interpretation of the applicable tax laws and regulations and the assessment of the uncertain tax position being sustained under examination by tax authorities. Since tax law is complex and often subject to interpretation, we involved tax professionals with specialized skills and knowledge, who assisted in:

- Reading the correspondence received by the Company from the tax authorities in connection with the transfer pricing audit by the STA, as well as responses and information the Company submitted to the tax authorities;
- Evaluating the Company's identification and consideration of information that could significantly affect the recognition and measurement of the uncertain tax position; and
- Evaluating the Company's interpretation of applicable tax laws and regulations, technical analysis and the application of the accounting standards in assessing the recognition and measurement of the potential impact from the uncertain tax position.

/s/ KPMG Huazhen LLP

We have served as the Company's auditor since 2016.

Shanghai, China
February 28, 2022

Consolidated Statements of Income

Yum China Holdings, Inc.
Years ended December 31, 2021, 2020 and 2019

(in US$ millions, except per share data)

	2021	2020	2019
Revenues			
Company sales	$ 8,961	$ 7,396	$ 7,925
Franchise fees and income	153	148	148
Revenues from transactions with franchisees and unconsolidated affiliates	663	647	654
Other revenues	76	72	49
Total revenues	9,853	8,263	8,776
Costs and Expenses, Net			
Company restaurants			
Food and paper	2,812	2,342	2,479
Payroll and employee benefits	2,258	1,730	1,807
Occupancy and other operating expenses	2,664	2,226	2,373
Company restaurant expenses	7,734	6,298	6,659
General and administrative expenses	564	479	487
Franchise expenses	64	65	71
Expenses for transactions with franchisees and unconsolidated affiliates	649	633	645
Other operating costs and expenses	65	57	37
Closures and impairment expenses, net	34	55	36
Other income, net	(643)	(285)	(60)
Total costs and expenses, net	8,467	7,302	7,875
Operating Profit	1,386	961	901
Interest income, net	60	43	39
Investment (loss) gain	(54)	104	63
Income Before Income Taxes	1,392	1,108	1,003
Income tax provision	(369)	(295)	(260)
Net income—including noncontrolling interests	1,023	813	743
Net income—noncontrolling interests	33	29	30
Net Income—Yum China Holdings, Inc.	$ 990	$ 784	$ 713
Weighted-average common shares outstanding (in millions):			
Basic	422	390	377
Diluted	434	402	388
Basic Earnings Per Common Share	$ 2.34	$ 2.01	$ 1.89
Diluted Earnings Per Common Share	$ 2.28	$ 1.95	$ 1.84

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Yum China Holdings, Inc.
Years ended December 31, 2021, 2020 and 2019

(in US$ millions)

	2021	2020	2019
Net income—including noncontrolling interests	$ 1,023	$ 813	$ 743
Other comprehensive income (loss), net of tax of nil			
Foreign currency translation adjustments	108	230	(32)
Comprehensive income—including noncontrolling interests	1,131	1,043	711
Comprehensive income—noncontrolling interests	40	43	30
Comprehensive Income—Yum China Holdings, Inc.	$ 1,091	$ 1,000	$ 681

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Yum China Holdings, Inc.
Years ended December 31, 2021, 2020 and 2019

(in US$ millions)

	2021	2020	2019
Cash Flows—Operating Activities			
Net income—including noncontrolling interests	$ 1,023	$ 813	$ 743
Depreciation and amortization	516	450	428
Non-cash operating lease cost	424	368	339
Closures and impairment expenses	34	55	36
Gain from re-measurement of equity interest upon acquisition	(628)	(239)	—
Investment loss (gain)	53	(104)	(63)
Equity income from investments in unconsolidated affiliates	(44)	(62)	(69)
Distributions of income received from unconsolidated affiliates	32	55	73
Deferred income taxes	160	111	16
Share-based compensation expense	41	36	26
Changes in accounts receivable	(5)	(15)	(9)
Changes in inventories	(16)	17	(77)
Changes in prepaid expenses and other current assets	(28)	(15)	(3)
Changes in accounts payable and other current liabilities	118	65	171
Changes in income taxes payable	(26)	17	(8)
Changes in non-current operating lease liabilities	(461)	(394)	(381)
Other, net	(62)	(44)	(37)
Net Cash Provided by Operating Activities	**1,131**	**1,114**	**1,185**
Cash Flows—Investing Activities			
Capital spending	(689)	(419)	(435)
Purchases of short-term investments	(6,114)	(4,499)	(1,024)
Purchases of long-term time deposits	(25)	(57)	—
Maturities of short-term investments	6,383	2,061	534
Contributions to unconsolidated affiliates	—	(17)	—
Acquisition of business, net of cash acquired	(115)	(288)	—
(Acquisitions) disposal of equity investments	(300)	54	—
Other, net	5	56	15
Net Cash Used in Investing Activities	**(855)**	**(3,109)**	**(910)**
Cash Flows—Financing Activities			
Common stock issuance proceeds, net of issuance costs	—	2,195	—
Repurchase of shares of common stock	(75)	(8)	(265)
Cash dividends paid on common stock	(203)	(95)	(181)
Dividends paid to noncontrolling interests	(57)	(33)	(32)
Contributions from noncontrolling interests	37	—	—
Payment of acquisition related holdback	(8)	—	—
Other, net	(7)	(1)	(2)
Net Cash (Used in) Provided by Financing Activities	**(313)**	**2,058**	**(480)**
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	**15**	**40**	**(6)**
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	**(22)**	**103**	**(211)**
Cash, Cash Equivalents and Restricted Cash—Beginning of Year	**1,158**	**1,055**	**1,266**
Cash, Cash Equivalents and Restricted Cash—End of Year	**$ 1,136**	**$ 1,158**	**$ 1,055**
Supplemental Cash Flow Data			
Cash paid for income tax	255	170	255
Non-cash Investing and Financing Activities			
Capital expenditures included in accounts payable and other current liabilities	269	203	150

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Yum China Holdings, Inc.
December 31, 2021 and 2020
(in US$ millions)

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,136	$ 1,158
Short-term investments	2,860	3,105
Accounts receivable, net	67	99
Inventories, net	432	398
Prepaid expenses and other current assets	221	176
Total Current Assets	$ 4,716	$ 4,936
Property, plant and equipment, net	2,251	1,765
Operating lease right-of-use assets	2,612	2,164
Goodwill	2,142	832
Intangible assets, net	272	246
Deferred income taxes	106	98
Investments in unconsolidated affiliates	292	85
Other assets	832	749
Total Assets	**$ 13,223**	**$ 10,875**
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 2,332	$ 1,995
Income taxes payable	51	72
Total Current Liabilities	2,383	2,067
Non-current operating lease liabilities	2,286	1,915
Non-current finance lease obligations	40	28
Deferred income tax liabilities	425	227
Other liabilities	167	167
Total Liabilities	5,301	4,404
Redeemable Noncontrolling Interest	14	12
Equity		
Common stock, $0.01 par value; 1,000 million shares authorized; 449 million shares and 440 million shares issued at December 31, 2021 and 2020, respectively; 428 million shares and 420 million shares outstanding at December 31, 2021 and 2020, respectively	4	4
Treasury stock	(803)	(728)
Additional paid-in capital	4,695	4,658
Retained earnings	2,892	2,105
Accumulated other comprehensive income	268	167
Total Yum China Holdings, Inc. Stockholders' Equity	7,056	6,206
Noncontrolling interests	852	253
Total Equity	7,908	6,459
Total Liabilities, Redeemable Noncontrolling Interest and Equity	**$ 13,223**	**$ 10,875**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Equity

Yum China Holdings, Inc.
Years ended December 31, 2021, 2020 and 2019

(in US$ millions)

	Yum China Holdings, Inc.									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock		Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interest
	Shares*	Amount				Shares*	Amount			
Balance at December 31, 2018	**392**	**$ 4**	**$ 2,402**	**$ 944**	**$ (17)**	**(13)**	**$ (460)**	**$ 103**	**$ 2,976**	**$ 1**
Net Income (loss)				713				32	745	(2)
Foreign currency translation adjustments					(32)			—	(32)	—
Comprehensive income (loss)									713	(2)
Dividends declared								(34)	(34)	
Cash dividends declared ($0.48 per common share)				(181)					(181)	
Repurchase of shares of common stock						(6)	(261)		(261)	
Exercise and vesting of share-based awards	3	—	—						—	
Share-based compensation			26						26	
Revaluation of redeemable noncontrolling interest			(1)						(1)	1
Cumulative effect of accounting change				(60)				(3)	(63)	
Balance at December 31, 2019	**395**	**$ 4**	**$ 2,427**	**$ 1,416**	**$ (49)**	**(19)**	**$ (721)**	**$ 98**	**$ 3,175**	**$ —**
Net Income				784				29	813	—
Foreign currency translation adjustments					216			14	230	—
Comprehensive income									1,043	—
Dividends declared								(32)	(32)	
Cash dividends declared ($0.24 per common share)				(95)					(95)	
Acquisition of business								144	144	12
Issuance of common stock, net of issuance costs	42	—	2,193						2,193	
Repurchase of shares of common stock						—	(7)		(7)	
Exercise and vesting of share-based awards	3	—	2						2	
Share-based compensation			36						36	
Balance at December 31, 2020	**440**	**$ 4**	**$ 4,658**	**$ 2,105**	**$ 167**	**(20)**	**$ (728)**	**$ 253**	**$ 6,459**	**$ 12**
Net Income				990				32	1,022	1
Foreign currency translation adjustments					101			7	108	—
Comprehensive income									1,130	1
Dividends declared								(39)	(39)	
Cash dividends declared ($0.48 per common share)				(203)					(203)	
Acquisition of business								562	562	
Contributions from noncontrolling interests								37	37	
Repurchase of shares of common stock						(1)	(75)		(75)	
Exercise and vesting of share-based awards	2	—	(3)						(3)	
Exercise of the warrants	8	—	—						—	
Share-based compensation			41						41	
Revaluation of redeemable noncontrolling interest			(1)						(1)	1
Balance at December 31, 2021	**449**	**$ 4**	**$ 4,695**	**$ 2,892**	**$ 268**	**(21)**	**$ (803)**	**$ 852**	**$ 7,908**	**$ 14**

*: Shares may not add due to rounding.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Tabular amounts in US$ millions, except for number of shares and per share data)

Note 1 — Description of Business

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

The Company owns, franchises or has ownership in entities that own and operate restaurants (also referred to as "stores" or "units") under the KFC, Pizza Hut, Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell, and East Dawning concepts (collectively, the "concepts"). In connection with the separation of the Company in 2016 from its former parent company, Yum! Brands, Inc. ("YUM"), a 50-year master license agreement was entered into between Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of the Company and YUM, through YRI China Franchising LLC, a subsidiary of YUM, effective from January 1, 2020 and previously through Yum! Restaurants Asia Pte. Ltd., another subsidiary of YUM, from October 31, 2016 to December 31, 2019, 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, Macau and Taiwan. In exchange, we pay a license fee to YUM equal to 3% of net system sales from both our Company and franchise restaurants. We own the intellectual property of Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning, and pay no license fee related to these concepts.

In 1987, KFC was the first quick-service restaurant brand to enter China. As of December 31, 2021, there are over 8,100 KFC stores in China. We maintain a 58%, 70%, and 83% controlling interest in the entities that own and operate the KFCs in and around Shanghai, Beijing and Wuxi, respectively. During the third quarter of 2020, the Company completed the acquisition of an additional 25% equity interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China ("Suzhou KFC"), for cash consideration of $149 million. Upon closing of the acquisition, the Company increased its equity interest to 72%, allowing the Company to consolidate Suzhou KFC. During the fourth quarter of 2021, the Company completed its investment of a 28% equity interest in Hangzhou Catering Service Group ("Hangzhou Catering"), for cash consideration of $255 million. Upon closing, the Company directly and indirectly holds an approximately 60% equity interest in the Hangzhou KFC joint venture that operates KFC stores in and around Hangzhou, China ("Hangzhou KFC"), allowing the Company to consolidate Hangzhou KFC. These acquisitions were considered immaterial. We began consolidating Suzhou KFC and Hangzhou KFC upon the completion of acquisition.

The first Pizza Hut in China opened in 1990. As of December 31, 2021, there are over 2,500 Pizza Hut restaurants in China.

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

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell, East Dawning, Daojia and our e-commerce business, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. Additional details on our segment reporting are included in Note 18.

The Company's common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "YUMC". On September 10, 2020, the Company completed a secondary listing of its common stock on the Main Board of the Hong Kong Stock Exchange ("HKEX") under the stock code "9987", in connection with a global offering of 41,910,700 shares of its common stock. Net proceeds raised by the Company from the global offering after deducting underwriting fees and the offering expenses amounted to $2.2 billion.

Note 2—Summary of Significant Accounting Policies

Our preparation of the accompanying 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.

Basis of Preparation and Principles of Consolidation. Intercompany accounts and transactions have been eliminated in consolidation. We consolidate entities in which we have a controlling financial interest, the usual condition of which is ownership of a majority voting interest. We also consider consolidating an entity in which we have certain interests where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity ("VIE"), is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it.

Our most significant variable interests are in entities that operate restaurants under franchise arrangements. We do not generally have an equity interest in our franchisee businesses. Additionally, we do not typically provide significant financial support such as loans or guarantees to our franchisees. We have variable interests in certain entities that operate restaurants under franchise agreements through real estate lease arrangements with them to which we are a party. At December 31, 2021, the Company had future lease payments due from franchisees, on a nominal basis, of approximately $38 million. As our franchise arrangements provide our franchisee entities the power to direct the activities that most significantly impact their economic performance, we do not consider ourselves the primary beneficiary of any such entity that might otherwise be considered a VIE.

Through the acquisition of Daojia, the Company also acquired a 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 Consolidated Financial Statements since the acquisition date.

We consolidate the entities that operate KFCs in and around Shanghai, Beijing, Wuxi, Suzhou and Hangzhou, as well as the Lavazza joint venture where we have controlling interests since the acquisition dates.

Comparative Information. Certain comparative items in the Consolidated Financial Statements have been reclassified to conform to the current year's presentation to facilitate comparison.

Fiscal Calendar. Our fiscal year ends on December 31, with each quarter comprised of three months.

Foreign Currency. Our functional currency for the operating entities in China is the Chinese Renminbi ("RMB"), the currency of the primary economic environment in which they operate. Income and expense accounts for our operations are then translated into U.S. dollars at the average exchange rates prevailing during the period. Assets and liabilities are then translated into U.S. dollars at exchange rates in effect at the balance sheet date. Foreign currency translation adjustments are recorded in the Accumulated other comprehensive income on the Consolidated Balance Sheets. Gains and losses arising from the impact of foreign currency exchange rate fluctuations on transactions in foreign currency, to the extent they arise, are included in Other income, net in our Consolidated Statements of Income.

Franchise Operations. We execute agreements which set out the terms of our arrangement with franchisees. Our franchise agreements typically require the franchisee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to our approval and their payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration.

The 3% license fees we pay to YUM for the right to sublicense the KFC, Pizza Hut and Taco Bell intellectual property to franchisees and unconsolidated affiliates are recorded in Franchise expenses. License fees due to YUM for our Company-owned stores are included in Occupancy and other operating expenses. Total license fees paid to YUM were $298 million, $256 million and $273 million during the years ended December 31, 2021, 2020 and 2019, respectively.

Certain direct costs of our franchise operations are charged to Franchise expenses. These costs include provisions for estimated uncollectible fees, rent or depreciation expense associated with restaurants we sub-lease to franchisees, and certain other direct incremental franchise support costs.

We also have certain transactions with franchisees and unconsolidated affiliates, which consist primarily of sales of food and paper products, advertising services and other services provided to franchisees and unconsolidated affiliates. Related expenses are included in Expenses for transactions with franchisees and unconsolidated affiliates.

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

Company Sales

Revenues from Company-owned restaurants are recognized when a customer takes possession of the food and tenders payment, which is when our obligation to perform is satisfied. The Company presents sales net of sales-related taxes. We also offer our customers delivery through both our own mobile applications and third-party aggregators' platforms. For delivery orders placed through our mobile applications, we use our dedicated riders, while for orders placed through third-party aggregators' platforms, we either used our dedicated riders or third-party aggregators' delivery staff in the past. With respect to delivery orders delivered by our dedicated riders, we control and determine the price for the delivery service and generally recognize revenue, including delivery fees, when a customer takes possession of the food. When orders are fulfilled by the delivery staff of third-party aggregators, who control and determine the price for the delivery service, we recognize revenue, excluding delivery fees, when control of the food is transferred to the third-party aggregators' delivery staff. The payment terms with respect to these sales are short-term in nature. Starting in 2019, we used 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 KFC and Pizza Hut family privilege membership program offering members a mix of distinct benefits, including a welcome gift and assorted discount coupons with pre-defined quantities, consideration collected is allocated to the benefits provided based on their relative standalone selling price and revenue is recognized when food or services are delivered or the benefits expire. In determining the relative standalone selling price of the benefits, the Company considers likelihood of future redemption based on historical redemption pattern and reviews such estimates periodically based upon the latest available information regarding redemption and expiration patterns.

Franchise Fees and Income

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

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

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

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

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

Loyalty Programs

Each of the Company's KFC and Pizza Hut reportable segments operates a loyalty program that allows registered members to earn points for each qualifying purchase. Points, which generally expire 18 months after being earned, may be redeemed for future purchases of KFC or Pizza Hut branded products or other products for free or at a discounted price. Points cannot be redeemed or exchanged for cash. The estimated value of points earned by the loyalty program members is recorded as a reduction of revenue at the time the points are earned, based on the percentage of points that are projected to be redeemed, with a corresponding deferred revenue liability included in Accounts payable and other current liabilities on the 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.

Direct Marketing Costs. We charge direct marketing costs to expense ratably in relation to revenues over the year in which incurred and, in the case of advertising production costs, in the year the advertisement is first shown. Deferred direct marketing costs, which are classified as prepaid expenses, consist of media and related advertising production costs which will generally be used for the first time in the next fiscal year and have historically not been significant. Our direct marketing expenses incurred for Company-owned restaurants were $368 million, $307 million and $344 million in 2021, 2020 and 2019, respectively, and were included in Occupancy and other operating expenses. In addition, the direct marketing costs incurred for franchisees and unconsolidated affiliates were $55 million, $60 million and $65 million in 2021, 2020 and 2019, respectively, and were recorded in Expenses for transactions with franchisees and unconsolidated affiliates.

Research and Development Expenses. Research and development expenses associated with our food innovation activities, which are expensed as incurred, are reported in general and administrative ("G&A") expenses. Research and development expenses were $6 million, $3 million and $4 million in 2021, 2020 and 2019, respectively.

Share-Based Compensation. Prior to the separation, all employee equity awards were granted by YUM. Upon the separation, 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, to maintain the pre-separation intrinsic value of the awards. The modified equity awards have the same terms and conditions as the awards held immediately before the separation, except the number of shares and the price were adjusted. The incremental compensation cost, measured as the excess of the fair value of the award immediately after the modification over the fair value of the award immediately before the modification, based on Black-Scholes option-pricing model was immaterial, and YUM and the Company continue to recognize the unamortized fair value of the awards over the remaining requisite service period as their respective employees continue to provide services. All awards granted following the separation were granted under the Company's Long Term Incentive Plan (the "2016 Plan"). We recognize all share-based payments to employees and directors, including grants of stock options, restricted stock units ("RSUs"), stock appreciation rights ("SARs") and performance share units ("PSUs"), in the Consolidated Financial Statements as compensation cost over the service period based on their fair value on the date of grant. This compensation cost is recognized over the service period on a straight-line basis, net of an assumed forfeiture rate, for awards that actually vest and when performance conditions are probable of being achieved, if applicable. Forfeiture rates are estimated at grant date based on historical experience and compensation cost is adjusted in subsequent periods for differences in actual forfeitures from the previous estimates. We present this compensation cost consistent with the other compensation costs for the employee recipient in either payroll and employee benefits or G&A expenses.

Impairment or Disposal of Long-Lived Assets. Long-lived assets, primarily Property, plant and equipment ("PP&E") and operating lease right-of-use ("ROU") assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The assets are not recoverable if their carrying value is higher than the undiscounted cash flows we expect to generate from such assets. If the assets are not deemed to be recoverable, impairment is measured based on the excess of their carrying value over their fair value.

For purposes of impairment testing for our restaurants, we have concluded that an individual restaurant is the lowest level of independent cash flows unless our intent is to refranchise restaurants as a group. We review our long-lived assets of such individual restaurants (primarily operating lease ROU assets and PP&E) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. Our primary indicators of potential impairment for our semi-annual impairment testing of these restaurant assets include two consecutive years of operating losses after a restaurant has been open for three years. We evaluate the recoverability of these restaurant assets by comparing the forecasted undiscounted cash flows of the restaurant's operation, which are based on our entity-specific assumptions, to the carrying value of such assets. The forecasted undiscounted cash flows incorporate our best estimate of sales growth based upon our operation plans for the unit and actual results at comparable restaurants. For restaurant assets that are not deemed to be recoverable, we write down an impaired restaurant to its estimated fair value, which becomes its new cost basis. Fair value is an estimate of the price market participants would pay for the restaurant and its related assets. In determining the fair value of restaurant-level assets, we 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 operating lease ROU assets and acquire remaining restaurant 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. The discount rate incorporates rates of returns for historical refranchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows. Estimates of the price market participants would pay to sub-lease the operating lease ROU assets are based on comparable market rental information that could be reasonably obtained for the property. In situations where the highest and best use of the restaurant-level assets from market participants' perspective is 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.

When we believe it is more likely than not a restaurant or groups of restaurants will be refranchised for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. We evaluate the recoverability of these restaurant assets by comparing estimated sales proceeds plus holding period cash flows, if any, to the carrying value of the restaurant or group of restaurants. For restaurant assets that are not deemed to be recoverable, we recognize impairment for any excess of carrying value over the fair value of the restaurants, which is based on the expected net sales proceeds. To the extent ongoing agreements to be entered into with the franchisee simultaneous with the refranchising are expected to contain terms, such as royalty rates, not at prevailing market rates, we consider the off-market terms in our impairment evaluation. We recognize any such impairment charges in Refranchising gain. Refranchising gain includes the gains or losses from the sales of our restaurants to new and existing franchisees, including any impairment charges discussed above. We recognize gains on restaurant refranchising when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity and we are satisfied that the franchisee can meet its financial obligations.

When we decide to close a restaurant, it is reviewed for impairment, and depreciable lives are adjusted based on the expected disposal date. Other costs incurred when closing a restaurant such as costs of disposing of the assets as well as other facility-related expenses are generally expensed as incurred. Additionally, at the time we decide to close a restaurant, we reassess whether it is reasonably certain that we will exercise the termination option, and remeasure lease liability to reflect changes in lease term and remaining lease payments based on the planned exit date, if applicable. The amount of the re-measurement of the lease liability is recorded as an adjustment to the operating lease ROU asset first, with any remaining amount recorded in Closures and impairment expenses if the carrying amount of the operating lease ROU asset is reduced to zero. Any costs recorded upon store closure as well as any subsequent adjustments to remaining operating lease ROU assets and lease liabilities as a result of lease termination are recorded in Closures and impairment expenses. In the event we are forced to close a store and receive compensation for such closure, that compensation is recorded in Closures and impairment expenses. To the extent we sell assets associated with a closed store, any gain or loss upon that sale is also recorded in Closures and impairment expenses.

Considerable management judgment is necessary to estimate future cash flows, including cash flows from continuing use, terminal value, lease term and refranchising proceeds. Accordingly, actual results could vary significantly from our estimates.

Government Subsidies. Government subsidies generally consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. Government subsidies are recognized when it is probable that the Company will comply with the conditions attached to them, and the subsidies are received. If the subsidy is related to an expense item, it is recognized as a reduction to the related expense to match the subsidy to the costs that it is intended to compensate. If the subsidy is related to an asset, it is deferred and recorded in other liabilities and then recognized ratably over the expected useful life of the related asset in the Consolidated Statements of Income.

Income Taxes. We record deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences or carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Additionally, in determining the need for recording a valuation allowance against the carrying amount of deferred tax assets, we consider the amount of taxable income and periods over which it must be earned, actual levels of past taxable income and known trends and events or transactions that are expected to affect future levels of taxable income. Where we determine that it is more likely than not that all or a portion of an asset will not be realized, we record a valuation allowance.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law effective for tax years beginning after December 31, 2017. The U.S. Treasury Department and the 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 income tax expense of $8 million for the transition tax accordingly.

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. We recognize the benefit of positions taken or expected to be taken in our tax returns when it is more likely than not that the position would be sustained upon examination by these tax authorities.

A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. Except for the planned but yet to be distributed earnings, we have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The Company's separation from YUM was intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting basis over tax basis in our investment in the China business continuing to be indefinitely reinvested. The excess of financial reporting basis over tax basis as of December 31 2017 was subject to the one-time transition tax under the Tax Act as a deemed repatriation of accumulated undistributed earnings from the foreign subsidiaries. However, we continue to believe that the portion of the excess of financial reporting basis over tax basis (including earnings and profits subject to the one-time transition tax) is indefinitely reinvested in our foreign subsidiaries for foreign withholding tax purposes.

Pursuant to the China Enterprise Income Tax Law ("EIT Law"), a 10% PRC withholding tax is generally levied on dividends declared by companies in China to their non-resident enterprise investors unless otherwise reduced according to treaties or arrangements between the Chinese central government and the governments of other countries or regions where the non-China resident enterprises are incorporated. Hong Kong has a tax arrangement with mainland China that provides for a 5% withholding tax on dividends distributed to a Hong Kong resident enterprise, upon meeting certain conditions and requirements, including, among others, that the Hong Kong resident enterprise own at least 25% equity interest of the Chinese enterprise and is a "beneficial owner" of the dividends. We believe that our Hong Kong subsidiary, which is the equity holder of our Chinese subsidiaries, met the relevant requirements pursuant to the tax arrangement between mainland China and Hong Kong in 2018 and is expected to meet the requirements in the subsequent years; thus, it is more likely than not that our dividends declared or earnings expected to be repatriated since 2018 are subject to the reduced withholding tax of 5%.

See Note 17 for a further discussion of our income taxes.

Fair Value Measurements. Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. For those assets and liabilities we record or disclose at fair value, we determine fair value based upon the quoted market price, if available. If a quoted market price is not available for identical assets, we determine fair value based upon the quoted market price of similar assets or the present value of expected future cash flows considering the risks involved, including counterparty performance risk if appropriate, and using discount rates appropriate for the duration. The fair values are assigned a level within the fair value hierarchy, depending on the source of the inputs into the calculation.

Level 1	Inputs based upon quoted prices in active markets for identical assets.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
Level 3	Inputs that are unobservable for the asset.

In addition, when we acquire additional equity interest in the unconsolidated affiliates to obtain control, it may result in gain or loss from re-measurement of our previously held equity interest at fair value using a discounted cash flow valuation approach and incorporating assumptions and estimates that are Level 3 inputs. Key assumptions used in estimating future cash flows included projected revenue growth and costs and expenses, which were based on internal projections, store expansion plans, historical performance of stores and the business environment, as well as the selection of an appropriate discount rate based on the weighted-average cost of capital which includes company-specific risk premium.

Cash and Cash Equivalents. Cash equivalents represent highly liquid investments with original maturities not exceeding three months and are primarily comprised of time deposits, fixed income debt securities and money market funds. Cash and overdraft balances that meet the criteria for right to offset are presented net on our Consolidated Balance Sheets.

Short-term Investments. Short-term investments purchased primarily represent time deposits, fixed income debt securities with original maturities of over three months but less than one year when purchased, and certain structured deposits that are principal-protected and provide returns in the form of both fixed and variable interests. Such variable interest rates indexed to gold prices or foreign exchange rates are considered embedded derivatives and bifurcated from host contracts, and measured at fair value on a recurring basis. The fair value change of the embedded derivatives is recorded in Investment gain or loss in the Consolidated Statements of Income. The remaining host contracts to receive guaranteed principal and fixed interest are measured at amortized cost, with accretion of interest recorded in Interest income in the Consolidated Statements of Income. As of December 31, 2021 and 2020, there were no outstanding balances for structured deposits containing embedded derivatives. See Note 13 for detail discussion on our Short-term Investments.

Accounts Receivable. Accounts Receivable primarily consist of trade receivables and royalties from franchisees and unconsolidated affiliates, and are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts receivable on the 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. Additionally, we monitor the financial condition of our franchisees and record provisions for estimated losses on receivables when we believe it is probable that our franchisees will be unable to make their required payments. 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. Accounts receivable that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. As of December 31, 2021 and 2020, 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 accounts receivable and dividend receivables were insignificant as of December 31, 2021, and $50 million as of December 31, 2020.

Receivables from Payment Processors or Aggregators. Receivables from payment processors such as WeChat and Alipay or aggregators are cash due from them for clearing transactions and are included in Prepaid expenses and other current assets. The cash was paid by customers through these payment processors or aggregators for food provided by the Company. The Company considers and monitors the credit worthiness of the third-party payment processors and aggregators used. Prior to the adoption of ASC 326, an allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Upon adoption of ASC 326 starting from January 1, 2020, we adopted the same methodology of estimating expected credit losses based upon the CECL model as described above. Receivable balances are written off after all collection efforts have been exhausted. As of December 31, 2021 and 2020, no allowance for doubtful accounts was provided for such receivables.

Inventories. We value our inventories at the lower of cost (computed on the first-in, first-out method) or net realizable value.

Property, Plant and Equipment. We state PP&E at cost less accumulated depreciation and amortization. We calculate depreciation and amortization on a straight-line basis over the estimated useful lives of the assets as follows: 20 to 50 years for buildings, the lesser of estimated useful lives (5 to 10 years) and remaining lease term for leasehold improvements, 3 to 10 years for restaurant machinery and equipment and 3 to 5 years for capitalized software costs. We suspend depreciation and amortization on assets related to restaurants that are held for sale.

Leases. The Company adopted Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASC 842") and subsequent amendments issued by the Financial Accounting Standards Board ("FASB") on January 1, 2019, using a modified retrospective method for leases that exist at, or are entered into after, January 1, 2019.

Upon adoption of ASC 842, ROU assets and lease liabilities are recognized upon lease commencement for operating leases based on the present value of lease payments over the lease term. As the rate implicit in the lease cannot be readily determined, we use our incremental borrowing rate at the lease commencement date in determining the imputed interest and present value of lease payments. The incremental borrowing rate was determined using a portfolio approach based on the rate of interest that we would have to borrow an amount equal to the lease payments on a collateralized basis over a similar term. The incremental borrowing rate is primarily influenced by the risk-free interest rate of China, the Company's credit rating and lease term, and is updated on a quarterly basis for measurement of new lease liabilities.

For operating leases, the Company recognizes a single lease cost on a straight-line basis over the remaining lease term. For finance leases, the Company recognizes straight-line amortization of the ROU asset and interest on the lease liability. For rental payments either based on a percentage of the restaurant's sales in excess of a fixed base amount or solely based on a percentage of the restaurant's sales, they are recognized as variable lease expenses as incurred.

The Company has elected not to recognize ROU assets or lease liabilities for leases with an initial term of 12 months or less; we recognize lease expense for these leases on a straight-line basis over the lease term. In addition, the Company has elected not to separate non-lease components (e.g., common area maintenance fees) from the lease components.

From time to time, we purchase the rights to use government-owned land and the building occupying the land for a fixed period of time. Prior to the adoption of ASC 842, these land use rights and related buildings were recorded in Other Assets and Property, Plant and Equipment in our Consolidated Balance Sheets, and are amortized on a straight-line basis over the term of the land use rights. Upon the adoption of ASC 842 on January 1, 2019, land use rights acquired are assessed in accordance with ASC 842 and recognized in ROU assets if they meet the definition of lease.

See Note 12 for further discussions on our leases.

Internal Development Costs and Abandoned Site Costs. We capitalize direct costs associated with the site acquisition and construction of a Company unit on that site, including direct internal payroll and payroll-related costs. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized. If we subsequently make a determination that it is probable a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed and included in G&A expenses.

Goodwill and Intangible Assets. From time to time, the Company acquires restaurants from our existing franchisees or acquires another business, including restaurants business of unconsolidated affiliates. Goodwill from these acquisitions represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets and liabilities assumed. Goodwill is not amortized and has been assigned to reporting units for purposes of impairment testing. Our reporting units are our individual operating segments.

We evaluate goodwill for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairment might exist. We have selected the beginning of our fourth quarter as the date on which to perform our ongoing annual impairment test for goodwill. We may elect to perform a qualitative assessment for our reporting units to determine whether it is more likely than not that the fair value of the reporting unit is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, then the reporting unit's fair value is compared to its carrying value. Fair value is the price a willing buyer would pay for a reporting unit, and is generally estimated using discounted expected future after-tax cash flows from the business operation of the reporting unit. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. If the carrying value of a reporting unit exceeds its fair value, we will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit.

If we record goodwill upon acquisition of a restaurant(s) from a franchisee and such restaurant(s) is then sold within two years of acquisition, the goodwill associated with the acquired restaurant(s) is written off in its entirety. If the restaurant is refranchised two years or more subsequent to its acquisition, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising and the portion of the reporting unit that will be retained.

We determine the useful life of intangible assets with consideration of factors including the expected use of the asset, the expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate, any legal, regulatory or contractual provisions that may limit the useful life, our historical experience in renewing or extending similar arrangements, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the assets. We evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, we amortize the intangible asset prospectively over its estimated remaining useful life. The Company's indefinite-lived intangible asset represents Little Sheep and Huang Ji Huang trademarks as we consider their useful life to be indefinite since we intend to use Little Sheep and Huang Ji Huang trademarks indefinitely and there are no legal, regulatory or contractual provisions that may limit the useful life of the trademarks. Intangible assets that are deemed to have a finite life are generally amortized over their estimated useful lives on a straight-line basis to their residual value as follows:

Reacquired franchise rights	1 to 10 years
Huang Ji Huang franchise related assets	19 years
Daojia platform	8 years
Customer-related assets	2 to 15 years
Others	up to 20 years

The useful life of reacquired franchise rights was determined based on the contractual term whereas both the contractual term and historical pattern of renewing franchise agreements were considered in assessing the useful life of Huang Ji Huang franchise related assets. Customer-related assets primarily represent the customer relationship and user base acquired and the estimate of the useful life was based on the historical pattern of extending similar arrangements and attrition rate of users. Others primarily represent Little Sheep's secret recipe. The useful life of the Daojia platform and Little Sheep's secret recipe was assessed based on our estimate of periods generating cash flows from utilizing such assets.

We evaluate our indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairments might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. We may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of an indefinite-lived intangible asset exceeds its carrying value, then the asset's fair value is compared to its carrying value. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future after-tax cash flows associated with the intangible asset.

Our finite-lived intangible assets that are not allocated to an individual restaurant are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed not recoverable based on forecasted undiscounted future cash flow is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the finite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

During the year ended December 31, 2019, we recorded an impairment charge of $11 million on intangible assets and goodwill attributable to the Daojia business. See Note 6 for additional details.

Equity Investments. The Company's equity investments include investments in unconsolidated affiliates and investments in equity securities with readily determinable fair value.

The Company applies the equity method to account for the investments in unconsolidated affiliates over which it has significant influence but does not control. Equity method investments are included as Investments in unconsolidated affiliates on our Consolidated Balance Sheets. Our share of earnings or losses and share of changes in other comprehensive income or losses of equity method investees is included in net income and other comprehensive income or losses, respectively. We record impairment charges related to an investment in an unconsolidated affiliate whenever events or circumstances indicate that a decrease in the fair value of an investment has occurred which is other than temporary.

For our investments in equity securities with readily determinable fair value, over which the Company has neither significant influence nor control, they are measured at fair value with subsequent changes recognized in net income.

See Note 3 for further discussions on our equity investments.

Financial Instruments. We account for derivative instruments as either assets or liabilities in the Consolidated Balance Sheets. The financial instruments are recorded at their respective fair value as determined on the day of issuance and subsequently adjusted to the fair value at each reporting date. Changes in the fair value of financial instruments are recognized periodically in the Consolidated Statements of Income. The estimated fair values of derivative instruments are determined at discrete points in time using standard valuation techniques.

Noncontrolling Interests. We report Net income attributable to noncontrolling interests separately on the face of our Consolidated Statements of Income. The portion of equity attributable to noncontrolling interests is reported within equity, separately from the Company's stockholders' equity on the Consolidated Balance Sheets.

When the noncontrolling interest is redeemable at the option of the noncontrolling shareholder, or contingently redeemable upon the occurrence of a conditional event that is not solely within the control of the Company, the noncontrolling interest is separately classified as mezzanine equity. In connection with the acquisition of Huang Ji Huang and Daojia, redeemable noncontrolling interests were initially recognized at fair value and classified outside of permanent equity on our Consolidated Balance Sheets due to redemption rights being held by noncontrolling shareholders. Subsequent changes in the redemption value of redeemable noncontrolling interests are immediately recognized as they occur and adjusted to the carrying amount of redeemable noncontrolling interests.

Guarantees. We account for guarantees in accordance with ASC Topic 460 (“ASC 460”), *Guarantees*. Accordingly, the Company evaluates its guarantees to determine whether (a) the guarantee is specifically excluded from the scope of ASC 460, (b) the guarantee is subject to ASC 460 disclosure requirements only, but not subject to the initial recognition and measurement provisions, or (c) the guarantee is required to be recorded in the financial statements at fair value. The Company provides: (i) indemnifications to certain investors and other parties for certain losses suffered or incurred by the indemnified party in connection with third-party claims; and (ii) indemnifications of officers and directors against third-party claims arising from the services they provide to the Company. To date, the Company has not incurred costs as a result of these obligations and does not expect to incur material costs in the future. Accordingly, the Company has not accrued any liabilities on the Consolidated Balance Sheets related to these indemnifications.

Asset Retirement Obligations. We recognize an asset and a liability for the fair value of a required asset retirement obligation (“ARO”) when such an obligation is incurred. The Company’s AROs are primarily associated with leasehold improvements which, at the end of the lease, the Company is contractually obligated to remove in order to comply with the lease agreement. As such, we amortize the asset on a straight-line basis over the lease term and accrete the liability to its nominal value using the effective interest method over the lease term.

Contingencies. The Company records accruals for certain of its outstanding legal proceedings or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. The Company discloses the amount of the accrual if it is material.

Retirement Plans. Certain of the Company’s employees participate in noncontributory defined benefit plans and post-retirement medical plans sponsored by YUM prior to October 31, 2016. Subsequent to the separation, employees participating in YUM’s plans were enrolled in the Yum China Holdings, Inc. Leadership Retirement Plan (“YCHLRP”), an unfunded, unsecured account-based retirement plan which allocates a percentage of pay to an account payable to the executive following the executive’s separation of employment from the Company or attainment of age 55.

The Company also offers other defined contribution plans to employees. The total contribution for such employee benefits was expensed as incurred. The Company has no additional legal obligation or liabilities for the benefits beyond the paid and accrued amounts. See Note 14 for additional information.

PRC Value-Added Tax. The Company has been subject to VAT within the normal course of its restaurant business nationwide since May 1, 2016.

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 December 31, 2021 and 2020, an input VAT credit asset of $322 million and $270 million were recorded in Other assets, respectively, and payable of $2 million and $6 million, were recorded in 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 December 31, 2021. Any input VAT credit asset would be classified as Prepaid expenses and other current assets if the credit expected to be used within one year can be reasonably determined.

Earnings Per Share. Basic earnings per share represent net earnings to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. See Note 5 for further information.

Common Stock Repurchases. We may repurchase shares of Yum China common stock under a program authorized by our board of directors 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. Shares repurchased are included in treasury stock in the financial statements. See Note 16 for further information.

Recently Adopted Accounting Pronouncements

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. We adopted the standard on January 1, 2021 and such adoption did not have a material impact on our financial statements.

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

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

Note 3—Business Acquisitions and Equity Investments

Consolidation of Hangzhou KFC and Equity Investment in Hangzhou Catering

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

As a result of the consolidation of the Hangzhou KFC, the Company also recognized a gain of $618 million in the fourth quarter of 2021 from the re-measurement of our previously held equity interest at fair value. The gain was recorded in Other income, net and not allocated to any segment for performance reporting purposes. Additionally, $66 million of the purchase price was allocated to the reacquired franchise right, which is amortized over the remaining franchise contract period of 1 year.

In addition to its equity interest in Hangzhou KFC, Hangzhou Catering operates approximately 60 Chinese dining restaurants under four time-honored brands and a food processing business. The Company applies equity method of accounting to the 28% equity interests in Hangzhou Catering excluding the Hangzhou KFC business and classified this investment in Investment in unconsolidated affiliates based on its then fair value. The Company elected to report its share of Hangzhou Catering's financial results with a one-quarter lag because its results are not available in time for the Company to record them in the concurrent period. As a result, no equity income from Hangzhou Catering was recorded in 2021.

Consolidation of Suzhou KFC

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

As a result of the consolidation of Suzhou KFC, the Company also recognized a gain of $239 million in the third quarter of 2020, from the re-measurement of our previously held equity interest at fair value. The gain was recorded in Other income, net and not allocated to any segment for performance reporting purposes.

Additionally, $61 million of the purchase price was allocated to the reacquired franchise right in 2020, which is amortized over the remaining franchise contract period of 2.4 years.

Consolidation of Lavazza Joint Venture

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

As a result of the consolidation of the Lavazza joint venture, the Company also recognized a gain of $10 million in the third quarter of 2021 from the re-measurement of our previously held equity interest at fair value. The gain was recorded in Other income, net and not allocated to any segment for performance reporting purposes.

Acquisition of Huang Ji Huang Group

On April 8, 2020, the Company completed the acquisition of a 93.3% interest in the Huang Ji Huang group (“Huang Ji Huang”), a leading Chinese-style casual dining franchise business, for cash consideration of $185 million. Huang Ji Huang became an operating segment of the Company. See Note 9 for the Company’s goodwill and intangible assets acquired from our acquisition of Huang Ji Huang.

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

In the first quarter of 2021, the Company acquired a 5% equity interest in Sunner, a Shenzhen Stock Exchange listed company, for a total consideration of approximately $261 million. Sunner is China’s largest white-feathered chicken producer and the Company’s largest poultry supplier.

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

In May 2021, a senior executive of the Company was nominated and appointed to Sunner’s board of directors upon Sunner’s shareholder approval. Through this representation, the Company participates in Sunner’s policy making process. The representation on the board, along with the Company being Sunner’s second largest shareholder, provides the Company with the ability to exercise significant influence over the operating and financial policies of Sunner. As a result, the Company started to apply the equity method of accounting to the investment and reclassified this investment from Other assets to Investment in unconsolidated affiliates in May 2021 based on its then fair value. The Company elected to report its share of Sunner’s financial results with a one-quarter lag because Sunner’s results are not available in time for the Company to record them in the concurrent period. In 2021, the Company’s equity income from Sunner was immaterial. The unrealized loss of $22 million was included in Investment gain or loss in our Consolidated Statements of Income for the year ended December 31, 2021, representing changes in fair value before the equity method of accounting was applied.

Since Sunner became the Company’s unconsolidated affiliate in May 2021, the Company purchased inventories of $318 million from Sunner for the year ended December 31, 2021, and the Company’s accounts payable and other current liabilities due to Sunner were $56 million as of December 31, 2021.

As of December 31, 2021, the Company’s investment in Sunner was stated at the carrying amount of $248 million, which was $171 million higher than the Company’s interest in Sunner’s underlying net assets. Of this basis difference, $20 million was related to finite-lived intangible assets which are being amortized over estimated useful life of 20 years. The remaining differences were related to goodwill and indefinite-lived intangible assets, which are not subject to amortization, as well as deferred tax liabilities impact. As of December 31, 2021, the market value of the Company’s investment in Sunner was $237 million based on its quoted closing price.

Meituan Dianping (“Meituan”) Investment

In the third quarter of 2018, the Company subscribed for 8.4 million, or less than 1%, of the ordinary shares of Meituan, an e-commerce platform for services in China, for a total consideration of approximately $74 million, when it launched its initial public offering on the HKEX in September 2018. In the second quarter of 2020, the Company sold 4.2 million of the ordinary shares of Meituan for proceeds of approximately $54 million, and realized a $17 million pre-tax gain which was recognized during the holding period.

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

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

	2021	2020	2019
Unrealized (losses) gains recorded on equity securities still held as of the end of the year	$ (38)	$ 105	$ 63
Losses recorded on equity securities sold during the year	—	(1)	—
(Losses) gains recorded on equity securities	$ (38)	$ 104	$ 63

Note 4—Revenue

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

2021	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Revenues							
Company sales	$6,816	$ 2,092	$ 53	$ —	$ 8,961	$ —	$ 8,961
Franchise fees and income	120	8	25	—	153	—	153
Revenues from transactions with franchisees and unconsolidated affiliates	59	6	98	500	663	—	663
Other revenues	8	3	297	20	328	(252)	76
Total revenues	$7,003	$ 2,109	$ 473	$ 520	$ 10,105	$ (252)	$ 9,853

2020	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Revenues							
Company sales	$5,633	$ 1,721	$ 42	$ —	$ 7,396	$ —	$ 7,396
Franchise fees and income	125	5	18	—	148	—	148
Revenues from transactions with franchisees and unconsolidated affiliates	61	4	60	522	647	—	647
Other revenues	2	—	122	6	130	(58)	72
Total revenues	$5,821	$ 1,730	$ 242	$ 528	$ 8,321	$ (58)	$ 8,263

2019	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Revenues							
Company sales	$5,839	$ 2,045	$ 41	$ —	$ 7,925	$ —	$ 7,925
Franchise fees and income	136	4	8	—	148	—	148
Revenues from transactions with franchisees and unconsolidated affiliates	64	4	28	558	654	—	654
Other revenues	1	1	81	4	87	(38)	49
Total revenues	$6,040	$ 2,054	$ 158	$ 562	$ 8,814	$ (38)	$ 8,776

Franchise Fees and Income

	2021	2020	2019
Initial fees, including renewal fees	$ 8	$ 8	$ 8
Continuing fees and rental income	145	140	140
Franchise fees and income	$ 153	$ 148	$ 148

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 in the Consolidated Balance Sheets and are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. Subsequent to the separation, we are no longer required to pay YUM initial or renewal fees that we receive from franchisees and unconsolidated affiliates. The Company did not incur any impairment losses related to costs to obtain contracts during any of the periods presented. Costs to obtain contracts were $7 million and $9 million at December 31, 2021 and 2020, respectively.

Contract Liabilities

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

	2021	2020
Contract liabilities		
—Deferred revenue related to prepaid stored-value products	$ 134	$ 117
—Deferred revenue related to upfront franchise fees	30	38
—Deferred revenue related to customer loyalty programs	25	23
—Deferred revenue related to privilege membership programs	18	27
—Others	1	1
Total	$ 208	$ 206

Contract liabilities primarily consist of deferred revenue related to prepaid stored-value products, privilege membership programs, customer loyalty programs and upfront franchise fees. Deferred revenue related to prepaid stored-value products, privilege membership programs, and customer loyalty programs is included in Accounts payable and other current liabilities in the Consolidated Balance Sheets. Deferred revenue related to upfront franchise fees that we expect to recognize as revenue in the next 12 months is included in Accounts payable and other current liabilities, and the remaining balance is included in Other liabilities in the Consolidated Balance Sheets. Revenue recognized that was included in the contract liability balance at the beginning of the year amounted to $127 million and $95 million in 2021 and 2020, respectively. Changes in contract liability balances were not materially impacted by business acquisition, change in estimate of transaction price or any other factors during any of the years presented.

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

Note 5—Earnings Per Common Share ("EPS")

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

	2021	2020	2019
Net Income—Yum China Holdings, Inc.	$ 990	$ 784	$ 713
Weighted-average common shares outstanding (for basic calculation)[(a)]	422	390	377
Effect of dilutive share-based awards[(a)]	6	7	8
Effect of dilutive warrants[(b)]	6	5	3
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	434	402	388
Basic Earnings Per Share	$ 2.34	$ 2.01	$ 1.89
Diluted Earnings Per Share	$ 2.28	$ 1.95	$ 1.84
Share-based awards excluded from the diluted EPS computation[(c)]	2	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 were included in the calculated weighted-average common shares outstanding. Holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards of either YUM or Yum China in their entirety. Any subsequent exercise of these awards, whether held by the Company's employees or YUM's employees, would increase the number of common shares outstanding. The incremental shares arising from outstanding equity awards are included in the computation of diluted EPS, if there is dilutive effect. See Note 15 for a further discussion of share-based compensation. In September 2020, 41,910,700 common shares were issued as a result of the Company's global offering and secondary listing on the HKEX and they were included in the calculated weighted-average common shares outstanding.

(b) Pursuant to the investment agreements dated September 1, 2016 (Note 11), 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 were exercisable at any time through October 31, 2021. The incremental shares arising from outstanding warrants were included in the computation of diluted EPS, if there is dilutive effect when the average market price of Yum China common stock for the year exceeds the applicable exercise price of the warrants. During 2021, an aggregate of 7,534,316 common shares were issued as a result of the cashless exercise of all warrants outstanding, which upon exercise were excluded from the calculation of dilutive warrants and included in the weighted-average common shares outstanding.

(c) These outstanding SARs, RSUs and PSUs were excluded from the computation of diluted EPS because to do so would have been antidilutive for the years presented, or because certain PSUs are contingently issuable based on the achievement of performance and market conditions, which have not been met as of December 31, 2021 and 2020.

Note 6—Items Affecting Comparability of Net Income

Impact of COVID-19 Pandemic

Starting in the first quarter of 2020, the COVID-19 pandemic significantly impacted the Company's operations, resulting in a significant decline in Operating profit mainly driven by same-store sales declines and temporary store closures. While operating results improved sequentially in the last three quarters of 2020 and the first half of 2021, multiple waves of Delta-variant outbreaks persisted throughout the second half of 2021, spreading to nearly all provinces in China. As a result, the Company's operations and financial results were significantly affected in the second half of 2021. Operating profit for the years ended December 31, 2021, 2020 and 2019 was $1,386 million, $961 million and $901 million, respectively. Excluding the impacts of $628 million and $239 million in gains from the re-measurement of our previously held equity interests in former unconsolidated affiliates recognized upon acquisition in 2021 and 2020, respectively, as described in Note 3, the Operating profit for the years ended December 31, 2021, 2020 and 2019 was $758 million, $722 million and $901 million, respectively.

Consolidation of Former Unconsolidated Affiliates

In the fourth and third quarter of 2021, as a result of the consolidation of Hangzhou KFC and the Lavazza joint venture, the Company recognized a gain of $618 million and $10 million, respectively, from the re-measurement of our previously held equity interest at fair value. In the third quarter of 2020, the Company recognized a re-measurement gain of $239 million as a result of the consolidation of Suzhou KFC. See Note 3 for additional information.

Store Impairment Charges

We recorded store impairment charges of $48 million, $66 million and $38 million for the years ended December 31, 2021, 2020 and 2019, respectively. The increase in store impairment charges in both 2021 and 2020 as compared to 2019 mainly resulted from the adverse effects of the COVID-19 pandemic. See Note 13 for additional information.

Fair Value Changes for Investment in Equity Securities

In September 2018, we invested in the equity securities of Meituan, the fair value of which is determined based on the closing market price for the shares at the end of each reporting period, with subsequent fair value changes recorded in our consolidated statements of income. We recorded related pre-tax loss of $38 million for 2021 and related pre-tax gains of $104 million and $63 million for 2020 and 2019, respectively.

In the first quarter of 2021, we invested in a 5% equity interest in Sunner. The investment in Sunner was recorded at fair value based on their closing market price on each measurement date before it became subject to the equity method of accounting when the Company established significant influence over the operating and financial policies of Sunner in May 2021. We recorded related pre-tax loss of $22 million for 2021, representing changes in fair value before the equity method of accounting was applied.

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

Impairment of Goodwill and Intangible Assets

During the year ended December 31, 2019, we recorded impairment charges of $2 million on the intangible assets acquired from the Daojia business and goodwill related to Daojia reporting unit was fully impaired, resulting in an impairment charge of $9 million.

The fair values of Daojia intangible assets and reporting unit were based on the estimated price a willing buyer would pay, using unobservable inputs (level 3). The fair values of intangible assets were determined using a relief-from-royalty valuation approach, with estimated future sales and royalty rates as significant inputs. The fair value of the reporting unit was determined using an income approach with future cash flow estimates supported by estimated future sales and margin. Both valuation approaches incorporated a selection of an appropriate discount rate based on weighted-average cost of capital and Company-specific risk premium.

For the year ended December 31, 2019, these non-cash impairment charges totaling $11 million were included in Closures and impairment expenses in our Consolidated Statements of Income, but were not allocated to any segment for performance reporting purposes. We recorded a tax benefit of $1 million associated with the impairment, and allocated $2 million of the after-tax impairment charge to Net Income—noncontrolling interests, which resulted in a net impairment charge of $8 million allocated to Net Income—Yum China Holdings, Inc., for the year ended December 31, 2019.

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 of $8 million and $7 million, respectively, associated with the Partner PSU Awards for years ended December 31, 2021 and 2020.

Transition Tax

The U.S. Treasury Department and the 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 income tax expense of $8 million for the transition tax accordingly.

Note 7—Other Income, net

	2021	2020	2019
Gain from re-measurement of equity interest upon acquisition[(a)]	$ 628	$ 239	$ —
Equity income from investments in unconsolidated affiliates[(b)]	43	62	69
Amortization of reacquired franchise rights[(c)]	(43)	(22)	(14)
Derecognition of indemnification asset[(d)]	—	(3)	—
Foreign exchanges and other	15	9	5
Other income, net	$ 643	$ 285	$ 60

(a) In the fourth and third quarter of 2021, as a result of the consolidation of Hangzhou KFC and the Lavazza joint venture, the Company recognized a gain of $618 million and $10 million, respectively, from the re-measurement of our previously held equity interest at fair value. In the third quarter of 2020, the Company recognized a re-measurement gain of $239 million as a result of the consolidation of Suzhou KFC. The re-measurement gains were not allocated to any segment for performance reporting purposes. (See Note 3 for additional information).

(b) Includes equity income from our investments in Hangzhou KFC, Suzhou KFC and the Lavazza joint venture before we consolidated the results of these entities upon completion of acquisitions. (See Note 3 for additional information).

(c) As a result of the acquisition of Hangzhou KFC, Suzhou KFC and Wuxi KFC, $66 million, $61 million and $61 million of the purchase price were allocated to intangible assets related to reacquired franchise rights, respectively, which are being amortized over the remaining franchise contract period of 1 year, 2.4 years and 5 years. (See Note 3 for additional information).

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

Note 8—Supplemental Balance Sheet Information

Accounts Receivable, net	2021	2020
Accounts receivable, gross	$ 68	$ 100
Allowance for doubtful accounts	(1)	(1)
Accounts receivable, net	$ 67	$ 99

Prepaid Expenses and Other Current Assets	2021	2020
Receivables from payment processors and aggregators	$ 45	$ 47
Dividends receivable from unconsolidated affiliates	—	10
Other prepaid expenses and current assets	176	119
Prepaid expenses and other current assets	$ 221	$ 176

Property, Plant and Equipment	2021	2020
Buildings and improvements	$ 2,695	$ 2,367
Finance leases, primarily buildings	52	36
Machinery and equipment and construction in progress	1,878	1,490
Property, plant and equipment, gross	4,625	3,893
Accumulated depreciation	(2,374)	(2,128)
Property, plant and equipment, net	$ 2,251	$ 1,765

Depreciation and amortization expense related to property, plant and equipment was $465 million, $421 million and $408 million in 2021, 2020 and 2019, respectively.

Other Assets	2021	2020
VAT assets	$ 322	$ 270
Land use right[(a)]	138	140
Investment in equity securities	122	160
Long-term deposits	101	83
Investment in long-term time deposits[(b)]	90	61
Costs to obtain contracts	7	9
Others	52	26
Other Assets	$ 832	$ 749

Form 10-K

(a) Amortization expense related to land use right was $5 million, $5 million and $4 million in 2021, 2020 and 2019, respectively.

(b) As of December 31, 2021 and 2020, the Company had $90 million and $61 million invested in long-term time deposits, respectively, bearing a fixed interest rate with original maturity of three years. The asset is restricted for use in order to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements.

Accounts Payable and Other Current Liabilities	2021	2020
Accounts payable	$ 830	$ 708
Operating leases liabilities	508	448
Accrued compensation and benefits	283	238
Accrued capital expenditures	269	203
Contract liabilities	182	175
Accrued marketing expenses	71	73
Other current liabilities	189	150
Accounts payable and other current liabilities	$ 2,332	$1,995

Other Liabilities	2021	2020
Accrued income tax payable	$ 56	$ 66
Contract liabilities	26	31
Other noncurrent liabilities	85	70
Other liabilities	$ 167	$ 167

Note 9—Goodwill and Intangible Assets

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

	Total Company	KFC	Pizza Hut	All Other Segments
Balance as of December 31, 2019				
Goodwill, gross	$ 645	$ 235	$ 19	$ 391
Accumulated impairment losses(a)	(391)	—	—	(391)
Goodwill, net	254	235	19	—
Goodwill acquired(b)	524	465		59
Effect of currency translation adjustments	54	48	1	5
Balance as of December 31, 2020				
Goodwill, gross	1,223	748	20	455
Accumulated impairment losses(a)	(391)	—	—	(391)
Goodwill, net	$ 832	$ 748	$ 20	$ 64
Goodwill acquired(b)	1,288	1,272		16
Effect of currency translation adjustments	22	20	—	2
Balance as of December 31, 2021				
Goodwill, gross	2,533	2,040	20	473
Accumulated impairment losses(a)	(391)	—	—	(391)
Goodwill, net	$ 2,142	$ 2,040	$ 20	$ 82

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

(b) Goodwill acquired resulted from the acquisitions of Hangzhou KFC and the Lavazza joint venture during 2021, and the acquisitions of Suzhou KFC and Huang Ji Huang during 2020 (Note 3).

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

	2021				2020			
	Gross Carrying Amount(a)	Accumulated Amortization	Accumulated Impairment Losses(b)	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Losses(b)	Net Carrying Amount
Finite-lived intangible assets								
Reacquired franchise rights(c)	$ 295	$ (191)	$ —	$ 104	$ 223	$ (144)	$ —	$ 79
Huang Ji Huang franchise related assets	23	(2)	—	21	23	(1)	—	22
Daojia platform	16	(4)	(12)	—	16	(4)	(12)	—
Customer-related assets	12	(9)	(2)	1	12	(8)	(2)	2
Other	10	(5)	—	5	9	(4)	—	5
	$ 356	$ (211)	$ (14)	$ 131	$ 283	$ (161)	$ (14)	$ 108
Indefinite-lived intangible assets								
Little Sheep trademark	$ 57	$ —	$ —	$ 57	$ 56	$ —	$ —	$ 56
Huang Ji Huang trademark	84	—	—	84	82	—	—	82
	$ 141	$ —	$ —	$ 141	$ 138	$ —	$ —	$ 138
Total intangible assets	$ 497	$ (211)	$ (14)	$ 272	$ 421	$ (161)	$ (14)	$ 246

(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.

(c) Increase in gross carrying amount of reacquired franchise rights during the year ended December 31, 2021 primarily resulted from the acquisition of Hangzhou KFC (Note 3).

Amortization expense for finite-lived intangible assets was $45 million in 2021, $24 million in 2020 and $16 million in 2019. Amortization expense for finite-lived intangible assets is expected to approximate $104 million in 2022, $4 million in 2023, and $2 million in each of 2024, 2025 and 2026. Increase in expected amortization expenses for finite-lived intangible assets in 2022 primarily relates to reacquired franchise rights resulting from the acquisition of Hangzhou KFC (Note 3).

Note 10—Credit Facilities

As of December 31, 2021, the Company had credit facilities of RMB3,471 million (approximately $546 million), comprised of onshore credit facilities of RMB2,200 million (approximately $346 million) in the aggregate and offshore credit facilities of $200 million in the aggregate.

The credit facilities had remaining terms ranging from less than one year to two years as of December 31, 2021. 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. Interest on any outstanding borrowings is due at least monthly. Some of the onshore credit facilities contain sub-limits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of December 31, 2021, we had outstanding bank guarantees of RMB 177 million (approximately $28 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 December 31, 2021.

Note 11—Investment Agreements with Strategic Investors

On September 1, 2016, YUM and the Company entered into investment agreements (the "Investment Agreements") with each of Pollos Investment L.P., an affiliate of Primavera Capital Group ("Primavera"), and API (Hong Kong) Investment Limited, an affiliate of Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. ("Ant Financial" and, together with Primavera, the "Investors"). Pursuant to the Investment Agreements, on November 1, 2016 ("Closing Date"), Primavera and Ant Financial invested $410 million and $50 million, respectively, for a collective $460 million investment (the "Investment") in the Company in exchange for: (i) over 18 million shares of Yum China common stock and (ii) two tranches of warrants (the "Warrants"). Upon exercise, the first tranche of Warrants initially provided Primavera and Ant Financial with the right to purchase 7,309,057 and 891,348 shares of Yum China common stock, respectively, at an initial exercise price of $31.40 per share. The second tranche of Warrants initially provided Primavera and Ant Financial with the right to purchase the same number of shares of Yum China common stock under the first tranche of Warrants, at an initial exercise price of $39.25 per share. The Warrants were exercisable at any time through October 31, 2021 and contain customary anti-dilution protections, which were equity-classified and recorded in Additional paid in capital in the Consolidated balance sheet presented since December 2016, when the number of Warrants to be issued became fixed.

As of December 31, 2020, Primavera and Ant Financial had separately entered into pre-paid forward sale transactions with respect to all of their Warrants with several financial institutions, pursuant to which Primavera and Ant Financial would deliver their respective Warrants on the applicable settlement date.

In 2021, 7,534,316 shares of Yum China common stock were issued as a result of the cashless exercise of all Warrants, representing approximately 1.8% of Yum China common stock issued and outstanding as of December 31, 2021.

Note 12—Leases

As of December 31, 2021, we leased approximately 10,000 properties in China for our Company-owned restaurants. We generally enter into lease agreements for our restaurants with initial terms of 10 to 20 years. Most of our lease agreements contain termination options that permit us to terminate the lease agreement early if the restaurant's unit contribution is negative for a specified period of time. We generally do not have renewal options for our leases. Such options are accounted for only when it is reasonably certain that we will exercise the options. The rent under the majority of our current restaurant lease agreements is generally payable in one of three ways: (i) fixed rent; (ii) the higher of a fixed base rent or a percentage of the restaurant's sales; or (iii) a percentage of the restaurant's sales. Most leases require us to pay common area maintenance fees for the leased property. In addition to restaurants leases, we also lease office spaces, logistics centers and equipment. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In limited cases, we sub-lease certain restaurants to franchisees in connection with refranchising transactions or lease our properties to other third parties. The lease payments under these leases are generally based on the higher of a fixed base rent or a percentage of the restaurant's annual sales. Income from sub-lease agreements with franchisees or lease agreements with other third parties are included in Franchise fees and income and Other revenue, respectively, within our Consolidated Statements of Income. The impact of ASC 842 on our accounting as a lessor was not significant.

Supplemental Balance Sheet		2021/12/31		2020/12/31	Account Classification
Assets					
Operating lease right-of-use assets[(a)]	$	2,612	$	2,164	Operating lease right-of-use assets
Finance lease right-of-use assets		33		20	Property, plant and equipment, net
Total leased assets	$	2,645	$	2,184	
Liabilities					
Current					
Operating lease liabilities[(a)]	$	508	$	448	Accounts payable and other current liabilities
Finance lease liabilities		3		2	Accounts payable and other current liabilities
Non-current					
Operating lease liabilities[(a)]		2,286		1,915	Non-current operating lease liabilities
Finance lease liabilities		40		28	Non-current finance lease liabilities
Total lease liabilities	$	2,837	$	2,393	

(a) Changes in balances of operating lease right-of-use assets and liabilities include impact from the acquisition of Hangzhou KFC.

Summary of Lease Cost		2021		2020	Account Classification
Operating lease cost	$	564	$	496	Occupancy and other operating expenses, G&A or Franchise expenses
Finance lease cost					
Amortization of leased assets		3		2	Occupancy and other operating expenses
Interest on lease liabilities		2		2	Interest expense, net
Variable lease cost[(b)]		346		262	Occupancy and other operating expenses or Franchise expenses
Short-term lease cost		9		10	Occupancy and other operating expenses or G&A
Sublease income		(26)		(24)	Franchise fees and income or Other revenues
Total lease cost	$	898	$	748	

(b) The Company was granted $12 million and $36 million in lease concessions from landlords related to the effects of the COVID-19 pandemic for the years ended December 31, 2021 and 2020, respectively. The lease concessions were primarily in the form of rent reduction over the period of time when the Company's restaurant business was adversely impacted. The Company applied the interpretive guidance in a FASB staff Q&A document issued in April 2020 and elected: (1) not to evaluate whether a concession received in response to the COVID-19 pandemic is a lease modification and (2) to assume such concession was contemplated as part of the existing lease contract with no contract modification. Such concession was recognized as negative variable lease cost in the period the concession was granted.

Supplemental Cash Flow Information		2021		2020
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$	573	$	493
Operating cash flows from finance leases		2		2
Financing cash flows from finance leases		2		2
Right-of-use assets obtained in exchange for new lease liabilities[(c)]:				
Operating leases	$	541	$	337
Finance leases		11		2

(c) This supplemental non-cash disclosure for ROU 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	2021	2020
Weighted-average remaining lease term (years)		
Operating leases	7.2	7.0
Finance leases	11.3	10.9
Weighted-average discount rate		
Operating leases	5.5%	5.8%
Finance leases	5.5%	5.8%

Summary of Future Lease Payments and Lease Liabilities

Maturities of lease liabilities as of December 31, 2021 were as follows:

	Amount of Operating Leases	Amount of Finance Leases	Total
2022	$ 644	$ 6	$ 650
2023	547	6	553
2024	477	5	482
2025	400	5	405
2026	338	5	343
Thereafter	983	31	1,014
Total undiscounted lease payment	3,389	58	3,447
Less: imputed interest[(d)]	595	15	610
Present value of lease liabilities	$ 2,794	$ 43	$ 2,837

(d) 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 December 31, 2021, we have additional lease agreements that have been signed but not yet commenced, with total undiscounted minimum lease payments of $161 million. These leases will commence between 2022 and 2026 with lease terms of 1 year to 20 years.

Note 13—Fair Value Measurements and Disclosures

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

The Company accounts for its investment in 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 Consolidated Statements of Income.

The following table is a summary of our financial assets measured on a recurring basis or disclosed at fair value and the level within the fair value hierarchy in which the measurement falls. The Company classifies its cash equivalents, short-term investments, long-term time deposits, and investment in equity securities within Level 1 or Level 2 in the fair value hierarchy because it uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value, respectively. No transfers among the levels within the fair value hierarchy occurred in 2021 and 2020.

	Balance at December 31, 2021	Fair Value Measurement or Disclosure at December 31, 2021		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	$ 321		$ 321	
Money market funds	45	45		
Fixed income debt securities[(a)]	163	63	100	
Total cash equivalents	529	108	421	—
Short-term investments:				
Time deposits	1,726		1,726	
Fixed income debt securities[(a)]	1,055		1,055	
Variable return investments	79	79		
Total short-term investments	2,860	79	2,781	—
Other assets:				
Investment in equity securities	122	122		
Long-term time deposits	90		90	
Total	$ 3,601	$ 309	$ 3,292	$ —

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

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

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. As of December 31, 2021, the fair value of restaurant-level assets, if determined to be impaired, are primarily represented by the price market participant would pay to sub-lease the operating lease ROU assets and acquire remaining restaurants assets, which reflects the highest and best use of the assets. Significant unobservable inputs used in the fair value measurement include market rental prices, which were determined with the assistance of an independent valuation specialist. The direct comparison approach is used as the valuation technique by assuming sub-lease of each of these properties in its existing state with vacant possession. By making reference to lease transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as location and property size.

The following table presents amounts recognized from all non-recurring fair value measurements based on unobservable inputs (Level 3) during the years ended December 31, 2021, 2020 and 2019. These amounts exclude fair value measurements made for restaurants that were subsequently closed or refranchised prior to those respective year-end dates.

	2021	2020	2019	Account Classification
Restaurant-level impairment[(a)]	32	52	28	Closure and impairment expenses, net
ROU impairment prior to the adoption of ASC 842[(b)]	—	—	82	Retained Earnings
Daojia impairment[(c)]	—	—	11	Closure and impairment expenses, net
Total	$ 32	$ 52	$ 121	

(a) Restaurant-level impairment charges are recorded in Closures and impairment expenses, net and resulted primarily from our semi-annual impairment evaluation of long-lived assets of individual restaurants that were being operated at the time of impairment and had not been offered for refranchising. We performed an additional impairment evaluation in the first quarter of 2020, considering the adverse effects of the COVID-19 pandemic as an impairment indicator. A trend of continuing operating losses for certain restaurants due to the COVID-19 pandemic resulted in higher impairment during 2020 and 2021. We also performed an additional impairment evaluation upon adoption of ASC 842 in the first quarter of 2019. After considering the impairment charges recorded during the corresponding years, the fair value of assets as of the relevant measurement date was $112 million, $157 million and insignificant during the years ended December 31, 2021, 2020 and 2019, respectively.

(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.

(c) See Note 6 for further discussion.

Note 14—Retirement Plans

For executives who were hired or re-hired after September 30, 2001, YUM has implemented the YUM LRP. This is an unfunded, unsecured account-based retirement plan which allocates a percentage of pay to an account payable to the executive following the executive’s separation of employment from YUM or attainment of age 55. The Company adopted the YCHLRP upon separation while the assets and liabilities associated with these employees under YUM LRP were transferred to YCHLRP. YCHLRP will continue to be in effect until terminated by the Company’s board of directors. The terms of the YCHLRP are substantially similar to the terms of the YUM LRP. Under the YCHLRP, certain executives who are at least age 21, who are classified as salary level 12, who are not eligible to participate in a tax-qualified defined benefit plan, and who satisfy certain additional requirements as to work location and assignment, are eligible to participate in the YCHLRP if selected for participation by the Company. The YCHLRP is an unfunded, unsecured account-based retirement plan that allocates a percentage of pay to an account payable to an executive following the later to occur of the executive’s separation of employment from the Company or attainment of age 55. Under the YCHLRP, participants aged 55 or older are entitled to a lump sum distribution of their account balance on the last day of the calendar quarter that occurs on or follows their separation of employment. The liabilities attributable to our employees under the YCHLRP were insignificant as of December 31, 2021 and 2020.

YUM offers certain of the Company's executives working in China retirement benefits under the Bai Sheng Restaurants China Holdings Limited Retirement Scheme (previously known as the Bai Sheng Restaurants (Hong Kong) Ltd. Retirement Scheme). Under this defined contribution plan, YUM provides a Company-funded contribution ranging from 5% to 10% of an executive's base salary. Upon termination, participants will receive a lump sum equal to a percentage of the Company's contributions inclusive of investment return. This percentage is based on a vesting schedule that provides participants with a vested 30% interest upon completion of a minimum of 3 years of service, and an additional 10% vested interest for each additional completed year, up to a maximum of 100%. The Company adopted the same plan after the separation and the contribution amount to the plan for the years ended December 31, 2021, 2020 and 2019 was insignificant.

As stipulated by Chinese state regulations, the Company participates in a government-sponsored defined contribution retirement plan. Substantially all employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. We are required to make contributions to the local social security bureau between 13% and 20% of the previous year's average basic salary amount of the geographical area where the employees are under our employment. Contributions are recorded in the Consolidated Statements of Income as they become payable. We have no obligation for the payment of pension benefits beyond the annual contributions as set out above. In 2020, the Company also received one-time government subsidy related to COVID-19 in the form of a reduction in social security contributions, which was recognized as reduction to the related expenses when it was granted. The Company contributed $183 million, $167 million and $160 million to the government-sponsored plan for 2021, 2020 and 2019, respectively.

Note 15—Share-Based Compensation

Overview

Upon the separation, 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, to maintain the pre-separation intrinsic value of the awards. Depending on the tax laws of the country of employment, awards were modified using either the shareholder method or the employer method. Share issuances for Yum China awards held by YUM's employees will be satisfied by Yum China. Share issuances for YUM awards held by the Company's employees will be satisfied by YUM. The shareholder method was based on the premise that employees holding YUM awards prior to the separation should receive an equal number of awards of both YUM and Yum China. Under the employer method, employees holding YUM awards prior to the separation had their awards converted into awards of the Company that they worked for subsequent to the separation. As a result, Yum China may issue shares of common stock to YUM's employees upon exercise or vesting of various types of awards, including stock options, SARs, RSUs, and awards from the executive income deferral plan.

The modified equity awards have the same terms and conditions as the awards held immediately before the separation, except that the number of shares and the price were adjusted. In accordance with ASC 718, the Company compared the fair value of the awards immediately prior to the separation to the fair value immediately after the separation to measure the incremental compensation cost, using the Black-Scholes option-pricing model (the "BS model"). The incremental compensation cost was insignificant, and YUM and the Company continue to recognize the unamortized original grant-date fair value of the modified awards over the remaining requisite service period as their respective employees continue to provide services. Share-based compensation for the Company's employees is based on both YUM awards and Yum China awards held by those employees.

Effective October 31, 2016, the Company adopted the Yum China Holdings, Inc. Long Term Incentive Plan (the "2016 Plan"). The Company has reserved for issuance under the 2016 Plan of 45,000,000 shares of our common stock. Under this plan, the exercise price of stock options and SARs granted must be equal to or greater than the fair market value of the Company's stock on the date of grant.

Potential awards to employees and non-employee directors under the 2016 Plan include stock options, incentive options, SARs, restricted stock, stock units, RSUs, performance shares, performance units, and cash incentive awards. We have issued only stock options, SARs, RSUs and PSUs under the 2016 Plan. While awards under the 2016 Plan can have varying vesting provisions and exercise periods, outstanding awards under the 2016 Plan vest in periods ranging from three to five years. Stock options and SARs expire ten years after grant.

The Company recognizes all share-based payments to employees and non-employee directors in the Consolidated Financial Statements as compensation cost on a straight-line basis over the service period based on their fair value on the date of grant, for awards that actually vest and when performance conditions are probable of being achieved, if applicable. If no substantive service condition exists, the grant-date fair value is fully recognized as expense upon grant. Certain awards are subject to specific retirement conditions, which allow the awards to fully vest as long as the employee is actively employed for at least one year following the grant date, provides at least six months notification of intention to retire, and signs non-solicitation and non-compete agreements. Under such circumstances, the grant-date fair value of the award is recognized as expense on a straight-line basis over the one-year service period from the grant date.

Award Valuation

Stock Options and SARs

The Company estimated the fair value of each stock option and SAR award granted to the Company's employees as of the date of grant, using the BS model with the following assumptions:

	2021	2020	2019
Risk-free interest rate	0.4%	1.5%	2.5%
Expected term (years)	6.25	6.50	6.50
Expected volatility	33.9%	33.2%	32.0%
Expected dividend yield	0.8%	1.1%	1.2%

Share option and SAR awards granted to employees typically have a graded vesting schedule of 25% per year over four years and expire 10 years after grant. The Company uses a single weighted-average term for awards that have a graded vesting schedule and determined average terms of exercise based on analysis of the historical exercise and post-vesting termination behavior. Forfeitures were estimated based on historical experience. Historical data used to estimate the expected term and forfeiture rate were based on data associated with the Company's employees who were granted share-based awards by YUM prior to the separation.

For those awards granted by the Company after the separation, the Company considered the volatility of common shares of comparable companies in the same business as the Company, as well as the historical volatility of the Company stock. The dividend yield was estimated based on the Company's dividend policy at the time of the grant.

RSUs and PSUs

RSU awards generally vest over a three-year period with a majority of the awards cliff vesting at 100% on the third grant anniversary. The fair values of RSU awards are based on the closing price of the Company's stock on the date of grant.

During 2019, the Company granted PSUs that are subject to market conditions and service conditions, cliff vesting at the end of the performance period. The number of shares to be distributed is based on the Company's performance on its total shareholder return relative to its peer group in the MSCI International China Index, measured over a three-year performance period. The fair value of PSU awards was valued based on the outcome of the Monte-Carlo Simulation model (the "MCS model") and amortized on a straight-line basis over the three-year period. The total amount of fair value for the PSUs granted in 2019 is immaterial.

In February 2020, the Company's board of directors approved new grants of a special award of PSUs ("Partner PSU Awards") to select employees who were deemed critical to the Company's execution of its strategic operating plan under the 2016 Plan. These Partner PSU Awards are subject to market and performance conditions, and will cliff vest only 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. The fair value of Partner PSU Awards was determined based on the outcome of the MCS model and closing price of the Company's stock on the date of the grant. The assumptions used in determining the grant date fair value of Partner PSU Awards include the risk-free interest rate of 1.4%, expected dividend yield of 1.1%, and expected volatility of 33.4%.

The annual PSU awards granted in 2020 and 2021 are based on the Company's achievement of performance goals including relative total shareholder return against the MSCI China Index, and will cliff vest only if threshold performance goals are achieved over a three-year performance period. The fair value of annual PSU awards was determined based on the outcome of the MCS model and closing price of the Company's stock on the date of the grant. The assumptions used in determining the grant date fair value of annual PSU awards include the risk-free interest rate of 0.2% and expected volatility of 35.7% in 2021, and risk-free interest rate of 1.4% and expected volatility of 33.4% in 2020.

Compensation costs associated with annual and Partner PSU Awards are recognized on a straight-line basis over the performance period when performance conditions are probable of being achieved, adjusted for estimated forfeiture rate.

Others

Commencing from November 11, 2016, Yum China also granted annual awards of common stock to non-employee directors for their service on Yum China's board of directors. The fair value of these awards is based on the closing price per share of the Company's common stock on the date of grant. The shares were issued outright to the directors on the date of grant, with no conditions attached. Therefore, the fair value of the awards was fully recognized as expenses upon grant. For the years ended December 31, 2021, 2020 and 2019, a total of 31,182, 54,757 and 60,419 shares of Yum China common stock, respectively, were granted to non-employee directors and the grant-date fair value of $2.1 million, $2.6 million and $2.4 million, respectively, was immediately recognized in full in the Consolidated Statements of Income.

Award Activity

Stock Options and SARs

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at the beginning of 2021	11,850	27.49		
Granted	1,171	57.39		
Exercised	(2,074)	21.56		
Forfeited or expired	(124)	46.56		
Outstanding at the end of 2021	10,823[(a)]	31.65	5.09	205
Exercisable at the end of 2021	8,007	25.82	4.01	192

(a) Outstanding awards include 182,083 stock options and 10,640,450 SARs with weighted-average exercise prices of $20.30 and $31.84, respectively. Outstanding awards represent Yum China awards held by employees of both the Company and YUM.

The weighted-average grant-date fair value of SARs granted in 2021, 2020 and 2019 was $17.44, $13.36 and $13.43, respectively. The total intrinsic value of stock options and SARs exercised by the Company's employees during the years ended December 31, 2021, 2020 and 2019 was $22 million, $75 million and $39 million, respectively.

As of December 31, 2021, $29 million of unrecognized compensation cost related to unvested SARs, which will be reduced by any forfeitures that occur, is expected to be recognized over a remaining weighted-average vesting period of approximately 1.69 years. This reflects unrecognized cost for both Yum China awards and YUM awards held by the Company's employees. The total fair value at grant date or modification date of awards held by the Company's employees that vested during 2021, 2020 and 2019 was $15 million, $15 million and $14 million, respectively.

RSUs

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Unvested at the beginning of 2021	552	40.57
Granted	461	58.77
Vested	(291)	37.04
Forfeited or expired	(38)	50.93
Unvested at the end of 2021	684	53.77

The weighted-average grant-date fair value of RSUs granted in 2021, 2020 and 2019 was $58.77, $48.01 and $42.62, respectively. As of December 31, 2021, $23 million of unrecognized compensation cost related to 683,672 unvested RSUs, which will be reduced by any forfeiture that occurs, is expected to be recognized over a remaining weighted-average vesting period of approximately 1.98 years. The total fair value at grant date of awards that vested during 2021, 2020 and 2019 was $11 million, $11 million and $4 million, respectively.

PSUs

	Shares (in thousands)	Weighted- Average Grant Date Fair Value
Unvested at the beginning of 2021	1,148	40.49
Granted	135	68.04
Vested	(42)	59.56
Forfeited or expired	(8)	40.81
Unvested at the end of 2021	1,233	42.86

The weighted-average grant-date fair value of PSUs granted in 2021, 2020 and 2019 was $68.04, $39.78 and $57.41, respectively. As of December 31, 2021, $24 million of unrecognized compensation cost related to 1,232,599 unvested PSUs, which will be reduced by any forfeiture that occurs and adjusted based on the Company's achievement of performance goals, is expected to be recognized over a remaining weighted-average vesting period of approximately 1.94 years. The total fair value at grant date of awards that vested during 2021, 2020 and 2019 was $3 million, $3 million and nil respectively.

Impact on Net Income

Share-based compensation expense was $41 million, $36 million and $26 million for 2021, 2020 and 2019, respectively. Deferred tax benefits of $1 million was recognized in each of 2021, 2020 and 2019.

Note 16—Equity

Immediately after the separation on October 31, 2016, Yum China authorized capital stock consisted of 1,000 million shares of common stock, par value $0.01 per share, and 364 million shares of Yum China common stock were issued and outstanding. As of December 31, 2021, 449 million shares of Yum China common stock were issued and 428 million shares were outstanding.

Share Repurchase Program

The Company repurchased 1.3 million, 0.2 million and 6.2 million shares of common stock at a total cost of $75 million, $7 million and $261 million for the years ended December 31, 2021, 2020 and 2019, respectively. As of December 31, 2021, $617 million remained available for repurchase under the current authorization.

Cash Dividend

On October 4, 2017, the board of directors approved a regular quarterly cash dividend program, and declared an initial cash dividend of $0.10 per share on Yum China's common stock in the fourth quarter of 2017. Beginning in the fourth quarter of 2018, we have paid a cash dividend of $0.12 per share. However, due to the unprecedented effects of the COVID-19 pandemic, the Company suspended its dividend payments in the second and third quarter of 2020. Cash dividends totaling $203 million, $95 million and $181 million were paid to stockholders in 2021, 2020 and 2019, respectively.

Accumulated Other Comprehensive Income ("AOCI")

The Company's other comprehensive income (loss) for the years ended December 31, 2021, 2020, and 2019 and AOCI balances as of December 31, 2021 and 2020 were comprised solely of foreign currency translation adjustments. Other comprehensive income was $108 million and $230 million for the years ended December 31, 2021 and 2020, respectively, and other comprehensive loss was $32 million for the years ended December 31, 2019. The accumulated balances reported in AOCI in the Consolidated Balance Sheets for currency translation adjustments were net gain of $268 million and $167 million as of December 31, 2021 and 2020, respectively. There was no tax effect related to the components of other comprehensive income for all years presented.

Restricted net assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Company's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the Consolidated Financial Statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

In accordance with the PRC Regulations on Enterprises with Foreign Investment and the articles of association of the Company's PRC subsidiaries, a foreign-invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A foreign-invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign-invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

As a result of these PRC laws and regulations subject to the limit discussed above that require annual appropriations of 10% of after-tax income to be set aside, prior to payment of dividends as general reserve fund, the Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company in the form of dividend payments, loans or advances. The restricted net assets of the PRC subsidiaries is approximately $1 billion as of December 31, 2021.

Furthermore, cash transfers from the Company's PRC subsidiaries to its subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency-denominated obligations.

Note 17—Income Taxes

In December 2017, the U.S. enacted the Tax Act, which included a broad range of tax reforms, including, but not limited to, the establishment of a flat corporate income tax rate of 21%, the elimination or reduction of certain business deductions, and the imposition of tax on deemed repatriation of accumulated undistributed foreign earnings. The Tax Act has impacted Yum China in two material aspects: (1) in general, all of the foreign-source dividends received by Yum China from its foreign subsidiaries will be exempted from taxation starting from its tax year beginning after December 31, 2017 and (2) Yum China recorded additional income tax expense in the fourth quarter of 2017, including an estimated one-time transition tax on its deemed repatriation of accumulated undistributed foreign earnings and additional tax related to the revaluation of certain deferred tax assets.

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 income tax expense 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.

U.S. and foreign income (loss) before taxes are set forth below:

	2021	2020	2019
U.S.	$ (1)	$ (10)	$ (7)
Mainland China	1,424	1,014	941
Other Foreign	$ (31)	104	69
	$ 1,392	$ 1,108	$ 1,003

The details of our income tax provision are set forth below:

		2021	2020	2019
Current:	Federal	$ —	$ 1	$ 16
	Foreign	209	183	228
		$ 209	$ 184	$ 244
Deferred:	Federal	$ (8)	$ 26	$ (1)
	Foreign	168	85	17
		$ 160	$ 111	$ 16
		$ 369	$ 295	$ 260

The reconciliation of income taxes calculated at the U.S. federal statutory rate to our effective tax rate is set forth below:

	2021		2020		2019	
U.S. federal statutory rate	$ 292	21.0%	$ 233	21.0%	$ 211	21.0%
Impact from the Tax Act	—	—	—	—	8	0.8
Statutory rate differential attributable to foreign operations	73	5.2	63	5.7	53	5.3
Adjustments to reserves and prior years	(4)	(0.3)	(6)	(0.6)	(2)	(0.2)
Change in valuation allowances	9	0.7	1	0.1	2	0.2
Impact from investment (gain) loss	(1)	(0.1)	7	0.7	(10)	(1.0)
Other, net	—	—	(3)	(0.3)	(2)	(0.2)
Effective income tax rate	$ 369	26.5%	$ 295	26.6%	$ 260	25.9%

Statutory rate differential attributable to foreign operations. This item includes local taxes, withholding taxes, and shareholder-level taxes, net of foreign tax credits. A majority of our income is earned in China, which is generally subject to a 25% tax rate. The negative impact in 2021, 2020 and 2019 is primarily due to the U.S. federal statutory rate of 21%, which is lower than China's statutory income tax rate.

Adjustments to reserves and prior years. This item includes: (1) changes in tax reserves, including interest thereon, established for potential exposure we may incur if a taxing authority takes a position on a matter contrary to our position; and (2) the effects of reconciling income tax amounts recorded in our Consolidated Statements of Income to amounts reflected on our tax returns, including any adjustments to the Consolidated Balance Sheets. The impact of certain effects or changes may affect items reflected in '*Statutory rate differential attributable to foreign operations*'.

Change in valuation allowances. This item relates to changes for deferred tax assets generated or utilized during the current year and changes in our judgment regarding the likelihood of using deferred tax assets that existed at the beginning of the year. The impact of certain changes may affect items reflected in '*Statutory rate differential attributable to foreign operations*'.

Impact from investment (gain) loss. This item primarily relates to impact of gain or loss on investment in equity securities of Meituan. The Company recorded $29 million of U.S. tax in 2020, including $22 million and $7 million related to gains on investment in equity securities of Meituan recognized during the year of 2020 and prior year, respectively.

Others. This item primarily includes the impact of permanent differences related to current year earnings, as well as U.S. tax credits and deductions.

The details of 2021 and 2020 deferred tax assets (liabilities) are set forth below:

	2021	2020
Operating losses and tax credit carryforwards	$ 43	$ 24
Tax benefit from Little Sheep restructuring	17	17
Employee benefits	3	3
Share-based compensation	5	5
Lease	64	62
Other liabilities	15	13
Deferred income and other	89	75
Gross deferred tax assets	236	199
Deferred tax asset valuation allowances	(53)	(42)
Net deferred tax assets	$ 183	$ 157
Intangible assets	(69)	(61)
Property, plant and equipment	(138)	(85)
Gain from re-measurement of equity interest upon acquisition	(245)	(87)
Unrealized gains from equity securities	(18)	(26)
Withholding tax on distributable earnings	(32)	(27)
Gross deferred tax liabilities	$ (502)	$ (286)
Net deferred tax (liabilities)	$ (319)	$ (129)
Reported in Consolidated Balance Sheets as:		
Deferred income taxes	106	98
Deferred income tax liabilities	(425)	(227)
	$ (319)	$ (129)

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. Except for the planned but yet to be distributed earnings, we have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The Company's separation from YUM was intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting basis over tax basis in our investment in the China business continuing to be indefinitely reinvested. The excess of financial reporting basis over tax basis as of December 31, 2017 was subject to the one-time transition tax under the Tax Act as a deemed repatriation of accumulated undistributed earnings from the foreign subsidiaries. However, we continue to believe that the portion of the excess of financial reporting basis over tax basis (including earnings and profits subject to the one-time transition tax) is indefinitely reinvested in our foreign subsidiaries for foreign withholding tax purposes. We estimate that our total temporary difference for which we have not provided foreign withholding taxes is approximately $3 billion at December 31, 2021. The foreign withholding tax rate on this amount is 5% or 10% depending on the manner of repatriation and the applicable tax treaties or tax arrangements.

At December 31, 2021, the Company had operating loss carryforwards of $186 million, primarily related to our Little Sheep and Daojia business as well as certain underperforming entities, most of which will expire by 2026. These losses are being carried forward in jurisdictions where we are permitted to use tax losses from prior periods to reduce future taxable income.

Cash payments for tax liabilities on income tax returns filed were $255 million, $170 million and $255 million in 2021, 2020 and 2019, respectively.

We recognize the benefit of positions taken or expected to be taken in tax returns in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2021	2020
Beginning of Year	$ 21	$ 19
Additions on tax positions	5	8
Reductions due to statute expiration	(6)	(6)
End of Year	$ 20	$ 21

In 2021 and 2020, our unrecognized tax benefits were increased by $5 million and $8 million, respectively. The unrecognized tax benefits balance of $20 million as of December 31, 2021 related to the uncertainty with regard to the deductibility of certain business expenses incurred, all of which, if recognized upon audit settlement or statute expiration, would affect the effective tax rate. The Company believes it is reasonably possible its unrecognized tax benefits of $20 million as of December 31, 2021, which is included in Other liabilities on the Consolidated Balance Sheet, may decrease by approximately $5 million in the next 12 months, which if recognized, would affect the 2022 effective tax rate. The accrued interest and penalties related to income taxes at December 31, 2021 and 2020 are set forth below:

	2021	2020
Accrued interest and penalties	$ 5	$ 5

During 2021, 2020 and 2019, a net benefit of nil, nil and $1 million for interest and penalties was recognized in our Consolidated Statements of Income as components of our income tax provision, respectively.

The Company's results are subject to examination in the U.S. federal jurisdiction as well as various U.S. state jurisdictions as part of YUM's and our own income tax filings, and separately in foreign jurisdictions. Any liability arising from these examinations related to periods prior to the separation is expected to be settled among the Company, YCCL and YUM in accordance with the tax matters agreement we entered into in connection with the separation.

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

Note 18—Segment Reporting

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell, East Dawning, 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 the aggregate.

2021	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated[a]	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	$ 7,003	$ 2,109	$ 227	$ 514	$ 9,853	$ —	$ 9,853
Inter-segment revenue	—	—	246	6	252	(252)	—
Total	$ 7,003	$ 2,109	$ 473	$ 520	$ 10,105	$ (252)	$ 9,853

2020	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated[a]	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	$ 5,821	$ 1,730	$ 184	$ 528	$ 8,263	$ —	$ 8,263
Inter-segment revenue	—	—	58	—	58	(58)	—
Total	$ 5,821	$ 1,730	$ 242	$ 528	$ 8,321	$ (58)	$ 8,263

2019	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated[a]	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	$ 6,039	$ 2,054	$ 121	$ 562	$ 8,776	$ —	$ 8,776
Inter-segment revenue	1	—	37	—	38	(38)	—
Total	$ 6,040	$ 2,054	$ 158	$ 562	$ 8,814	$ (38)	$ 8,776

Operating Profit	2021	2020	2019
KFC[b]	$ 827	$ 801	$ 949
Pizza Hut	111	62	114
All Other Segments	(29)	(7)	(14)
Unallocated revenues from transactions with franchisees and unconsolidated affiliates[c]	500	533	558
Unallocated Other revenues	20	32	4
Unallocated expenses for transactions with franchisees and unconsolidated affiliates[c]	(497)	(531)	(554)
Unallocated Other operating costs and expenses	(17)	(30)	(4)
Unallocated and corporate G&A expenses	(171)	(144)	(145)
Unallocated Closures and impairment expense[d]	—	—	(11)
Unallocated Other income[e]	642	245	4
Operating Profit	1,386	961	901
Interest income, net[a]	60	43	39
Investment (loss) gain[a]	(54)	104	63
Income Before Income Taxes	$ 1,392	$ 1,108	$ 1,003

Form 10-K

	Depreciation and Amortization		
	2021	2020	2019
KFC	$ 378	$ 315	$ 290
Pizza Hut	111	113	120
All Other Segments	9	8	5
Corporate and Unallocated	18	14	13
	$ 516	$ 450	$ 428

	Impairment Charges		
	2021	2020	2019
KFC[(f)]	$ 30	$ 32	$ 16
Pizza Hut[(f)]	13	29	20
All Other Segments[(f)]	5	5	2
Corporate and Unallocated[(d)]	—	—	11
	$ 48	$ 66	$ 49

	Capital Spending		
	2021	2020	2019
KFC	$ 398	$ 257	$ 264
Pizza Hut	98	61	71
All Other Segments	16	5	10
Corporate and Unallocated	177	96	90
	$ 689	$ 419	$ 435

	Total Assets	
	2021	2020
KFC[(g)]	$ 6,072	$ 4,084
Pizza Hut	972	906
All Other Segments	454	378
Corporate and Unallocated[(h)]	5,725	5,507
	$ 13,223	$ 10,875

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

(b) Includes equity income from investments in unconsolidated affiliates of $50 million, $63 million and $69 million in 2021, 2020 and 2019, respectively.

(c) Primarily includes revenues and associated expenses of transactions with franchisees and unconsolidated affiliates derived from the Company's central procurement model whereby the Company centrally purchases substantially all food and paper products from suppliers then sells and delivers to KFC and Pizza Hut restaurants, including franchisees and unconsolidated affiliates. Amounts have not been allocated to any segment for purposes of making operating decisions or assessing financial performance as the transactions are deemed corporate revenues and expenses in nature.

(d) Includes impairment charges on intangible assets and goodwill attributable to the Daojia business in 2019. See Note 6.

(e) In 2021, unallocated other income primarily includes gain from re-measurement of previously held equity interest in connection with the acquisition of Hangzhou KFC and the Lavazza joint venture. In 2020, unallocated other income primarily includes gain from re-measurement of previously held equity interest in connection with the acquisition Suzhou KFC in 2020. See Note 3.

(f) Primarily includes store closure impairment charges, restaurant-level impairment charges resulting from our semi-annual impairment evaluation as well as our additional impairment evaluation performed in the first quarter of 2020 in response to adverse impact from the COVID-19 pandemic, and incremental restaurant-level impairment charges in the first quarter of 2019 as a result of adopting ASC 842. (See Note 13).

(g) Includes investments in unconsolidated affiliates.

(h) Primarily includes cash and cash equivalents, short-term investments, investment in equity securities, long-term time deposits and inventories that are centrally managed.

As substantially all of the Company's revenue is derived from the PRC and substantially all of the Company's long-lived assets are located in the PRC, no geographical information is presented. In addition, revenue derived from and long-lived assets located in the U.S., the Company's country of domicile, are immaterial.

Note 19—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 ("Chinese interests"), by a non-resident enterprise, may be recharacterized and treated as a direct transfer of Chinese taxable assets, if such arrangement does not have reasonable commercial purpose and the transferor has avoided payment of Chinese enterprise income tax. As a result, gains derived from such an indirect transfer may be subject to Chinese enterprise income tax at a rate of 10%.

YUM concluded and we concurred that it is more likely than not that YUM will not be subject to this tax with respect to the distribution. However, given how recently Bulletin 7 was promulgated, there are significant uncertainties regarding what constitutes a reasonable commercial purpose, how the safe harbor provisions for group restructurings are to be interpreted and how the taxing authorities will ultimately view the 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 December 31, 2021, no guarantees were outstanding for franchisees and unconsolidated affiliates.

Indemnification of Officers and Directors

The Company's amended and restated certificate of incorporation and amended and restated bylaws include provisions that require the Company to indemnify directors or officers for monetary damages for actions taken as a director or officer of the Company or while serving at the Company's request as a director or officer or another position at another corporation or enterprise, as the case may be. The Company purchases standard directors and officers insurance to cover claims or a portion of the claims made against its directors and officers. Since a maximum obligation is not explicitly stated in the Company's bylaws or in the indemnification agreements and will depend on the facts and circumstances that arise out of any future claims, the overall maximum amount of the obligations cannot be reasonably estimated. The Company has not been required to make payments related to these obligations, and the fair value for these obligations is zero as of December 31, 2021.

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 Consolidated Financial Statements, is not likely to have a material adverse effect on the Company's annual results of operations, financial condition or cash flows. Matters faced by the Company from time to time include, but are not limited to, claims from landlords, employees, customers and others related to operational, contractual or employment issues.

Note 20—Subsequent Events

Cash Dividend

On February 8, 2022, the Company announced that the board of directors declared a cash dividend of $0.12 per share on Yum China's common stock, payable as of the close of business on March 29, 2022, to stockholders of record as of the close of business on March 8, 2022. Total estimated cash dividend payable is approximately $51 million.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. 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 CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Management's Report on Internal Controls Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including the CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As permitted, our management excluded Hangzhou KFC, acquired during 2021, from the scope of its assessment of the effectiveness of internal control over financial reporting as of December 31, 2021. Hangzhou KFC's total assets, excluding goodwill and net intangible assets which were included within the scope of assessment, and total revenues represented 3.9% and less than 1% of the Company's total consolidated assets and total consolidated revenues, respectively, as of and for the year ended December 31, 2021.

Based on our evaluation under the framework in *Internal Control—Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2021.

KPMG Huazhen LLP, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and the effectiveness of our internal control over financial reporting as of December 31, 2021 and has issued their report, included herein.

Changes in Internal Control over Financial Reporting

There were no changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended December 31, 2021.

ITEM 9B. Other Information.

None.

ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable. For further information, see "Item 1A. Risk Factors—Risks Related to Doing Business in China—The audit report included in this annual report on Form 10-K is prepared by auditors who are not currently inspected by the Public Company Accounting Oversight Board and, as such, our stockholders are deprived of the benefits of such inspection and our common stock is subject to delisting from the New York Stock Exchange in the future."

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

Information regarding Section 16(a) compliance, the Company's Audit Committee and the Audit Committee financial expert, the Company's code of conduct and background of the directors appearing under the captions "Governance of the Company" and "Election of Directors" is incorporated herein by reference to the 2022 Proxy Statement.

Information regarding executive officers of the Company is incorporated by reference from Part I of this Form 10-K.

ITEM 11. Executive Compensation.

Information regarding executive and director compensation and the Company's Compensation Committee appearing under the captions "Executive Compensation", "2021 Director Compensation" and "Governance of the Company" is incorporated herein by reference to the 2022 Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information regarding equity compensation plans and security ownership of certain beneficial owners and management appearing under the captions "Executive Compensation" and "Stock Ownership Information" is incorporated herein by reference to the 2022 Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

Information regarding certain relationships and related transactions and information regarding director independence appearing under the caption "Governance of the Company" is incorporated herein by reference to the 2022 Proxy Statement.

ITEM 14. Principal Accountant Fees and Services.

Information regarding principal accountant fees and services and audit committee pre-approval policies and procedures appearing under the caption "Ratification of Independent Auditor" is incorporated herein by reference to the 2022 Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a) (1) Financial Statements: Consolidated Financial Statements filed as part of this report are listed under Part II, Item 8 of this Form 10-K.

(2) Financial Statement Schedules: No schedules are required because either the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements thereto filed as a part of this Form 10-K.

(3) Exhibits: The exhibits listed in the accompanying Exhibit Index are filed as part of this Form 10-K. The Index to Exhibits specifically identifies each management contract or compensatory plan required to be filed as an exhibit to this Form 10-K.

Yum China Holdings, Inc.
Exhibit Index
(Item 15)

Exhibit Number	Description of Exhibits
2.1**	Separation and Distribution Agreement, dated as of October 31, 2016, by and among Yum! Brands, Inc., Yum Restaurants Consulting (Shanghai) Company Limited and Yum China Holdings, Inc. (incorporated by reference to Exhibit 2.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
3.1	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 June 2, 2021).
3.2	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 June 2, 2021).
4.1	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934*.
10.1	Master License Agreement, dated as of October 31, 2016, by and between Yum! Restaurants Asia Pte. Ltd. and Yum Restaurants Consulting (Shanghai) Company Limited (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.2	Tax Matters Agreement, dated as of October 31, 2016, by and among Yum! Brands, Inc., Yum China Holdings, Inc. and Yum Restaurants Consulting (Shanghai) Company Limited (incorporated by reference to Exhibit 10.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.3	Employee Matters Agreement, dated as of October 31, 2016, by and between Yum! Brands, Inc. and Yum China Holdings, Inc. (incorporated by reference to Exhibit 10.3 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.4	Name License Agreement, dated as of October 31, 2016, by and between Yum! Brands, Inc. and Yum China Holdings, Inc. (incorporated by reference to Exhibit 10.5 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.5	Guaranty of Master License Agreement, dated as of October 31, 2016, by Yum China Holdings, Inc. (incorporated by reference to Exhibit 10.6 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.6	Investment Agreement, dated as of September 1, 2016, by and among Yum! Brands, Inc., Yum China Holdings, Inc. and Pollos Investment L.P. (incorporated by reference to Exhibit 10.11 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016).
10.7	Investment Agreement, dated as of September 1, 2016, by and among Yum! Brands, Inc., Yum China Holdings, Inc. and API (Hong Kong) Investment Limited (incorporated by reference to Exhibit 10.12 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016).
10.8	Letter Agreement, dated as of October 7, 2016, by and among Yum! Brands, Inc., Yum China Holdings, Inc., API (Hong Kong) Investment Limited and Pollos Investment L.P. (incorporated by reference to Exhibit 10.9 to Yum China Holdings, Inc.'s Annual Report on Form 10-K filed on March 8, 2017).

Exhibit Number	Description of Exhibits
10.9	Shareholders Agreement, dated as of November 1, 2016, by and among Yum China Holdings, Inc., Pollos Investment L.P. and API (Hong Kong) Investment Limited (incorporated by reference to Exhibit 10.7 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.10	Form of Yum China Holdings, Inc. Indemnification Agreement (incorporated by reference to Exhibit 10.10 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.11	Yum China Holdings, Inc. Long Term Incentive Plan (incorporated by reference to Exhibit 10.7 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016). †
10.12	Yum China Holdings, Inc. Leadership Retirement Plan (incorporated by reference to Exhibit 10.8 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016). †
10.13	Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.10 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016). †
10.14	Form of Stock Appreciation Right Agreement (incorporated by reference to Exhibit 10.9 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016). †
10.15	Letter of Understanding issued by Yum China Holdings, Inc. to Johnson Huang, dated as of February 6, 2017 (incorporated by reference to Exhibit 10.21 to Yum China Holdings, Inc.'s Annual Report on Form 10-K filed on March 8, 2017). †
10.16	Transition Agreement, dated as of September 29, 2017, by and between Yum China Holdings, Inc. and Micky Pant (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on October 5, 2017). †
10.17	Letter of Understanding, dated as of September 29, 2017, by and between Yum China Holdings, Inc. and Joey Wat (incorporated by reference to Exhibit 10.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on October 5, 2017). †
10.18	Yum China Holdings, Inc. Performance Share Unit Plan (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Quarterly Report on Form 10-Q filed on May 4, 2018). †
10.19	Term Employment Agreement, dated as of March 22, 2019, by and between Yum China Holdings, Inc. and Shella Ng (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on March 22, 2019). †
10.20	Employment Letter, effective September 16, 2019, by and between Yum China Holdings, Inc. and Andy Yeung (incorporated by reference to Exhibit 10.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on September 6, 2019). †
10.21	Yum China Holdings, Inc. Change in Control Severance Plan (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on October 2, 2019). †
10.22	Confirmatory License Agreement, dated January 1, 2020, by and between by and between Yum Restaurants Consulting (Shanghai) Company Limited and YRI China Franchising LLC. (incorporated by reference to Exhibit 10.24 to Yum China Holdings, Inc.'s Annual Report on Form 10-K filed on February 26, 2021).

Exhibit Number	Description of Exhibits
10.23	Form of Yum China Holdings, Inc. Long Term Incentive Plan Performance Share Units Agreement (Annual PSU Grants) (incorporated by reference to Exhibit 10.1 to Yum China Holding, Inc.'s Quarterly Report on Form 10-Q filed on May 8, 2020). †
10.24	Form of Yum China Holdings, Inc. Long Term Incentive Plan Performance Share Units Agreement (Partner PSU Awards) (incorporated by reference to Exhibit 10.2 to Yum China Holding, Inc.'s Quarterly Report on Form 10-Q filed on May 8, 2020). †
10.25	Form of Yum China Holdings, Inc. Long Term Incentive Plan Restricted Stock Units Agreement (incorporated by reference to Exhibit 10.3 to Yum China Holding, Inc.'s Quarterly Report on Form 10-Q filed on May 8, 2020). †
10.26	Form of Yum China Holdings, Inc. Stock Appreciation Rights Agreement (incorporated by reference to Exhibit 10.4 to Yum China Holding, Inc.'s Quarterly Report on Form 10-Q filed on May 8, 2020). †
10.27	Yum China Holdings, Inc. Executive Severance Plan (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on September 27, 2021). †
10.28	Senior Advisor Service Contract, dated July 15, 2021, by and between Yum China Holdings, Inc. and Christian L. Campbell (incorporated by reference to Exhibit 10.1 to Yum China Holding, Inc.'s Quarterly Report on Form 10-Q filed on November 8, 2021). †
10.29	Post-Termination Agreement, dated November 5, 2021, by and between Yum China Holdings, Inc. and Danny Tan (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 8, 2021). †
10.30	Y&L Coffee Limited Long Term Incentive Plan I (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on February 11, 2022). †
10.31	Form of Performance Share Agreement (for U.S. Tax Payers) (incorporated by reference to Exhibit 10.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on February 11, 2022). †
10.32	Form of Performance Share Agreement (for Non-U.S. Tax Payers) (incorporated by reference to Exhibit 10.3 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on February 11, 2022). †
21.1	Subsidiaries of Yum China Holdings, Inc.*
23.1	Consent of Independent Registered Public Accounting Firm.*
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

Exhibit Number	Description of Exhibits
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.

** Certain schedules and exhibits to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedules and/or exhibits will be furnished to the Securities and Exchange Commission upon request.

† Indicates a management contract or compensatory plan.

ITEM 16. Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Joey Wat

Joey Wat
Chief Executive Officer

Date: February 28, 2022

Form 10-K

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Joey Wat Joey Wat	Chief Executive Officer and Director (principal executive officer)	February 28, 2022
/s/ Andy Yeung Andy Yeung	Chief Financial Officer (principal financial officer)	February 28, 2022
/s/ Xueling Lu Xueling Lu	Controller (controller and principal accounting officer)	February 28, 2022
/s/ Peter A. Bassi Peter A. Bassi	Director	February 28, 2022
/s/ Edouard Ettedgui Edouard Ettedgui	Director	February 28, 2022
/s/ Cyril Han Cyril Han	Director	February 28, 2022
/s/ Louis T. Hsieh Louis T. Hsieh	Director	February 28, 2022
/s/ Fred Hu Fred Hu	Director	February 28, 2022
/s/ Ruby Lu Ruby Lu	Director	February 28, 2022
/s/ Zili Shao Zili Shao	Director	February 28, 2022
/s/ William Wang William Wang	Director	February 28, 2022
/s/ Min (Jenny) Zhang Min (Jenny) Zhang	Director	February 28, 2022

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