



Yum China Holdings, Inc. 百勝中國控股有限公司

(INCORPORATED IN THE STATE OF DELAWARE OF THE UNITED STATES OF AMERICA)

STOCK CODE: 9987



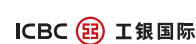
Sponsor, Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager

Goldman Sachs

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers (in alphabetical order)



Joint Bookrunners and Joint Lead Managers (in alphabetical order)



Global Offering

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



YumChina

Yum China Holdings, Inc.

百勝中國控股有限公司

(Incorporated in the State of Delaware of the United States of America)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 41,910,700 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 1,676,500 Shares (subject to reallocation)
Number of International Offer Shares	: 40,234,200 Shares (subject to reallocation and the Over-allotment Option)
Maximum Public Offer Price	: HK\$468.00 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong Dollars and subject to refund)
Par Value	: US\$0.01 per Share
Stock Code	: 9987

Sponsor, Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager

Goldman Sachs

*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers
(in alphabetical order)*



*Joint Bookrunners and Joint Lead Managers
(in alphabetical order)*



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Delivered to the Registrar of Companies in Hong Kong", has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

We expect to determine the pricing of the Offer Shares by agreement with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or about Friday, September 4, 2020 and, in any event, not later than Wednesday, September 9, 2020. The Public Offer Price will be not more than HK\$468.00 per Offer Share, unless otherwise announced. If, for any reason, we do not agree with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Wednesday, September 9, 2020, the Global Offering will not proceed and will lapse.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of our Shares on the NYSE on the last trading day on or before the Price Determination Date were to exceed the maximum Public Offer Price as stated in this prospectus and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process. If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this prospectus or the International Offer Price.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain events occur prior to 8:00 a.m. on the Listing Date. See "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

Our Shares are listed for trading on the NYSE under the symbol "YUMC." The last reported sale price of the common stock on the NYSE on August 28, 2020 was US\$56.50 per share. In connection with the Global Offering, we have filed a registration statement on Form S-3ASR and a preliminary prospectus supplement and plan to file a final prospectus supplement with the SEC to register the sale of Shares under the U.S. Securities Act.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering. This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the "HKEXnews > New Listings > New Listing Information" section and our website at www.yumchina.com. If you require a printed copy of this document, you may download and print from the website addresses above.

September 1, 2020

IMPORTANT

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the “HKEXnews > New Listings > New Listing Information” section, and our website at www.yumchina.com. If you require a printed copy of this document, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at www.eipo.com.hk;
- (2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our IPO Services Agent and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, both at +852 2862 8646 on the following dates:

Tuesday, September 1, 2020 – 9:00 a.m. to 9:00 p.m.
Wednesday, September 2, 2020 – 9:00 a.m. to 9:00 p.m.
Thursday, September 3, 2020 – 9:00 a.m. to 9:00 p.m.
Friday, September 4, 2020 – 9:00 a.m. to 12:00 noon

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this document are identical to the printed document as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (WUMP) Ordinance.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

Please refer to “How to Apply for Hong Kong Offer Shares” for further details on the procedures through which you can apply for the Hong Kong Offer Shares electronically.

IMPORTANT

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
50	23,635.80	600	283,629.62	4,000	1,890,864.14	60,000	28,362,962.16
100	47,271.60	700	330,901.23	4,500	2,127,222.16	80,000	37,817,282.88
150	70,907.41	800	378,172.83	5,000	2,363,580.18	100,000	47,271,603.60
200	94,543.21	900	425,444.43	6,000	2,836,296.22	200,000	94,543,207.20
250	118,179.01	1,000	472,716.04	7,000	3,309,012.25	300,000	141,814,810.80
300	141,814.81	1,500	709,074.05	8,000	3,781,728.29	400,000	189,086,414.40
350	165,450.61	2,000	945,432.07	9,000	4,254,444.32	500,000	236,358,018.00
400	189,086.41	2,500	1,181,790.09	10,000	4,727,160.36	600,000	283,629,621.60
450	212,722.22	3,000	1,418,148.11	20,000	9,454,320.72	700,000	330,901,225.20
500	236,358.02	3,500	1,654,506.13	40,000	18,908,641.44	838,250 ⁽¹⁾	396,254,217.18

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE

Hong Kong Public Offering commences	9:00 a.m. on Tuesday, September 1, 2020
Latest time for completing electronic applications under White Form eIPO service through the designated website <u>www.eipo.com.hk</u> ⁽²⁾	11:30 a.m. on Friday, September 4, 2020
Application lists open ⁽³⁾	11:45 a.m. on Friday, September 4, 2020
Latest time for (a) completing payment for White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (b) giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Friday, September 4, 2020
If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.	
Application lists close ⁽³⁾	12:00 noon on Friday, September 4, 2020
Expected Price Determination Date ⁽⁵⁾	Friday, September 4, 2020
Announcement of the Public Offer Price and the International Offer Price on our website at <u>www.yumchina.com</u> and the website of the Hong Kong Stock Exchange at <u>www.hkexnews.hk</u> on or around ...	Friday, September 4, 2020
Announcement of the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on our website at <u>www.yumchina.com</u> and the website of the Hong Kong Stock Exchange at <u>www.hkexnews.hk</u> on or before	Wednesday, September 9, 2020
The results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:	
<ul style="list-style-type: none"> in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at <u>www.yumchina.com</u> and <u>www.hkexnews.hk</u>, respectively 	Wednesday, September 9, 2020

EXPECTED TIMETABLE

- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **http://www.eipo.com.hk/en/Allotment**; Chinese **http://www.eipo.com.hk/zh-hk/Allotment**) with a “search by ID” function from 8:00 a.m. on Wednesday, September 9, 2020 to 12:00 midnight on Tuesday, September 15, 2020

- Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before⁽⁷⁾⁽⁹⁾ Wednesday, September 9, 2020

- White Form e-Refund payment instructions/refund checks in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be dispatched on or around⁽⁸⁾⁽⁹⁾ Wednesday, September 9, 2020

- Dealings in the Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on Thursday, September 10, 2020

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, September 4, 2020, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares — C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC via CCASS or instructing your broker or custodian to apply on your behalf via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — A. Applications for the Hong Kong Offer Shares — 6. Applying By Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Friday, September 4, 2020 and, in any event, not later than Wednesday, September 9, 2020. If, for any reason, we do not agree with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Wednesday, September 9, 2020, the Global Offering will not proceed and will lapse.
- (6) None of the websites set out in this section or any of the information contained on the websites forms part of this prospectus.
- (7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.
- (8) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful

EXPECTED TIMETABLE

applications in the event that the final Public Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund check. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund check.

- (9) Applicants who have applied on **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares may collect any refund checks (where applicable) and/or Share certificates in person from our Hong Kong Share Registrar, Computershare Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, September 9, 2020 or such other date as notified by us as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through CCASS EIPO service should refer to the section headed "How to Apply for Hong Kong Offer Shares — G. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks — Personal Collection — If you apply by giving electronic application instructions to HKSCC via CCASS" in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk.

Share certificates and/or refund checks for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for Hong Kong Offer Shares — F. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares — G. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks" in this prospectus.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as practicable thereafter.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sponsor, Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

	Page
Expected Timetable	iii
Contents	vi
Letter from Our CEO	viii
Summary	1
Definitions	18
Glossary	27
Forward-looking Statements	28
Risk Factors	31
Information about this Prospectus and the Global Offering	75
Information about the Listing	78
Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance	83
Directors and Parties Involved in the Global Offering	109
Corporate Information	114
Industry Overview	116
Regulation	127

CONTENTS

	Page
Our History and Corporate Structure	138
Business	145
Financial Information	182
Directors, Senior Management and Employees	220
Major Shareholders	237
Share Capital	239
Use of Proceeds	244
Underwriting	245
Structure of the Global Offering	250
How to Apply for Hong Kong Offer Shares	259
Appendix I – Accountants’ Report	I-1
Appendix II – Unaudited Pro Forma Financial Information	II-1
Appendix III – Summary of Our Constitutional Documents and the DGCL	III-1
Appendix IV – Statutory and General Information	IV-1
Appendix V – Documents Delivered to the Registrar of Companies and Available for Inspection	V-1

LETTER FROM OUR CEO

Dear Yum China investors,

Over thirty years ago, we started our journey in China with the opening of the first KFC restaurant in Beijing. Four years ago, we spun off from Yum! Brands and became an independent company listed on the NYSE. Today, we embark on a new chapter — a secondary listing in Hong Kong, a place that embraces East and West and enables us to broaden our investor base. Welcome to our journey.

“吃了嗎？” (“Have you eaten?”) This is how neighbors and friends greet each other on the streets and alleys of China. More intimate than “how are you,” this simple phrase instantly brings people closer and crystalizes the importance of food and eating in the daily lives of people in China. We, at Yum China, are immensely honored to serve our discerning customers.

On November 12, 1987, KFC made its China debut near Qianmen in Beijing. The largest KFC outlet in the world at that time, it was the first-ever western chain restaurant in China. An instant hit. The widely loved KFC Original Recipe® chicken transcended cultures and brought people together at our dining tables. For over thirty years, our appeal has endured and grown. Our flagship brands, KFC and Pizza Hut, have become deeply ingrained in the lives and memories of generations in China. A first taste of western cuisine. A special birthday. A first date. Over 10,000 restaurants later, we have now grown to become the largest restaurant company in China. We have also added emerging brands to our restaurant family, such as Taco Bell, East Dawning, Little Sheep, Huang Ji Huang, COFFii & JOY and Lavazza.

We are deeply committed to China. Our success comes from focusing on developing a strong connection with our customers in China. While staying true to our original recipes, we refine our food and menu to suit local tastes and adjust our services and dining experiences for the dynamic Chinese market. With over 400,000 employees, and thousands of franchisees, suppliers and business partners, we are proud to create jobs and opportunities for so many in China. Our employees, our customers, and our communities are the backbone of our business, and we strive to give back and make a positive impact on society.

In 2008, we commenced the “One Yuan Donation” program together with the China Foundation for Poverty Alleviation, encouraging our restaurant guests and employees to donate one yuan to enrich the diets of children in China’s impoverished regions. Over the past 12 years, the “One Yuan Donation” program helped build modern kitchens in over 1,000 schools and provided over 48 million nutritious meals to 712,000 school children across China. Our KFC Angel Restaurants program provides employment opportunities for people with special needs. In the past eight years, we provided employment to over 400 special-need youths in 25 of our restaurants in 24 cities across China. Each of these restaurants is specially equipped and staffed to facilitate the work of employees with special needs, making them feel included and comfortable in an environment of peers. The Angel Restaurant program helps people with special needs realize their full potential in a rewarding working environment. We are proud of our contributions to society.

Since 2018, our vision has been to become the world’s most innovative pioneer in the restaurant industry. Our innovations underlie our agile and resilient business model, which enables us to adapt not only to new technologies, but also to economic and social evolution in China. Innovation is manifested in every aspect of our business — from “always something new” menu items to digital marketing, from a tech-enabled dining experience to optimization for operational efficiency. With more than 1,900 new menu item prototypes developed, and around 400 new and improved products launched in 2019 alone, we offer an ever-evolving selection of appealing, tasty and convenient food at great prices. Our innovations have earned

LETTER FROM OUR CEO

us many firsts in China's restaurant industry: one of the earliest adopters of mobile ordering among restaurant chains, one of the first to offer digital payment options, and the first to commercially implement facial recognition payment technologies.

Good times build confidence; bad times build character. The COVID-19 pandemic has presented unprecedented challenges and exerted extreme stress on our operations and on our employees. We rose to the occasion. We prioritized the safety and health of our employees and customers. A majority of our stores remained open, and our employees and delivery riders continued to show up and provide a critical food service to essential service workers, in a time of crisis. We provided over 170,000 free meals to many hospitals and community health centers across China. We supported our employees and their families by extending their holiday pay and strengthening their medical insurance coverage. Our senior executives forwent a portion of their salaries to support our frontline employees and their families. Our operations also proved resilient. Thanks to our courageous RGMs and employees and our innovative technology-enabled platform, our operations withstood the severe stress test and weathered the storm. We continued to run our operations efficiently and continued to innovate and pioneered contactless delivery and takeaway during the pandemic. We went above and beyond and did what was right for our employees, our customers, our shareholders and our communities.

Looking to the future, we are excited by our long-term prospects in China, ranging from substantial offline white space opportunities to promising online and digital footprint expansion potential. We will continue to invest for growth — to build an ever stronger, nimbler and more innovative company that positively impacts our employees, customers, shareholders, suppliers, communities and the environment. Thirty years into our journey, our secondary listing in Hong Kong will provide an additional access point for our stakeholders to invest in our company, closer to where we operate, where our customers and communities thrive.

I believe that great companies have souls. Ours is rooted in our connection to the communities we serve — to our guests and to our people. At Yum China, we fervently believe all of us are members of the same extended family. We provided free meals to healthcare workers during the COVID-19 crisis: not because we were asked; not to gain publicity; but because that's how good neighbors treat one another. We have a longstanding tradition of welcoming everyone into our stores as honored guests — from the urban mom buying three buckets for a family get-together to the homeless laborer just seeking a clean bathroom or a place to sit for a while. The stories we tell onboarding staff members tend to feature the latter, as most of us, myself included, have been in less fortunate straits sometime in our lives. We want our people to work hard, to have pride in their jobs and their company, and to adopt our bedrock Yum China values. Foremost among these is both feeling and acting with empathy — this I see as the true soul of Yum China.

On behalf of everyone at Yum China, thank you for your passion and support.

Joey Wat

Chief Executive Officer

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full prospectus. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OUR VISION

Our vision is to become the world’s most innovative pioneer in the restaurant industry. Innovation and technology have been the key pillars of our business success, extending our runway for sustainable growth, enhancing the guest experience and optimizing operations and cost efficiencies.

OVERVIEW

Yum China is the largest restaurant company in China in terms of 2019 System sales, according to the F&S Report. We had US\$8.8 billion of revenue in 2019 and over 9,900 restaurants as of June 30, 2020. 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, COFFii & JOY, East Dawning, Taco Bell and Lavazza.

We separated from YUM on October 31, 2016, becoming an independent, publicly traded company under the ticker symbol “YUMC” on the NYSE on November 1, 2016. In connection with the separation of our Company from YUM, Yum! Restaurants Asia Pte. Ltd., a wholly-owned indirect subsidiary of YUM, and YCCL, our wholly-owned indirect subsidiary, entered into a 50-year master license agreement, pursuant to which we were granted the exclusive right to operate and sub-license the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Taiwan and Macau. In exchange, we pay a license fee to YUM of 3% of the net System sales from both our Company-owned and franchise restaurants. The master license agreement can be automatically renewed 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. 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 as early as 1987. With more than 30 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of 2019 System sales, with over 9,900 restaurants covering over 1,400 cities primarily in China as of June 30, 2020.

KFC is the leading and the largest QSR brand in China in terms of 2019 System sales, according to the F&S Report. As of June 30, 2020, KFC operated over 6,700 restaurants in over 1,400 cities across China.

Pizza Hut is the leading and the largest CDR brand in China in terms of 2019 System sales and number of restaurants, according to the F&S Report. As of June 30, 2020, Pizza Hut operated over 2,200 restaurants in over 500 cities across China.

SUMMARY

Over the past three decades, we have built a significant lead not just in scale, but also in brand loyalty, development capabilities, innovative product offerings, industry-leading digital and delivery capabilities, a robust supply chain management system, a strong financial profile, a highly-talented workforce and a seasoned and passionate management team. We believe that these competitive strengths are difficult to replicate, allowing us to deliver superior value propositions to our guests and generate strong returns for our Shareholders.

OUR BUSINESS

Our Restaurant Brands

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, COFFii & JOY, East Dawning, Taco Bell and Lavazza.

- *KFC.* KFC was founded in Corbin, Kentucky in the U.S. by Colonel Harland D. Sanders in 1939, and opened its first restaurant in Beijing, China as early as 1987. As of June 30, 2020, there were over 6,700 KFC restaurants in over 1,400 cities across China. In addition to the Original Recipe® chicken, KFC in China has an extensive menu featuring pork, seafood, rice dishes, fresh vegetables, soups, congee, desserts and many others, including freshly ground coffee. KFC also seeks to increase revenue from different dayparts with breakfast, coffee, dessert and delivery.
- *Pizza Hut.* Pizza Hut is a CDR brand 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. As of June 30, 2020, there were over 2,200 Pizza Hut restaurants in over 500 cities across China. Pizza Hut in China has an extensive menu offering a broad variety of pizzas, steaks, entrees, pasta, rice dishes, appetizers, beverages and desserts.
- *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 260 restaurant units in both China and international markets as of June 30, 2020.
- *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 600 restaurants in China and internationally as of June 30, 2020. Huang Ji Huang primarily operates a franchise model and is an industry-leading simmer pot brand.
- *COFFii & JOY.* COFFii & JOY is a coffee concept developed by us in 2018, featuring specialty coffee. As of June 30, 2020, there were 55 COFFii & JOY units in China.
- *East Dawning.* East Dawning is a Chinese QSR brand located predominantly in bustling transportation hubs. As of June 30, 2020, there were 11 East Dawning restaurant units across 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 June 30, 2020, there were nine Taco Bell restaurant units in China.

SUMMARY

- Lavazza.** In April 2020, we partnered with Lavazza Group, the world-renowned family-owned Italian coffee company, and established a joint venture, to explore and develop the Lavazza coffee shop concept in China. As the first step, a new Lavazza flagship store was opened in Shanghai, China.

The following table sets forth a breakdown of our revenue by segments for the period indicated. For details of our segment reporting, see “Appendix I — Accountants’ Report” to this prospectus.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2018		2017		2020		2019	
										(unaudited)
	(in millions of U.S. dollars, except percentages)									
KFC	6,040	68.8%	5,688	67.6%	5,066	65.2%	2,576	70.5%	3,050	68.9%
Pizza Hut	2,054	23.4%	2,111	25.1%	2,093	26.9%	748	20.5%	1,053	23.8%
All other segments ⁽¹⁾	158	1.8%	115	1.4%	106	1.4%	78	2.1%	64	1.4%
Corporate and unallocated ⁽²⁾	562	6.4%	517	6.1%	504	6.5%	271	7.4%	280	6.3%
Subtotal	8,814	100.4%	8,431	100.2%	7,769	100.0%	3,673	100.5%	4,447	100.4%
Elimination	(38)	(0.4)%	(16)	(0.2)%	—	—	(17)	(0.5)%	(19)	(0.4)%
Total revenues . . .	8,776	100.0%	8,415	100.0%	7,769	100.0%	3,656	100.0%	4,428	100.0%

(1) Representing revenue we generated from Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Daojia, and our e-commerce business.

(2) Primarily includes revenues from transactions with franchisees and unconsolidated affiliates derived from our central procurement model whereby food and paper products are centrally purchased and then mainly sold to KFC and Pizza Hut franchisees and unconsolidated affiliates. They represent amounts that have not been allocated to any segment for performance reporting purposes.

SUMMARY

Our Restaurant Network

The following table sets forth the total number of restaurant units and their movement for the period indicated.

	For the six months ended June 30,	For the year ended December 31,		
	2020	2019	2018	2017
Number of restaurant units at the beginning of the period				
KFC	6,534	5,910	5,488	5,224
Pizza Hut	2,281	2,240	2,195	2,081
Other brands ⁽¹⁾	385	334	300	257
Total	9,200	8,484	7,983	7,562
Number of new restaurant units opened or acquired during the period				
KFC	307	742	566	408
Pizza Hut	19	132	157	180
Other brands ⁽¹⁾	648 ⁽²⁾	132	96	103
Total	974	1,006	819	691
Number of restaurant units closed during the period ⁽³⁾				
KFC	92	118	144	144
Pizza Hut	42	91	112	66
Other brands ⁽¹⁾	86	81	62	60
Total	220	290	318	270
Number of restaurant units at the end of the period				
KFC	6,749	6,534	5,910	5,488
Pizza Hut	2,258	2,281	2,240	2,195
Other brands ⁽¹⁾	947	385	334	300
Total	9,954	9,200	8,484	7,983

(1) Other brands include Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza restaurant units.

(2) Including the restaurants of Huang Ji Huang as a result of the acquisition.

(3) Our restaurant closures during the Track Record Period were primarily due to termination or non-renewal of leases, store relocations and other commercial reasons, including closure of under-performing stores.

SUMMARY

As of June 30, 2020, 1,527 of our 9,954 restaurants were franchise restaurants, among which 571 were KFC restaurants, 108 were Pizza Hut restaurants and over 600 were Huang Ji Huang restaurants. In addition, as of the same date, approximately 10% of our restaurants were unconsolidated affiliates. These unconsolidated affiliates are held by PRC joint venture entities partially owned by us, which helped KFC establish its initial presence in certain regions of China. Set forth below is a breakdown of our restaurant unit count for the period indicated.

	As of June 30, 2020	As of December 31, 2019	2018	2017
Company-owned				
KFC	5,231	5,083	4,597 ⁽¹⁾	4,112
Pizza Hut	2,150	2,178	2,188	2,166
Other brands	98	94	47	29
<i>Subtotal</i>	<u>7,479</u>	<u>7,355</u>	<u>6,832</u>	<u>6,307</u>
Unconsolidated affiliates				
KFC	947	896	811 ⁽¹⁾	891
Pizza Hut	—	—	—	—
Other brands	—	—	—	—
<i>Subtotal</i>	<u>947</u>	<u>896</u>	<u>811</u>	<u>891</u>
Franchises				
KFC	571	555	502	485
Pizza Hut	108	103	52	29
Other brands	848	291	287	271
<i>Subtotal</i>	<u>1,527</u>	<u>949</u>	<u>841</u>	<u>785</u>
Others⁽²⁾	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u><u>9,954</u></u>	<u><u>9,200</u></u>	<u><u>8,484</u></u>	<u><u>7,983</u></u>

(1) As a result of the acquisition of Wuxi KFC as disclosed in Note 1 of “Appendix I — Accountants’ Report,” the restaurant units of Wuxi KFC have been transferred from unconsolidated affiliates to Company-owned.

(2) Representing the Lavazza flagship store we opened in Shanghai, China.

Restaurant Performance Data

The following table sets forth our same-store sales growth⁽¹⁾ (decline) for the period indicated.

	2020 1H	2019	2018
KFC	(11)%	4%	2%
Pizza Hut	(22)%	1%	(5)%
Overall	(13)%	3%	1%

(1) Same-store sales growth (decline) represents 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. Same-store sales growth (decline) percentages as shown in the table above exclude the impact of F/X.

SUMMARY

The following table sets forth the same-store number of transaction growth (decline) and ticket average growth (decline) for KFC and Pizza Hut for the period indicated.

	<u>2020 1H</u>	<u>2019</u>	<u>2018</u>
<i>Same-store number of transaction growth (decline)⁽¹⁾</i>			
KFC	(24)%	1%	(1)%
Pizza Hut	(15)%	7%	(2)%
<i>Same-store ticket average growth (decline)⁽²⁾</i>			
KFC	18%	3%	3%
Pizza Hut	(8)%	(6)%	(2)%

- (1) Same-store number of transaction growth (decline) represents the estimated period-over-period percentage change in the number of transactions 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.
- (2) Ticket average is calculated by dividing restaurant sales by the number of transactions. Same-store ticket average growth (decline) represents the estimated period-over period percentage change in ticket average 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.

Same-store sales growth of KFC in 2018 and 2019 were led by the growth in delivery sales, product and value innovation, effective marketing campaigns and pricing. Same-store sales for Pizza Hut declined by 5% in 2018 due to the decline in the number of transactions and increased promotional activities to improve value proposition (which reduced ticket averages). Same store sales for Pizza Hut increased by 1% in 2019 as a result of the improvement in value proposition and general revitalization initiatives undertaken. Same-store sales decline of KFC and Pizza Hut in the six months ended June 30, 2020 was primarily due to the impact of the COVID-19 pandemic.

COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our success and set us apart from competitors: (i) we are the largest restaurant company in China with unparalleled scale and strong brand recognition; (ii) we enjoy rapid and profitable growth enabled by proprietary local know-how and development capabilities; (iii) we are a pioneer of an innovative restaurant model with strong digital and delivery execution, providing a superior brand value proposition to guests; (iv) we have the highest commitment to food safety with world-class supply chain management and operations; (v) we have strong financial performance; and (vi) we have a seasoned and passionate senior management team and committed restaurant management team empowered by a culture of founder's mentality and the spirit of innovation.

BUSINESS STRATEGY

Our primary strategy is to grow sales and profits across our portfolio of brands through organic growth, growth of franchises and development of new restaurant concepts, along with growing our online business. We intend to implement our primary strategy through the following components: (i) continue to strategically expand our restaurant network; (ii) continue to improve unit-level performance and develop new sources of revenue; (iii) continue to invest in technology, with a focus on our digital and delivery capabilities; (iv) strategically expand our restaurant portfolio; and (v) prudently pursue investments in high-quality assets.

SUMMARY

ENVIRONMENT, SOCIAL AND GOVERNANCE

Nutritious Food

We are committed to providing safe and nutritious food in a way that is economically, socially and environmentally sustainable. For example, we advocated well balanced diet, less sugar, less oil, less salt by using a wide variety of ingredients such as meat, poultry, grains, dairy products, fruits and vegetables and application of multiple cooking methods in the preparation of food, including frying, roasting, boiling, sautéing and grilling. We increase the use of grains, fruits and vegetables, beans and nuts to enrich menu choices and provide customers with balanced meals. For example, we use more than 50 varieties of fruits and vegetables in our food.

Packaging

We aim to reduce our environmental footprint through 4R Principles (Reduce, Reuse, Recycle and Replace) with the application of new packaging solutions, new materials, innovative technologies and various other methods. We follow local regulations on classification of waste generated during restaurant operation, and engage our customers and other stakeholders to drive for plastic and waste reduction. Below are some examples of our ESG achievements.

- In 2019, we saved over 8,000 tons of paper packaging and 1,000 tons of plastic packaging through packaging reduction initiatives.
- In 2019, we saved more than 2,000 tons of paper packaging and reduced approximately 20% of restaurant waste through the use of reusable serving basket. The reusable serving baskets have been rolled to all KFC restaurants across China.

Food Waste

We also strive to reduce food waste at our restaurants. In 2019, we introduced sophisticated kitchen equipment and AI technology for precise production forecasting, improved cold chain to reduce food loss, and strengthened the back of house operation, which effectively reduced the loss and waste of chicken products. We successfully saved about 50 tons of food loss through these technologies in 2019.

Supply Chain

We are dedicated to developing innovative programs to improve sustainability performance across our supply chain. Since becoming a member of Roundtable on Sustainable Palm Oil (“RSPO”) in 2017, all of our purchased palm oil has been RSPO certified. We only purchase poultry from large-scale poultry suppliers that demonstrate and maintain compliance with animal welfare regulations and practices, as well as our animal welfare guidelines. Further, we have also promote Yum China Good Agricultural Practices at upstream vegetable bases with rigorous control of base selection, soil and water safety, planting technology, pesticide management, fertilizer use, and good practices operations

Social and Community

Our social and community sustainability efforts primarily focus on four areas — poverty alleviation, community care, child and youth development and advocacy for healthy lifestyles. We founded “The One Yuan Donation” program in 2008 in partnership with China Foundation for Poverty Alleviation. We also launched KFC Angel Restaurants in 2012, which has created over 400 employment opportunities for people with special needs since then. In

SUMMARY

2016, KFC partnered with the China Children and Teenagers' Fund to launch a fund for left-behind and migrant children. By the end of 2019, KFC had donated over 1,800 reading corners to communities and schools with where left-behind and migrant children gathered.

Corporate Governance

We had a long history of internal control in accordance with the United States standards and we have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. We have established three Board committees to oversee specific risks in our business operations, including the Audit Committee, Compensation Committee and Food Safety Committee.

For details, see "Business — Sustainability" and "Business — Environment, Social and Governance."

SUMMARY OF FINANCIAL INFORMATION

The select historical data of financial information set forth below has been derived from, and should be read in conjunction with, our consolidated financial statements, including the accompanying notes, set forth in the Accountants' Report set out in Appendix I to this prospectus, as well as the information set forth in "Financial Information" of this prospectus. Our financial information was prepared in accordance with U.S. GAAP. Tabular amounts below are displayed in millions of U.S. dollars except as otherwise specifically identified.

SUMMARY

Summary Data from Consolidated Statements of Income

The following table sets forth select data from our consolidated statements of income for the period indicated.

	For the year ended December 31,			For the six months ended June 30,		% B/(W) ⁽¹⁾					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X ⁽²⁾	Reported	Ex F/X ⁽²⁾	Reported	Ex F/X ⁽²⁾
	(in millions of U.S. dollars, except percentages)										
Company sales	7,925	7,633	6,993	3,240	4,015	4	9	9	7	(19)	(16)
Franchise fees and income	148	141	141	72	75	5	9	1	(2)	(4)	(1)
Revenues from transactions with franchisees and unconsolidated affiliates	654	603	599	318	324	9	13	1	(1)	(2)	1
Other revenues	49	38	36	26	14	31	34	4	4	86	94
Total revenues	8,776	8,415	7,769	3,656	4,428	4	9	8	6	(17)	(15)
Restaurant profit	1,266	1,199	1,171	396	669	6	11	2	(1)	(41)	(39)
Restaurant margin % . . .	16.0%	15.7%	16.7%	12.2%	16.7%	0.3 ppts.	0.3 ppts.	(1.0) ppts.	(1.0) ppts.	(4.5) ppts.	(4.5) ppts.
Operating profit	901	941	778	225	507	(4)	1	21	16	(56)	(54)
Interest income, net . . .	39	36	25	17	19	7	12	47	44	(8)	(4)
Investment gain (loss)	63	(27)	—	37	27	NM ⁽³⁾	NM ⁽³⁾	NM ⁽³⁾	NM ⁽³⁾	40	40
Income tax provision . .	(260)	(214)	(379)	(77)	(139)	(21)	(26)	43	45	44	43
Net income – including non-controlling interests	743	736	424	202	414	1	6	74	66	(51)	(49)
Net income – non- controlling interests	30	28	26	8	14	(6)	(11)	(7)	(4)	44	42
Net income – Yum China Holdings, Inc.	713	708⁽⁴⁾	398	194⁽⁵⁾	400	1	6	78	70	(52)	(50)

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

(2) Represents percentage changes excluding the impact of F/X. For more details, see “Financial Information — Overview.”

(3) NM refers to change over 100%, from negative to positive amounts or from zero to an amount.

(4) Our net income increased from US\$398 million in 2017 to US\$708 million in 2018, primarily due to (i) a US\$163 million increase in operating profit in 2018, which was driven by strong sales, a gain recognized from re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition, G&A expenses savings and productivity improvements, partially offset by wage and commodity inflation, and higher investment in product upgrades and promotions; and (ii) a US\$165 million decrease in income tax provisions primarily driven by an additional income tax expenses of US\$164 million recorded in 2017, the period in which the Tax Act was enacted. We completed our analysis of the U.S. Tax Act in the fourth quarter of 2018 and made an adjustment of US\$36 million to reduce the provisional amount for transition tax recorded in 2017 based on the guidance released by the U.S. Treasury Department and IRS as of December 2018. For details, see “Financial Information — Results of Operations.”

(5) Our net income decreased from US\$400 million in the six months ended June 30, 2019 to US\$194 million in the six months ended June 30, 2020, mainly due to the decrease in operating profit driven by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic. For details, see “— The Impact of the COVID-19 Pandemic” and “Financial Information — Results of Operations.”

SUMMARY

Summary Data from Consolidated Statements of Cash Flows

The following table sets forth select data from our consolidated statements of cash flow for the period indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2018	2017	2020	2019
					(unaudited)
	(in millions of U.S. dollars)				
Net cash provided by operating activities	1,185	1,333	884	452	657
Net cash used in investing activities	(910)	(552)	(557)	(761)	(368)
Net cash used in financing activities	(480)	(518)	(185)	(59)	(259)

Summary Data from Our Consolidated Balance Sheets

The following table sets forth select data from our consolidated balance sheets as of the date indicated.

	As of June 30,	As of December 31,		
	2020	2019	2018	2017
	(in millions of U.S. dollars)			
Cash and cash equivalents	674	1,046	1,266	1,059
Short-term investments	1,034	611	122	205
Accounts receivable, net	83	88	80	79
Inventories, net	346	380	307	297
Prepaid expenses and other current assets	166	134	177	162
Property, plant and equipment, net	1,504	1,594	1,615	1,691
Operating lease right-of-use assets	1,886	1,985	—	—
Goodwill	309	254	266	108
Intangible assets, net	183	94	116	101
Deferred income taxes	99	95	89	105
Investments in unconsolidated affiliates	68	89	81	95
Other assets	611	580	491	385
Total Assets	6,963	6,950	4,610	4,287
Accounts payable and other current liabilities	1,660	1,691	1,199	985
Income taxes payable	63	45	54	39
Non-current operating lease liabilities	1,677	1,803	—	—
Non-current finance lease obligations	24	26	25	28
Other liabilities	252	210	355	388
Total Liabilities	3,676	3,775	1,633	1,440
Redeemable Noncontrolling Interest	12	—	1	5
Total Yum China Holdings, Inc. Stockholders' Equity	3,203	3,077	2,873	2,765
Noncontrolling interests	72	98	103	77
Total Equity	3,275	3,175	2,976	2,842
Net current assets⁽¹⁾	580	523	699	778

SUMMARY

- (1) Net current assets equal total current assets less total current liabilities. For details, see “Financial Information — Working Capital”.

GLOBAL OFFERING STATISTICS

The statistics in the following table are based on the assumption that, upon the completion of the Global Offering, 41,910,700 Shares are issued and the Over-allotment Option is not exercised.

	Based on an indicative maximum Public Offer Price of HK\$468.00 per Share
Market capitalization of our Shares ⁽¹⁾	HK\$196,142 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	12.53

- (1) The calculation of market capitalization is based on 419,106,379 Shares expected to be in issue immediately upon completion of the Global Offering, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option or pursuant to the 2016 Plan, the Warrant 1 and the Warrant 2.
- (2) The unaudited pro forma adjusted net tangible assets per Share is calculated after making adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information” to this prospectus.

DETERMINATION OF OFFER PRICE

We will determine the pricing for the Offer Shares for the purpose of the various offerings under the Global Offering on the Price Determination Date, which is expected to be on or about Friday, September 4, 2020 and, in any event, no later than Wednesday, September 9, 2020, by agreement with the Joint Global Coordinators (for themselves and on behalf of the Underwriters).

We will determine the Public Offer Price by reference to, among other factors, the closing price of the Shares on the NYSE on the last trading day on or before the Price Determination Date (which is accessible to the Shareholders and potential investors at <https://www.nyse.com/quote/XNYS:YUMC>), and the Public Offer Price will not be more than HK\$468.00 per Hong Kong Offer Share.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the Shares on the NYSE on the last trading day on or before the Price Determination Date were to exceed the maximum Public Offer Price as stated in this prospectus and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this prospectus or the International Offer Price.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$19,274 million, after deducting underwriting commissions, fees and estimated expenses

SUMMARY

payable by us in connection with the Global Offering based on an indicative maximum Public Offer Price of HK\$468.00 per Share, and assuming the Over-allotment is not exercised. We currently intend to apply these net proceeds for the following purposes: (i) expand and deepen our restaurant network; (ii) invest in (a) digitalization and supply chain; (b) food innovation and value proposition and (c) high-quality assets; and (iii) working capital and general corporate purposes.

THE LISTING

Our Shares are currently listed and traded on the NYSE. Dealings in our Shares on the NYSE have been conducted in U.S. dollars. We have applied for a listing of our Shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers) of the Hong Kong Listing Rules. Dealings in our Shares on the Hong Kong Stock Exchange will be conducted in Hong Kong Dollars. Our Shares will be traded on the Hong Kong Stock Exchange in board lots of 50 Shares. For additional information, see “Information about the Listing.”

EXEMPTIONS AND WAIVERS

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (WUMP) Ordinance and the SFO and a ruling under the Takeovers Codes. For additional information, see “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance.”

Among the various waivers that we have applied for, we have applied to the Hong Kong Stock Exchange for waivers from strict compliance with (i) Rules 19C.07(3) and 19C.07(7) of the Hong Kong Listing Rules in respect of certain shareholder protection requirements thereunder, see “— Our Constitutional Documents” below; and (ii) the requirements in paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules such that we are able to spin-off a subsidiary entity and list it on the Hong Kong Stock Exchange within three years after the Listing. While we do not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as of the Latest Practicable Date, in light of our Group’s overall business scale and multiple restaurant brands under our operation, spinning off one or more of our business units through a listing on the Hong Kong Stock Exchange may become desirable and be in the interest of our Shareholders as a whole within three years after the Listing. As of the Latest Practicable Date, we do not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange, as a result we do not have any information relating to the identity of any spin-off target or any other details of any spin-off and accordingly, there will be no material omission of any information relating to any possible spin-off in this prospectus.

INCENTIVE PLAN

Our 2016 Plan is a long-term incentive plan effective on October 31, 2016, which authorizes the award of stock options, incentive options, SARs, restricted stock, stock units, RSUs, performance shares, performance units and cash incentive awards to employees and non-employee Directors. As of the Latest Practicable Date, the outstanding share incentive awards pursuant to the 2016 Plan accounted for approximately 4.0% of our total outstanding Shares of common stock. The terms of the 2016 Plan are not subject to the provisions of Chapter 17

SUMMARY

of the Hong Kong Listing Rules. For additional information, see “Directors, Senior Management and Employees — Compensation — Incentive Plans — 2016 Plan” and “Appendix IV — Statutory and General Information — D. Incentive Plans — 2. 2016 Plan.”

WARRANTS

We issued to Primavera and Ant Financial two tranches of warrants, namely Warrant 1 and Warrant 2, which may be exercised at any time through October 31, 2021, subject to customary anti-dilution adjustments, and are transferrable in the secondary market. As of the Latest Practicable Date, the total number of Shares of common stock underlying Warrant 1 and Warrant 2 accounted for approximately 4.5% of our total outstanding Shares of common stock. For additional information, see “Appendix IV — Statutory and General Information — E. Further Information about Our Warrants Granted to Primavera and Ant Financial.”

OUR CONSTITUTIONAL DOCUMENTS

We are a corporation incorporated in Delaware, the United States and our affairs are governed by our Constitutional Documents and the DGCL, as well as other applicable laws, regulations, policies and procedures. The laws of Hong Kong differ in certain respects from the DGCL, and our Constitutional Documents are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as (i) the absence of requirement as set out in Rule 19C.07(3) of the Hong Kong Listing Rules that the appointment, removal and remuneration of auditors must be approved by a majority of a Qualifying Issuer’s members or other body that is independent of the issuer’s board of directors; and (ii) the absence of requirement as set out in Rule 19C.07(7) of the Hong Kong Listing Rules that members holding a 10% minority stake in the Qualifying Issuer’s total number of issued shares are able to convene an extraordinary general meeting and add resolutions to a meeting agenda. Therefore, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules. We have also applied for, and the Stock Exchange has granted, a waiver from strict compliance with the Rule 19C.07(7) of the Hong Kong Listing Rules, subject to the conditions that: (i) our Board has resolved, subject to the completion of the Listing, at the 2021 annual meeting and at subsequent annual meetings, if necessary, to present a proposal to the Shareholders to amend our Constitutional Documents providing for the right to call a special meeting of the Company by holders of 25% or more of our outstanding Shares of common stock (the “**25% Requisition Right**”), and recommend that our Shareholders approve such proposal. The 25% Requisition Right shall be subject to customary terms and conditions; and (ii) our Board undertakes that, after the completion of the Listing and before the approval of the 25% Requisition Right by the Shareholders, in the event that shareholders holding 25% or more of our total outstanding Shares of common stock request that a special meeting be called, our Board will, subject to customary terms and conditions, support such request. See “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Shareholder Protection” and “Appendix III — Summary of Our Constitutional Documents and the DGCL” for further details.

FEDERAL INCOME AND ESTATE TAX CONSIDERATIONS

The following summary applies to a “non-U.S. holder” (as defined in the section headed “Material U.S. Federal Income and Estate Tax Considerations for Non-U.S. Holders” in Appendix III to this prospectus) of the Shares. This summary is based on current U.S. federal income and estate tax laws and is not intended to be, and should not be construed as, legal or tax advice to any prospective investor.

SUMMARY

A more detailed summary of certain U.S. federal income and estate tax considerations relating to the ownership and disposition of the Shares by a non-U.S. holder is set out in the section headed “Material U.S. Federal Income and Estate Tax Considerations for Non-U.S. Holders” in Appendix III to this prospectus.

Dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at a rate of 30% on the gross amount paid. It should be noted that this 30% withholding tax rate will apply to non-U.S. holders for whom the dividends constitute income “effectively connected” with a U.S. trade or business and to non-U.S. holders otherwise eligible for a reduced rate of U.S. withholding tax on such dividends under the provisions of an applicable income tax treaty in effect between the United States and another country. This is because there will not be a mechanism available through the trading, settlement and security transferring facilities in Hong Kong for such non-U.S. holders to provide to the applicable withholding agent the certifications required by applicable U.S. Treasury regulations to avoid withholding on effectively connected income or to receive the benefit of the lower applicable income tax treaty withholding tax rate with respect to U.S. source dividends. In addition, for the same reason, it is not certain whether such non-U.S. holders will be able to obtain documentation required to make or substantiate a claim with the IRS for a refund or credit of U.S. federal income tax withheld from such dividends. Non-U.S. holders may request from their brokers or custodians documentation showing the amount of dividends received and the amounts of U.S. withholding tax applied with respect to those dividends in order to substantiate their own tax refund or credit, although there is no guarantee that such documentation will be provided or that such refund or credit claim will be successful. Accordingly, such non-U.S. holders holding Hong Kong registered Shares should consider repositioning their Shares to the U.S. register as described under “Information About the Listing — Repositioning for Shares Trading and Settlement in Different Markets, Between Hong Kong and the United States” prior to the payment of a dividend. Also, non-U.S. holders should be aware that the United States has not entered into an income tax treaty with Hong Kong and certain other countries. Prospective investors are urged to consult their own tax advisors regarding the application to them of the rules governing the withholding of U.S. federal income tax, and the rules governing the making of a claim with the IRS for a refund or credit of any excess amounts U.S. federal income tax withheld, from such dividends paid to them.

Gain on Disposition of the Shares

As described more fully in the section headed “Material U.S. Federal Income and Estate Tax Considerations for Non-U.S. Holders” in Appendix III to this prospectus, a non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on any gain recognized on a disposition of the Shares unless:

- the gain is effectively connected with a U.S. trade or business (and, if an applicable income tax treaty so provides, is also attributable to a permanent establishment or a fixed base maintained within the United States by the non-U.S. holder);
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met; or
- we are, or have been at any time during the five-year period preceding such disposition (or the non-U.S. holder’s holding period, if shorter), a “United States real property holding corporation” under Section 897 of the Code. We believe that

SUMMARY

we are not currently, and we do not anticipate becoming in the future, a U.S. real property holding corporation.

Federal Estate Tax

An individual non-U.S. holder who is treated as the owner, or who has made certain lifetime transfers, of an interest in the Shares will be required to include the value of the Shares in his or her gross estate for U.S. federal estate tax purposes and may be subject to U.S. federal estate tax, unless an applicable estate or other tax treaty provides otherwise.

DIVIDENDS

We intend to retain a significant portion of our earnings to finance the operation, development and growth of our business. On October 4, 2017, our Board approved a regular quarterly cash dividend program. In 2019, 2018 and 2017, we paid dividends of US\$181 million, US\$161 million and US\$38 million, respectively. For the six months ended June 30, 2020, we paid cash dividends of US\$45 million, or US\$0.12 per Share. Due to the unprecedented effects of the COVID-19 pandemic and associated economic uncertainty, we announced in April 2020 that we would temporarily suspend, through the end of the third quarter of 2020, cash dividends on our Shares. Any determination to declare and pay future cash dividends will be at the discretion of our Board 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 deems relevant. For more details of our dividend policy, see “Financial Information — Liquidity and Capital Resources — Dividends and Share Repurchases.” Dividends paid to holders of our Hong Kong registered Shares generally will be subject to withholding of U.S. federal income tax at a rate of 30% on the gross amount paid. For details, see “Appendix III — Summary of Our Constitutional Documents and the DGCL — Material U.S. Federal Income and Estate Tax Considerations for Non-U.S. Holders — Distributions on the Shares.”

LISTING EXPENSES

Listing expenses to be borne by us are estimated to be approximately HK\$341 million (including underwriting commission). After June 30, 2020, approximately HK\$7 million was charged to our consolidated statements of income, and approximately HK\$334 million is expected to be accounted for as a deduction from equity upon the Listing. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. We do not expect such listing expenses to have a material adverse impact on our results of operations for the year ending December 31, 2020.

THE IMPACT OF THE COVID-19 PANDEMIC

Starting in late January 2020, the COVID-19 pandemic has significantly impacted our operations. The first three weeks of January were strong, but then the pandemic led to subsequent same-store sales declines of 40-50% compared to the comparable Chinese New Year holiday period in 2019. Approximately 35% of stores were closed by mid-February at the peak of the outbreak, with significant regional differences. For restaurants that remained open, same-store sales declined due to shortened operating hours and reduced traffic, with a significant portion of stores providing only delivery and takeaway services. As the first quarter progressed, sales performance recovered gradually, with same-store sales down approximately 20% in late March as compared to that in March 2019.

Second quarter operations improved since the COVID-19 outbreak. More than 99% of stores in China were open as of the end of July 2020, with sales and profits trending unevenly. Sales

SUMMARY

improved sequentially in April and May but softened in June. Sales were primarily impacted by significantly reduced traffic at transportation and tourist locations, delayed and shortened school holidays and re-surging regional infections.

The unevenness in recovery was most pronounced in the differences between regions and trade zones. Eastern China recovered faster than other regions. Northern China's recovery was notably slower, primarily due to more stringent public health measures. Transportation and tourist locations, which accounted for high single digits of sales, continue to experience significant year over year traffic declines. The pace of recovery also varies across days of the week. Weekdays recovered the fastest as people returned to work and school, followed by weekends, with holidays lagging behind.

Our primary focus continues to be safety, efficiency and driving traffic. We drove traffic during the second quarter by leveraging our digital and operating capabilities and adapting to changing consumer demand. While dine-in improved when compared to the beginning of the COVID-19 outbreak, delivery and takeaway continued to grow year over year and contributed over half of Company sales in the second quarter of 2020. Member sales also grew double digits year over year for the second quarter of 2020 and exceeded 60% of system sales. Digital ordering grew in popularity, accounting for approximately 80% of Company sales for the six months ended June 30, 2020. Despite the impact of COVID-19 outlined above, in the first quarter of 2020 we achieved a positive operating profit of US\$97 million and positive operating cash flow of US\$60 million. In the second quarter of 2020 we achieved a positive operating profit of US\$128 million and positive operating cash flow of US\$392 million.

However, it remains difficult to predict the full impact of the COVID-19 pandemic on the broader economy and how consumer behavior may change, and whether such change is temporary or permanent. Social distancing, telecommunicating and reductions in travel may become the new normal. These conditions could fundamentally impact the way we work and the services we provide, and could have continuing adverse effects on our results of operations, cash flows and financial condition beyond 2020. The extent to which our operations continue to be impacted by the pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including the possible reemergence and further spread of COVID-19 and the actions by the government authorities to contain the pandemic or treat its impact, among other things.

RECENT DEVELOPMENTS

In July 2020, we were named as the Official Retail Food Services Sponsor of the Olympic and Paralympic Winter Games Beijing 2022 ("Beijing 2022"). We also became an Official Sponsor of the Chinese Olympic Committee through the end of 2024. As the Official Retail Food Services Sponsor of Beijing 2022, we will provide retail food services and our brands, including KFC, Pizza Hut and others, will be on site at the Beijing 2022 venues providing food and refreshment for visitors and athletes from around the world. The sponsorship rights will also allow us to use, for advertising and promotional purposes, the Olympic marks and imagery of the Beijing 2022 Olympic Winter Games as well as marks of the Chinese Olympic Committee.

In July 2020, we reached the milestone of 10,000 stores in our restaurant network across China and overseas.

On August 3, 2020, we 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 US\$149 million, increasing our equity interest in Suzhou KFC to 72%, which allowed us to consolidate Suzhou KFC.

SUMMARY

MATERIAL ADVERSE CHANGE

Our Directors confirm that, save as disclosed in this prospectus, as far as they are aware, there has been no material adverse change in our financial, trading position or prospects since June 30, 2020, being the latest date of our consolidated financial statements as set out in “Appendix I — Accountants’ Report” of this prospectus, up to the date of this prospectus.

RISK FACTORS

There are certain risks involved in our business and industry, doing business in China, investing in our Shares and the Global Offering, many of which are beyond our control. Some of the major risks we face include but are not limited to the following:

- food safety and foodborne illness concerns may have an adverse effect on our reputation and business;
- 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;
- 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;
- health concerns arising from outbreaks of viruses or other illnesses may have a material adverse effect on our business. We expect that the COVID-19 pandemic will have a material adverse impact on the Company’s results of operations, cash flows and financial condition for the full year of 2020, and it could also have material adverse impacts for an extended period of time thereafter; and
- the operation of our restaurants is subject to the master license agreement we entered with YUM, under which, we are required to comply with certain brand standards established by YUM in connection with the licensed business and if such agreement was terminated or limited, it would materially adversely affect our brand business, results of operations and financial condition.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“2016 Plan”	our long-term incentive plan effective on October 31, 2016, which authorizes the award of stock options, incentive options, SARs, restricted stock, stock units, RSUs, performance shares, performance units and cash incentive awards to our employees and non-employee Directors
“Ant Financial”	Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.
“API Investment”	API (Hong Kong) Investment Limited, an affiliate of Ant Financial
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Audit Committee”	the audit committee of the Board
“Board”	the board of directors of our Company
“BT”	business tax
“Bulletin 7”	the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), issued by the STA on February 3, 2015 as amended, supplemented or otherwise modified from time to time
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“Bylaws”	the bylaws of our Company, as amended from time to time, a summary of which is set out in “Appendix III — Summary of Our Constitutional Documents and the DGCL”
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“Certificate of Incorporation”	the amended and restated certificate of incorporation of the Company effective from October 31, 2016, a summary of which is set out in “Appendix III — Summary of Our Constitutional Documents and the DGCL”
“China”, or “PRC”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires otherwise, references in this prospectus to “China” and the “PRC” exclude Taiwan and the special administrative regions of Hong Kong and Macau
“close associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Code of Conduct”	the code of conduct of the Company
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “Yum China”, “Group”, “our Group”, “we”, “us” or “our”	Yum China Holdings, Inc., a company incorporated under the laws of the State of Delaware of the United States on April 1, 2016, and, except where the context otherwise requires, all of its subsidiaries
“Compensation Committee”	the compensation committee of the Board
“Constitutional Documents”	the Certificate of Incorporation and the Bylaws
“controlling shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“core connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Corporate Governance Principles”	the corporate governance principles of the Company
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Daojia”	the holding company of DAOJIA.com.cn
“DGCL”	the General Corporation Law of the State of Delaware
“Director(s)” or “our Director(s)”	the director(s) of our Company
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), as enacted by the National People’s Congress of the PRC on March 16, 2007 and effective on January 1, 2008, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Extreme Conditions”	any extreme conditions or events, the occurrence of which causes interruption to ordinary course business operations in Hong Kong and/or that may affect the Price Determination Date or the Listing Date
“Food Safety Committee”	the food safety committee of the Board
“F/X”	foreign currency translation. We provide certain percentage changes excluding the impact of 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
“F&S Report”	the market research report on China’s restaurant industry prepared by Frost & Sullivan International Limited and commissioned by us
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Hong Kong Offer Shares”	the Shares being offered pursuant to the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Public Offer Price, subject to and in accordance with the terms and conditions set out in this prospectus
“Hong Kong Share Registrar”	Computershare Investor Services Limited (upon the completion of the Global Offering)
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering whose names are set out in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated August 31, 2020 relating to the Hong Kong Public Offering entered into by, among other parties, our Company and the Hong Kong Underwriters
“Huang Ji Huang” or “Huang Ji Huang Group”	a leading restaurant group primarily engaging in the Chinese CDR franchise business, in which the Group acquired a controlling interest in April 2020
“Incentive Plans”	the annual performance-based incentive program and the 2016 Plan
“independent third party(ies)”	party or parties that is or are not a connected party within the meaning of the Hong Kong Listing Rules
“International Offer Price”	the final offer price per International Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
“International Offer Shares”	the Shares offered pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option
“International Offering”	the offer of the International Offer Shares at the International Offer Price pursuant to a prospectus supplement and the shelf registration statement on Form S-3ASR that was filed with the SEC and became effective on August 28, 2020
“International Underwriters”	the group of international underwriters expected to enter into the International Underwriting Agreement relating to the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering to be entered into by, among other parties, our Company and the International Underwriters on or about the Price Determination Date
“IPO Services Agent”	Computershare Hong Kong Investor Services Limited (in relation to the Global Offering only)
“IRS”	the U.S. Internal Revenue Service
“Joint Bookrunners”	the joint bookrunners as named in the section headed “Directors and Parties Involved in the Global Offering” of this prospectus
“Joint Global Coordinators”	the joint global coordinators as named in the section headed “Directors and Parties Involved in the Global Offering” of this prospectus
“Joint Lead Managers”	the joint lead managers as named in the section headed “Directors and Parties Involved in the Global Offering” of this prospectus

DEFINITIONS

“Latest Practicable Date”	August 23, 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of our Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about Thursday, September 10, 2020, on which dealings in our Shares first commence on the Main Board
“M&A Rules”	Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定), which were jointly promulgated by MOFCOM, the State Assets Supervision and Administration Commission, the STA, the SAIC, the CSRC, and the SAFE on August 8, 2006, and came into effect on September 8, 2006 and subsequently amended on June 22, 2009, as amended, supplemented or otherwise modified from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
“Major Subsidiaries”	our subsidiaries as identified in “Our History and Corporate Structure — Our Major Subsidiaries”
“Meituan”	Meituan Dianping
“Ministry of Agriculture and Rural Affairs”	The Ministry of Agriculture and Rural Affairs of the PRC (中華人民共和國農業農村部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NBS”	National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
“NEOs”	the named executive officers as defined under Item 402(a)(3) of SEC Regulation S-K, including our Chief Executive Officer and Chief Financial Officer and three most highly compensated executive officers other than the Chief Executive Officer and Chief Financial Officer for the full financial year of 2017, 2018 and 2019, respectively
“Nominating and Governance Committee”	the nominating and governance committee of the Board
“NYSE”	the New York Stock Exchange

DEFINITIONS

“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“Over-allotment Option”	the option to be granted by us to the International Underwriters and exercisable by the Joint Global Coordinators, pursuant to which we may be required to allot and issue up to an aggregate of 6,286,600 additional Shares (representing 15% of our Shares initially being offered under the Global Offering) to cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering — Over-allotment Option” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pollos Investment”	Pollos Investment L.P., a Cayman Islands limited partnership and an affiliate of Primavera
“PRC Legal Advisor”	Jingtian & Gongcheng
“Price Determination Agreement”	the agreement to be entered into by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date to record and fix the pricing of the Offer Shares
“Price Determination Date”	the date, expected to be on or about Friday, September 4, 2020, on which the International Offer Price and Public Offer Price are to be fixed by agreement between us and the Joint Global Coordinators (on behalf of the Underwriters)
“Primavera”	Primavera Capital Group, which refers to Primavera Capital Management Ltd and its affiliates including Pollos Investment and Pollos Upside L.P.
“Principal Share Registrar”	Computershare Trust Company, N.A.
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“PSUs”	performance share units granted by us to selected persons under our 2016 Plan, pursuant to which the grantee could receive the number of Shares of the underlying common stock subject to vesting based on certain market-based and/or performance-based conditions
“Public Offer Price”	the final offer price per Hong Kong Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
“Qualifying Issuer”	has the meaning given to it under Chapter 19C of the Hong Kong Listing Rules
“Renminbi” or “RMB”	the legal currency of the PRC

DEFINITIONS

“RGM”	restaurant general manager
“RSUs”	the restrictive stock units granted by us to selected persons under our 2016 Plan, pursuant to which the grantee could receive the number of Shares of the underlying common stock subject to the award upon vesting
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAFE Circular 37”	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE with effect from July 4, 2014
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently known as SAMR
“SAMR”	the PRC State Administration for Market Regulation (中華人民共和國市場監督管理總局), formerly known as the SAIC
“SARs”	the stock appreciation rights granted by us to selected persons under our 2016 Plan, pursuant to which the grantee could receive the number of Shares of common stock that is equal in value to the appreciation in the underlying Shares of common stock with respect to the number of SARs granted from the date of grant to the date of exercise
“SEC”	the United States Securities and Exchange Commission
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)” or “Share(s) of common stock”	common stock of the Company with par value US\$0.01 per share
“Shareholder(s)”	holder(s) of our Share(s)
“Sponsor”	the sponsor of the Listing of the Shares on the Main Board of the Hong Kong Stock Exchange, being Goldman Sachs (Asia) L.L.C.
“STA”	the Chinese State Taxation Administration (中華人民共和國國家稅務總局)
“Stabilizing Manager”	Goldman Sachs (Asia) L.L.C.
“State Council”	the PRC State Council (中華人民共和國國務院)

DEFINITIONS

“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Suzhou KFC”	Suzhou KFC Co., Ltd. (蘇州肯德基有限公司), which operates KFC restaurants in and around Suzhou, China
“Takeovers Codes”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the three financial years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollars” or “US\$”	United States dollars, the legal currency of the United States
“U.S. Exchange Act”	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
“U.S. GAAP” or “GAAP”	Generally Accepted Accounting Principles in the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“U.S. Tax Act”	U.S. Tax Cuts and Jobs Act
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“VAT”	value-added tax; all amounts are exclusive of VAT in this prospectus except where indicated otherwise
“VIE”	variable interest entity
“Warrant 1”	the first tranche of warrants initially issued to Primavera and Ant Financial on January 9, 2017 under the investment agreement dated September 1, 2016, pursuant to which Primavera and Ant Financial are entitled to purchase 7,309,057 and 891,348 Shares of common stock, respectively, at an initial exercise price of US\$31.40 per Share
“Warrant 2”	the second tranche of warrants initially issued to Primavera and Ant Financial on January 9, 2017 under the investment agreement dated September 1, 2016, pursuant to which Primavera and Ant Financial are entitled to purchase the same

DEFINITIONS

	number of Shares of common stock purchasable by Primavera and Ant Financial, respectively, under Warrant 1, at an initial exercise price of US\$39.25 per Share
“ WHITE Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO Service Provider
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“YCCL”	Yum! Restaurants Consulting (Shanghai) Company Limited, a wholly-owned indirect subsidiary of our Company
“YUM”, “YUM Brands” or “Yum! Brands”	Yum! Brands, Inc.
“Yum! Restaurants China”	YUM China Division, a division of YUM

GLOSSARY

The following is a glossary of certain terms used in this prospectus in connection with us and/or our business. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“AI”	artificial intelligence
“CAGR”	compounded annual growth rate
“Cash payback period”	pre-tax cash payback, without considering G&A expense
“CDR”	casual dining restaurant
“City(ies)”	except as otherwise specified, cities include municipalities, prefecture-level cities, county-level cities and towns
“Company sales”	revenues from Company-owned restaurants
“CSR”	corporate social responsibility
“Initial monthly breakeven period”	the first month in which the revenue of a newly opened restaurant unit to at least equal its restaurant expenses, counting from the first full month that the restaurant unit is opened
“MAUs”	in a given month, the number of registered active users that visit or access certain of our apps and other third party applications at least once during that month, unless otherwise specified
“QSR”	quick-service restaurant
“Restaurant margin”	restaurant profit divided by Company sales
“Restaurant profit”	Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales
“Same-store sales growth”	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. Unless otherwise specified, same-store sales growth excludes the impact of F/X
“System sales”	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

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties, including statements based on our current expectations, assumptions, estimates and projections about us, our industries and the regulatory environment. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as “may,” “will,” “estimate,” “intend,” “seek,” “expect,” “project,” “anticipate,” “believe,” “plan,” “could,” “target,” “predict,” “likely,” “should,” “forecast,” “outlook,” “model,” “continue,” “ongoing” or other similar terminology. Forward-looking statements are based on our expectations, estimates, assumptions or projections concerning future results or events as of the date of this prospectus.

Forward-looking statements are neither predictions nor guarantees of future events, circumstances or performance and are inherently subject to known and unknown risks, uncertainties and assumptions that could cause our actual results and events to differ materially from those indicated by those statements. We cannot assure you that any of our assumptions are correct or any of our expectations, estimates or projections will be achieved. Numerous factors could cause our actual results to differ materially from those expressed or implied by forward-looking statements, including, without limitation, the following:

- Risks related to our business and industry, such as (a) food safety and foodborne illness concerns, (b) significant failure to maintain effective quality assurance systems for our restaurants, (c) significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering, (d) health concerns arising from outbreaks of viruses or other illnesses, including the COVID-19 pandemic, (e) the fact that the operation of our restaurants is subject to the terms of the master license agreement, (f) the fact that our success is tied to the success of YUM’s brand strength, marketing campaigns and product innovation, (g) shortages or interruptions in the availability and delivery of food products and other supplies, (h) fluctuation of raw materials prices, (i) 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, (j) risks associated with leasing real estate, (k) inability to obtain desirable restaurant locations on commercially reasonable terms, (l) labor shortages or increases in labor costs, (m) the fact that our success depends substantially on our corporate reputation and on the value and perception of our brands, (n) the occurrence of security breaches and cyber-attacks, (o) 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, (p) failures or interruptions of service or security breaches in our information technology systems, (q) 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, (r) failure to provide timely and reliable delivery services by our restaurants, (s) the fact that our growth strategy with respect to COFFii & JOY may not be successful, (t) challenges and risks related to our e-commerce business, (u) the anticipated benefits of the acquisition of Daojia and Huang Ji Huang may not be realized in a timely manner or at all, (v) the Chinese government may determine that the VIE structure of Daojia does not comply with Chinese laws on foreign investment in restricted industries, (w) our inability or failure to recognize, respond to and effectively manage the impact of social media, (x) litigation and 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

FORWARD-LOOKING STATEMENTS

consumer discretionary spending and general economic conditions, (aa) the fact that the restaurant industry in which we operate is highly competitive, (bb) loss 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) changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters, (hh) failure of our insurance policies to provide adequate coverage for claims associated with our business operations, (ii) unforeseeable business interruptions, (jj) failure by us to maintain effective disclosure controls and procedures and internal control over financial reporting in accordance with the rules of the SEC, (kk) 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, (ll) the fact that our investment in technology and innovation may not generate the expected level of returns, (mm) fair value changes for our investment in equity securities and short-term investments may adversely affect our financial condition and results of operations, (nn) the fact that our operating results may be adversely affected by our investment in unconsolidated affiliates, (oo) the fact that our strategic investments or acquisitions may be unsuccessful, (pp) the risks associated with the potential spin-off of one or more of our business;

- Risks related to doing business in China, such as (a) changes in Chinese political policies and economic and social policies or conditions, (b) uncertainties with respect to the interpretation and enforcement of Chinese laws, rules and regulations, (c) changes in political, business, economic and trade relations between the United States and China, including the imposition of new or higher taxes on goods imported from the United States, (d) fluctuation in the value of the Renminbi, (e) limitations on our ability to utilize our cash balances effectively due to governmental control of currency conversion and payments of foreign currency and the Renminbi out of mainland China, (f) changes in laws and regulations of China or non-compliance with applicable laws and regulations, (g) reliance on dividends and other distributions on equity paid by our principal subsidiaries in China to fund offshore cash requirements, (h) potential unfavorable tax consequences resulting from our classification as a China resident enterprise for Chinese enterprise income tax purposes, (i) uncertainty regarding indirect transfers of equity interests in China resident enterprises and enhanced scrutiny by Chinese tax authorities, (j) difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China against us, (k) inability to use properties due to defects caused by non-registration of lease agreements related to certain properties, (l) risk in relation to unexpected land acquisitions, building closures or demolitions, (m) potential fines and other legal or administrative sanctions for failure to comply with Chinese regulations regarding our employee equity incentive plans and various employee benefit plans, (n) our audit reports are prepared by auditors who are not currently inspected by the Public Company Accounting Oversight Board and, as such, our Shareholders are deprived of the benefits of such inspection, (o) 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 U.S. Exchange Act, (p) restrictions on our ability to make loans or additional capital contributions to our Chinese

FORWARD-LOOKING STATEMENTS

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 (q) difficulties in pursuing growth through acquisitions due to regulations regarding acquisitions;

- Risks related to the separation and related transactions, such as (a) incurring significant tax liabilities if the distribution does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes and the Company could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement, (b) being obligated to indemnify YUM for material taxes and related amounts pursuant to indemnification obligations under the tax matters agreement if YUM is subject to Chinese indirect transfer tax with respect to the distribution, (c) potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement and there being no assurance that the indemnity provided by YUM with respect to certain liabilities in connection with the separation will be sufficient to insure us against the full amount of such liabilities, (d) the possibility that a court would require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement and (e) potential liabilities due to fraudulent transfer considerations.

In addition, other risks and uncertainties not presently known to us or that we currently believe to be immaterial could affect the accuracy of any such forward-looking statements. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realized. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

RISK FACTORS

You should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. You should pay particular attention to the fact that we are a company incorporated in Delaware and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING 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. 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. For example, in late 2012, there was media attention surrounding an investigation by the Shanghai FDA of our poultry supply management. In 2013, there was media attention relating to the impact of avian flu in China. In 2014, an undercover report was televised in China depicting improper food handling practices by supplier Shanghai Husi Food Co., Ltd., a division of OSI Group, which is a large, global supplier to many in the restaurant industry. This triggered extensive news coverage in China that shook consumer confidence and impacted brand usage. Subsequently, the Shanghai FDA launched an investigation into this matter, alleging illegal activity by OSI Group. The combined impact of these media developments had an adverse effect on our same-store sales and operating profit. 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, 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. There remain uncertainties with respect to the interpretation and enforcement of this newly amended Regulation of Food Safety Law. 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.

RISK FACTORS

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. We expect that the COVID-19 pandemic will have a material adverse impact on the Company's results of operations, cash flows and financial condition for the full year 2020, and it could also have material adverse impacts for an extended period of time thereafter.

Our business could be materially and adversely affected by the outbreak of a widespread health epidemic, such as coronavirus, 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

RISK FACTORS

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 and adversely impact our ability to ensure supplies to the stores and to provide safety measures to protect our employees and customers, which could materially and adversely affect our continuous operations. 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, the COVID-19 pandemic has adversely affected our results of operations, cash flows and financial condition for the six months ended June 30, 2020, and it is expected to have continuing adverse effects for full year 2020. At the peak of the COVID-19 outbreak in China, we closed approximately 35% of our restaurants. For restaurants that remained open, same-store sales declined due to shortened operating hours and reduced traffic, with a significant portion of stores providing only delivery and takeaway services. During the second quarter of 2020, sales and profits were trending unevenly. Sales were primarily impacted by significantly reduced traffic at transportation and tourist locations, delayed and shortened school holidays and resurging regional infections. It remains difficult to predict the full impact of the COVID-19 pandemic on the broader economy and how consumer behavior may change, and whether such change is temporary or permanent. Social distancing, telecommunicating and reductions in travel may become the new normal. These conditions could fundamentally impact the way we work and the services we provide, and could have continuing adverse effects on our results of operations, cash flows and financial condition beyond 2020. The extent to which our operations continue to be impacted by the pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including the possible reemergence and further spread of COVID-19 and the actions by the government authorities to contain the pandemic or treat its impact, among other things. Insurance may be unavailable to cover any losses we incur as a result of the pandemic. The COVID-19 pandemic also may have the effect of heightening other risks disclosed in this section, 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.

RISK FACTORS

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, we are required to meet a Sales Growth Metric, which is 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, compared to 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 Sales Growth Metric will begin upon the end of the first Measurement Period on December 31, 2021. Within sixty 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 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 that 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. 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 YUM China 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 will also contemplate 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.

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, Taiwan and Macau. The value of these marks depends on the enforcement of YUM’s trademark and intellectual property

RISK FACTORS

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. During the Track Record Period and up to the Latest Practicable Date, we did not experience any incidents of food supply interruption, early termination of contractual arrangements with suppliers or failure to secure sufficient quantities of food materials that had a material adverse impact on us. 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

RISK FACTORS

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. 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.

RISK FACTORS

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 the market conditions of the retail rental market. As of June 30, 2020, we leased the land, building or both for over 7,400 restaurants in China. For information regarding our leased properties, please refer to “Business — 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 6% of our existing lease agreements expire before the end of 2020. 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

RISK FACTORS

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. In addition, our delivery business requires a large number of riders. Any shortage of riders could result in higher rider 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.

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.

RISK FACTORS

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 June 30, 2020, KFC had over 240 million loyalty program members and Pizza Hut had over 75 million. For the six months ended June 30, 2020, KFC member sales represented 63% of KFC's System sales and Pizza Hut member sales represented 49% of Pizza Hut's System sales. 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 400,000 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.

RISK FACTORS

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 a new 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. Compliance with the cybersecurity law, as well as additional laws, 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 personal information of any breach, theft or loss of their personal 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 these areas will receive greater attention and focus from 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

RISK FACTORS

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 91% of Company sales in 2019. 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 or 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

RISK FACTORS

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 June 30, 2020, over 7,200 KFC and Pizza Hut restaurants offer delivery services. Delivery contributed to 32% of Company sales for the six months ended June 30, 2020. 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 COFFii & JOY may not be successful.

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 June 30, 2020, we had opened 55 COFFii & JOY coffee stores in ten cities in eastern China using different store formats to test market demand and customer preferences. We plan to continue to scale the brand and open additional COFFii & JOY stores in the near future, which may require significant capital and management attention.

RISK FACTORS

The success of 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 COFFii & JOY.

There is no assurance that our growth strategy with respect to 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.

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

In 2017, we started to test a mobile e-commerce platform, V-Gold Mall, to allow consumers to search for products and place orders on our apps. We acquire a wide selection of products, including electronics, home and kitchen accessories, and other general merchandise, from suppliers and sell them directly to customers through our e-commerce platform. We expect to continue to add resources to the platform as we focus on expanding our product offerings and may also decide to make it available as a platform to third-party vendors to sell their products.

Our e-commerce business exposes 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 this business 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 new 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, and maintain, the necessary network infrastructure and security to manage and process e-commerce volumes, and network failures may also result in complaints and expose us to liability. Furthermore, we rely on third-party delivery companies to deliver products sold on our e-commerce platform and interruptions to, or failures in, delivery services could prevent the timely or proper delivery of the 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 e-commerce business and compete effectively, 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 the fourth quarter of 2018, due to declining sales as a result of the intensified competition among delivery aggregators, we recorded an impairment charge of US\$12 million on intangible assets acquired from the Daojia business primarily attributable to the Daojia platform. In the fourth quarter of 2019, due to continuing declining sales and margin, we further wrote down Daojia reporting unit goodwill and intangible assets, and recorded an additional impairment charge of \$11 million. As of June 30, 2020, the carrying amount of intangible assets and goodwill attributable to the Daojia reporting unit was zero.

RISK FACTORS

In April 2020, we completed the acquisition of a 93.3% interest in the Huang Ji Huang, a leading Chinese-style casual dining franchise business, for cash consideration of US\$185 million. As of June 30, 2020, the carrying amounts of intangible assets and goodwill attributable to the Huang Ji Huang reporting unit was US\$97 million and US\$59 million, respectively. 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 the acquisitions.

The Chinese government may determine that the VIE structure of Daojia does not comply with Chinese laws on foreign investment in restricted industries.

Through the acquisition of Daojia, we also acquired a 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.

There are substantial uncertainties regarding the interpretation and application of current Chinese laws, rules and regulations. In addition, it is 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 found by Chinese government authorities, courts or arbitral tribunals to be unenforceable. The imposition of any of these measures could result in a material adverse effect on Daojia's business operations and our business integration process.

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.

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

RISK FACTORS

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.

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.

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

RISK FACTORS

growth and acquisitions. Any such violations or suspected violations could subject us to civil or criminal penalties, including substantial fines and significant investigation costs, and could also materially damage the KFC, Pizza Hut and Taco Bell 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 subject to a U.S. corporate income tax rate of 21%.

In addition, U.S. tax law provides anti-deferral and anti-base erosion 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 Shareholders.

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. 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

RISK FACTORS

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 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 consume less fast food in favor of alternative 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 kitchen 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

RISK FACTORS

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.

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.

RISK FACTORS

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 in January 2020) 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.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our results of operations, financial condition and certain financial ratios.

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

RISK FACTORS

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 (“ASU”) No. 2016-12, *Leases (Topic 842)* (“ASC 842”) on January 1, 2019, an impairment charge of US\$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 2 and Note 12 of “Appendix I — Accountants’ Report” for details on the impairment charge recorded upon adoption of ASC 842 as well as subsequent impairment charges.

In addition, the adoption of ASC 842 may affect certain financial ratios commonly used, such as current ratio⁽¹⁾, quick ratio⁽²⁾, and debt to equity ratio⁽³⁾. The recognition of right-of-use assets and lease liabilities expanded our consolidated balance sheets and affected relevant financial ratios. For example, (i) our current ratio and quick ratio decreased as a result of the recognition of the current portion of the lease liabilities; and (ii) our debt to equity ratio increased as a result of the decrease in net assets.

Therefore, any future changes in the accounting standards may affect our financial condition, results of operations and certain financial ratios. See Note 2 of “Appendix I — Accountants’ Report” for details on the impact of all applicable new accounting standards adopted by our Company during the Track Record Period.

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

(1) Current ratio equals current assets divided by current liabilities.

(2) Quick ratio equals current assets less inventories and divided by current liabilities.

(3) Debt to equity ratio equals total debt divided by total equity and multiplied by 100%. Debts include all borrowings as well as finance lease obligations.

RISK FACTORS

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 U.S. 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 Shares. 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.

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.

RISK FACTORS

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 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, 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 gains of US\$37 million, US\$63 million and losses of US\$27 million for the six months ended June 30, 2020 and for the years ended December 31, 2019 and 2018, respectively. Our short-term investments as of June 30, 2020 and December 31, 2019, 2018 and 2017 amounted to US\$1,034 million, US\$611 million, US\$122 million and US\$205 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.

As of June 30, 2020, approximately 10% of our restaurants were unconsolidated affiliates. These unconsolidated affiliates are held by PRC joint venture entities partially owned by us, which helped KFC establish its initial presence in certain regions of China. 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 of these unconsolidated affiliates are included in other income in our consolidated statements of income. 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 and when they have experienced two consecutive years of operating losses. 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 Wuxi KFC, an unconsolidated affiliate, in the first quarter of 2018, we recognized a gain of US\$98 million from the re-measurement of our previously held 47% equity interest at fair value.

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

RISK FACTORS

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 the newly invested 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.

We are exposed to risks associated with the potential spin-off of one or more of our businesses.

We are exposed to risks associated with the potential spin-off of one or more of our businesses. We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements in paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules such that we are able to spin-off a subsidiary entity and list it on the Hong Kong Stock Exchange within three years of the Listing. While we do not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as at the date of this prospectus, in light of our Group's overall business scale and multiple restaurant brands under our operation, spinning off one or more of our business units through a listing on the Hong Kong Stock Exchange may become desirable and be in the interest of our Shareholders as a whole within three years after the Listing. As of the Latest Practicable Date, we have not identified any target for a potential spin-off. As a result we do not have any information relating to the identity of any spin-off target or any other details of any spin-off and, accordingly, there is no material omission of any information relating to any possible spin-off in this prospectus. We cannot assure you that any spin-off will ultimately be consummated, whether within the three-year period after the Listing or otherwise, and any such spin-off will be subject to market conditions at the time and approval by the Listing Committee. In the event that we proceed with a spin-off, the Company's interest in the entity to be spun-off (and its corresponding contribution to the financial results of our Group) will be reduced accordingly. For details, see "Waivers from Strict Compliance with the Hong Kong Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Three-year restriction on spin-offs."

RISKS RELATING 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

RISK FACTORS

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

RISK FACTORS

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.

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

We cannot predict the possible changes in policies and the economic, regulatory, social and political conditions in the United States and China, nor can we predict their potential impact on political, business, 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.

In recent months, political tensions between the United States and China have escalated, with a number of actions taken by the U.S. government, 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 President Trump on August 6, 2020 to ban, within 45 days of such date, 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. A significant portion of our digital ordering, digital payment and loyalty program operations runs on WeChat. The ultimate scope of these restrictions, and the related impact of these restrictions on our business is unclear at this time, in part because the Secretary of Commerce has not yet identified the transactions that the executive orders will prohibit. If our ability to use WeChat in our operations is restricted, our business, operations, financial condition and results of operations will be materially and adversely affected. Moreover, we cannot foresee whether and how developments in these policy actions or any other 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 results of operations and financial condition.

Fluctuation in the value of the Renminbi may result in foreign currency exchange losses.

The conversion of the Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. Renminbi appreciated by more than 20% against the U.S. dollar

RISK FACTORS

between July 2005 and July 2008. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar remained within a narrow range and, after June 2010, the Renminbi appreciated slowly against the U.S. dollar again. On August 11, 2015, however, the Renminbi depreciated by approximately 2% against the U.S. dollar, and exchange rate change of the Renminbi against the U.S. dollar occurred relatively suddenly. In 2017, the Renminbi appreciated by over 6% against the U.S. dollar, while, in 2018 and 2019, the Renminbi fell approximately 6% and 1%, respectively, against the U.S. dollar. It is difficult to predict how market forces or Chinese or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

Substantially all of our revenues and costs are denominated in Renminbi. As a Delaware holding company, we may rely on dividends and other fees paid to us by our subsidiaries in China. Any significant revaluation of the Renminbi may materially affect our cash flows, net revenues, earnings and financial position, and the value of, and any dividends payable on, our Shares in U.S. dollars. For example, an appreciation of the Renminbi against the U.S. dollar would make any new Renminbi-denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into the Renminbi for such purposes. Conversely, a significant depreciation of the Renminbi 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 Shares. If we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our Shares, strategic acquisitions or investments or other business purposes, the appreciation of the U.S. dollar against the Renminbi 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 the Renminbi into foreign currency. As a result, fluctuations in exchange rates and restrictions on exchange may have a material adverse effect on your investment.

Governmental control of currency conversion and payments of foreign currency and the Renminbi 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 the Renminbi into foreign currencies and, in certain cases, the remittance of both foreign currency and the Renminbi 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 Renminbi. 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 Renminbi 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 Renminbi without prior approval from 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 the Renminbi 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 Renminbi 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

RISK FACTORS

China, pay off debt owed by our subsidiaries to entities outside mainland China, or make capital spending 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 the Renminbi 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 Shareholders, 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. The continuance 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. In addition, there is no assurance that we will be able to comply fully with applicable laws and regulations should there be any amendment to the existing regulatory regime or implementation of any new laws and regulations.

Furthermore, our business and operations in China entail the procurement of licenses and permits from the relevant authorities. Difficulties or failure in obtaining the required permits, licenses and certificates could result in our inability to continue our business in China in a manner consistent with past practice. In such an event, our business, 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

RISK FACTORS

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 Shareholders 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 Shareholders.

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 Shareholders would be subject to a 10% dividend withholding tax or a 20% individual income tax if the Shareholder is an individual and (ii) such non-Chinese Shareholders may become subject to Chinese tax and filing obligations as well as withholding with respect to any disposition of our Shares, 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 Shareholders, 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

RISK FACTORS

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 Shareholders 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 Shareholders. 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 Shareholders, 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 Shareholders 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 Shareholders that acquired our Shares through the Distribution and the Global Offering will be treated as acquiring such Share in an open market purchase. If such Share is not treated as acquired in an open market purchase, the listed transaction exception will not be available for transfers of such Share. We expect that transfers in open market transactions of our Shares by corporate or other non-individual Shareholders that have purchased our Shares 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 Shares by corporate and other non-individual Shareholders that acquired our Shares in the Distribution or in non-open market transactions or in the Global Offering 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.

RISK FACTORS

Transfers of our Shares in non-open market transactions by corporate and other non-individual Shareholders may be taxable under the China indirect transfer rules, whether or not such Share 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 Shareholders may be exempt from taxation under the China indirect transfer rules with respect to transfers of our Shares 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.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us and our management.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, some of our Directors and executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China upon these persons, including with respect to matters arising under applicable U.S. federal and state securities laws. It may also be difficult for investors to bring an original lawsuit against us or our Directors or executive officers based on U.S. federal securities laws in a Chinese court. Moreover, China does not have treaties with the United States providing for the reciprocal recognition and enforcement of judgments of courts. Therefore, even if a judgment were obtained against us or our management for matters arising under U.S. federal or state securities laws or other applicable U.S. federal or state law, it may be difficult to enforce such a judgment.

Certain defects caused by non-registration of our lease agreements related to certain properties occupied by us in China may materially and adversely affect our ability to use such properties.

As of June 30, 2020, we leased over 7,400 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

RISK FACTORS

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 (《國有土地上房屋徵收與補償條例》), 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 RSUs, PSUs, 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 2016 Plan 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

RISK FACTORS

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.

Our audit reports are prepared by auditors who are not currently inspected by the Public Company Accounting Oversight Board and, as such, our Shareholders are deprived of the benefits of such inspection.

As an auditor of companies that are publicly traded in the United States and a firm registered with the Public Company Accounting Oversight Board ("PCAOB"), our independent registered public accounting firm is required under the laws of the United States to undergo regular inspections by the PCAOB. However, because we have substantial operations within China, our independent registered public accounting firm's audit documentation related to our audit reports 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.

Inspections of other auditors conducted by the PCAOB outside of China have at times identified deficiencies in those auditors' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections of audit work undertaken in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, shareholders may be deprived of the benefits of PCAOB inspections, and may lose confidence in our reported financial information and procedures and the quality of our financial statements.

In June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress that would require the SEC to maintain a list of applicable foreign issuers for which the PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges, such as the NYSE, of issuers included on the SEC's list for three consecutive

RISK FACTORS

years. On May 20, 2020, the U.S. Senate passed S. 945, the Holding Foreign Companies Accountable Act, and an identical bill was introduced into the U.S. House of Representatives. If passed by the U.S. House of Representatives and signed by the U.S. President, this legislation would direct the SEC to prohibit securities of any “covered issuer”, including the Company, from being traded on any of the U.S. securities exchanges, such as the NYSE, 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 after the law becomes effective. In August 2020, the President’s Working Group on Financial Markets (the “PWG”) released the Report on Protecting United States Investors from Significant Risks from Chinese Companies. The PWG recommends that the SEC take steps to implement the recommendations outlined in the report. In particular, to address companies from non-cooperating jurisdictions, such as China, that do not provide the PCAOB with sufficient access to fulfill its statutory mandate, the PWG recommends enhanced listing standards on U.S. securities exchanges. This would require, as a condition to continued exchange listing, PCAOB access to work papers of the principal audit firm for the audit of the listed company. Companies unable to satisfy this standard as a result of governmental restrictions on access to audit work papers and practices in these jurisdictions may satisfy this standard by providing a co-audit from an audit firm with comparable resources and experience where the PCAOB determines it has sufficient access to audit work papers and practices to conduct an appropriate inspection of the co-audit firm. To reduce market disruption, the new listing standards could provide for a transition period until January 1, 2022 for currently listed companies.

It remains unclear if and when any of such proposed legislation or rulemaking will be enacted. Nevertheless, the enactment of any such legislation or other efforts to increase the U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, which may include the Company, and materially and adversely affect the market price of our Shares and ultimately could result in the delisting of our Shares from the NYSE.

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 U.S. 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 CSRC. The issues raised by the proceedings are not specific to our auditor or to us, but potentially affect equally all PCAOB-registered audit firms based in China and all businesses based in China (or with substantial operations in China) with securities listed in the United States. In addition, auditors based outside of China are subject to similar restrictions under Chinese law and CSRC directives in respect of audit work that is carried out in China which supports the audit opinions issued on financial statements of entities with substantial China operations. In January 2014, the administrative judge reached an initial decision that the Chinese member firms of the “big four” accounting firms should be barred from practicing before the SEC for a period of six months. In February 2014, the accounting firms filed a petition for review of the initial decision. In February 2015, the Chinese member firms of the “big four” accounting firms reached a settlement with the SEC. As part of the settlement, each of the “big four” accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute with

RISK FACTORS

the SEC. The settlement stays the current proceeding for four years, during which time the firms are required to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC. If a firm does not follow the procedures, the SEC may impose penalties such as suspensions, or commence a new, expedited administrative proceeding against any non-compliant firm. The SEC could also restart administrative proceedings against all four firms. If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC, and we are unable to timely find another independent registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the U.S. Exchange Act. Such a determination could ultimately lead to delisting of our Shares from the NYSE. 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 Shares 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 Renminbi by restricting how the converted Renminbi may be used. SAFE Circular 142 provides that Renminbi 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 Renminbi capital converted from the foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi 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

RISK FACTORS

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 Renminbi 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 Renminbi, 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 Renminbi at any time. The converted Renminbi 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 Renminbi to make equity investments in China under Circular 19. However, foreign-invested enterprises are still required to use the converted Renminbi 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 Renminbi 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.

RISK FACTORS

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 SAIC, the CSRC and the SAFE, jointly adopted the 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 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 RELATING TO OUR SEPARATION FROM YUM AND RELATED TRANSACTIONS

If the pro rata distribution of all outstanding Shares of Yum China Shares to shareholders of YUM (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

RISK FACTORS

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.

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 NYSE 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

RISK FACTORS

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. We believe these indemnification obligations were customary for agreements of similar nature. 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;

RISK FACTORS

- 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 Shareholders to return to YUM some or all of the Company Shares 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 RELATING TO THE GLOBAL OFFERING AND OUR SHARES

As a company applying for listing under Chapter 19C, we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules pursuant to Rule 19C.11, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (WUMP) Ordinance, the Takeovers Codes and the SFO. As a result, we will adopt different practices as to those matters as compared with other companies listed on the Hong Kong Stock Exchange that do not enjoy those exemptions or waivers. For additional information, see “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance.”

Furthermore, 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 (WUMP) Ordinance, the Takeovers Codes and the SFO, which could result in our incurring of incremental compliance costs.

The time required for dealing in our Shares might be longer than expected and investors might not be able to settle or effect any sale of their securities during this period.

There is no direct trading or settlement between the NYSE and the Hong Kong Stock Exchange on which our Shares is traded. In addition, the time differences between Hong Kong and New York and unforeseen market circumstances or other factors may delay the dealing in our Shares. Investors will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, there is no assurance that any transactions will be completed in accordance with the timelines investors may anticipate.

The trading price of our Shares can be volatile, which could result in substantial losses to holders of our Shares.

The trading price of our Shares 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

RISK FACTORS

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, including significant price declines after their initial public offerings. 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 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 and worldwide;
- changes in the regulatory, legal and political environment in which we operate, in Hong Kong or worldwide; or
- market conditions in the restaurant industry and the domestic and worldwide economies as a whole.

Any of these factors may result in large and sudden changes in the volume and trading price of our Shares. In addition, shares of other companies listed on the Stock Exchange with operations and assets in China have experienced significant price volatility in the past. As a result, it is possible that our Shares may be subject to changes in price not directly related to our performance and as a result, investors in our Shares may suffer substantial losses.

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 our Shares in the public market, or the perception that these sales could occur, could cause the market price of our Shares to decline significantly. Divestiture in the future of our Shares by shareholders, 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 shareholders, could cause the price of our Shares to decline.

The different characteristics of the capital markets in Hong Kong and the U.S. may negatively affect the trading prices of our Shares.

Upon the Listing, we will be subject to Hong Kong and NYSE listing and regulatory requirements concurrently. The Hong Kong Stock Exchange and the NYSE 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 our Shares may not be the same, 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

RISK FACTORS

our Shares 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 after the Global Offering.

An active trading market for our Shares on the Hong Kong Stock Exchange might not develop or be sustained and trading prices of our Shares might fluctuate significantly.

Following the completion of the Global Offering, we cannot assure you that an active trading market for our Shares on the Hong Kong Stock Exchange will develop or be sustained. The trading price or liquidity for our Shares on the NYSE might not be indicative of those of our Shares on the Hong Kong Stock Exchange following the completion of the Global Offering. If an active trading market of our Shares on the Hong Kong Stock Exchange does not develop or is not sustained after the Global Offering, the market price and liquidity of our Shares could be materially and adversely affected.

In 2014 and 2016, the Hong Kong, Shanghai and Shenzhen Stock Exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and mainland Chinese investors to trade eligible equity securities listed in each other's markets through the trading and clearing facilities of their home exchange. Stock Connect currently covers over 2,000 equity securities trading in the Hong Kong, Shanghai and Shenzhen markets. Stock Connect allows mainland Chinese investors to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading; without Stock Connect, mainland Chinese investors would not otherwise have a direct and established means of engaging in Southbound Trading. It is unclear whether and when the Shares of our Company, a company with a secondary listing in Hong Kong upon the Listing, will be eligible to be traded through Stock Connect, if at all. The ineligibility or any delay of our Shares for trading through Stock Connect will affect mainland Chinese investors' ability to trade our Shares and therefore may limit the liquidity of the trading of our Shares on the Hong Kong Stock Exchange.

Since there will be a gap of several days between pricing and trading of our Shares, the price of our Shares traded on the NYSE may fall during this period and could result in a fall in the price of our Shares to be traded on the Hong Kong Stock Exchange.

The pricing of the Offer Shares will be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be about five Hong Kong Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the trading price of our Shares could fall when trading commences as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the time trading begins. In particular, as our Shares will continue to be traded on the NYSE and their price can be volatile, any fall in the price of our Shares may result in a fall in the price of our Shares to be traded on the Hong Kong Stock Exchange.

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 Shares as a result of conversion of their YUM equity awards (in whole or in part) to Company equity awards in

RISK FACTORS

connection with the Distribution. Such awards will have a dilutive effect on the Company's earnings per share, which could adversely affect the market price of Company Shares. From time to time, the Company will issue additional stock-based awards to its employees under the Company's employee benefit plans.

In addition, our Certificate of Incorporation authorizes us to issue, without the approval of the Company's Shareholders, 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 Shares respecting dividends and distributions, as our Board 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 Shares. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred stock could affect the residual value of the Shares.

Anti-takeover provisions in our organizational documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.

Our Certificate of Incorporation and 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 Shareholders may find beneficial. These provisions might discourage certain types of coercive takeover practices and takeover bids that our Board may consider inadequate or delay acquisition attempts for us that holders of Company Shares might consider favorable.

- Our Bylaws provide that such bylaws may be amended by our Board or by the affirmative vote of a majority of our Shareholders entitled to vote.
- Our Certificate of Incorporation provides that only our Board (or the chairman of our Board, our CEO or our secretary with the concurrence of a majority of our Board) may call special meetings of our Shareholders.
- Our Certificate of Incorporation expressly eliminates the right of our Shareholders to act by written consent. Accordingly, Shareholder action must take place at the annual or a special meeting of our Shareholders.
- Our Bylaws establish advance notice procedures with respect to Shareholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of our Board or a committee of our Board.
- Our Certificate of Incorporation does not provide for cumulative voting, which means that Shareholders are denied the right to cumulate votes in the election of directors.
- Our Board 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.

RISK FACTORS

The interests of Ant Financial and Primavera (the “Investors”) may differ from the interests of our other Shareholders, and the ownership percentage of our other Shareholders who received the Shares will be diluted as a result of any exercise of the warrants issued to the Investors.

In connection with the separation and Distribution, Pollos Investment, an affiliate of Primavera, and API Investment, an affiliate of Ant Financial, received Shares accounting for approximately 4.9% of our outstanding Shares as of the Latest Practicable Date. In addition, the Investors were issued warrants to purchase approximately 4% of our outstanding Shares in January 2017. Primavera has disclosed that, in the fourth quarter of 2019, it entered into pre-paid forward sale transactions with several financial institutions pursuant to which Primavera is obligated to deliver to such counterparties a portion of its warrants on the applicable settlement date. As of the Latest Practicable Date, the Investors held warrants to purchase approximately 2.5% of our outstanding Shares. Any shares issued as a result of the exercise of the warrants will have a dilutive effect on the Company’s basic earnings per share, which could adversely affect the market price of Company common stock. In addition, the Investors have the ability to acquire additional Shares 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 our other Shareholders 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 Shareholders. 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 our other Shareholders.

Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The initial offer price of our Shares is higher than the net tangible assets per Share of the outstanding Shares issued to our existing shareholders immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in terms of the pro forma net tangible asset value. In addition, we may consider offering and issuing additional Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our Shares may experience further dilution in terms of the net tangible asset value per Share if we issue additional Shares in the future at a price that is lower than the net tangible asset value per Share.

Certain statistics contained in this prospectus are derived from a third-party report and publicly available official sources and they may not be reliable.

Certain statistics contained in this prospectus relating to China, the PRC economy and the industry in which we operate have been derived from various official government publications or other third-party reports. We have taken reasonable care in the reproduction or extraction of the official government publications or other third-party reports for the purpose of disclosure in this prospectus, however, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Underwriters or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective

RISK FACTORS

collection methods or discrepancies between published information and market practice, such statistics in this prospectus may be inaccurate or may not be comparable to statistics produced with respect to other economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus.

Prior to the publication of this prospectus, there has been coverage in the media regarding us and the Global Offering, which contained among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this prospectus. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Hong Kong Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus sets out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

The Listing is sponsored by the Sponsor and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) agreeing on the pricing of the Hong Kong Offer Shares. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

PROCEDURES FOR APPLICATION FOR THE HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set forth in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed "Structure of the Global Offering" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed “Structure of the Global Offering” in this prospectus.

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares (except for the registration of Shares on a registration statement on Form S-3ASR to be filed with the SEC) or the general distribution of this prospectus in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

COMMENCEMENT OF DEALINGS IN OUR SHARES

We expect that dealings in our Shares on the Hong Kong Stock Exchange will commence on September 10, 2020. The Shares will be traded in board lots of 50 Shares each. The stock code of our Shares will be 9987.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisors for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable our Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, our Shares or exercising any rights attaching to our Shares. We emphasize that none of our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, our Shares or your exercise of any rights attaching to our Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

REGISTER OF MEMBERS AND STAMP DUTY

The principal segment of our register of members will be maintained by our Principal Share Registrar in the United States, and our Hong Kong segment of our register of members will be maintained by the Hong Kong Share Registrar in Hong Kong.

Dealings in our Shares registered on the Hong Kong segment of our register of members will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, our Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of our Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required).

EXCHANGE RATE CONVERSION

Our functional currency for the operating entities in China is the Renminbi. Our reporting currency is the U.S. dollar. For details of the translation of our historical financial data from Renminbi into U.S. dollars, see Note 2 in “Appendix I—Accountants’ Report” to this prospectus. All translations of financial data in relation to the Global Offering (including listing expenses and net proceeds from the Global Offering) in Hong Kong dollars into U.S. dollars in this prospectus were made at a rate of HK\$7.7502 to US\$1.00, the respective exchange rates on August 21, 2020 set forth in the H.10 statistical release of the Federal Reserve Board.

No representation is made that any amounts in RMB or US\$ were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

LANGUAGE

If there is any inconsistency between the English prospectus and its Chinese translation, the English prospectus shall prevail, provided that if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only. Chinese names of entities incorporated outside of China, if provided, are actual registered names.

OTHER

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

INFORMATION ABOUT THE LISTING

THE LISTING

We have applied for a listing of our Shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers).

We have a track record of good regulatory compliance of at least two full financial years on the NYSE as required by Rule 19C.04 of the Hong Kong Listing Rules for the purposes of our Listing.

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and Shares to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option), the 2016 Plan, the Warrant 1 and the Warrant 2.

Our Shares are currently listed and traded on the NYSE. Other than the foregoing, no part of our Shares or loan capital is listed on or traded on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All Offer Shares will be registered on the Hong Kong segment of our register of members by our Hong Kong Share Registrar in order to enable them to be traded on the Hong Kong Stock Exchange.

Under section 44B(1) of the Companies (WUMP) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by or on behalf of the Hong Kong Stock Exchange.

OUR REGISTERS OF MEMBERS

The principal segment of our register of members will be maintained by our Principal Share Registrar, Computershare Trust Company, N.A. (“**Computershare US**”), in the United States, and the Hong Kong segment of our register of members will be maintained by our Hong Kong Share Registrar, Computershare Investor Services Limited (“**Computershare HK**”), in Hong Kong.

DEALINGS AND SETTLEMENT OF SHARES IN HONG KONG

Our Shares will trade on the Hong Kong Stock Exchange in board lots of 50 Shares. Dealings in our Shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars.

The transaction costs of dealings in our Shares on the Hong Kong Stock Exchange include:

- Hong Kong Stock Exchange trading fee of 0.005% of the consideration of the transaction, charged to each of the buyer and seller;
- SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- trading tariff of HK\$0.50 on each and every purchase or sale transaction. The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;
- transfer deed stamp duty of HK\$5.00 per transfer deed (if applicable), payable by the seller;

INFORMATION ABOUT THE LISTING

- ad valorem stamp duty at a total rate of 0.2% of the value of the transaction, with 0.1% payable by each of the buyer and the seller;
- stock settlement fee, which is currently 0.002% of the gross transaction value, subject to a minimum fee of HK\$2.00 and a maximum fee of HK\$100.00 per side per trade;
- brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for the subscription or purchase of Shares in the Global Offering which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities); and
- the Hong Kong share registrar will charge HK\$2.5 (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of Shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

Investors must settle their trades executed on the Hong Kong Stock Exchange through their brokers directly or through custodians. For an investor who has deposited his or her Shares in his or her stock account or in his or her designated CCASS participant's stock account maintained with CCASS, settlement will be effected in CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. For an investor who holds the physical certificates, settlement certificates and the duly executed transfer forms must be delivered to his broker or custodian before the settlement date.

REPOSITIONING FOR SHARES TRADING AND SETTLEMENT IN DIFFERENT MARKETS, BETWEEN HONG KONG AND THE UNITED STATES

In connection with our initial public offering of Shares in Hong Kong, we have arranged for a segment of our register of members to be maintained in Hong Kong, or the Hong Kong share register, which will be maintained by our Hong Kong Share Registrar, Computershare HK. The principal segment of our register of members in the United States will continue to be maintained by our Principal Share Registrar, Computershare US.

All Shares offered in the Global Offering will be initially registered on the Hong Kong share register in order to be listed and traded on the Hong Kong Stock Exchange. As described in further detail below, holders of Shares registered on the Hong Kong share register will be able to reposition these Shares to the principal segment of our register of members in the United States, and vice versa.

Our Shares Listed on the NYSE

Our Shares (other than those to be issued in connection with the Global Offering and to be registered on the Hong Kong share register) are traded on the NYSE. Dealings in our Shares on the New York Stock Exchange are conducted in U.S. dollars.

Repositioning Shares from Hong Kong to the Principal Segment of our Register of Members in the United States

An investor who holds Shares that are registered on the Hong Kong share register (including the Shares held through the services of CCASS) and who intends to reposition such Shares to the principal segment of our register of members in the United States, will be required to submit a register repositioning request to Computershare HK together with the share

INFORMATION ABOUT THE LISTING

certificate(s), relevant fees and any supporting documentation (such as the transfer form (if the Shares are deposited with, and are to be withdrawn from, CCASS), power of attorney or specimen signature, if applicable). If Shares are deposited with CCASS, the investor will first need to arrange for the withdrawal of the Shares from CCASS.

A copy of the register repositioning request can be obtained at the address of Computershare HK at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, can be requested by phone ((852) 2862 8500) or by Online Feedback, a web-based enquiry form (https://www.computershare.com/hk/en/online_feedback), or be accessed and downloaded from the website of Computershare HK at www.computershare.com/hk. The register repositioning request will consist of a templated document requiring the provision of the following information:

- the number of Shares to be repositioned;
- the name and address of the holder of Shares on the Hong Kong share register from which repositioning of Shares is to be processed;
- the account to which the Shares need to be moved to on the principal segment of our register of members (which may be to a book entry recorded directly on the principal segment of our register of members or to an account within DTC);
- a confirmation that the repositioning of Shares will not result in a change of beneficial ownership; and
- the contact details for the party submitting the request in Hong Kong and the party receiving the Shares in the United States in case a query with the instruction arises.

Upon receipt, Computershare HK will review the instruction, reposition the Shares from the Hong Kong share register and liaise with Computershare US for the onward distribution of Shares and recording on the principal segment of our register of members in the United States. The register repositioning process would usually be expected to be completed in three business days, once valid documents are provided to Computershare HK.

Additional support, including confirmation of register repositioning fees, will be available from Computershare HK and Computershare US from the Listing Date and will be set out in the register repositioning request form.

Repositioning Shares from the Principal Segment of our Register of Members in the United States to Hong Kong

An investor who holds Shares that are registered on the principal segment of our register of members in the United States (including the Shares held through the services of DTC) and who intends to reposition such Shares to the Hong Kong share register, will be required to submit a register repositioning request to Computershare US together with the share certificate(s) (if applicable), relevant fees and any supporting documentation (if applicable). Holders within DTC must also, via a delivery order, arrange for the delivery of the Shares to the DTC participant account of Computershare US.

A copy of the register repositioning request can be obtained at the address of Computershare US at 150 Royall Street, Canton, MA 02021, United States, or can be requested by phone ((001) 866 277 2086) or by email (!USALLGlobalTransactionTeam@computershare.com), or

INFORMATION ABOUT THE LISTING

be accessed and downloaded from the website of Computershare US at www.computershare.com/us/investor. The register repositioning request will consist of a templated document requiring the provision of the following information:

- the number of Shares to be repositioned;
- the name and address, or DTC participant details and account information, of the holder of Shares on the principal segment of our register of members from which repositioning of Shares is to be processed;
- the registered account to which the Shares need to be moved to on the Hong Kong share register;
- a confirmation that the repositioning of Shares will not result in a change of beneficial ownership; and
- the contact details for the party submitting the request in the United States and the party receiving the Shares in Hong Kong in case a query with the instruction arises.

Upon receipt, Computershare US will review the instruction, reposition the Shares from the principal segment of our register of members in the United States and liaise with Computershare HK for recording such Shares on the Hong Kong share register and issuing physical share certificate(s) to the investor. The register repositioning process would usually be expected to be completed in three business days, once valid documents are provided to Computershare US. Upon the receipt of the physical share certificate(s), the investor can then follow the normal share deposit procedures if he/she wishes deposit the Shares into CCASS.

Additional support, including the confirmation of register repositioning fees, will be available from Computershare HK and Computershare US from the Listing Date and will be set out in the register repositioning request form.

OUR CONSTITUTIONAL DOCUMENTS

We are incorporated in Delaware, the United States, and our affairs are governed by our Constitutional Documents and the DGCL as well as other applicable laws, regulations, policies and procedures.

The laws of Hong Kong differ in certain respects from the DGCL, and our Constitutional Documents are specific to us and include certain provisions that may be different from common practices in Hong Kong.

See “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance” and “Appendix III — Summary of Our Constitutional Documents and the DGCL.”

COMPLIANCE ADVISOR

We have appointed Somerley Capital Limited as our compliance advisor, or the Compliance Advisor, upon listing of our Shares on the Hong Kong Stock Exchange in compliance with Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the Compliance Advisor will provide advice to us when consulted by us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;

INFORMATION ABOUT THE LISTING

- where a share issue transaction is contemplated;
- where we propose to use the proceeds of the initial public offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full fiscal year commencing after the Listing Date.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

The waivers from strict compliance with the Hong Kong Listing Rules granted by the Hong Kong Stock Exchange, the exemptions from strict compliance with Part XV of the SFO and the Companies (WUMP) Ordinance granted by the SFC, and a ruling under the Takeovers Codes issued by the SFC under this section are granted or issued on the overriding conditions that (i) we remain primarily listed on the NYSE; (ii) we are seeking for a secondary listing on the Hong Kong Stock Exchange; and (iii) the bulk of trading in our Shares has not migrated to Hong Kong.

In preparation for the Listing, we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules, the SFO and the Companies (WUMP) Ordinance and have applied for a ruling under the Takeovers Codes:

Relevant rule(s)	Subject matter
Section 4.1 of the Introduction to the Takeovers Codes	Determination of whether a company is a “public company in Hong Kong”
Part XV of the SFO	Disclosure of interests
Paragraphs 41(4) and 45 of Part A of Appendix 1 and Practice Note 5 to the Hong Kong Listing Rules	Disclosure of interests information
Rules 19C.07(3) and 19C.07(7) of the Hong Kong Listing Rules	Shareholder protection requirements in relation to approval, removal and remuneration of auditors and requisition of extraordinary general meeting by Shareholders
Rules 4.04(2), 4.04(4)(a) and 4.28 of the Hong Kong Listing Rules	Acquisition after the Track Record Period
Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to Companies (WUMP) Ordinance	Disclosure requirements under the Accountants’ Report
Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules	Disclosure requirements in respect of Directors’ and five highest individuals’ emoluments
Paragraph 32 of Part A of Appendix 1 to the Hong Kong Listing Rules	Timing requirement of liquidity disclosure
Paragraphs 26, 27 and 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and Paragraphs 10, 11 and 29 of the Third Schedule to Companies (WUMP) Ordinance	Other disclosure requirements under the Hong Kong Listing Rules and Companies (WUMP) Ordinance
Rule 2.07A of the Hong Kong Listing Rules	Corporate communications
Rule 13.25B of the Hong Kong Listing Rules	Monthly returns

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING
RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE
COMPANIES (WUMP) ORDINANCE**

Relevant rule(s)	Subject matter
Paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules	Three-year restriction on spin-offs
Rule 13.48(1) and Practice Note 10 to the Hong Kong Listing Rules	Publication of interim report for the six months ended June 30, 2020
Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules	Disclosure of Offer Price
Rule 9.09(b) of the Hong Kong Listing Rules	Dealings in the Shares prior to Listing
Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules	Subscription for Shares by existing Shareholders
Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules	Availability of copies of the prospectus in printed form
Paragraph 4.2 of Practice Note 18 to the Hong Kong Listing Rules	Clawback mechanism

Not a Public Company in Hong Kong

Section 4.1 of the Introduction to the Takeovers Codes provides that the Takeovers Codes apply to takeovers, mergers and share buy-backs affecting, among others, public companies in Hong Kong and companies with a primary listing in Hong Kong. According to the Note to Section 4.2 of the Introduction to the Takeovers Codes, a Grandfathered Greater China Issuer (as defined in the Hong Kong Listing Rules) within the meaning of Rule 19C.01 of the Hong Kong Listing Rules with a secondary listing on the Hong Kong Stock Exchange will not normally be regarded as a public company in Hong Kong under Section 4.2 of the Introduction to the Takeovers Codes.

We have applied for, and the SFC has granted, a ruling that we are not a “public company in Hong Kong” for the purposes of the Takeovers Codes. Therefore, the Takeovers Codes do not apply to us. In the event that the bulk of trading in our Shares migrates to Hong Kong such that we would be treated as having a dual-primary listing pursuant to Rule 19C.13 of the Hong Kong Listing Rules, the Takeovers Codes will apply to us.

Disclosure of Interests under Part XV of SFO

Part XV of the SFO imposes duties of disclosure of interests in shares of common stock. Under Section 16 of the U.S. Exchange Act (“**Section 16**”), the insiders of a public company (including directors, officers or any person who directly or indirectly beneficially owns more than 10% of any class of the company’s equity securities) are required to report their beneficial ownership of the company’s equity securities and any transactions in such securities. Beneficial ownership for Section 16 reporting purposes means having a “pecuniary interest” (or economic interest), which refers to receiving or sharing in, directly or indirectly, profits from a transaction in the securities, whether by agreement, relationship or other arrangement. A person required to report ownership of equity securities under Section 16 must do so by filing the relevant forms to report, among other things, an initial statement of beneficial ownership, changes in beneficial ownership or an annual statement of beneficial ownership within respective specific periods of time as required under the SEC regulations.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

Moreover, Section 13 of the U.S. Exchange Act (“**Section 13**”) requires any person or group of persons who directly or indirectly acquires or has beneficial ownership of more than 5% of a class of a company’s equity securities registered pursuant to Section 12 of the U.S. Exchange Act to report such beneficial ownership. Beneficial ownership for Section 13 reporting purposes means having or sharing, directly or indirectly, through any contract, arrangement, understanding relationship or otherwise, voting power or investment power over the security. A person required to report beneficial ownership of equity securities under Section 13 must do so by filing a Schedule 13D within 10 days of the initial acquisition and promptly thereafter in the case of changes of ownership of 1% or more or the occurrence of certain other events, or, when an exception applies, a short-form Schedule 13G within 45 days after the end of each calendar year if there have been changes in ownership during such calendar year.

As a comprehensive disclosure of interests mechanism is in place under the U.S. securities laws and regulations, compliance with Part XV of the SFO would subject our corporate insiders to a second level of reporting, which would be unduly burdensome to them, result in additional costs and not be meaningful, since the statutory disclosure of interests obligations under the U.S. Exchange Act that apply to us and our corporate insiders would provide our investors with sufficient information relating to the shareholding interests of our major Shareholders.

We have applied for, and the SFC has granted, a partial exemption under section 309(2) of the SFO to us, our substantial Shareholders, Directors, and chief executives from strict compliance with the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO), on the conditions that (i) the bulk of trading in the Shares is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Hong Kong Listing Rules; (ii) all disclosures of interests filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosures in the same manner as disclosures made under Part XV of the SFO; and (iii) we will advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the U.S. and any significant changes in the volume of our worldwide share turnover that takes place on the Hong Kong Stock Exchange. This exemption may be reconsidered by the SFC in the event there is a material change in information provided to the SFC.

Disclosure of Interests Information

Part XV of the SFO imposes duties of disclosure of interests in shares of common stock. Paragraphs 41(4) and 45 of Part A of Appendix 1 and Practice Note 5 to the Hong Kong Listing Rules require the disclosure of shareholders’ and directors’ interests information to be included in this prospectus.

The SFC has granted a partial exemption from strict compliance with Part XV of the SFO as set out above under sub-section headed “Disclosure of Interests under Part XV of SFO.” The U.S. Exchange Act and the rules and regulations promulgated thereunder, which require disclosure of interests by shareholders, are broadly equivalent to Part XV of the SFO. Relevant disclosure in respect of the major Shareholder’s interests can be found in the section headed “Major Shareholders” in this prospectus.

We undertake to (i) file with the Hong Kong Stock Exchange, as soon as practicable, any declaration of shareholding and securities transactions filed with the SEC and (ii) disclose in

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

present and future listing documents any shareholding interests as disclosed in a SEC filing, and the relationship between our Directors, officers, members of committees and their relationship with any controlling shareholders.

On the basis above, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from the requirements under Paragraphs 41(4) and 45 of Part A of Appendix 1 and Practice Note 5 to the Hong Kong Listing Rules.

Shareholder Protection

For an overseas issuer seeking a secondary listing on the Hong Kong Stock Exchange, Rule 19.30(1)(b) of the Hong Kong Listing Rules requires the overseas issuer's primary listing is or is to be on an exchange where the standards of shareholder protection are at least equivalent to those provided in Hong Kong. Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that a Grandfathered Greater China Issuer, like us, seeking a secondary listing has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07 of the Hong Kong Listing Rules.

Approval, removal and remuneration of auditors

Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors must be approved by a majority of the Qualifying Issuer's members or other body that is independent of the issuer's board of directors. However, according to the applicable U.S. securities laws and NYSE rules, our Audit Committee is directly responsible for the appointment, removal and remuneration of auditors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules on the following basis:

- Our Audit Committee is akin to an independent body of the Board on the basis of the independence requirements as set out in applicable U.S. securities laws and the NYSE rules. Members of the Audit Committee must continuously meet two overlapping independence standards, one established by applicable U.S. securities laws, and the other by the NYSE rules. Under these applicable rules, no Audit Committee member may be a party to any material relationship that would interfere with the exercise of his or her independent judgment in carrying out the responsibilities of a director. In addition, no Audit Committee member may accept any compensation from our Company other than directors' fees and no Audit Committee member may be an "affiliated person" of our Company or any of our subsidiary. The Audit Committee of our Company is comprised of five members, all of whom are independent Directors within the meaning of Section 303A of the NYSE Listed Company Manual and meet the criteria for independence set forth in Rule 10A-3 of the U.S. Exchange Act.
- Since our first annual meeting in 2017 after we became an independent public company, we have put forward a resolution at each annual general meeting for the Shareholders to ratify the auditors' appointment. Such resolution has passed with greater than 99% of Shares of common stock present in person or by proxy voted in favor without exception in each year.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

Requisition of extraordinary general meeting by shareholders

Rule 19C.07(7) of the Hong Kong Listing Rules requires members holding a minority stake in the Qualifying Issuer's total number of issued shares must be able to convene an extraordinary general meeting and add resolutions to a meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights (the "**10% Requisition Right**"), on a one vote per share basis, in the share capital of the Qualifying Issuer. Our Constitutional Documents currently preclude the calling of a shareholder meeting by Shareholders.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 19C.07(7) of the Hong Kong Listing Rules on the following conditions and bases:

- The 25% Requisition Right is considered in the context of the rights that our Shareholders already enjoy, the attributes of our Company in view of the facts that we were incorporated in the U.S., including the laws and regulations that apply to us, the type of listing we have on the NYSE, and the type of listing we are applying for in Hong Kong:
 - We are a Delaware-incorporated company and a U.S. domestic issuer, which subjects us to the highest level of U.S. corporate governance and shareholders rights standards.
 - The totality of rights provided to our Shareholders is both substantial and at least substantially equivalent to those found under the Hong Kong Listing Rules, particularly in light of our status as a U.S. domestic company.
 - We are a pure one-share, one-vote company and have no "partnership" structure or other types of weighted voting rights structures.
 - We are seeking a secondary listing on the Main Board of the Hong Kong Stock Exchange under Chapter 19C of the Hong Kong Listing Rules.
- The 25% Requisition Right would give our Shareholders an appropriate level of meaningful and effective protection, taking into account our specific circumstances including, among others, the quorum and vote requirements for shareholder meetings under Delaware law and our Constitutional Documents. Under the DGCL, the default rule is that a quorum for shareholder meetings consists of "a majority of the shares entitled to vote, present in person or represented by proxy." The DGCL allows companies to alter this default quorum requirement, except that it may not be lower than one-third of the shares of the company entitled to vote at the meeting. Under our Bylaws, the presence in person or by proxy of the holders of record of a majority of the issued and outstanding Shares of common stock of the Company entitled to vote at the meeting shall constitute a quorum for Shareholder meetings.
- The 25% Requisition Right is more commonly adopted among our Company's peer group within the S&P 500 companies, which we compare ourselves with from a governance standpoint.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

Under the DGCL, our Company is required to hold a meeting of Shareholders at least once every 13 months. Our Company had held a general meeting on an annual basis for the three years ended December 31, 2019, and will continue to do so upon completion of the Listing.

Our Board has resolved, subject to the completion of the Listing, at the 2021 annual meeting and at subsequent annual meetings, if necessary, to present a proposal to the Shareholders to amend our Constitutional Documents providing for the 25% Requisition Right, and recommend that our Shareholders approve such proposal. The 25% Requisition Right shall be subject to customary terms and conditions.

Our Board undertakes that, after the completion of the Listing and before the approval of the 25% Requisition Right by the Shareholders, in the event that Shareholders holding 25% or more of our total outstanding Shares of common stock request that a special meeting be called, our Board will, subject to customary terms and conditions, support such request.

Acquisition after the Track Record Period

Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules require that, among other things, the results and balance sheet of any business or subsidiary acquired, agreed to be acquired or proposed to be acquired since the date to which the latest audited financial statements of the issuer have been made in respect of each of the three financial years immediately preceding the issue of this prospectus.

Rule 4.28 of the Hong Kong Listing Rules states that where a new applicant has acquired or proposes to acquire any businesses or companies which would at the date of application or such later date of acquisition before listing of the applicant be classified as a major subsidiary, pro forma financial information prepared in accordance with the Rule 4.29 of the Hong Kong Listing Rules in respect of the enlarged group should be disclosed in its listing document.

Pursuant to the guidance letter HKEX-GL32-12 issued by the Hong Kong Stock Exchange, or GL32-12, acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to GL32-12, the Hong Kong Stock Exchange may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances and subject to certain conditions set out thereunder.

Suzhou KFC is a joint venture entity owned by our Company and other independent third parties, which mainly operates KFC restaurants in and around Suzhou. The net income of Suzhou KFC for the six months ended June 30, 2020 and the years ended December 31, 2019, 2018 and 2017 was US\$21 million, US\$43 million, US\$42 million and US\$37 million, respectively, and the net assets of Suzhou KFC as of June 30, 2020 and December 31, 2019, 2018 and 2017 were US\$34 million, US\$56 million, US\$54 million and US\$50 million, respectively. Same-store sales of Suzhou KFC declined by 6% for the six months ended June 30, 2020, while same-store sales of KFC declined by 11% for the same period. Same-store sales growth of Suzhou KFC for the years ended December 31, 2019 and 2018 was 3% and 2%, respectively, while same-store sales growth of KFC was 4% and 2% for the same years, respectively. The operating profit margin of Suzhou KFC for the six months ended June 30, 2020 and the years ended December 31, 2019, 2018 and 2017 was 19%, 18%, 19% and 18%, respectively, while the operating profit margin of KFC reporting segment was 12%, 16%, 16% and 16% for the same period and years, respectively.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

In April 2020, we entered into a definitive agreement to acquire, for cash consideration of US\$149 million, the entire equity interest in one of Suzhou KFC's shareholders, which owns 25% equity interest in Suzhou KFC (the "**Suzhou KFC Acquisition**"). Save for their equity interests in Suzhou KFC before the completion of the Suzhou KFC Acquisition, the selling parties and their ultimate beneficial owners are independent third parties of our Company. Prior to the Suzhou KFC Acquisition, Suzhou KFC was owned as to 47% by our Group and 53% by other independent third parties, and was accounted for in our financial statements under the equity method. Upon completion of the Suzhou KFC Acquisition on August 3, 2020, our equity interest in Suzhou KFC was increased to 72%, which allows us to consolidate Suzhou KFC into our Group.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2), 4.04(4)(a) and 4.28 of the Hong Kong Listing Rules in respect of the Suzhou KFC Acquisition on the following grounds:

Suzhou KFC is operated in the ordinary and usual course of business of our Group

Suzhou KFC, in which we held a non-controlling interest prior to the completion of the Suzhou KFC Acquisition, has been operated in the ordinary and usual course of business of our Group under an operation model similar to our other KFC restaurants across China. The solid operating performance of Suzhou KFC and the exit of one of the joint venture partners presented the commercial opportunity for our Company to acquire additional equity interest in Suzhou KFC. During the Track Record Period, our Group has also acquired from our other joint venture partners additional equity interests in the joint venture operating KFC stores in and around Wuxi.

Immateriality

All applicable percentage ratios in respect of the Suzhou KFC Acquisition were calculated by reference to the financial information for the year ended December 31, 2019. Other than the profits ratio, which is 5.7%, all the other applicable percentage ratios regarding the Suzhou KFC Acquisition are less than 5%. The profits ratio is relatively higher than the revenue ratio, which is 4.4%, because Suzhou KFC only operates KFC restaurants and the profit margin of our KFC business is generally higher than our other brands. In addition, prior to the Suzhou KFC Acquisition, our Group accounted for 47% of the equity interest in Suzhou KFC as an equity method investment under U.S. GAAP, and the related share of its net income for the year ended December 31, 2019 accounted for 2.8% of the consolidated net income of our Group for the same year. When the acquisition of additional 25% equity interest is completed, the operating results, assets and liabilities of Suzhou KFC will be included in our Group's consolidated financial statements, subject to intercompany eliminations and attribution of net income to non-controlling interests. Had we consolidated Suzhou KFC into our Group's financial statements for the entire year of 2019, the consolidated net income of our Group for the year ended December 31, 2019 would have been increased by 1.5%. Furthermore, the assets ratio in respect of Suzhou KFC Acquisition is 2.1% by reference to our Group's total assets as of December 31, 2019. Therefore, we consider that the Suzhou KFC Acquisition is immaterial to us and do not expect it to result in any material change in the financial position and operating results of our Group.

Relevant disclosures are not required under the SEC regulatory framework

As none of the significance test percentage ratios exceeds 20%, which is the disclosure threshold under the SEC regulations, disclosure of historical results and balance sheets of the

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING
RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE
COMPANIES (WUMP) ORDINANCE**

Suzhou KFC as well as the pro forma financial information of the enlarged Group is not required.

Unduly burdensome for us to prepare the required financial information and pro forma disclosures

The historical financial information currently available to us is only for the purpose of accounting for Suzhou KFC under the equity method. Given the relevant disclosures are not required under the SEC regulatory framework, we do not have sufficient information readily available to prepare the disclosures required under Rules 4.04(2), 4.04(4)(a) and 4.28 of the Hong Kong Listing Rules. It would require considerable time and resources to compile necessary financial information and supporting documents and to request our reporting accountants to perform the necessary audit procedures on the financial information for the Track Record Period.

In addition, given the confidentiality obligation under the joint venture agreement, disclosing the full financial information required under Rules 4.04(2), 4.04(4)(a) and 4.28 of the Hong Kong Listing Rules is subject to prior unanimous consent from the other two joint venture partners.

Given that (i) the Suzhou KFC Acquisition was only completed on August 3, 2020, (ii) the historical financial information required for preparation of the disclosure under Rules 4.04(2), 4.04(4)(a) and 4.28 of the Hong Kong Listing Rules is not readily available, (iii) the disclosure of such information would require prior unanimous consent from the other two joint venture partners; and (iv) the prospectus is expected to be issued in early September, there would not be sufficient time, and would be impracticable and unduly burdensome for us to prepare the relevant disclosure under Rules 4.04(2), 4.04(4)(a) and 4.28 of the Hong Kong Listing Rules, and to request the reporting accountants to perform audit procedures on the required financial information.

The relevant financial information required under Rules 4.04(2), 4.04(4)(a) and 4.28 is not required to be disclosed for companies listed under Chapter 19C of the Hong Kong Listing Rules

Pursuant to Rule 19C.11 of the Hong Kong Listing Rules, the notifiable transaction requirements under Chapter 14 of the Hong Kong Listing Rules do not apply to a Qualifying Issuer having a secondary listing on the Hong Kong Stock Exchange. If the Suzhou KFC Acquisition proceeded after the completion of the Listing, we would not be required to disclose such acquisition pursuant to the requirements under Chapter 14 of the Hong Kong Listing Rules.

Similar operation model and available disclosure of financial results based on equity methods

Our Group has been closely involved in the daily operations of the restaurants under Suzhou KFC, which are under an operation model similar to other KFC restaurants across China, including the supply chain and logistics related management, management of staff as well as the products and services offered to consumers. Therefore, Suzhou KFC is operated in the ordinary and usual course of business of our Group, which remains unchanged before and after the completion of the Suzhou KFC Acquisition.

Prior to the completion of the Suzhou KFC Acquisition, our Group accounted for 47% of the equity interest in Suzhou KFC as an equity method investment under U.S. GAAP, and the

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

related share of profit is included in our net income. The financial results of Suzhou KFC have been partially reflected in the financial statements of our Group and would provide the potential investors with necessary and adequate information to make an informed assessment of the activities, financial position and financial results of our Group. A waiver from disclosure of the required financial information in this prospectus would not prejudice the interests of the investing public.

Alternative disclosure of the Suzhou KFC Acquisition in this prospectus

We have provided certain alternative information in this prospectus in connection with Suzhou KFC Acquisition required for a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules, including (a) the background and principal business activities of Suzhou KFC, (b) the reason for the transaction; (c) the net assets, net income, same-store sales growth and operating profit margin of Suzhou KFC for the relevant periods; (d) a qualitative disclosure for the reason why the profits ratio of Suzhou KFC Acquisition was relatively higher than revenue ratio; and (e) a statement that save for their equity interests in Suzhou KFC, the selling parties and their ultimate beneficial owners are independent third parties of our Company. For the avoidance of doubt, disclosure of other information required under Chapter 14 of the Hong Kong Listing Rules will be excluded because (i) we are subject to the confidentiality obligations under the agreement for Suzhou KFC Acquisition and are prohibited from disclosing such terms without the consent of the counterparties; and (ii) given the competitive nature of the industries in which our Group operates, disclosure of such information in this prospectus is commercially sensitive and may result in the leak of our commercial arrangement. We believe, given that (i) Suzhou KFC is operated in the ordinary and usual course of business of our Group; (ii) other than the profits ratio which is slightly over 5%, all the other applicable percentage ratios are below 5%; and (iii) Suzhou KFC's financial results have been partially reflected in our financial statements, the current disclosure in respect of the Suzhou KFC Acquisition in this prospectus would provide the potential investors with the necessary and adequate information to make an informed assessment of the activities, financial positions and operation results of our Group, and the interest of the investing public would not be prejudiced.

Disclosure Requirements under the Accountants' Report

Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules and paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance set out certain content requirements in respect of an accountants' report included in a listing document.

Rule 4.04(3)(a) of the Hong Kong Listing Rules requires the accountants' report appended to the prospectus to include, among others, the statement of financial position of the issuer and, if the issuer is itself a holding company, the consolidated statement of financial position of the issuer and its subsidiaries in each case as at the end of each of the three financial years to which the latest audited financial statements of the issuer have been made up.

Rule 4.05 of the Hong Kong Listing Rules states that the report on results and financial position under Rules 4.04(1) to 4.04(4) of the Hong Kong Listing Rules must include the disclosures required under the relevant accounting standards adopted and disclose separately, among others, an aging analysis of accounts receivable and an aging analysis of accounts payable.

Rule 4.13 of the Hong Kong Listing Rules states that the relevant standards will normally be those current in relation to the last financial year reported on and, wherever possible,

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

appropriate adjustments must be made to show profits for all periods in accordance with such standards.

Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance requires the accountants' report of the issuer include, among other things, the issuer's (other than its subsidiaries') assets and liabilities.

Certain historical financial information of our Company required to be disclosed under the Hong Kong Listing Rules and the Third Schedule to the Companies (WUMP) Ordinance are not required under U.S. GAAP or SEC regulatory framework, in particular,

- (i) the following specific details concerning financial information as required under Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules:
 - (a) balance sheets of our Company (without consolidation of our subsidiaries);
 - (b) aging analysis of accounts receivable;
 - (c) aging analysis of accounts payable; and
 - (d) adjustments made to show profits of all periods in accordance with the relevant accounting standards in relation to the last fiscal year reported on; and
- (ii) balance sheets of our Company (without consolidation of our subsidiaries) required under paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance.

In accordance with U.S. GAAP, we have applied the modified retrospective method or prospective method to account for the impact of the adoption of certain new accounting standards under U.S. GAAP during the Track Record Period. Under the modified retrospective method and prospective method adopted by us, comparative periods in the latest consolidated financial statements at the time of adoption are not retrospectively adjusted.

During the Track Record Period, we have adopted, in addition to new accounting standards that did not have a material impact on our consolidated financial statements, Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (“ASC 606”) and Accounting Standards Codification (ASC) 842, *Leases* (“ASC 842”) issued by the Financial Accounting Standard Board (“FASB”), an independent, private, non-profit organization establishing financial accounting and reporting standards for companies that follow U.S. GAAP. For details of the relevant accounting policies upon the adoption of ASC 606 and ASC 842, please see “Appendix I — Accountants' Report.” We adopted ASC 606 on January 1, 2018 and applied the full retrospective approach and recast financial statements for the years ended December 31, 2017 and 2016. Therefore, revenue for the Track Record Period was consistently accounted for in accordance with ASC 606.

ASC 842 was issued by the FASB in February 2016 with subsequent amendments made to clarify the implementation guidance, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements.

ASC 842 was adopted by us on January 1, 2019 using the modified retrospective method, by applying the new lease standard to leases that existed as of, or were entered into after,

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING
RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE
COMPANIES (WUMP) ORDINANCE**

January 1, 2019, being the date of initial application of ASC 842. We elected the optional transition method, which allows us to record a cumulative-effect adjustment at the date of adoption without restating comparative periods. Additionally, we used the package of practical expedients that allows us not to reassess: (i) whether any expired or existing contracts are or contain leases; (ii) lease classification for any expired or existing leases; and (iii) initial direct costs for any expired or existing leases, at the date of initial adoption.

We recorded an impairment of US\$60 million (net of related impact on deferred taxes and non-controlling interests) on ROU assets arising from existing operating leases as of January 1, 2019 as an adjustment to retained earnings, as the additional impairment charge would have been recorded before adoption had the operating lease ROU assets been recognized at the time of impairment. The adoption of ASC 842 did not have any material impact on the consolidated statements of income and cash flows for the years ended December 31, 2018 and 2017.

Upon adoption of the ASC 842, we recognized ROU assets and lease liabilities of US\$2.0 billion and US\$2.2 billion, respectively. However, operating leases were not recognized on our Company's consolidated balance sheet prior to the adoption of ASC 842 on January 1, 2019.

For the purpose of further providing the investing public with meaningful information about our financial position, we have included the following alternative disclosures in this prospectus:

- (i) summary of significant accounting policies adopted by our Company as set out in "Appendix I — Accountants' Report";
- (ii) all applicable new accounting standards adopted by our Company during the Track Record Period as set out in "Appendix I — Accountants' Report";
- (iii) accounting policies as a result of the adoption of ASC 606, which came into effect on January 1, 2018 and was applied retrospectively by our Company as set out in "Appendix I — Accountants' Report";
- (iv) accounting policies adopted prior to and upon the adoption of ASC 842 as well as the impact of adoption, if any, to the consolidated balance sheet as of the initial application date of January 1, 2019 as set out in "Appendix I — Accountants' Report";
- (v) a negative statement that there would be no material impact from the adoption of ASC 842 on our consolidated income statement for the years ended December 31, 2018 and 2017 if it was adopted on January 1, 2017; and
- (vi) future minimum lease commitments as of December 31, 2018 and 2017 as set out in "Financial Information — Contractual Obligations."

At the date of initial adoption of ASC 842, we operated over 6,800 restaurants primarily by leasing the underlying land and/or building. Given the high volume and complexities of our lease arrangements, retrospective application of ASC 842 and recast of comparative periods during the Track Record Period would require significant additional efforts to be invested and is therefore unduly burdensome and impractical.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

As this prospectus has included the financial statements prepared under U.S. GAAP and the above alternative disclosure, and has contained all the information which is necessary for the investing public to make an informed assessment of the business, assets and liabilities, financial position, trading position, management and prospects of our Group and make informed investment decisions, we believe that it would be of no material value to provide the Hong Kong investing public with the information required under Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules and paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance and the non-disclosure of such information will not prejudice the interests of the investing public.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules. We have also applied for, and the SFC has granted, a certificate of exemption from strict compliance with Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance on the conditions that (i) the particulars of this exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before September 1, 2020.

Disclosure Requirements in Respect of Directors' and Five Highest Individuals' Emoluments

Paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information in respect of directors' emoluments during the Track Record Period. Paragraph 46(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include the aggregate of the remuneration paid and benefits in kind granted to the directors of the issuer in respect of the last completed financial year. Paragraph 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires information in relation to an estimate of the aggregate remuneration and benefits in kind payable to directors in respect of the current financial year to be set out in the listing document.

Paragraph 33(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information with respect to the five individuals whose emoluments were highest in our Group for the year if one or more individuals whose emoluments were the highest have not been included under paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules on the following basis:

- In compliance with our annual reporting requirements under the regulatory framework of the SEC applicable to us, we have included in our proxy statements (i) the details of the compensation structure of our Directors and NEOs; (ii) a Compensation Discussion & Analysis ("CD&A") section; and (iii) detailed executive compensation tables listing amounts of various types of compensation received by the NEOs accompanied by detailed narratives describing the nature of the amounts contained in that table.
- The SEC also requires the proxy statement to include a table that lists, for each Director who is not an NEO (who would be covered by the CD&A and executive compensation tables), the amounts of director fees, stock and option awards, cash incentive compensation, deferred compensation earnings, and other compensation earned or granted during the most recently completed fiscal year, together with a

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

narrative description of material factors necessary to understand the director compensation table.

- The detailed disclosures in our proxy statements provide investors with a wealth of information regarding the compensation of our Directors and NEOs. Additionally, the SEC requires us to disclose certain events that may be important to Shareholders on a current report on Form 8-K within four business days of the occurrence of the event. The Form 8-K filing requirements ensure that significant compensatory events relating to senior executives are timely disclosed to Shareholders. As such, the additional disclosure required under paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules would not provide additional meaningful disclosure for potential Hong Kong investors in relation to the Directors' and five highest individuals' emoluments.

Timing Requirement of Liquidity Disclosure

Paragraph 32 of Part A of Appendix 1 to the Hong Kong Listing Rules requires a listing document to include a statement (or an appropriate negative statement) of a new applicant's indebtedness as at a specified most recent practicable date (the "**Most Recent Practicable Date**"), and a commentary on its liquidity, financial resources and capital structure (together, the "**Liquidity Disclosure**").

In accordance with the Stock Exchange's Guidance Letter HKEX-GL37-12 ("**GL37-12**"), the Stock Exchange normally expects that the Most Recent Practicable Date for the Liquidity Disclosure, including, among other things, amounts of total available facilities and commentary on liquidity and financial resources such as net current assets (liabilities) position and management discussion on this position, in a listing document to be dated no more than two calendar months before the final date of the listing document.

As the prospectus will be issued in September 2020, we would otherwise be required to make the relevant Liquidity Disclosure no earlier than July 31, 2020 pursuant to paragraph 4.5(a) of GL37-12.

It would be impractical and unduly burdensome for us to make the Liquidity Disclosure later than June 30, 2020. As our Shares are currently listed and traded on the NYSE, we are required to file quarterly reports on Form 10-Q, with the SEC. In particular, to fulfill this quarterly filing requirement, we perform certain accounting adjustments/entries on a quarterly basis, including but not limited to income tax provision and certain balance sheet intercompany eliminations. Therefore, it would be unduly burdensome for us to prepare additional information for similar liquidity disclosure on a consolidated basis after the end of the second quarter of our current fiscal year.

Moreover, our quarterly reports on Form 10-Q are prepared on a quarterly basis. Strict compliance with the requirements would result in additional off-cycle disclosure by us of our liquidity position on a date that would fall in the middle of the quarter, which would not be required to be disclosed to investors under applicable U.S. securities regulations and NYSE rules. Such an off-cycle disclosure required under GL37-12 will deviate from the customary practices in our primary market and is therefore likely to cause confusion to our current investors.

The Track Record Period for this prospectus is the three years ended December 31, 2019 and the six months ended June 30, 2020. We have included our audited financial information for

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

the same period in this prospectus, which are prepared in accordance with U.S. GAAP. As of June 30, 2020, we had a strong liquidity position and our debt was immaterial. As of June 30, 2020, the Company had a net cash position of US\$1.7 billion, which is defined as total of cash and cash equivalent and short-term investments, net of debt, which includes outstanding loans and finance lease liabilities. The total of our cash and cash equivalents and short-term investments was US\$1.7 billion and our outstanding loans and finance lease liabilities were US\$5 million and US\$26 million, respectively, as of June 30, 2020. The amount of our net current assets as of June 30, 2020 was US\$580 million, and the operating cash inflow for the six months ended June 30, 2020 was US\$452 million. We had undrawn credit facilities of US\$513 million as of June 30, 2020. For detailed information of our indebtedness, see “Financial information — Indebtedness.” There has been no material change to the Liquidity Disclosures since June 30, 2020. In the event that there are material changes to the Liquidity Disclosure, the Company would be required to make an announcement under the NYSE listing rules and SEC rules and disclose relevant material facts in the prospectus under the rules and therefore, any additional or more up-to-date disclosure on the Company’s indebtedness and liquidity information beyond what is generally required under NYSE listing rules, SEC rules and other applicable U.S. regulations and such one-off disclosure in the prospectus would not provide any additional material or meaningful information to investors.

Having considered the above, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under paragraph 32 of Part A of Appendix 1 to the Hong Kong Listing Rules concerning paragraph 4.5(b) of GL37-12. The waiver is subject to the condition that the reported date of indebtedness and liquidity information in the final prospectus must not exceed the requirement under GL37-12 by one calendar month (i.e. the time gap between the reported date of the Company’s indebtedness and liquidity information and the date of the listing document would not be more than three calendar months).

Other Disclosure Requirements under the Hong Kong Listing Rules and the Companies (WUMP) Ordinance

Particulars of the capital or debentures of any member of the Group which is under option

Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include particulars of any capital of any member of the group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee, or an appropriate negative statement.

Paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance requires the listing document to include the number, description and amount of any shares in or debentures of the company which any person has, or is entitled to be given, an option to subscribe for, together with the required particulars of the option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration given or to be given (if any) and the names and addresses of the persons to whom it was given.

The only options (or derivatives with a similar nature) over any member of our Group’s capital, shares or debentures are (i) the Warrant 1 and Warrant 2 (the “**Warrants**”); and (ii) those outstanding share incentive awards to the employees of YUM prior to our separation from YUM and the employees and non-employee Directors of our Group under the 2016 Plan, which accounted for approximately 4.5% and 4.0% of our total outstanding Shares of common stock as of the Latest Practicable Date, respectively. Among the share incentives

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

under the 2016 Plan, outstanding stock options accounted for approximately 0.1% of our total outstanding Shares of common stock as of the same date, being 496,428 Shares of common stock, none of which were held by the Directors and NEOs. As of the Latest Practicable Date, there were over 3,500 grantees under the 2016 Plan, who were employees and non-employee Directors of our Group.

As for the Warrants, the particulars thereof, including, among other things, the name of the investors, the number of the Warrants issued, the price to be paid for the Shares of common stock underlying the Warrants, the exercise period of the Warrants and the names and addresses of the two strategic investors to whom the Warrants were initially issued have been disclosed in this prospectus. See “Appendix IV — Statutory and General Information — E. Further Information about our Warrants Granted to Primavera and Ant Financial.” To our best knowledge, Primavera entered into three pre-paid forward sale transactions with several financial institutions (the “**Dealers**”), pursuant to which Primavera is obligated to deliver to the Dealers in aggregate 45% of the total Warrants issued, which represent approximately 2.0% of our total outstanding Shares of common stock as of the Latest Practicable Date, on the settlement date subject to certain conditions as specified in the relevant pre-paid forward contracts. Primavera has not disclosed the names and addresses of the Dealers in its SEC filings with respect to its beneficial ownership of our Shares of common stock. In addition, the Warrants or the interests therein are subsequently transferrable in the secondary market to other financial investors, the names or addresses of whom would not be in our possession.

Having considered the background that (a) the disclosure in this prospectus is substantially the same as that set out in our SEC filings in compliance with applicable U.S. laws and regulations; (b) the names or addresses of the Dealers and subsequent financial investors are, to our best knowledge, not otherwise available to the general public; and (c) the Warrants are transferable in the secondary market and those Warrants beneficially owned by persons other than the strategic investors account only for approximately 2.0% of our total outstanding Shares of common stock as of the Latest Practicable Date, it is unnecessary for us to obtain, and inappropriate to disclose, the names and addresses of all subsequent transferees, which could not be material or meaningful to potential investors.

Details of the term of the 2016 Plan, including the eligible participants, have been disclosed in this prospectus. In addition, we have provided, in this prospectus, the details of the incentives granted to our Directors and NEOs in our proxy statements for the years ended December 31, 2019, 2018 and 2017 and our comprehensive executive compensation program, which is in alignment with the business performance of our Company, to provide the investors with a full picture of how the executives of our Company are compensated based on their annual performance. Relevant disclosures are set out in “Directors, Senior Management and Employees — Compensation,” and “Appendix IV — Statutory and General Information — D. Incentive Plans.” As of the Latest Practicable Date, 11.2 million Shares of common stock, which account for 3.0% of the total outstanding Shares of common stock, were available for future grant and issuance to eligible persons, including the Directors, NEOs or other employees of the Group. Grants to the Directors and the NEOs are subject to the approval of the Board and the Compensation Committee comprising of independent Directors only, respectively. In accordance with SEC rules, our Company also asks Shareholders to approve, on an advisory basis, the compensation of the NEOs on an annual basis.

Our Company confirms that we have disclosed all information necessary for the public to make an informed assessment of the business, financial statements, management and prospects of our Group in this prospectus. In this regard, the granting of the relevant waivers and exemptions sought will not prejudice the interests of the investing public.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

Having considered that (a) the disclosure in this prospectus is substantially the same as that set out in our SEC filings and complies with applicable U.S. laws and regulations; (b) other than what has been disclosed in our SEC filings with respect to our Directors and NEOs, the details of specific awards made under the 2016 Plan have not been disclosed in any filings with SEC or otherwise become available to the general public; (c) the 2016 Plan is not subject to Chapter 17 of the Hong Kong Listing Rules which is not applicable to us pursuant to Rule 19C.11 of the Hong Kong Listing Rules; and (d) the outstanding share incentive awards under the 2016 Plan account for approximately 4.0% of all our outstanding Shares of common stock as of the Latest Practicable Date, it is unnecessary, inappropriate and unduly burdensome for us to disclose all the information required under paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance, which could not be material or meaningful to potential investors.

We have applied to the Hong Kong Stock Exchange for, and have been granted by the Hong Kong Stock Exchange, a waiver from strict compliance with the requirements under paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules. We have also applied to the SFC for, and have been granted by the SFC, a certificate of exemption from strict compliance with paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance on the conditions that (i) the particulars of this exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before September 1, 2020.

Particulars and information of alteration of the Company's capital and subsidiaries

Paragraph 26 of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraph 11 of the Third Schedule to the Companies (WUMP) Ordinance require the listing document of a listing issuer to include the particulars of any alterations in the capital of any member of the group within the two years immediately preceding the issue of the listing document.

Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraph 29 of the Third Schedule to the Companies (WUMP) Ordinance require the listing document of a listing issuer to include, information in relation to the name, date and place of incorporation, the public or private status and the general nature of the business, the issued capital and the proportion thereof held or intended to be held, of every company (a) the whole of the capital of which or a substantial proportion thereof is held or intended to be held by our Company, or (b) whose profits or assets make, or will make a material contribution to the figures in the Accountants' Report or to our Company's next financial statements.

Globally, we have more than 90 subsidiaries and consolidated affiliated entities. We have identified 22 entities that we consider as our Major Subsidiaries. By way of illustration, the Major Subsidiaries include, among others, all significant operating subsidiaries under the financial threshold of Regulation S-X in the U.S. and subsidiaries that are material to the business operation of our Group. The aggregate net income of our Major Subsidiaries for the six months ended June 30, 2020 and the year ended December 31, 2019 and the total assets of our Major Subsidiaries as of June 30, 2020 and December 31, 2019 extracted from the audited consolidated financial statements represent over 75% of our Group's net income for the same periods and total assets as of the same dates. For further details, see "Our History and Corporate Structure — Our Major Subsidiaries."

None of our non-Major Subsidiaries is individually material to our Company in terms of financial contribution to our Company, nor does any of them hold any assets, intellectual property rights or other proprietary technologies that are material to the business operation of our Group.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

Accordingly, it would be unduly burdensome to disclose the particulars required under paragraphs 26 and 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraphs 11 and 29 of the Third Schedule to the Companies (WUMP) Ordinance in respect of our non-Major Subsidiaries, which include (a) any alterations in the capital within the two years immediately preceding the date of this prospectus, (b) the name, date and place of incorporation, (c) the public or private status and the general nature of the business, and (d) the issued capital and the proportion thereof held or intended to be held, as we would have to incur additional costs and devote additional resources in compiling and verifying the relevant information for such disclosure, which would not provide further information that is meaningful to the investing public in Hong Kong.

Our Company confirms that we have disclosed all information necessary for the public to make an informed assessment of the business, financial statements, management and prospects of our Group in this prospectus. In this regard, the granting of the relevant waivers and exemptions sought will not prejudice the interests of the investing public.

We have applied to the Hong Kong Stock Exchange for, and have been granted by the Hong Kong Stock Exchange, a waiver from strict compliance with the requirements under paragraphs 26 and 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules. We have also applied to the SFC for, and have been granted by the SFC, a certificate of exemption from strict compliance with paragraphs 11 and 29 of the Third Schedule to the Companies (WUMP) Ordinance on the conditions that (i) the particulars of this exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before September 1, 2020.

Corporate Communications

Rule 2.07A of the Hong Kong Listing Rules provides that a listed issuer may send or otherwise make available to the relevant holders of its securities any corporate communication by electronic means, provided that either the listed issuer has previously received from each of the relevant holders of its securities an express, positive confirmation in writing or the shareholders of the listed issuer have resolved in a general meeting that the listed issuer may send or supply corporate communications to shareholders by making them available on the listed issuer's own website or the listed issuer's constitutional documents contain provision to that effect, and certain conditions are satisfied.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 2.07A of the Hong Kong Listing Rules on the following basis:

- We are an NYSE-listed company. We publicly file on the website of the SEC or furnish to the SEC various corporate communications, which include, among other things, our annual reports on Form 10-K and quarterly reports on Form 10-Q, as well as our proxy statements and corresponding materials. These documents are also available free of charge on our website as soon as reasonably practicable after they are filed with or furnished to the SEC.
- We have provided our Shareholders with sufficient channels to ensure the efficient communications with our Shareholders, through annual meetings, various investor events, our investor relations team, our corporate secretary and our Company website.
- Apart from the Offer Shares that will be offered by us for subscription in Hong Kong, the Offer Shares will also be placed to professional, institutional, corporate

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

and other investors in Hong Kong and elsewhere in the world. Given our diverse shareholder base and the potential number of countries in which our Shareholders are located, it would not be practicable for us to send printed copies of all our corporate communications to all of our Shareholders. Further, given the expected liquidity of the trading of the Shares on the Hong Kong Stock Exchange, it would also not be practicable for us to approach all our Shareholders individually to seek confirmation from them of their wish to receive corporate communications in electronic form, or to provide them with the right to request corporate communications in printed form instead. Given the various types resort of corporate communications available to our Shareholders, it would be costly, unnecessary and burdensome for us to fully comply with Rule 2.07A of the Hong Kong Listing Rules.

- In order to maintain regular and effective communication with our Shareholders, with effect from the Listing, in addition to the abovementioned corporate communications that have been carried out, we have or will make the following arrangements:
 - (a) We will issue all future corporate communications as required by the Hong Kong Listing Rules on our own website in English and Chinese, and on Hong Kong Stock Exchange's website in English and Chinese.
 - (b) We will provide printed copies of proxy materials in English and Chinese to our Shareholders in Hong Kong at no cost upon their request, which should be made following the relevant instructions for requesting such information.
 - (c) We will also add to our own website a specific section named "HKEx Filings," which will direct investors to all of our future filings with the Hong Kong Stock Exchange.

Monthly Returns

Rule 13.25B of the Hong Kong Listing Rules requires a listed issuer to publish a monthly return in relation to movements in its equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates. Pursuant to the Joint Policy Statement Regarding the Listing of Overseas Companies, companies applying for a secondary listing may seek a waiver from Rule 13.25B subject to satisfying the waiver condition that the SFC has granted a partial exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) in respect of disclosure of shareholders' interests.

As we have obtained a partial exemption from the SFC, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 13.25B of the Hong Kong Listing Rules. We will disclose information about share repurchases, if any, in our quarterly reports on Form 10-Q and annual reports on Form 10-K which are furnished or filed with the SEC in accordance with applicable U.S. rules and regulations.

Three-year Restriction on Spin-offs

Rule 19C.11 of the Hong Kong Listing Rules provides that, among other things, paragraphs 1 to 3(b) and 3(d) to 5 of Practice Note 15 to the Hong Kong Listing Rules ("**Practice Note 15**") do not apply to a Qualifying Issuer, like us, that has, or is seeking, a secondary listing

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

on the Hong Kong Stock Exchange. Such exception is limited to circumstances where the spun-off assets or businesses are not to be listed on the Hong Kong Stock Exchange's markets and the approval of Shareholders of our Company is not required.

Paragraph 3(b) of Practice Note 15 provides that the Listing Committee would not normally consider a spin-off application within three years of the date of listing of the company, given the original listing of the company will have been approved on the basis of the company's portfolio of businesses at the time of listing, and that the expectation of investors at that time would have been that the company would continue to develop those businesses.

We do not have any specific plans with respect to the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as of the Latest Practicable Date. However, in light of our Group's overall business scale and multiple restaurant brands under our operation, spinning off one or more of our business units through a listing on the Hong Kong Stock Exchange (a "**Potential Spin-off Listing**") may become desirable and be in the interest of our Shareholders as a whole within three years after the Listing, e.g. if there are clear commercial benefits both to our Company and the businesses to be potentially spun-off. As of the Latest Practicable Date, we have not identified any target for a potential spin-off; as a result we do not have any information relating to the identity of any spin-off target or any other details of any spin-off and accordingly, there will be no material omission of any information relating to any possible spin-off in this prospectus.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements in paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules, on the following grounds:

- No Shareholders' approval with respect to a Potential Spin-off Listing will be required under our Constitutional Documents and under applicable U.S. regulations and NYSE rules. Moreover, as we are a Grandfathered Greater China Issuer and therefore exempt from the requirements under Chapter 14 of the Hong Kong Listing Rules pursuant Rule 19C.11 of the Hong Kong Listing Rules, no Shareholders' approval will be required under the Hong Kong Listing Rules as well.
- The three-year restriction ("**Three-year Restriction**") imposed by paragraph 3(b) of the Practice Note 15 on a Potential Spin-off Listing should be waived. The effect that a spin-off to the Shareholders should be the same regardless of whether or not the businesses to be potentially spun-off are to be listed on the Hong Kong Stock Exchange (save with respect to any preferential rights to subscribe for shares that are commonly provided in spin-offs on the Hong Kong Stock Exchange). In addition, the Three-year Restriction will restrict us from conducting a spin-off within three years after the Listing even if such spin-off is desirable and in the interest of our Shareholders as a whole, which will lead to failure of us to act for the best interest of our Shareholders. In this regard, the Three-year Restriction imposed on the Potential Spin-off Listing under paragraph 3(b) of the Practice Note 15 will not provide additional meaningful protection to our Shareholders.
- In any event of a Potential Spin-off Listing, our Company and the subsidiary in respect of which a Potential Spin-off Listing is contemplated will be subject to compliance with all other applicable requirements under the Hong Kong Listing Rules, including the remaining requirements of Practice Note 15 and (in the case of the company to be spun-off) the listing eligibility requirements of Chapter 8, 8A or

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

19C of the Hong Kong Listing Rules (as the case may be), unless otherwise waived by the Hong Kong Stock Exchange.

- Under applicable U.S. securities laws and NYSE rules, we are not subject to any restrictions similar to the Three-year Restriction in relation to the spin-offs of our businesses, nor is there any requirement for us to disclose any details of our potential spin-off entities in the absence of any concrete spin-off plan.
- In light of the fiduciary duties owed by our Directors to us under applicable laws, including the duty to act in good faith to be in the best interests of our Shareholders, our Board will only pursue a potential spin-off if there are clear commercial benefits both to our Company and the entity or entities to be spun off. We will only conduct a spin-off if our Directors believe that the spin-off will be in the interest of our Company and our Shareholders as a whole.

Publication of Interim Report for the Six Month Ended June 30, 2020

Rule 13.48(1) of the Hong Kong Listing Rules requires an issuer to send to its members and holders of its listed securities an interim report or a summary interim report in respect of the first six months of the financial year within three months after the end of that period. In addition, the Hong Kong Stock Exchange's Listing Decision HKEx-LD38-2012 sets out the conditions that the Hong Kong Stock Exchange would ordinarily expect in connection with waiver application from strict compliance with the Rule 13.48(1) of the Hong Kong Listing Rules.

Practice Note 10 to the Hong Kong Listing Rules requires newly listed issuers to prepare and publish interim reports in respect of the first six month period where the deadline for publishing the reports falls after the date on which dealings in the securities of the issuer commenced.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 13.48(1) of, and Practice Note 10 to, the Hong Kong Listing Rules, on the following grounds:

- We are subject to the reporting requirements under the SEC rules in our primary market. Pursuant to the U.S. Exchange Act, we, being a large accelerated filer, are required to file quarterly reports on Form 10-Q no later than 40 days after the end of the fiscal quarter. Our quarterly report for the quarter ended June 30, 2020 was filed with the SEC on August 6, 2020. The publication of interim report requirement would therefore incur unnecessary administrative costs and time on the part of our management and be unduly burdensome for us.
- In addition, as we have included in this prospectus our audited financial information in respect of the six months ended June 30, 2020 with unaudited comparative figures for the six months ended June 30, 2019, our Directors believe that strict compliance with the requirements of Rule 13.48(1) and Practice Note 10 to the Hong Kong Listing Rules would not provide our Shareholders and potential investors with additional material information of us not already contained in this prospectus.

We confirm that we would not be in breach of the Constitutional Documents or laws or regulations of the United States or any other regulatory requirements for not preparing,

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

publishing and sending an interim report under the Hong Kong Listing Rules to our Shareholders for the six months ended June 30, 2020.

Disclosure of Offer Price

Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules states that the issue price or offer price of each security must be disclosed in this prospectus.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules so that we will only disclose the maximum Public Offer Price for the Hong Kong Offer Shares, or the Public Offer Price, in this prospectus, on the following grounds:

- The pricing of the Offer Shares will be determined by reference to, among other factors, the closing price of the Shares of common stock on the NYSE on the last trading day on or before the Price Determination Date and we have no control on the market price of our Shares of common stock traded on the NYSE;
- Setting a fixed price or a price range with a low end International Offer Price or Public Offer Price may adversely affect the market price of the Shares of common stock and the Hong Kong Offer Shares; and
- Disclosure of a maximum Public Offer Price is in compliance with the Companies (WUMP) Ordinance as such disclosure constitutes sufficient disclosure of the “amount payable” on application and allotment on the Offer Shares as required under the Companies (WUMP) Ordinance.

See “Structure of the Global Offering — Pricing and Allocation” for (i) the time for determination of the Public Offer Price and form of its publication; (ii) the historical prices of our Shares of common stock and trading volume on the NYSE; and (iii) the source for the investors to access the latest market price of our Shares of common stock.

Dealings in the Shares prior to Listing

According to Rule 9.09(b) of the Hong Kong Listing Rules, there must be no dealing in the securities of a new applicant for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted (the “**Relevant Period**”).

We have over 90 subsidiaries and consolidated affiliated entities and Shares of our common stock are widely held, publicly traded and listed on the NYSE. Considering the basis and grounds set out below, the following categories of persons (collectively, the “**Permitted Persons**”) shall be permitted to deal in our Shares of common stock during the Relevant Period:

- the joint venture partners (the “**JV Partners**”) of the Company’s non-wholly owned Major Subsidiaries, which are substantial shareholders of such Major Subsidiaries, the directors appointed by the JV Partners who are not employees of the Group, and their close associates who have not been provided by the Company with any information relating to the Global Offering (“**Category 1**”);

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING
RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE
COMPANIES (WUMP) ORDINANCE**

- directors, chief executives and substantial shareholders of our non-Major Subsidiaries and their close associates who have not been provided by the Company with any information relating to the Global Offering (“**Category 2**”);
- any other person (whether or not an existing Shareholder) who may, as a result of dealings, become our substantial Shareholder and who is not our Director or chief executive, or a director or chief executive of our subsidiaries, or their close associates (“**Category 3**”); and
- Invesco Ltd. (“**Invesco**”), a substantial shareholder of the Company, holding 10.8% of the total number of issued and outstanding Shares as at June 30, 2020 based on the Form 13F filed with the SEC by it on August 14, 2020 and the close associates of Invesco.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 9.09(b) of the Hong Kong Listing Rules in respect of any dealing during the Relevant Period by the Permitted Persons subject to the following conditions:

- the Permitted Persons have not been provided with any of our non-public information in relation to the Global Offering, in accordance with our internal policies and rules in relation to the management of material non-public information. As a NYSE-listed company, the Company has implemented a strict internal confidentiality protocol. With respect to the non-public information regarding the Global Offering, the Company has only allowed, on a need-to-know basis, information access by (1) the Directors of the Company who are subject to confidentiality requirement under our corporate governance principles, (2) the leadership members of the Company who are subject to confidentiality undertakings they signed, and (3) a limited number of employees assisting the listing process who are subject to confidentiality undertakings they signed;
- the Permitted Persons are currently not and will not be involved in the preparation of the Global Offering, including the allocation process, therefore they do not have any influence on the Company in respect of the allocation of the Global Offering;
- of the Category 1 persons:
 - JV Partners: they are external parties not subject to trading restrictions implemented by the Group. None of them is under any contractual obligation to notify the Company regarding their trading in the Company’s common stock currently listed and traded on the NYSE. As a result, the Company does not have any control or actual knowledge over their dealings in the Shares; and
 - Directors and chief executives appointed by JV Partners: they are appointed by the JV Partners at the joint venture level and are not employees of the Group. These non-employee directors are not controlled by us;
- with respect to Invesco, the Company has no control over any dealing in the Share made by Invesco:
 - Invesco is a passive investor of the Company. There has not been any existing business relationship between the Company and Invesco;

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

- based on the public information available to the Company, Invesco is a global independent investment management firm and the Company has no control over the investment decisions of Invesco;
- Regulation FD to which the Company is subject to prohibits companies from selectively disclosing material non-public information to analysts, institutional investors, and others without concurrently making widespread public disclosure;
- Invesco does not have any board representative or other special rights in the Company and does not have control over the management of the Company; and
- disclosure of the latest shareholding information of Invesco will be made in this prospectus;
- we will promptly release any inside information to the public in the United States and Hong Kong in accordance with the relevant laws and regulations of the United States and Hong Kong. Accordingly, the Permitted Persons (other than Category 1 persons) are not in possession of any non-public inside information of which we are aware;
- the Company's core connected persons, other than the Permitted Persons, will not deal in the Shares during the Relevant Period. For the avoidance of doubt, such dealing in the Company's Shares of common stock shall not include the granting, vesting, payment or exercise (as applicable) of any awards in accordance with the terms of the 2016 Plan; and
- the Company will notify the Stock Exchange of any breaches of the dealing restrictions by any core connected persons, unless waived, as soon as the Company becomes aware of the same.

Subscription for Shares by existing Shareholders

Rule 10.04 of the Hong Kong Listing Rules requires that existing shareholders may only subscribe for or purchase any securities for which listing is sought that are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rule 10.03 of the Hong Kong Listing Rules are fulfilled. Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules states that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to be made to directors, existing shareholders of a listing applicant or their close associates, unless the conditions set out in Rules 10.03 and 10.04 are fulfilled.

Our Company has over 90 subsidiaries and consolidated affiliated entities and our Shares of common stock are widely held, publicly traded and listed on the NYSE. Category 2 of the Permitted Persons (as defined in “— Dealings in the Shares Prior to the Listing” above) have no influence over the Global Offering and are not in possession of any non-public inside information in relation to the Global Offering and are effectively in the same positions as our public investors. In addition, to the best knowledge of the Company, several Shareholders of the Company, who are large global assets managers, were interested in approximately 3% to 10% of the voting rights of the Company's Shares as of the Latest Practicable Date. Considering the nature of those investors and as the Company's Shares are publicly traded on

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

the NYSE, the Company is not in the position to restrict those Shareholders from purchasing the Company's Shares and Shareholders who hold less than 5% of the voting rights of the Company's Shares may, in accordance with their own respective investment policies, increase their respective shareholdings in the Company to 5% or more. Category 2 of the Permitted Persons and other public investors who do not have special rights in the Company are referred to as Permitted Existing Shareholders.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules in respect of the restriction on Permitted Existing Shareholders to subscribe for or purchase Shares in the Global Offering, subject to the following conditions:

- each Permitted Existing Shareholder is interested in less than 10% of the Company's voting rights before the Listing;
- the Permitted Existing Shareholders do not have the power to appoint Directors of the Company or any other special rights in the Company;
- the Permitted Existing Shareholders do not have influence over the offering process and will be treated the same as other applicants and placees in the Global Offering;
- the Permitted Existing Shareholder will be subject to the same book-building and allocation process as other investors in the Global Offering; and
- to the best of their knowledge and belief, each of the Company, the Sponsor and the Joint Global Coordinators (based on its discussions with and the confirmations from the Company and the other Joint Global Coordinators (for themselves and on behalf of the Underwriters)), confirms to the Hong Kong Stock Exchange in writing that no preferential treatment has been, nor will be, given to the Permitted Existing Shareholders and their close associates as a placee in the International Offering by virtue of their relationship with the Company.

Allocation to the Permitted Existing Shareholders and/or their close associates will not be disclosed in our allotment results announcement (other than to the extent that such Permitted Existing Shareholders or close associates subscribe for shares as cornerstone investors) unless such Permitted Existing Shareholders are interested in 5% or more of our issued share capital after the Global Offering as disclosed in any of their public filings with the SEC (the "**Available Information**"). It would be unduly burdensome for us to disclose such information other than the Available Information given that there is no requirement to disclose interests in equity securities under the U.S. Exchange Act unless the beneficial ownership of a person reaches 5% or more, and when there is a subsequent change of ownership of 1% or more, in our issued share capital.

Availability of Copies of the Prospectus in Printed Form

We have adopted a fully electronic application process for the Hong Kong Public Offering and we will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering. We will adopt additional communication measures as we consider appropriate to inform the potential investors that they can only subscribe for the Hong Kong Offer Shares electronically, including publishing on the website of the Company and in both English and Chinese-language newspapers, a

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

formal notice describing the fully electronic application process including the available channels for share subscription of the Hong Kong Offer Shares. We have applied for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules in respect of the availability of copies of the prospectus in printed form based on the specific and prevailing circumstances of the Company.

Clawback mechanism

Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. Subject to the Hong Kong Stock Exchange granting the waiver described below, the Hong Kong Public Offering and the International Offering will initially account for 4.0% and 96.0% of the Global Offering, respectively, subject to the clawback mechanism described below. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements of Paragraph 4.2 of Practice Note 18 to the Hong Kong Listing Rules such that the allocation of the Offer Shares in the Hong Kong Public Offering will be adjusted as follows:

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 10 times or more but less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 2,724,200 Offer Shares, representing approximately 6.5% of the Offer Shares initially available under the Global Offering (before exercise of the Over-allotment Option);
- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 20 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 3,143,350 Offer Shares, representing approximately 7.5% of the Offer Shares initially available under the Global Offering (before exercise of the Over-allotment Option); and
- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 20 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 6,915,300 Offer Shares, representing approximately 16.5% of the Offer Shares initially available under the Global Offering (before exercise of the Over-allotment Option).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING
RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE
COMPANIES (WUMP) ORDINANCE**

Coordinators deem appropriate. In addition, the Joint Global Coordinators would have discretion to allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. On the other hand, if the Hong Kong Public Offering is not fully subscribed, the unsubscribed Offer Shares under the Hong Kong Public Offering may be reallocated to the International Offering.

See “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation” for further details.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Fred HU (胡祖六)	House 9, Rosecliff 20 Tai Tam Road Hong Kong	Chinese (Hong Kong)
Joey WAT (屈翠容)	Flat A, 39/F, Block 12 1 Kin Tung Road Caribbean Coast, Carmel Cove Tung Chung, Lantau Island Hong Kong	Chinese (Hong Kong)
Peter A. BASSI	21163 Newport Coast Drive Suite 471, Newport Coast CA 92657, U.S.	American
Christian L. CAMPBELL	11216 Tamiami Trail North, #204 Naples FL 34110, U.S.	American
Ed Yiu-Cheong CHAN (陳耀昌)	4/F, Catalina Mansions 98 MacDonnell Road Mid Levels Hong Kong	American
Edouard ETTEDEGUI (倪德祈)	Stanley Beach Terrace 10B Stanley Beach Road Hong Kong	French
Cyril HAN (韓歆毅)	No. 28 Jiaogong Road Hangzhou Zhejiang Province, PRC	Chinese
Louis T. HSIEH (謝東螢)	Tower 2, Unit 37-B The Harbourside 1 Austin Road West Kowloon Hong Kong	American
Ruby LU (盧蓉)	No. 21 Tianyilou, Siming District Xiamen, Fujian Province, PRC	Chinese
Zili SHAO (邵子力)	Room 902, Building T6 Chaoyang Haian Service Apartment Cove 1 East, Shenzhou Peninsula Wanning Hainan Province, PRC	Chinese (Hong Kong)

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
William WANG (汪洋)	Flat C, 18/F, Tower 6 68 Bel-Air Peak Avenue Bel-Air on the Peak Island South (Phase IV) Pok Fu Lam Hong Kong	Chinese (Hong Kong)

Please see the section headed “Directors, Senior Management and Employees” in this prospectus for further details of our Directors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sponsor	Goldman Sachs (Asia) L.L.C. 68/F Cheung Kong Center 2 Queen’s Road Central Hong Kong
Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	Goldman Sachs (Asia) L.L.C. 68/F Cheung Kong Center 2 Queen’s Road Central Hong Kong Citigroup Global Markets Asia Limited <i>(Joint Global Coordinator, and Joint Bookrunner and Joint Lead Manager in relation to the Hong Kong Public Offering only)</i> 50/F, Champion Tower 3 Garden Road Central Hong Kong Citigroup Global Markets Limited <i>(Joint Bookrunner and Joint Lead Manager in relation to the International Offering only)</i> 33 Canada Square Canary Wharf London E14 5LB United Kingdom CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central Hong Kong UBS AG Hong Kong Branch 52/F, Two International Finance Centre 8 Finance Street Central Hong Kong UBS Securities LLC <i>(International Underwriter in relation to the International Offering only)</i> 1285 Avenue of the Americas New York, NY 10019 United States

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Joint Bookrunners and Joint
Lead Managers**
(in alphabetical order)

ABCI Capital Limited
(Joint Bookrunner only)
11/F
Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

ABCI Securities Company Limited
(Joint Lead Manager only)
10/F
Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

AMTD Global Markets Limited
23/F Nexxus Building
41 Connaught Road Central
Hong Kong

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

**China International Capital Corporation Hong Kong
Securities Limited**
29/F
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

CLSA Limited
18/F
One Pacific Place
88 Queensway
Hong Kong

**The Hongkong and Shanghai Banking Corporation
Limited**
1 Queen's Road Central
Hong Kong

ICBC International Capital Limited
(Joint Bookrunner only)
37/F ICBC Tower
3 Garden Road
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

ICBC International Securities Limited

(Joint Lead Manager only)

37/F ICBC Tower

3 Garden Road

Hong Kong

Legal Advisors to our Company *As to Hong Kong and United States laws:*

Sidley Austin

39/F, Two International Finance Centre

8 Finance Street

Central

Hong Kong

As to Delaware laws:

Sidley Austin LLP

One South Dearborn Street

Chicago, IL 60603

The United States of America

As to PRC laws:

Jingtian & Gongcheng

34/F, Tower 3, China Central Place

77 Jianguo Road

Chaoyang District

Beijing, China

**Legal Advisors to the Sponsor
and the Underwriters** *As to Hong Kong laws:*

Freshfields Bruckhaus Deringer

55/F, One Island East, Taikoo Place

Quarry Bay

Hong Kong

As to United States laws:

Simpson Thacher & Bartlett

35/F, ICBC Tower

3 Garden Road

Central

Hong Kong

As to PRC laws:

Commerce & Finance Law Offices

6/F, NCI Tower

A12 Jian Guo Men Wai Avenue

Chaoyang District

Beijing, China

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Auditors and Reporting
Accountants**

KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

Industry Consultant

Frost & Sullivan International Limited
1706, One Exchange Square
8 Connaught Place
Central
Hong Kong

Compliance Advisor

Somerley Capital Limited
20/F, China Building
29 Queen's Road Central
Hong Kong

Receiving Bank

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

CORPORATE INFORMATION

Registered Office	Corporation Trust Center 1209 Orange Street Wilmington Delaware 19801, U.S.
Operational Headquarters	6/F-16/F, Yum China Building 20 Tian Yao Qiao Road Shanghai, China
Principal Place of Business in Hong Kong	Unit 2806, Millennium City 5 No.418 Kwun Tong Road Kowloon Hong Kong
Company's Website	http://www.yumchina.com <i>(The information on this website does not form part of this prospectus)</i>
Authorized Representative	Aiken Yuen Unit 2806, Millennium City 5 No.418 Kwun Tong Road Kowloon Hong Kong
Audit Committee	Christian L. Campbell (Chairman) Peter A. Bassi Ed Yiu-Cheong Chan Cyril Han Louis T. Hsieh
Compensation Committee	Ruby Lu (Chairwoman) Christian L. Campbell Edouard Ettegui William Wang
Nominating and Governance Committee	Fred Hu (Chairman) Christian L. Campbell Edouard Ettegui Ruby Lu
Food Safety Committee	Zili Shao (Chairman) Peter A. Bassi Edouard Ettegui
IPO Services Agent	<i>In relation to the Global Offering only:</i> Computershare Hong Kong Investor Services Limited Shops 1712-1716 17/F, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Principal Share Registrar	Computershare Trust Company, N.A. 150 Royall Street Canton Massachusetts 02021, U.S.
Hong Kong Share Registrar and Transfer Office	<i>Upon the completion of the Global Offering:</i> Computershare Investor Services Limited Shops 1712-1716 17/F, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Banks	China Construction Bank (Asia) Corporation Limited 25/F, Tower 6 The Gateway, Harbour City, Tsim Sha Tsui Kowloon Hong Kong Citibank (China) Co., Ltd. Citigroup Tower No.33 Hua Yuan Shi Qiao Road Lu Jia Zui Finance and Trade Area Shanghai, China Industrial and Commercial Bank of China Limited No.55 Fu Xing Men Nei Street Xicheng District Beijing, Chia

INDUSTRY OVERVIEW

Certain information and statistics presented in this section and elsewhere in this prospectus relating to the industry in which we operate are derived from the F&S Report prepared by Frost & Sullivan, an independent industry consultant which was commissioned by us. The information extracted from the F&S Report should not be considered as a basis for investments in the Offer Shares or as an opinion of Frost & Sullivan as to the value of any securities or the advisability of investing in our Company. We believe that the sources of such information and statistics are appropriate for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. Our Directors have confirmed, after making reasonable enquiries and exercising reasonable care, that there is no adverse change in the market information since the date of publication of the F&S Report or any of the other reports which may qualify, contradict or have an impact on the information in this section. No independent verification has been carried out on such information and statistics by us, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other parties involved in the Global Offering or their respective directors, officers, employees, advisors, or agents, and no representation is given as to the accuracy or completeness of such information and statistics. Accordingly, you should not place undue reliance on such information and statistics. Unless and except for otherwise specified, the market and industry information and data presented in this section is derived from the F&S Report.⁽¹⁾

THE RESTAURANT INDUSTRY IN CHINA

The market size of the restaurant industry in China has grown steadily in the past several years to RMB4,672.1 billion in 2019 from RMB2,892.6 billion in 2014, representing a CAGR of 10.1% during this period. There is significant white space opportunity in the restaurant industry in China, where the per capita expenditure on food in 2019 was approximately RMB16.4 per day compared to RMB102.6 in the United States. Although the restaurant industry in China is expected to be affected in 2020 by the outbreak of COVID-19, the industry is expected to recover and continue its strong growth, to reach RMB6,613.6 billion in 2024 at a CAGR of approximately 7.2% from 2019, primarily driven by growing household spending, increasing urbanization rate, strong growth of delivery services and development of digital platforms and technologies in this market.

By operating model, restaurants in China can be divided into self-operated restaurant chains, franchises and non-chain restaurants. Self-operated restaurant chains are a set of restaurants in many locations that are operated under the same brand and shared corporate ownership.

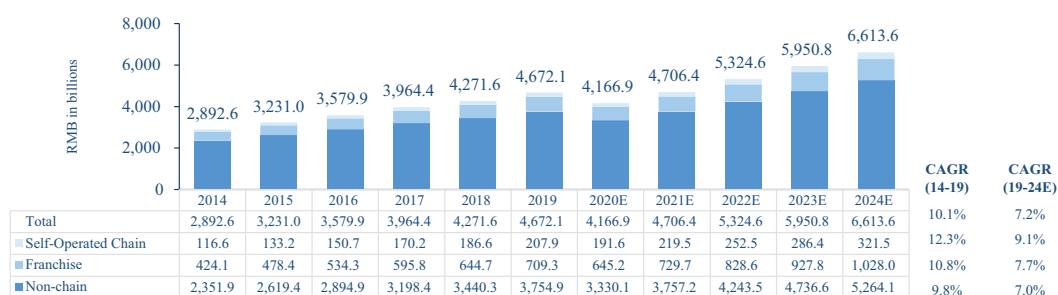
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- (1) The contract sum to Frost & Sullivan is US\$70,000 for the preparation and use of the F&S Report, and we believe that such fees are consistent with the market rate. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. In compiling and preparing the F&S Report, Frost & Sullivan has adopted the following assumptions: (i) China's economy is likely to maintain steady growth in the next decade; (ii) China's social, economic, and political environment is likely to remain stable in the forecast period; and (iii) market drivers like growing macro economy, accelerating urbanization process and growing household spending are likely to drive the growth of the restaurant industry in China.

Frost & Sullivan has conducted detailed primary research which involved discussing the status of the industry with leading industry participants and industry experts. Frost & Sullivan has also conducted secondary research which involved reviewing company reports, independent research reports and data based on its own research database. Frost & Sullivan has obtained the figures for the projected total market size from historical data analysis plotted against macroeconomic data as well as specific related industry drivers.

INDUSTRY OVERVIEW

Franchise restaurants are businesses where the brand owners franchise to third party operators the right to use the restaurant brand and model in exchange for fees or royalties. Non-chain restaurants are single, independent restaurants. Self-operated restaurant chains have experienced the fastest growth at a CAGR of 12.3% from 2014 to 2019 and are expected to continue to demonstrate the fastest growth with a 9.1% CAGR from 2019 to 2024, primarily because self-operated restaurant chain brands generally have stronger capital positions, better brand recognition, better control of food safety and offer higher quality food and services. However, the industry in China is at an earlier stage of development compared to that of the United States and other developed markets and Chinese cuisine is difficult to standardize. As a result, restaurant chains have a low penetration rate in China, especially in lower-tier cities, with only approximately 332 chain restaurants per million people in 2019 compared to approximately 891 in the United States. This indicates a substantial growth opportunity for restaurant chains in China. In 2019, self-operated and franchise restaurant chains market in China accounted for only 19.6% of the restaurant industry in China, far below the 73.8% in the United States. The following table sets forth a breakdown of the restaurant industry in China by operating model.

Size of the Restaurant Industry in China⁽¹⁾, Breakdown by Operating Model, 2014 - 2024E



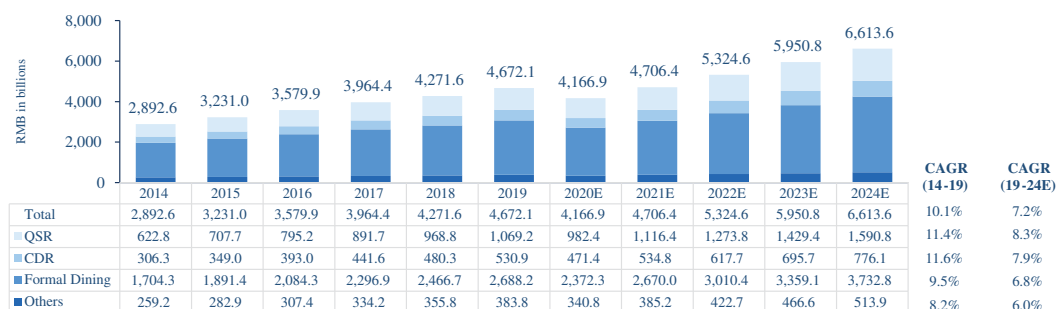
(1) In terms of revenue.

Source: NBS, Frost & Sullivan

By service type, the restaurant industry in China is generally categorized into quick-service restaurant (“QSR”), casual dining restaurant (“CDR”), formal dining and others. QSRs include restaurants that provide fast and standardized food, with little or no table service and a simple dining ambience. CDRs refer to restaurants that provide some table service. Formal dining usually refers to traditional restaurants with full table service provided by waiting staff. From 2014 to 2019, the QSR and CDR segments have experienced faster growth than the overall restaurant industry in China and the fastest growth among all restaurant types, at 11.4% and 11.6% CAGRs, respectively, and are expected to continue to grow rapidly with 8.3% and 7.9% CAGR from 2019 to 2024, respectively. The following table sets forth a breakdown of the restaurant industry in China by service type.

INDUSTRY OVERVIEW

Size of the Restaurant Industry in China⁽¹⁾, Breakdown by Service Type, 2014 - 2024E

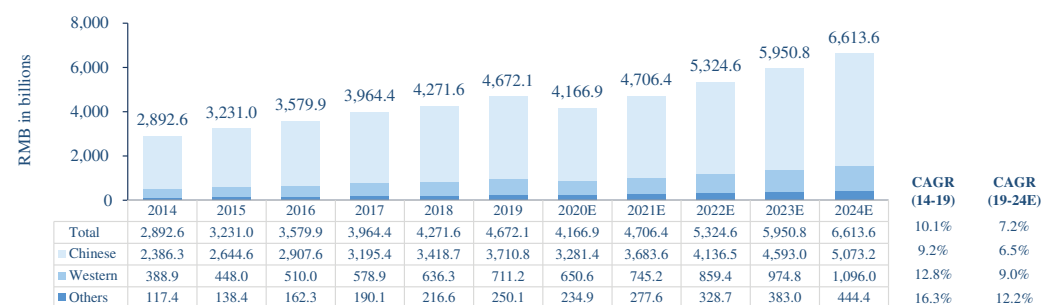


(1) In terms of revenue.

Source: NBS, Frost & Sullivan

The restaurant industry in China can also be divided into three segments by cuisine type, namely, Chinese cuisine, western cuisine and other cuisines. Chinese cuisine market accounted for the largest portion of the restaurant industry in China, with a 79.4% market share in 2019. Chinese cuisine grew from RMB2,386.3 billion in 2014 to RMB3,710.8 billion in 2019 at a CAGR of 9.2%, and is expected to reach RMB5,073.2 billion by 2024 at a CAGR of 6.5% from 2019. Western cuisine is a fast-growing segment, increasing from RMB388.9 billion in 2014 to RMB711.2 billion in 2019 at a 12.8% CAGR, and is expected to grow to RMB1,096.0 billion by 2024 with a 9.0% CAGR. The following table sets forth a breakdown of the restaurant industry in China by cuisine type.

Size of the Restaurant Industry in China⁽¹⁾, Breakdown by Cuisine Type, 2014 - 2024E



(1) In terms of revenue.

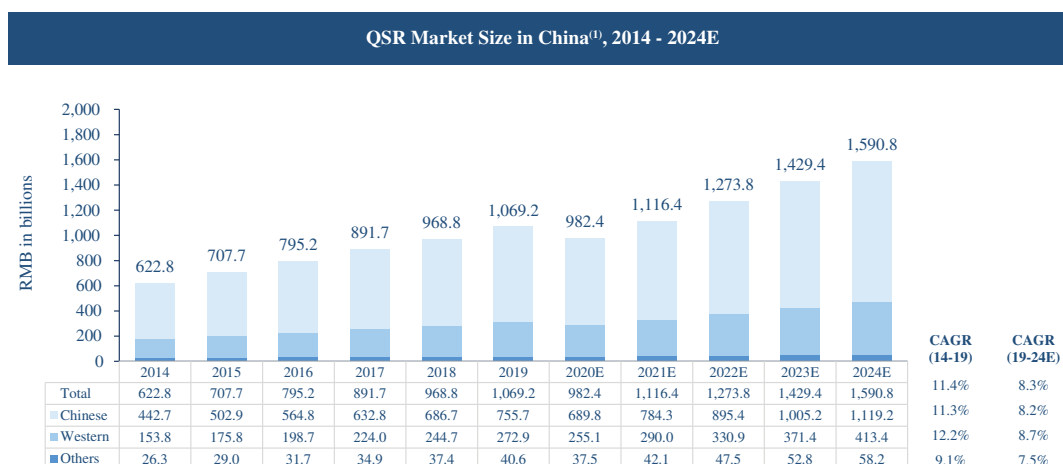
Source: NBS, Frost & Sullivan

THE QSR SEGMENT IN CHINA

The QSR segment is one of the fastest growing restaurant service types in the restaurant industry in China, with significant white space opportunity. In 2019, there were only approximately 503 QSRs per million people in China, compared to approximately 1,035 in the United States. As it grows rapidly, the QSR segment has accounted for an increasing share of the overall restaurant industry in China, from approximately 21.5% in 2014 to approximately 22.9% in 2019 and is expected to reach approximately 24.1% in 2024. Driven by increasing urbanization and increasing demand for food safety and quick and convenient fast food, the QSR segment has increased from RMB622.8 billion in 2014 to RMB1,069.2

INDUSTRY OVERVIEW

billion in 2019, and is expected to grow to RMB1,590.8 billion by 2024. Western cuisine is expected to grow at an 8.7% CAGR from 2019 to 2024 while Chinese cuisine will grow at an 8.2% CAGR. Western cuisine accounted for 25.5% of the QSR market in China while Chinese cuisine accounted for 70.7% in 2019. The following table sets forth a breakdown of the QSR market in China by cuisine type.



(1) In terms of revenue.

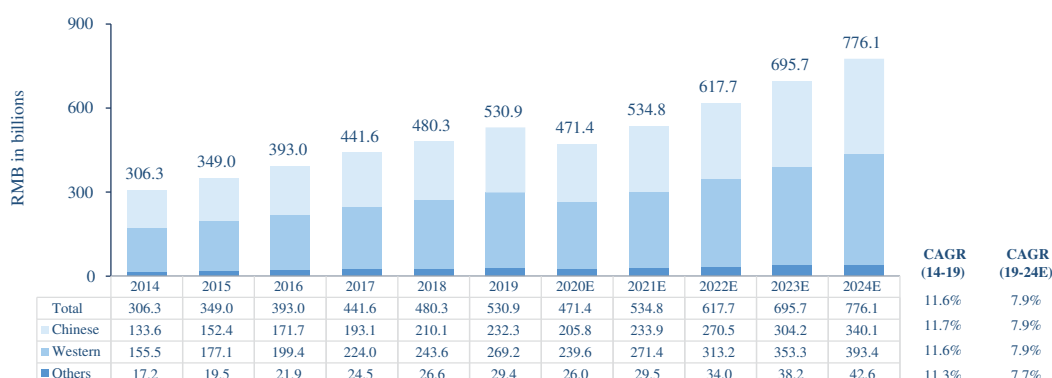
Source: Frost & Sullivan

THE CDR SEGMENT IN CHINA

The CDR segment was the fastest growing restaurant service type in the restaurant industry in China from 2014 to 2019 and has accounted for an increasing percentage of the overall market from approximately 10.6% in 2014 to approximately 11.4% in 2019 and is expected to reach approximately 11.7% in 2024. The CDR segment has grown from RMB306.3 billion in 2014 to RMB530.9 billion in 2019 and is expected to reach RMB776.1 billion in 2024, primarily driven by consumption upgrades of the Chinese population and the greater importance placed on high quality dining experience. In 2019, western cuisine had a 50.7% share of the CDR market in China while Chinese cuisine had a market share of 43.8%. Western cuisine and Chinese cuisine are both expected to grow at a 7.9% CAGR from 2019 to 2024. The following table sets forth a breakdown of the CDR market in China by cuisine type for the period indicated.

INDUSTRY OVERVIEW

CDR Market Size in China⁽¹⁾, 2014 - 2024E



(1) In terms of revenue.

Source: Frost & Sullivan

THE FOOD DELIVERY SERVICE MARKET IN CHINA

The food delivery service market in China has witnessed rapid growth in the past few years in terms of gross transaction value⁽¹⁾, increasing from RMB142.4 billion in 2014 to RMB596.8 billion in 2019 at a 33.2% CAGR, accounting for 12.8% of the restaurant industry in China in 2019. The food delivery service market in China in terms of gross transaction value is expected to almost double in size to reach RMB1,270.0 billion in 2024. The rapid growth of food delivery in China has been primarily driven by the increased popularity of online food delivery platforms and apps, as well as the dynamic lifestyles and changing dining preferences of the younger generation.

Restaurant chains such as KFC and Pizza Hut were among the first in China to offer delivery services, as they were able to build their own digital platforms or apps and offered cuisine that was suitable in nature for delivery. Benefiting from their early entrance in the delivery service space, delivery sales accounted for a sizeable portion of total sales for KFC and Pizza Hut. As demand for delivery services grew, more restaurants sought to enter the delivery services market to supplement their existing dine-in services. Without their own delivery platform, these restaurants primarily rely on third-party delivery aggregators, such as Meituan (美团) and Eleme (饿了么).

The food delivery service market is less likely to be affected by the outbreak of COVID-19 in 2020 as customers are more willing to order food delivery instead of dining in. In turn, restaurants that have strong delivery capabilities and platforms and significant revenue contribution from delivery services are expected to be less affected by the COVID-19 outbreak.

THE COFFEE MARKET IN CHINA

The coffee market in China is rapidly growing. The retail sales revenue of the coffee market in China, which represents the retail value of coffee products sold by all channels, has grown from RMB22.3 billion in 2014 to RMB68.8 billion in 2019, representing a CAGR of 25.3%. Despite the rapid growth, the coffee market in China is highly underpenetrated compared to the U.S. and South Korea. Cups of coffee consumed per capita per year in China was only 7.1

⁽¹⁾ Refers to the value of paid transactions of food delivery services by consumers.

INDUSTRY OVERVIEW

cups in 2019, compared to 390.7 cups and 353.0 cups in the U.S. and South Korea, respectively. Driven by consumption upgrades, development of new retail models and the growing coffee drinking habit in China, the coffee market in China is expected to reach RMB205.8 billion in 2024 with a 24.5% CAGR from 2019.

Coffee products are primarily sold in coffee shops and through retail sales channels, such as supermarkets and online platforms. The coffee shop market size in China, which represents the total revenue of coffee shops, has grown rapidly from RMB14.4 billion in 2014 to RMB50.0 billion in 2019 at a 28.3% CAGR due to the growing coffee drinking habit in China. Going forward, the coffee shop market in China is expected to grow at a CAGR of 26.1% from 2019 to 2024, to reach RMB159.5 billion in 2024.

COMPETITIVE LANDSCAPE

The Restaurant Industry in China

The restaurant industry in China is highly fragmented, with the top five players accounting for less than 5% market share in terms of System sales in 2019. By the end of 2019, there were around 6.5 to 7 million players in the restaurant industry in China. Yum China is the largest restaurant company in China in terms of System sales in 2019, with a 1.4% market share. At the end of 2019, Yum China had 9,200 restaurants in China. Other major players in the restaurant industry in China are primarily well-known multinational or domestic restaurant brands. The table below sets forth certain information of the five largest restaurant companies in China in 2019.

Ranking and Market Share of Top Five Players in China's Catering Service Market, 2019

Ranking	Company	Company Description	System Sales (RMB billions)	Market Share (%)	Number of Restaurants by year end
1	YUMC	The Group	67.6 ⁽¹⁾	1.4%	9,200
2	Company A	A multinational QSR brand that entered China in the 1990s, mainly focused on burgers.	29.0	0.6%	~3,300
3	Company B	A domestic Chinese cuisine brand established in 1994, mainly focused on hot pot.	23.4	0.5%	~700
4	Company C	A multinational chain coffee brand that entered China in the late 1990s, mainly focused on coffee.	20.3	0.4%	~4,300
5	Company D	A domestic QSR brand in China established in 2003, mainly focused on burgers.	10.7	0.2%	~2,600

- (1) YUMC's system sales reflects the results of all restaurants regardless of ownership. See "Glossary" for details of the definition of System sales, which includes 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. 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 is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, the Company and franchise same-store sales as well as net unit growth.

Source: Frost & Sullivan

The QSR Market in China

Compared to the QSR market in the U.S. where the top ten players had an aggregate 39% market share in terms of 2019 System sales, the QSR market in China is highly fragmented, with the top ten players accounting for approximately 11.3 % of the market in terms of 2019 System sales. By the end of 2019, there were around 3 to 3.5 million players in the QSR market in China. KFC was the largest QSR brand in China with a market share of approximately 4.9% in terms of System sales (including sales of franchise restaurants and

INDUSTRY OVERVIEW

self-operated restaurants) in 2019. Major competitors of KFC in China primarily include a number of western QSR companies. The table below sets forth certain information of the ten largest QSR brands in China in 2019.

Ranking and Market Share of Top Ten Players in China's QSR Market, 2019

Ranking	Company	Company Description	System Sales (RMB billions)	Market Share (%)	Number of Restaurants by year end	Cuisine Type
1	YUMC (KFC)	The Group	52.2 ⁽¹⁾	4.9%	6,534	Western
2	Company A	A multinational brand that entered China in the 1990s, mainly focused on burgers.	29.0	2.7%	~3,300	Western
3	Company D	A domestic brand established in 2003, mainly focused on burgers.	10.7	1.0%	~2,600	Western
4	Company E	A domestic brand established in 2000, mainly focused on burgers.	9.9	0.9%	~10,000	Western
5	Company F	A multinational brand that entered China in 2005, mainly focused on burgers.	5.4	0.5%	~1,300	Western
6	Company G	A domestic brand established in 2003, mainly focused on chicken soup.	3.4	0.3%	~700	Chinese
7	Company H	A domestic brand established in 1990, mainly focused on steamed dishes.	3.2	0.3%	~700	Chinese
8	Company I	A domestic brand established in 1995, mainly focused on Chinese breakfast dishes.	2.6	0.2%	~400	Chinese
9	Company J	A multinational brand that entered China in 1992, mainly focused on Japanese rice bowls.	2.5	0.2%	~600	Others
10	Company K	A multinational brand that entered China in 1996, mainly focused on Japanese ramen.	2.3	0.2%	~800	Others

- (1) KFC's system sales reflects the results of all restaurants regardless of ownership. For further information, see note to "Ranking and Market Share of Top Five Players in China's Catering Service Market, 2019" in this section.

Source: Frost & Sullivan

The CDR Market in China

More fragmented than the QSR segment in China, the top ten players in China's CDR market accounted for approximately 4.7% of the market in terms of System sales in 2019. By the end of 2019, there were around 750,000 to 780,000 players in the CDR market in China. Pizza Hut was the largest CDR brand in China with a 2.7% market share in terms of 2019 System sales, and was also the largest CDR brand in terms of number of restaurants in 2019. Major competitors of Pizza Hut in China primarily include western CDR brands, as well as other domestic CDR brands. Huang Ji Huang was the second largest CDR brand in China with a market share of 0.5% in terms of 2019 System sales, and was also the second largest CDR brand in China in terms of number of restaurants in 2019. The table below sets forth certain information of the ten largest CDR brands in China in 2019.

Ranking and Market Share of Top Ten Players in China's CDR Market, 2019

Ranking	Company	Company Description	System Sales (RMB billions)	Market Share (%)	Number of Restaurants by year end	Cuisine Type
1	YUMC (Pizza Hut)	The Group	14.5 ⁽¹⁾	2.7%	2,281	Western
2	YUMC (Huang Ji Huang)	The Group	2.5	0.5%	~640	Chinese
3	Company M	A domestic brand established in 1993, mainly focused on steak.	1.7	0.3%	~380	Western
4	Company N	A multinational brand that entered China in 2003, mainly focused on Italian cuisine.	1.5	0.3%	~330	Western
5	Company O	A domestic brand established in 1998, mainly focused on dim sum.	1.1	0.2%	~110	Chinese
6	Company P	A multinational brand that entered China in 2003, mainly focused on pizza.	0.8	0.2%	~220	Western
7	Company Q	A multinational brand that entered China in 2006, mainly focused on pizza.	0.8	0.1%	~60	Western
8	Company R	A domestic brand established in 1999, mainly focused on salads and sandwiches.	0.7	0.1%	~120	Others
9	Company S	A domestic brand established in 1993, mainly focused on steak.	0.7	0.1%	~170	Western
10	Company T	A multinational brand that entered China in 1997, mainly focused on pizza.	0.7	0.1%	~270	Western

INDUSTRY OVERVIEW

- (1) Pizza Hut's system sales reflects the results of all restaurants regardless of ownership. For further information, see note to "Ranking and Market Share of Top Five Players in China's Catering Service Market, 2019" in this section.

Source: Frost & Sullivan

MARKET DRIVERS AND TRENDS

The following are key market drivers of the QSR and CDR segments in China.

- *Increasing disposable income, consumption and urbanization.* Over the past few years, spending on restaurant meals has experienced strong growth as urban residents seek to improve their lifestyle and increasingly dine out. This has been supported by increasing disposable incomes and urbanization. In particular, the growing middle class with strong spending power is also expected to drive the restaurant industry in China.
- *Fast-paced lifestyle.* The lifestyle of the younger generation in China is becoming more fast-paced, especially for urban residents. This is expected to drive consumption for the QSR and CDR segments, as well as delivery services.
- *Food safety and quality ingredients.* Large restaurant chains in China have more comprehensive food safety management systems and supply chains, enabling them to ensure consistent quality in the food served. As the Chinese population increasingly seek consumption upgrades and place greater importance on food quality, healthy food ingredients and wellness, QSR and CDR brands that have a strong reputation for food safety and that are able to offer healthy meal options are expected to experience greater demand.
- *Better dining experience.* In line with consumption upgrades in China, consumers are looking for a better dining experience, in terms of table services, food quality, dining ambience, and menu and dining concept innovation. Restaurants that are able to offer a comfortable dining environment and innovative food or restaurant concepts are expected to attract more customers.

The following are key market trends in the QSR and CDR segments in China.

- *Technology upgrades and digitalization.* The restaurant business is increasingly adopting technologies and digitalization, which has played an important part in reshaping the dining experience and restaurant operations. These technological upgrades include consumer-facing applications (such as mobile and digital ordering and payment capabilities, tech-enhanced marketing and membership programs and self-service kiosks) and back-of-the-house innovations (such as tech-enabled supply chain management and human resource management).
- *Big data and AI.* As restaurants adopt technologies and build their digital platforms, they are able to collect and analyze customer behavioral data to launch targeted marketing campaigns, increase customer stickiness and enhance brand loyalty. For example, some restaurants have been able to track the popularity of different dishes to streamline their menus, offer AI-enabled menu recommendations to customers and offer customer-specific coupons and discounts. AI has also enabled some restaurants to optimize their operational and cost efficiency, such as smart inventory management and food delivery. Most large restaurant chains operate a loyalty membership program to better understand

INDUSTRY OVERVIEW

ordering patterns and taste preferences of their consumers. As of December 31, 2019, the Company had over 240 million loyalty program members, approximately three times that of the competitor with the second-largest membership program in China, and approximately four times that of the third-largest.

- *Food delivery.* With increasing mobile penetration and the busier lifestyles of Chinese consumers, food delivery is expected to continue to grow in demand, especially for the QSR and CDR segments in China. Restaurants that are able to create synergies between dine-in and delivery, and offer fast and convenient food delivery services with a high penetration in China are expected to benefit from this trend. Moreover, restaurants that are able to offer food delivery services are expected to experience a lower impact from the COVID-19 outbreak in 2020.
- *Industry consolidation.* The restaurant industry and the restaurant chain market in China are highly fragmented, with many small to medium-sized regional players. The top five players in China only accounted for 3.2% of the market share of the restaurant industry in China in terms of System sales in 2019, compared to 11.5% in the United States. The fragmented nature of the market provides large players with opportunities to consolidate brands with strong growth potential and to achieve higher market share.
- *Food safety.* Food safety laws and regulations are becoming more stringent in China. For example, the Implementation Rules of the Food Safety Law was amended and came into effect on December 1, 2019 (the “**Revised Implementation Rules**”). The Revised Implementation Rules introduce extra regulatory measures such as random supervisory checks, improved food safety violation reporting and reward system, a blacklist system for food producers and business operators with serious food safety violations, and penalties for non-compliance.

ENTRY BARRIERS AND CHALLENGES

Although there may not be significant entry barriers to operating and managing a single restaurant, there are significant entry barriers and challenges in becoming a large-scale restaurant chain brand, including the following:

- *Ability to maintain growth and attractive economics.* As a restaurant chain opens more units and grows in size, it becomes more difficult to maintain its pace of growth and achieve attractive economics overall and at a unit level. Opening new restaurants require significant capital investment, management oversight and human resources. Large restaurant chains with a significant restaurant network generally are unable to maintain the same rate of growth as smaller restaurant chains. Moreover, restaurant chains may find it difficult to ensure that every new restaurant opened is able to achieve high customer traffic and turnover and successfully prevent cannibalization among its own restaurants. Due to the initial capital spending required to open each restaurant and ramp-up period before achieving breakeven or cash investment payback, many restaurant chains may find it challenging to maintain a healthy cash flow from operations while growing rapidly.
- *Ability to maintain standardization and regulatory compliance.* As a restaurant chain grows in size, it becomes more difficult to ensure that all restaurant units carry out standardized operations, especially with respect to food quality, hygiene and service quality. It is also more challenging to manage a large restaurant

INDUSTRY OVERVIEW

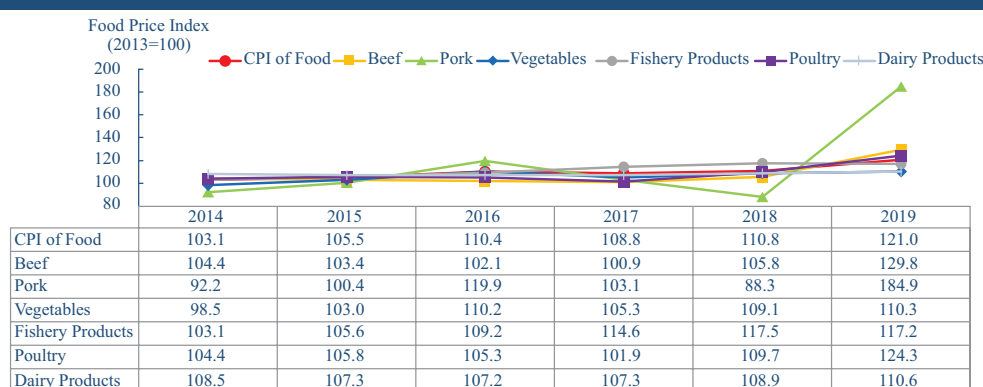
network with more employees and ensure that all restaurant units and staff comply with laws and regulations of multiple jurisdictions.

- *Technology investment.* Rapidly advancing technologies are reinventing the traditional dining experience and changing how the restaurant chain industry operates. Restaurant chains that are able to invest in technology infrastructure and adopt new technologies to provide a unique dining experience, improve convenience for guests and streamline operations to reduce costs and achieve economies of scale.
- *Supply chain management.* Many large restaurant chains may not be able to manage their supply chain to ensure that fresh and high quality food ingredients and other raw materials are purchased at favorable prices, are readily available from qualified suppliers and delivered at the time and in the amounts necessary across all of its restaurants located in different regions. Extensive experience in supply chain management for large-scale operations and maintaining cost efficiencies are key entry barriers for new market players.

COST OF RAW MATERIALS AND LABOR

The cost of raw materials, such as food ingredients and packaging and consumables, represent a major cost item for a typical restaurant in China. Major raw materials for KFC and Pizza Hut include poultry, beef, pork, vegetables, fishery products and dairy products. The food price index increased gradually from 103.1 in 2014 to 121.0 in 2019. Generally, the price trend of poultry, beef, vegetables and fishery products in China have been relatively in line with the food price index. The food price index of dairy products slightly fluctuated from 108.5 in 2014 to 110.6 in 2019. The food price index of pork in China increased from 92.2 in 2014 to 119.9 in 2016, decreasing to 88.3 in 2018 and increasing again to 184.9 in 2019. The charts below sets forth the price trend of major raw materials of restaurants in China.

Food Price Index of Raw Food Material (China), 2014-2019



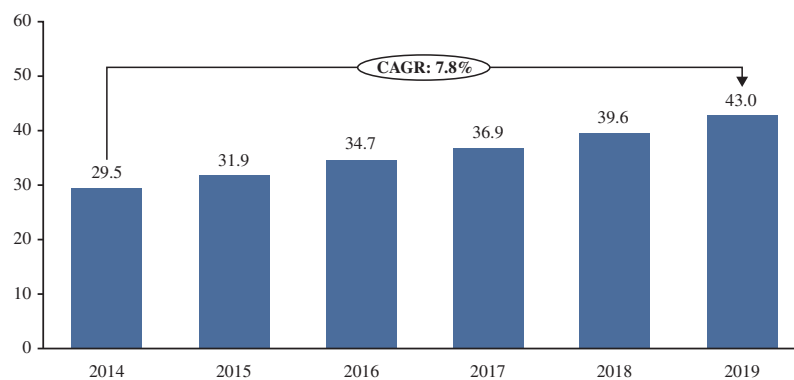
Source: Ministry of Agriculture, Frost & Sullivan

In line with the rapid growth of China's economy, the annual salary of employees in the restaurant industry in China has increased steadily from 2014 to 2019 and is expected to continue to increase in line with the growing nominal GDP in China. Labor cost is expected to continue growing due to the developing economy, growing disposable income and CPI, as well as inflation. The following chart sets forth the average annual salary of employees in the restaurant industry in China for the period indicated.

INDUSTRY OVERVIEW

Average Annual Salary of Employees in the Restaurant Industry in China, 2014-2019

Average Annual Salary
(Thousand RMB)



Source: NBS, Frost & Sullivan

REGULATION

REGULATIONS ON FOREIGN INVESTMENT IN RESTAURANT INDUSTRY

According to the Special Administrative Measures (Negative List) for Foreign Investment Access (2020 Edition) (《外商投資准入特別管理措施（負面清單）（2020年版）》，the “**Negative List**”) promulgated on June 23, 2020 and came into effect on July 23, 2020, the restaurant industry falls into the industries where foreign investment is not prohibited or restricted.

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), the “**Foreign Investment Law**”) was promulgated by the National People’s Congress (the “NPC”) of the PRC on March 15, 2019, which came into force as of January 1, 2020. Under the Foreign Investment Law, China adopts a system of pre-entry national treatment plus negative list with respect to foreign investment administration. Foreign investment shall enjoy pre-entry national treatment, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the Negative List.

LAW AND REGULATIONS ON FOOD SAFETY AND LICENSING REQUIREMENT FOR CATERING SERVICES

The Food Safety Law and Implementation Rules

In accordance with the Food Safety Law of the PRC (《中華人民共和國食品安全法》), the “**Food Safety Law**”), which was promulgated on February 28, 2009 and was amended on April 24, 2015 and December 29, 2018, food producers and food business operators shall be responsible for the safety of food produced or traded and must produce and trade food in accordance with relevant laws, regulations and food safety standards. Food producers and food business operators shall ensure food safety, act in good faith and be self-disciplined, be accountable to society and the public, accept public supervision, and assume their social responsibilities.

The Implementation Rules of the Food Safety Law (《中華人民共和國食品安全法實施條例》), the “**Implementation Rules**”) was promulgated on July 20, 2009 and came into effect on the same date, and was amended on February 6, 2016 and March 26, 2019. The Implementation Rules further specifies the detailed measures to be taken and conformed to by food producers, food business operators and catering service providers in order to ensure food safety. It introduced extra regulatory measures such as conducting random supervisory checks, improving food safety violation reporting reward system, and establishing a joint disciplinary mechanism supported by blacklisting of material violations of food safety laws. Under the Implementation Rules, food producers and food business operators shall take primary responsibilities for food safety. The Implementation Rules also sets out the responsibilities of principals of enterprises, standardizes food storage and transportation requirements, forbids false advertising of food products, and optimizes the administrative system for special food. The Implementation Rules also stipulates stringent legal liabilities for violating food safety-related laws and regulations.

In accordance with the Food Safety Law and the Implementation Rules, with the purpose of guaranteeing food safety and safeguarding the health and safety of the public, China has set up monitoring, assessment and control system on food safety risks, adopted compulsory food safety standards, and enacted management measures for food production and trade, food inspection, food export and import and food safety accident response. Food producers and business operators must comply with the aforementioned law and rules.

As penalties for violation, the Food Safety Law sets out various legal liabilities in the form of warnings, orders to rectify, confiscations of illegal gains, confiscations of utensils,

REGULATION

equipment, raw materials and other articles used for illegal production and operation, fines, recalls and destruction of unqualified food, orders to suspend production and/or operation, revocations of production and/or operation license, and even criminal punishment.

Food Business Licensing System

Pursuant to the Food Safety Law, the State implements a licensing system for food production and trading. A person who engages in food production, food selling or catering services must obtain a license in accordance with the law.

On August 31, 2015, China Food and Drug Administration (now merged into the State Administration for Market Regulation) promulgated the Administrative Measures for Food Business Licensing (《食品經營許可管理辦法》), which was amended on November 17, 2017. According to the Administrative Measures for Food Business Licensing, a food business license must be obtained in accordance with the law to engage in food selling and catering services within PRC. The principle of “one license for one site” shall apply. That is, food business operators shall obtain separate food business licenses for each operation site. Food and drug administrative authorities shall implement classified licensing for food business according to the type of food business operators and the degree of risk of their operating items.

The Food Safety Law sets out that any restaurant which does not have a food service license may be subject to confiscation of gains and other restaurant assets. If the value of the food in such illegal production or trading is less than RMB10,000, a fine of not less than RMB50,000 but not more than RMB100,000 shall also be imposed. If the value of the food in such illegal production or trading is RMB10,000 or more, a fine of not less than ten times but not more than 20 times the value shall also be imposed.

Measures for the Supervision and Administration of the Safety of Food Offered through Online Catering Services

Pursuant to Measures for the Supervision and Administration of the Safety of Food Offered through Online Catering Services (《網絡餐飲服務食品安全監督管理辦法》) effective on January 1, 2018, online catering service providers must have their own physical stores and must have obtained food business licenses according to the law, and shall carry out business activities pursuant to the business forms and business items specified on their own food business licenses, and must not do business beyond their business scope. A catering service provider that runs its own website shall register with the local food and drug administration authorities within 30 working days upon register with the competent authority of communications.

Food Recall System

China Food and Drug Administration (now merged into the State Administration for Market Regulation) has promulgated the Administrative Measures for Food Recall (《食品召回管理辦法》), effective on September 1, 2015). According to the Administrative Measures for Food Recall, where food business operators find that the food under selling is unsafe, they must immediately suspend the operations, inform relevant food producers and business operators, notify customers, and take necessary measures to mitigate food safety risks. Food producers knowing that any food produced or traded is unsafe must proactively recall such food. Food producers and food business operators must faithfully record the name, trademark, specification, production date, batch number, quantity and other information of such unsafe food. Records must be kept for at least two years. Where food business operators violate the

REGULATION

Food Safety Law and the Administrative Measures for Food Recall and do not immediately suspend operation or proactively recall unsafe food, the food and drug administrative authorities shall issue warnings to them and impose fines between RMB10,000 and RMB30,000.

LAWS AND REGULATIONS ON FOOD ADVERTISEMENT

According to the Advertising Law of the PRC (《中華人民共和國廣告法》), the “**Advertising Law**”) promulgated by the Standing Committee of the National People’s Congress (“SCNPC”) on October 27, 1994 and most recently revised on October 26, 2018, advertisement shall not contain any false or misleading information, and shall not deceive or mislead consumers. Each advertiser, advertising agent or advertisement publisher shall, when engaging in advertising activities, comply with laws and regulations, act in good faith, and conduct fair competition. In any advertisement, where there are statements regarding the performance, function, place of origin, purpose, quality, ingredients, price, producer, valid period and guarantees of the product, or the content, provider, form, quality, price and guarantees of the service, such statements shall be accurate, clear and explicit. Where an advertising agent or advertisement publisher designs, produces, provides agency for or publishes an advertisement even though it knows or should know the advertisement is in violation of the foregoing provisions, the market regulation department shall order the cessation of the publishing of advertisements and impose fines of not more than RMB100,000.

REGULATIONS ON LIQUOR CIRCULATION

In accordance with Measures for the Administration of Liquor Circulation (《酒類流通管理辦法》) effective on January 1, 2006, which were issued by the MOFCOM, a system for archival filing of operators as well as a traceability system had to be established for liquor circulation. Any entity or individual engaged in the wholesale or retail of liquor (herein after referred to in general as “liquor operator”) had to, within 60 days of acquiring a business license, complete any archival filing and registration formalities in the competent department of commerce at the same level as the administrative department for industry and commerce where the registration was handled according to the principle of territorial administration. The liquor operator shall establish an account for purchase and sales in the liquor business operation which he or she shall keep for 3 years. The competent departments of commerce may impose a fine up to RMB5,000 on any violation of the aforementioned rules. However, it was abolished by MOFCOM on November 13, 2016.

The Guidance of MOFCOM on promoting healthy development of liquor circulation in the 13th Five-Year” period (《商務部關於“十三五”時期促進酒類流通健康發展的指導意見》), which was promulgated by MOFCOM on February 13, 2017, stipulates the elimination of the regional blockade of alcohol, the clean-up and abolition of any relevant regulations and practices that hinder the free circulation of alcohol, and the promotion of the establishment of a large market and a large circulation of alcohol.

REGULATIONS ON COMMERCIAL FRANCHISES

The Regulations on Administration of Commercial Franchises (《商業特許經營管理條例》), which were promulgated on February 6, 2007 and implemented on May 1, 2007, aims to regulate commercial franchise activities by specifying the main contents of commercial franchise contracts and the obligations of franchisors regarding filings with the commerce administrative authorities and information disclosure. Franchisors participating regarding franchising activities must have a fully-developed business model and the ability to provide

REGULATION

operational guidance, technical support, and service training to the franchisee on a continuous basis. Franchisors must have, as a minimum, two directly-managed outlets and one year of business operation. Pursuant to the Administrative Measures for the Filing of Commercial Franchises (《商業特許經營備案管理辦法》), which was amended on December 12, 2011 and implemented on February 1, 2012, MOFCOM and the commerce administrative authorities at the level of provinces, autonomous regions and municipal cities directly under the State Council are the competent authorities for filing commercial franchise. Commercial franchises are filed on a national network basis. Franchisors complying with the provisions of the Administrative Measures for the Filing of Commercial Franchises must proceed with filing through the commercial franchise information management system established by the MOFCOM in accordance with the measures. The Administrative Measures for Information Disclosure of Commercial Franchises (《商業特許經營信息披露管理辦法》), which were amended on February 23, 2012 and implemented on April 1, 2012, further clarify the scope of information disclosure by franchisors.

CYBER SECURITY LAW

The Cyber Security Law of the PRC (《中華人民共和國網絡安全法》), the “**Cyber Security Law**”) was promulgated by the SCNPC on November 7, 2016 and came into effect on June 1, 2017. The Law applies to network construction, operation, maintenance and use of the network as well as to the supervision and administration of cyber security within PRC territory.

According to the Cyber Security Law, network operators, while carrying out business and service activities, must abide by laws and administrative regulations, show respect for social moralities, follow business ethics, act in good faith, comply with cyber security protection obligations, accept supervision by the government and society and comply with their social responsibilities. For the construction and operation of a network or the provision of services through a network, in accordance with the provisions of laws, administrative regulations and mandatory national standards, technical and other necessary measures are required to ensure the secure and stable operation of the network, effectively respond to cyber security incidents, prevent crimes committed on the network, and to maintain the integrity, confidentiality and availability of cyber data.

Network operators must keep users’ personal information that they have collected strictly confidential, and establish and improve their system for the protection of users’ information. To collect and use personal information, network operators must follow the principles of legitimacy, integrity and necessity, disclose their rules of data collection and use, clearly express the purpose, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered. Network operators must adopt technical and other necessary measures to ensure the security of the personal information they have collected and to prevent such information from being divulged, damaged or lost. If personal information has been or may be divulged, damaged or lost, it is necessary to take immediate remedial measures and inform users promptly and report the same to the relevant competent departments.

REGULATIONS ON E-COMMERCE ACTIVITIES

On August 31, 2018, the SCNPC promulgated the E-Commerce Law of the PRC (《中華人民共和國電子商務法》), the “**E-Commerce Law**”), which became effective on January 1, 2019. Business activities conducted online to sell commodities or offer services shall be governed by the E-Commerce Law. Pursuant to the E-Commerce Law, e-commerce operators are natural persons, legal persons and unincorporated organizations that engage in the business

REGULATION

activities of selling commodities or offering services through the internet and other information networks, including e-commerce platform operators, intra-platform business operators, and other e-commerce operators that sell commodities or offer services through a self-built website or other network services.

E-commerce operators must fulfill market entity registration (unless no such registration is required by law and administrative regulations) and obtain the relevant administrative licenses for conducting those operational activities which it is required by law to obtain.

LAWS AND REGULATIONS ON SINGLE-PURPOSE COMMERCIAL PRE-PAID CARDS

The Administrative Measures for Single-purpose Commercial Pre-paid Cards (for Trial Implementation) (《單用途商業預付卡管理辦法（試行）》), the “**Administrative Measures for Single-purpose Commercial Pre-paid Cards**”) were promulgated by the Ministry of Commerce on September 21, 2012 and amended on August 18, 2016. Single-purpose commercial pre-paid cards refer to pre-paid certificates which are issued by an enterprise engaged in retail, accommodation, catering, and residential services and which are exclusively used to pay for goods or services within the group to which the enterprise belongs to or within the franchise system of one brand. This includes physical cards in the form of magnetic stripe cards, chip cards paper coupons and virtual cards in the form of passwords string codes, graphics and biometric information, among others. According to the Administrative Measures for Single-purpose Commercial Pre-paid Cards, a card-issuing enterprise must undergo the record-filing procedure, within 30 days of starting to offer single-purpose card services. If any card-issuing enterprise is in violation of the provisions of the Administrative Measures for Single-purpose Commercial Pre-paid Cards, the competent commerce department of the people’s government above the county-level in the locality where such violation occurs shall order it to rectify the violation. Where the enterprise fails to do so within the said time limit, the enterprise shall be subject to a fine of more than RMB10,000 and less than RMB30,000.

REGULATIONS ON FIRE PREVENTION

According to the Fire Prevention Law of the PRC (《中華人民共和國消防法》), the “**Fire Prevention Law**”) promulgated by the NPC on April 29, 1998 and amended on October 28, 2008 and April 23, 2019, and the Interim Provisions on the Administration of Fire Protection Design Review and Acceptance of Construction Projects (《建設工程消防設計審查驗收管理暫行規定》) promulgated by the Ministry of Housing and Urban-Rural Development on April 1, 2020, for any construction project which must be designed to prevent fires under national fire protection technical standards, the construction unit must submit the fire prevention design documents for approval or filing purposes. Upon completion of such construction project, the construction unit must apply for fire protection approval or conduct fire protection filing for fire protection design and completion approval, as the case may be. According to the Fire Prevention Law, with respect to the construction projects that are required by the competent department of housing and urban-rural development under the State Council to apply for fire protection approval checks, the construction unit must apply to the competent department of housing and urban-rural development under the State Council for fire protection approval checks. With respect to other construction projects apart from those mentioned above, the construction unit must, after an approval check, report its results to the competent department of housing and urban-rural development for the record, and such department shall conduct a random inspection thereof.

REGULATION

Furthermore, before the use of or commencement of the business operations in public gathering places, any construction entities or entities using such places must apply for a fire safety inspection with the fire rescue agencies of the local people's governments of such places at or above the county level. Putting a public gathering place into use or into business operation without permission and when the place has not undergone fire safety and protection inspections or has failed to meet fire safety and protection requirements shall be result in an order to suspend construction, use, production or business operations and a fine of not less than RMB30,000 and not more than RMB300,000 from the competent departments of housing and urban-rural development and the relevant fire rescue agencies (according to their respective duties).

The Opinion on the Deepening the Reform of Fire Control Law Enforcement (《關於深化消防執法改革的意見》) promulgated jointly by the General Office of the CPC Central Committee and the General Office of the State Council on May 30, 2019, provides for the simplification of the fire protection inspections of public gathering places before their use and operation, and management in the forms of a notification and a commitment to safety standards. Fire protection authorities shall formulate the standards for fire safety in public gathering places and disclose such standards to the public, making available the text in the form of the letter of notification and commitment. A public gathering place shall, after obtaining the business license or being qualified for use and operation under the law, commence use or operation by making a commitment to the fire authorities that it has reached the standards for fire protection safety through an application face-to-face or via the online governmental affairs service platform. In practice, the relevant authority at its locality may formulate and implement relevant fire protection policies or implementation rules according to local conditions.

LAWS AND REGULATIONS ON ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the “**Environmental Protection Law**”) was promulgated and effective on December 26, 1989, and amended on April 24, 2014.

According to the provisions of the Environmental Protection Law, installations for the prevention and control of pollution in construction projects must be designed, built and commissioned together with the principal part of the project.

The Environmental Protection Law makes it clear that the liabilities for any violation of said law include warning, fine, rectification within a time limit, compulsory ceasing of operations, compulsory reinstallation of installations for the prevention and control of pollution or that have been or left idle, compulsory shutout or closedown, or even criminal punishment.

According to the Law of the PRC on Environment Impact Assessment (《中華人民共和國環境影響評價法》), which was promulgated on October 28, 2012 and amend on July 2, 2016 and December 29, 2018 respectively, Chinese authorities implements classified management of the environmental impact assessment of construction projects according to the degree of environmental impact of construction projects. The environmental impact report or environment impact statement of a construction project shall be submitted by the project constructor to the competent ecological environment authority for approval in accordance with the provisions of the State Council. Chinese authorities implements record-filing management on environmental impact registration forms.

REGULATION

LAWS AND REGULATIONS ON LABOR

Labor Contract Law

According to the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), the “**Labor Contract Law**”), which was implemented on January 1, 2008 and amended on December 28, 2012, labor contracts must be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and any laborers. The employers must pay laborers compensation for working overtime in accordance with national regulations. Labor wages must not be lower than local minimum wage standards and must be paid to the laborers in a timely manner. According to the Labor Law of the PRC (《中華人民共和國勞動法》) effective as of January 1, 1995, as amended on August 27, 2009 and December 29, 2018, enterprises and institutions must establish and perfect their system of work place safety and sanitation, strictly abide by state rules and standards and educate laborers regarding the same. Work place safety and sanitation facilities must comply with state-fixed standards.

Regulations on Social Insurance and Housing Fund

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) effective as of July 1, 2011 and as amended on December 29, 2018, the Regulations on Occupational Injury Insurance (《工傷保險條例》) effective as of January 1, 2004 and as amended on December 20, 2010, the Interim Measures concerning Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) effective as of January 1, 1995, the Interim Regulations concerning the Levy of Social Insurance (《社會保險費徵繳暫行條例》) effective as of January 22, 1999 and as amended on March 24, 2019 and the Regulations concerning the Administration of Housing Fund (《住房公積金管理條例》) effective as of April 3, 1999, and amended on March 24, 2002 and March 24, 2019, enterprises and institutions in the PRC must provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance, as well as a housing fund and other welfare plans.

LAWS ON INTELLECTUAL PROPERTY RIGHTS

Trademarks

Trademarks are protected by the PRC Trademark Law (《中華人民共和國商標法》) which was adopted in 1982 and subsequently amended in 1993, 2001, 2013 and 2019, respectively, as well as the Implementation Regulation of the PRC Trademark Law (《中華人民共和國商標法實施條例》) adopted in 2002 and amended in 2014 by the State Council. The Trademark Office under National Intellectual Property Administration (the “NIPA”) handles trademark registrations and grants a term of ten years to registered trademarks which may be renewed for consecutive ten-year periods upon request by the trademark owner. The trademark registrant may, by concluding a trademark licensing contract, authorize other persons to use the registered trademark. The licensor shall supervise the quality of the goods for which the licensee uses the licensor’s registered trademark, and the licensee shall guarantee the quality of the goods for which the registered trademark is used. The party authorized to use another’s registered trademark must indicate the name of the licensee and the place of origin on the goods that bear the registered trademark. When granting others use of the registered trademarks, the licensor shall file the license of the trademarks with the Trademark Office for their records, and the Office shall announce the same. Without putting the licensing of the trademark license on record, the trademark may not be used to defend a bona fide third party.

REGULATION

Domain Names

The Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》), the “**Domain Name Measures**”) was promulgated by the China Internet Network Information Center on August 24, 2017 and came into effect on November 1, 2017. The Implementation Rules for National Top-level Domain Name Registration (《國家頂級域名註冊實施細則》), the “**Implementation Rules for Registration**”) was promulgated on June 18, 2019 by the Ministry of Industry and Information Technology and came into effect on the same date. The Domain Name Measures regulate the registration of domain names. Application for registration of national top-level domain names “.CN” and “.China” and provision of domain name registration related services shall further comply with the Implementation Rules for Registration.

The Copyright

China has enacted various laws and regulations relating to copyright protection. The Copyright Law of the PRC (《中華人民共和國著作權法》), which was promulgated on September 7, 1990, amended on February 26, 2010 and became effective from April 1, 2010 by the SCNPC, provides that PRC citizens, legal persons, or other organizations, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology, and computer software. The term “copyright” includes moral rights and economic rights and anyone who commits copyright infringement is subject to civil liability.

The Regulations on Computer Software Protection (《計算機軟件保護條例》), which was promulgated on June 4, 1991, amended on January 30, 2013 and became effective on March 1, 2013 by the State Council, stipulates that Chinese residents, legal entities or other organizations enjoy copyright in any software which they have developed, whether published or not and a software copyright owner may register it with the software registration institution recognized by the copyright administration department of the State Council. The Measures for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》) promulgated by the National Copyright Administration on February 20, 2002 with immediate effect, regulates registration of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The Copyright Protection Center of China (“CPCC”) is the designated software registration authority. The CPCC grants registration certificates to computer software copyright applicants which conform to the provisions of both the Regulations on Computer Software Protection and the Measures for the Registration of Computer Software Copyright.

China is also a signatory to some major international conventions on the protection of copyright. For example, China became a member of the Berne Convention for the Protection of Literary and Artistic Works in October 1992, the Universal Copyright Convention in October 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights in December 2001. According to these conventions, a qualified foreign copyright owner may enjoy certain copyright in China and a copyright owner in China may also acquire specific foreign copyright protection.

REGULATIONS ON FOREIGN EXCHANGE

Pursuant to the Administrative Regulations of the PRC on Foreign Exchange (《中華人民共和國外匯管理條例》), as amended in August 2008, the RMB is freely convertible for current account items, including for the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside the PRC,

REGULATION

unless prior approval of the State Administration of Foreign Exchange (“SAFE”) is obtained and prior registration with SAFE is made.

According to the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (“Circular 19”, 《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) promulgated on March 30, 2015, effective on June 1, 2015, and amended on December 30, 2019, and the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (“Circular 16”, 《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) promulgated and effective on June 9, 2016, domestic enterprises (including Chinese-funded enterprises and foreign-invested enterprises, excluding financial institutions) may go through foreign exchange settlement formalities for their foreign debts at their discretion. Where the current regulations contain any restrictive provisions on the foreign exchange settlement of foreign exchange receipts under capital accounts of domestic institutions, such provisions shall prevail. Domestic institutions may, at their discretion, settle up to 100% of foreign exchange receipts under capital accounts for the time being. The SAFE may adjust the above proportion in due time according to the balance of payments. While being eligible for discretionary settlement of foreign exchange receipts under capital accounts, domestic institutions may also opt to use their foreign exchange receipts according to the payment-based settlement system. A bank shall, in handling each transaction of foreign exchange settlement for a domestic institution according to the principle of payment-based settlement, review the authenticity and compliance of the use of the funds settled in the previous transaction (including discretionary settlement and payment-based settlement) of such institution.

The Circular of the SAFE on Further Promoting Cross-border Trade and Investment Facilitation (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》, the “**Circular 28**”) was promulgated and became effective on October 23, 2019. According to the Circular 28, non-investment foreign-funded enterprises are allowed to lawfully make domestic equity investments using their capital if the domestic investment projects are in compliance with the prevailing special administrative measures for access of foreign investments and relevant regulations.

LAWS AND REGULATIONS ON EMPLOYEE INCENTIVE PLANS

In February 2012, the SAFE promulgated the Circular on Issues concerning the Administration of Foreign Exchange Used for Domestic Individuals’ Participation in Equity Incentive Plans of Companies Listed Overseas (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》, “**Circular No.7**”). According to Circular No.7 and other relevant provisions and rules, Chinese residents participating in the equity incentive plans of overseas listed companies must file a registration and carry out other certain procedures with the SAFE or its local institutions. Chinese residents participating in equity incentive plans must employ a qualified Chinese agent, which may be the Chinese affiliated company of such overseas listed company or any other qualified domestic organization appointed by such affiliate, to file the registration and carry out other procedures related to equity incentive plans on their behalf.

REGULATION

The participants must employ an overseas entrusted organization to deal with the execution of share options, transactions relating to shares or rights, fund transfers, etc. In addition, if any material changes are made to the equity incentive plan, Chinese agent or overseas entrusted organization, the Chinese agent shall file the change registration concerning the equity incentive plan. The Chinese agent shall, on behalf of the Chinese resident who has the right to exercise the employee's share options, apply to the SAFE or its local branch for the amount of annual foreign exchange payment in respect of the foreign currency payment related to the exercise of the employee's share options by the Chinese resident. The foreign exchange income received by the Chinese resident from the sale of shares under the equity incentive plan and the dividends received from overseas listed companies shall be remitted to the bank account opened in China by the Chinese agent before distribution to such Chinese residents.

TAXES

Corporate Income Tax

Pursuant to the EIT Law, which was promulgated on March 16, 2007 and last amended on December 29, 2018, and the Regulation on the Implementation of the EIT Law of the PRC (《中華人民共和國企業所得稅法實施條例》) which was promulgated on December 6, 2007 and further amended on April 23, 2019, the income tax rate for both domestic and foreign-invested enterprises is 25%. Furthermore, resident enterprises, which are enterprises that are set up in accordance with the PRC law, or that are set up in accordance with the law of the foreign country (region) but with their actual administration institution in the PRC, must pay enterprise income tax originating both within and outside the PRC. While non-resident enterprises that have set up institutions or premises in the PRC shall pay enterprise income tax in relation to the income originating from the PRC and obtained by their institutions or establishments, and their income incurred outside the PRC but there is an actual relationship with the institutions or establishments set up by such enterprises. Non-resident enterprises that have not set up institutions or establishments in the PRC, or where institutions or establishments are set up but where there is no actual relationship with the income obtained by the institutions or establishments set up by such enterprises, they must pay enterprise income tax in relation to the income originating from the PRC at the rate of 10%.

VAT

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated on December 13, 1993 and last amended on November 19, 2017 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay VAT. Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》) promulgated on March 23, 2016 and as amended on July 11, 2017 and December 25, 2017 respectively, upon approval of the State Council, the pilot program of the collection of VAT in lieu of business tax shall be promoted nationwide in a comprehensive manner as of May 1, 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of VAT instead of business tax.

REGULATION

Pursuant to the Provisional Regulations on Value-added Tax of the PRC, the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax, and the Announcement on Relevant Policies for Deepening Value-Added Tax Reform 《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》 promulgated by the Ministry of Finance, the State Administration of Taxation and General Administration of Customs on March 20, 2019 and became effective on April 1, 2019, with respect to VAT taxable sales of a VAT general taxpayer, the applicable VAT rates are 13%, 9% and 6% respectively.

OUR HISTORY AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

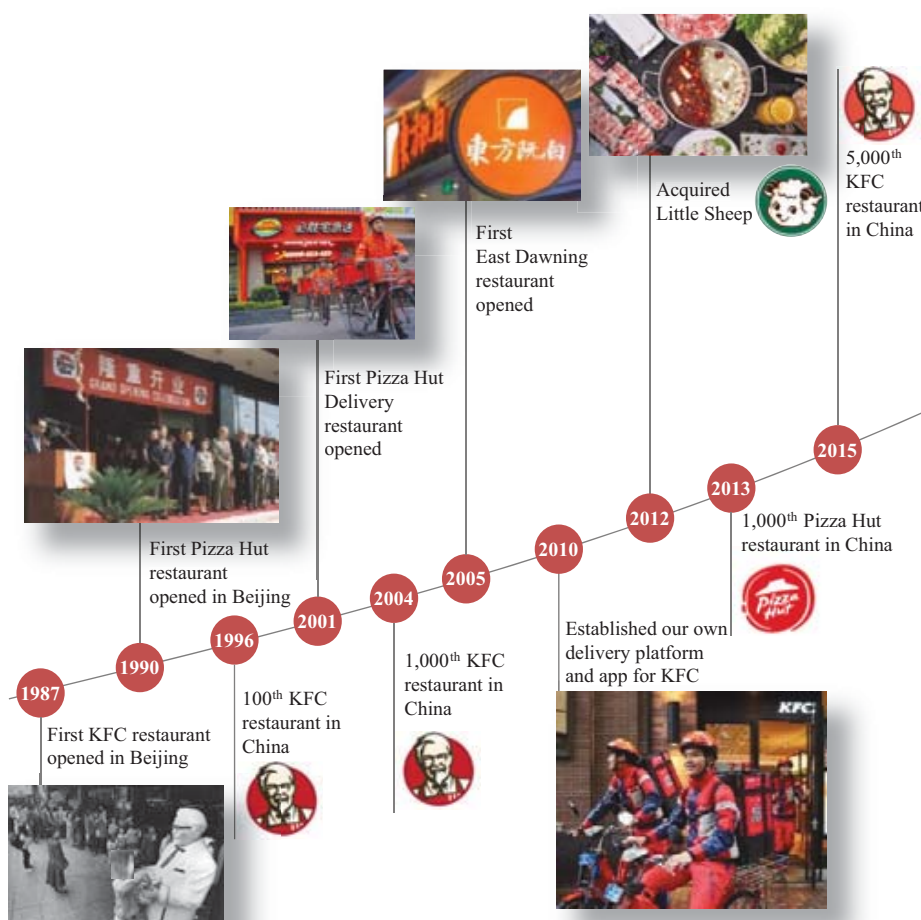
Overview

Our Company is the holding company of our Group and was incorporated in Delaware, the U.S., on April 1, 2016, for the purpose of holding YUM's China business in anticipation of our separation from YUM. See “— Separation from YUM” below for further details.

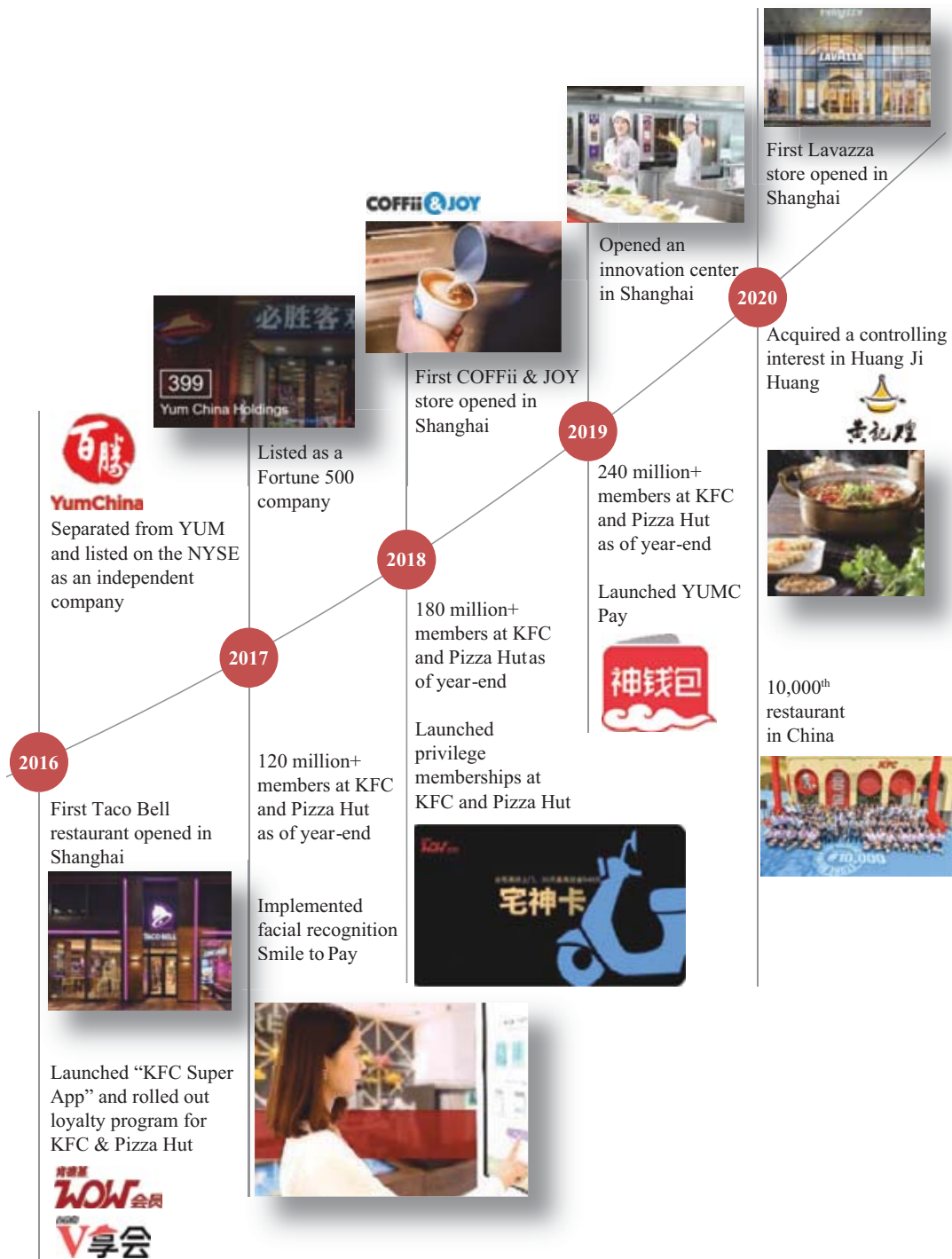
The operating history of our Group can be traced back to 1987, with the opening of our first KFC restaurant in Beijing. Soon afterwards, the first restaurant under another famous brand of ours, Pizza Hut, was opened in Beijing in 1990. With more than 30 years of operations, we have developed extensive operating experience in the China market. Opening restaurants at an average of more than two new locations per day over the past five years, we have since grown to become the largest restaurant company in China in terms of 2019 System sales, with over 9,900 restaurants covering over 1,400 cities primarily in China as of June 30, 2020. 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, COFFii & JOY, East Dawning, Taco Bell and Lavazza.

Milestones

The following is a summary of our key business milestones:



OUR HISTORY AND CORPORATE STRUCTURE



OUR HISTORY AND CORPORATE STRUCTURE

SEPARATION FROM YUM

The Separation and Distribution

Our Company separated from YUM on October 31, 2016, becoming an independent, publicly traded company as a result of a pro rata distribution of all our outstanding Shares of common stock to shareholders of YUM. Common stock of the Company began trading “regular way” under the ticker symbol “YUMC” on the NYSE on November 1, 2016.

Master License Agreement

In connection with the separation of our Company from YUM, Yum! Restaurants Asia Pte. Ltd., a wholly-owned indirect subsidiary of YUM, and YCCL, a wholly-owned indirect subsidiary of our Company, entered into a 50-year master license agreement with automatic renewals for additional consecutive renewal terms of 50 years each, for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its subsidiaries for the development, promotion 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 PRC. In exchange, we pay a license fee to YUM equal to 3% of net System sales from both our Company and franchise restaurants. The master license agreement may be terminated upon the occurrence of certain events, such as insolvency and bankruptcy. For details, see “Risk Factors — Risks relating to our business and industry — 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.” We did not have any material breach of the master license agreement during the Track Record Period, and we actively monitor our compliance with the terms of the master license agreement on an ongoing basis. We own the intellectual property of Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning outright and pay no license fee related to these brands.

CORPORATE STRUCTURE

As of the Latest Practicable Date, our Group was comprised of our Company and more than 90 subsidiaries and consolidated affiliated entities in the PRC and other jurisdictions. Generally, different brands are held, managed and operated by separate groups of subsidiaries.

For example, Yum! Restaurants (China) Investment Co., Ltd. is the holding company of our KFC, Pizza Hut and Taco Bell brands and manages a group of subsidiaries responsible for the operations of each brand’s respective restaurants in different cities and surrounding areas. Most of our restaurants under the Little Sheep brand are franchise restaurants and the relevant subsidiaries are working with the franchisees and their representative organizations on key aspects of business of the franchise restaurants. Our East Dawning and COFFii & JOY restaurants are primarily managed and operated by two different subsidiaries.

On April 8, 2020, we completed the acquisition of a controlling interest in Huang Ji Huang, a leading Chinese CDR franchise business. For further details on our acquisition of Huang Ji Huang, see “Business — Our Restaurant Brands — Other Brands.” Following the acquisition, we established a Chinese dining business unit comprising our three core Chinese dining brands, namely Little Sheep, East Dawning and Huang Ji Huang.

In addition, we also have subsidiaries providing our restaurants with support and services related to, among others, trademark sub-licensing, logistics, marketing, procurement, development and construction, human resources, finance, legal and information technologies. For further details of our Major Subsidiaries engaging in the provision of support and services to the businesses of our Group, see “— Our Major Subsidiaries” below.

OUR HISTORY AND CORPORATE STRUCTURE

We believe that this organizational structure allows for efficiency in the operation and management of our restaurants. For information of our corporate and shareholding structure, see “— Our Corporate Structure” and “— Our Shareholding Structure” below.

During the Track Record Period, we also acquired a controlling interest in Daojia, the total consideration of which consists of cash consideration of US\$36.7 million to the sellers and a concurrent capital contribution of US\$25.0 million to Daojia. Through the acquisition of Daojia, we also acquired a VIE and the subsidiaries of the VIE in the PRC effectively controlled by Daojia. Daojia has entered into a series of contractual arrangements with its consolidated affiliated entities and their nominee shareholders, which allow Daojia to: (i) receive substantially all of the economic benefits and absorb all of the expected losses from its consolidated affiliated entities; (ii) exercise effective control over its consolidated affiliated entities; and (iii) 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 the PRC law. Our PRC Legal Advisor is of the view that the contractual arrangements entered into with Daojia do not violate applicable PRC laws and constitute valid and binding obligations of the parties thereto.

Our Major Subsidiaries

Our Major Subsidiaries include, among others, all significant operating subsidiaries under the financial threshold of Regulation S-X in the U.S. and subsidiaries that are material to the business operation of our Group. The following table sets forth the principal business activities and date and jurisdiction of establishment of each of our Major Subsidiaries:

Name of Major Subsidiary	Principal business activities	Date and jurisdiction of establishment
<i>Major Subsidiaries engaging in investment holding and/or the operation of our restaurants</i>		
Bai Sheng Restaurants China Holdings Limited	Investment holding and operating a Little Sheep restaurant in Hong Kong	July 16, 2007; Hong Kong
Yum! Restaurants (China) Investment Co., Ltd. (百勝（中國）投資有限公司)	Investment holding	June 1, 1999; PRC
Yum! Restaurants (Shenyang) Co., Ltd. (百勝餐飲（瀋陽）有限公司)	Operating our KFC and Pizza Hut restaurants in respective areas	May 25, 1994; PRC
Yum! Restaurants (Guangdong) Co., Ltd. (百勝餐飲（廣東）有限公司)		October 29, 1992; PRC
Yum! Restaurants (Chengdu) Co., Ltd. (百勝餐飲（成都）有限公司)		April 11, 1994; PRC
Yum! Restaurants (Wuhan) Co., Ltd. (百勝餐飲（武漢）有限公司)		February 21, 1995; PRC
Yum! Restaurants (Shenzhen) Co., Ltd. (百勝餐飲（深圳）有限公司)		April 26, 1995; PRC

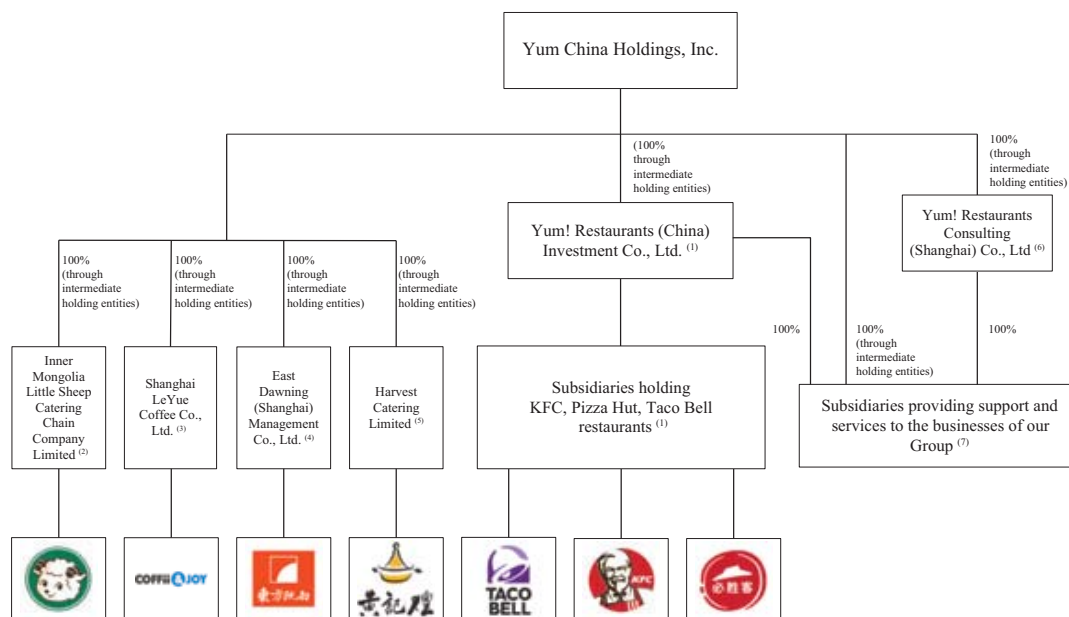
OUR HISTORY AND CORPORATE STRUCTURE

Name of Major Subsidiary	Principal business activities	Date and jurisdiction of establishment
Beijing KFC Co., Ltd. (北京肯德基有限公司) Shanghai KFC Co., Ltd. (上海肯德基有限公司) Nanjing KFC Co., Ltd. (南京肯德基有限公司) Qingdao KFC Co., Ltd. (青島肯德基有限公司) Tianjin KFC Co., Ltd. (天津肯德基有限公司) Changsha KFC Co., Ltd. (長沙肯德基有限公司) Wuxi KFC Co., Ltd. (無錫肯德基有限公司) Nanning KFC Co., Ltd. (南寧肯德基有限公司)	Operating our KFC restaurants in respective areas	February 6, 1987; PRC May 5, 1989; PRC August 16, 1992; PRC April 20, 1993; PRC January 24, 1994; PRC March 11, 1997; PRC February 24, 1993; PRC July 19, 2000; PRC
Shanghai Pizza Hut Co., Ltd. (上海必勝客有限公司) Beijing Pizza Hut Co., Ltd. (北京必勝客比薩餅有限公司)	Operating our Pizza Hut restaurants in respective areas	June 14, 1995; PRC February 3, 1989; PRC
Inner Mongolia Little Sheep Catering Chain Company Limited (內蒙古小肥羊餐飲連鎖有限公司)	Working with the franchisees on key aspects of business of the franchised Little Sheep restaurants	July 11, 2001; PRC
<i>Major Subsidiaries engaging in the provision of support and services to the Group</i>		
Yum! Restaurants Consulting (Shanghai) Co., Ltd. (百勝諮詢(上海)有限公司)	Sub-licensing the brands licensed from YUM; performing headquarter functions and providing support and services to our Group	September 25, 1997; PRC
Huansheng Advertising (Shanghai) Company Limited (上海環勝廣告有限公司)	Marketing and advertising	November 17, 2010; PRC
Huansheng E-Commerce (Shanghai) Co., Ltd. (環勝電子商務(上海)有限公司)	Operation of e-commerce business of our Group	October 14, 2016; PRC
Yum! Food (Shanghai) Co., Ltd. (必勝(上海)食品有限公司)	Purchase of food, paper products and equipment for the Group	January 18, 2002; PRC

OUR HISTORY AND CORPORATE STRUCTURE

Our Corporate Structure

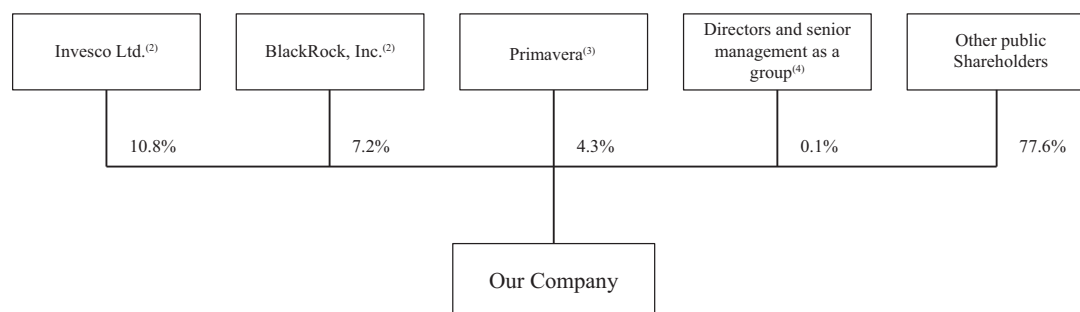
As of the Latest Practicable Date, we conducted our business operations through more than 90 subsidiaries and consolidated affiliated entities incorporated in the PRC and other jurisdictions. The following chart summarizes our corporate structure:



- (1) As of June 30, 2020, Yum! Restaurants (China) Investment Co., Ltd. held more than 30 subsidiaries operating an aggregate of over 7,300 company-owned KFC, Pizza Hut and Taco Bell restaurants across China.
- (2) The subsidiary working with, and holding an entity which works with, the franchisees and their representative organizations on key aspects of business of the franchise restaurants under our Little Sheep brand.
- (3) The restaurants under our “COFFii & JOY” brand are primarily held by this subsidiary.
- (4) The restaurants under our “East Dawning” brand are primarily held by this subsidiary.
- (5) The subsidiary holding a 93.3% interest in the holding companies of Huang Ji Huang.
- (6) The subsidiary sub-licensing the brands licensed from YUM, performing headquarter functions and providing support and services to the businesses of our Group.
- (7) The subsidiaries providing e-commerce and marketing services to the businesses of our Group.

Our Shareholding Structure

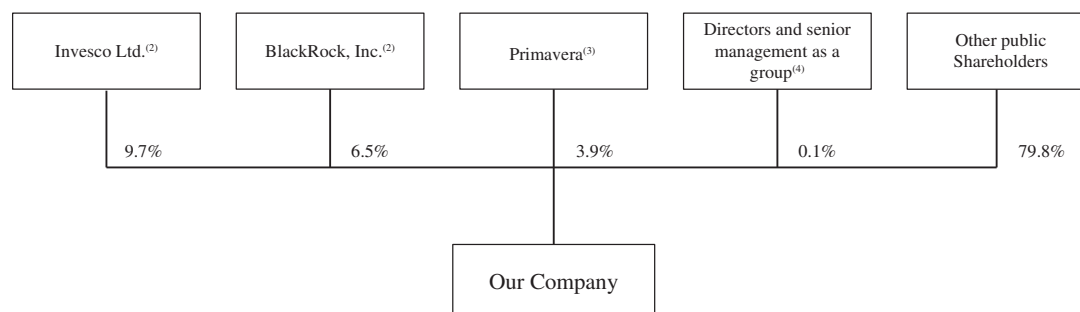
The following chart illustrates our shareholding structure as of the Latest Practicable Date ⁽¹⁾⁽⁵⁾:



OUR HISTORY AND CORPORATE STRUCTURE

- (1) The shareholding percentage is calculated by dividing the number of Shares of common stock held by such Shareholder and its subsidiaries or affiliates by the total outstanding Shares of common stock of our Company as of the Latest Practicable Date.
- (2) Please see “Major Shareholders” of this prospectus for further details.
- (3) In addition to our Shares of common stock, Primavera also held warrants to purchase additional Shares of common stock. Please refer to “Appendix IV — Statutory and General Information — E. Further Information about Our Warrants Granted to Primavera and Ant Financial” for further details.
- (4) The shareholding percentage of our Directors and senior management refers to the percentage of our Shares of common stock held in aggregate by our Directors and senior management as named in “Directors, Senior Management and Employees” of this prospectus. For clarification purpose, the outstanding stock options and SARs, and the unvested RSUs and PSUs held by our Directors and senior management as of the Latest Practicable Date are not included for calculation.
- (5) For details of the beneficial ownership in our Shares of common stock, which are determined in accordance with the rules and regulations of the SEC and include the power to direct the voting or the disposition of the securities or to receive the economic benefit of the ownership of the securities, please see “Major Shareholders” of this prospectus for further details.

The following chart illustrates our shareholding structure immediately upon the completion of the Global Offering (assuming all major Shareholders’ shareholding remain unchanged, the Over-allotment Option is not exercised and no additional Share of common stock is issued pursuant to the 2016 Plan, the Warrant 1 or the Warrant 2) ⁽¹⁾⁽⁵⁾:



- (1) The shareholding percentage is calculated by dividing the number of Shares of common stock held by such Shareholder and its subsidiaries or affiliates by the total outstanding Shares of common stock of our Company immediately upon the completion of the Global Offering.
- (2) Please see “Major Shareholders” of this prospectus for further details.
- (3) In addition to our Shares of common stock, Primavera also held warrants to purchase additional Shares of common stock. Please refer to “Appendix IV — Statutory and General Information — E. Further Information about Our Warrants Granted to Primavera and Ant Financial” for further details.
- (4) The shareholding percentage of our Directors and senior management refers to the percentage of our Shares of common stock held in aggregate by our Directors and senior management as disclosed in “Directors, Senior Management and Employees” of this prospectus. For clarification purpose, the outstanding stock options and SARs, and the unvested RSUs and PSUs held by our Directors and senior management are not included for calculation.
- (5) For details of the beneficial ownership in our Shares of common stock, which is determined in accordance with the rules and regulations of the SEC and includes the power to direct the voting or the disposition of the securities or to receive the economic benefit of the ownership of the securities, please see “Major Shareholders” of this prospectus for further details.

OUR VISION

Our vision is to become the world's most innovative pioneer in the restaurant industry. Innovation and technology have been the key pillars of our business success, extending our runway for sustainable growth, enhancing the guest experience and optimizing operations and cost efficiencies.

OVERVIEW

Yum China is the largest restaurant company in China in terms of 2019 System sales, according to the F&S Report. We had US\$8.8 billion of revenue in 2019 and over 9,900 restaurants as of June 30, 2020. 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, COFFii & JOY, East Dawning, Taco Bell and Lavazza.

The Company separated from YUM on October 31, 2016 and became an independent, publicly traded company. We have the exclusive right to operate and sub-license the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Taiwan and Macau. 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 as early as 1987. With more than 30 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of 2019 System sales, with over 9,900 restaurants covering over 1,400 cities primarily in China as of June 30, 2020.

KFC is the leading and the largest quick-service restaurant (“**QSR**”) brand in China in terms of 2019 System sales, according to the F&S Report. As of June 30, 2020, KFC operated over 6,700 restaurants in over 1,400 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 2019.

Pizza Hut is the leading and the largest casual dining restaurant (“**CDR**”) brand in China in terms of 2019 System sales and number of restaurants, according to the F&S Report. As of June 30, 2020, Pizza Hut operated over 2,200 restaurants in over 500 cities across China. Measured by number of restaurants, we believe Pizza Hut had an approximate five-to-one lead over its nearest western CDR competitor in China as of the end of 2019.

We opened over 1,000 new restaurants in 2019 and an average of more than two new locations per day over the past five years. We either operate or franchise restaurant brands, and we owned and operated approximately 90% of our restaurants ourselves as of December 31, 2019, which has driven our historically attractive return on investment. We owned and operated approximately 85% of our restaurants ourselves as of June 30, 2020 after the acquisition of a controlling interest in Huang Ji Huang, a franchise-centric business.

Over the past three decades, we have built a significant lead not just in scale, but also in brand loyalty, development capabilities, innovative product offerings, industry-leading digital and delivery capabilities, a robust supply chain management system, a strong financial profile, a highly-talented workforce and a seasoned and passionate management team. We believe that these competitive strengths are difficult to replicate, allowing us to deliver superior value propositions to our guests and generate strong returns for our Shareholders. Given the strong competitive position of our core brands and commitment to innovation and digitalization in every aspect of our business, against the backdrop of China's growing

BUSINESS

economy, we expect to continue to drive System sales growth by both new unit growth and same-store sales growth and maintain our leading position as the largest restaurant company in China.

We are deeply committed to being a responsible company economically, socially and environmentally. Under our sustainability strategy — “Creating A Responsible Ecosystem” (CARE), we have integrated sustainability into our long-term business growth strategy — “Sustainable Platform for Growth” — consistently providing our guests with safe and high-quality products while fulfilling a commitment to sustainable economic, social and environmental development. As a result, we believe we deliver benefits to our stakeholders, including employees, guests, business partners, suppliers, community members, shareholders and others. For details, see “— Sustainability.”

COMPETITIVE STRENGTHS

Largest restaurant company in China with unparalleled scale and strong brand recognition

Yum China is the largest restaurant company in China in terms of 2019 System sales, according to the F&S Report. We had US\$8.8 billion of revenue in 2019 and over 9,900 restaurants as of June 30, 2020, covering over 1,400 cities primarily in China. Our flagship brand, KFC, was the first major global restaurant brand to enter China as early as 1987. With over 30 years of operations, we have developed extensive operating experience in the China market and have deeply ingrained our flagship KFC and Pizza Hut brands into China’s consumer culture.

We operate a portfolio of iconic restaurant brands in China, including KFC and Pizza Hut, as well as brands such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza. KFC and Pizza Hut are the largest QSR and CDR brands in China in terms of System sales in 2019, respectively, according to the F&S Report, with over 6,700 restaurants and 2,200 restaurants as of June 30, 2020, respectively. KFC and Pizza Hut have built strong brand loyalty and have become household names in China through our continued commitment to exemplify and redefine best-in-class operations of QSRs and CDRs in China by focusing on menu innovation and the guest experience. We are also building emerging brands such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza, which we believe will bring further upside growth.

The self-operated restaurant chain market in China is expected to continue its fast growth at a CAGR of 9.1% from 2019 to 2024 with significant white space opportunity. According to the F&S Report, restaurant chains have a low penetration rate in China, especially in lower-tier cities, with only approximately 332 chain restaurants per million people in 2019 compared to approximately 891 in the United States, and approximately six KFCs and Pizza Huts per million people in 2019 in China compared to approximately 35 in the United States. Leveraging our brand loyalty, innovative product offerings, industry-leading digital and delivery capabilities, robust supply chain management system, seasoned and passionate senior management team and dedicated workforce, we believe that we are well-positioned to capture further opportunities in the restaurant chain market and continue our success and growth in the years to come.

Rapid and profitable growth enabled by proprietary local know-how and development capabilities

We have expanded rapidly, opening restaurants at an average of more than two new locations per day over the past five years. We have been able to achieve attractive economics while

growing rapidly, with a Restaurant margin of 16.0% in 2019. We have also achieved favorable unit-level economics. During the Track Record Period, our new KFC and Pizza Hut restaurant units had an average cash payback period of approximately two years and three to four years, respectively, compared to the industry average of three to five years in China.

We believe that our rapid and profitable growth benefits from the proprietary local know-how and strong development capabilities and expertise we have accumulated in over 30 years of operations in China, as demonstrated in the following aspects:

- *Resilient business and expansion model.* Through the years, we have operated a proven business model that has endured economic cycles and evolving market conditions. 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.
- *Scalable growth.* We have established a standardized and scalable development model for new restaurant units based on our know-how and experience. This expansion model is supported by highly experienced store network planning and site selection personnel, a nationwide supply chain network, an established staff recruitment and development program, as well as solid back office functions such as IT, finance and legal. 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 availability of other restaurants in the vicinity during our site selection process. We also consider the guest traffic and distance from existing restaurants under the same brand to reduce sales transfer that may occur from existing restaurant units. We believe our high quality personnel and excellent systems and processes ensure the efficiency and success of our restaurant network.
- *Deep guest and market insights.* We have accumulated deep insights into the tastes and preferences of the Chinese consumer base through analysis of big data collected from our over 9,900 restaurants in over 1,400 cities with two billion guest visits per year and over 265 million loyalty members as of June 30, 2020. Driven by these market insights, we are able to focus and tailor food innovation on high-potential menu items and launch successful marketing campaigns to connect to our guest base, such as our award-winning KFC Pocket Stores and privilege membership programs. Through these efforts, KFC and Pizza Hut are ingrained into the daily lives of Chinese consumers and have been established as leading restaurant brands in China.

Pioneer of an innovative restaurant model with strong digital and delivery execution, providing a superior brand value proposition to guests

We are a firm believer in innovating, disrupting and redefining the traditional restaurant model to deliver a superior value proposition to guests.

Menu innovation

Offering appealing, tasty and convenient food at great prices is our value proposition. While we are keenly aware of the strength of our core menu items, we believe that introducing new menu items that meet evolving consumer preferences and local tastes is crucial to our ability to maintain our brand excellence and broaden our brand appeal. For instance, KFC was the first western QSR brand in China to offer Chinese-style breakfast (such as congee and fried

dough sticks) and Pizza Hut has changed 70% of its menu by upgrading existing products and adding new menu items as of June 30, 2020 as compared to those of 2017. Leveraging our local know-how and the wealth of consumer taste preference data accumulated through our many years of operations, we have become a pioneer in food innovation, pushing the boundaries of western QSR and CDR dining in China.

Our menu innovation process involves introducing a substantial number of new menu items each year, many of which start out as seasonal, regional or limited offerings. New menu items are market-tested and analyzed, with successful items considered for inclusion in our core menu. In 2019 alone, we developed over 1,900 menu item prototypes and launched around 400 new and improved products across all of our brands. Our menu innovation endeavors are supported by a dedicated food innovation team of approximately 40 professionals and a world-class 27,000 square-foot innovation center in Shanghai for the development of new recipes, cooking methods and menu concepts. Moreover, our world-class supply chain enables us to procure high quality ingredients at competitive prices, giving us the flexibility to offer a wide range of menu items.

In addition to offering an innovative menu, we also seek to offer guests a superior value propositions, such as the KFC bucket, combo meals and special offers for loyalty program members. In 2019, we launched various value meal campaigns, such as KFC's Crazy Thursday campaign, which offers core products at attractive prices on Thursdays to all guests, and Pizza Hut's "Two dishes for 99 RMB" (mainly pizza and steak menu items) and "Scream Wednesday" for loyalty program members, which have been widely popular. Scream Wednesday offers core products at attractive prices, including pizzas, steak and dessert options, and has received positive consumer feedback. We have also tied in menu innovation with our value campaigns, such as designing special items, including special edition pizza, piloted appetizers and drinks for "Scream Wednesday."

Digitalization

We are a digital leader in the PRC restaurant industry. We seek to apply tech-enabled enhancements to provide guests with a personalized and enriched dining experience and to increase our operational efficiency across the board.

Our guest-oriented digital technologies and features include proprietary app technologies, digital/mobile and AI-enabled menus, and digital and facial recognition payment, details of which are described below:

- *Proprietary apps.* Our KFC and Pizza Hut Super Apps offer guests a multi-faceted, fully-digitized dining experience, and have been instrumental in our ability to increase guest loyalty, improve the dining experience, and better target our marketing activities. As of December 31, 2019, the KFC and Pizza Hut Super Apps were, by far, the most downloaded apps in the PRC restaurant industry and had the highest number of MAUs among our peers. As of June 30, 2020, our loyalty programs had over 240 million members and over 75 million members for KFC and Pizza Hut, respectively. KFC member sales represented 63% of KFC's System sales and Pizza Hut member sales represented 49% of Pizza Hut's System sales in the six months ended June 30, 2020.
- *Digital/mobile and AI-enabled menus.* We were one of the earliest adopters of mobile ordering among restaurant chains in China. In 2019, digital orders accounted for approximately 55% of KFC and Pizza Hut Company sales, indicating the popularity of this function among our guests. In January 2019, KFC introduced AI-enabled menus to recommend personalized menu items and discounts to guests based on their ordering patterns and taste preferences.

- *Digital and facial recognition payment.* We were among the first restaurant chains in China to offer digital payment options, including a proprietary in-house payment solution, YUMC Pay. 97% of payments were made through digital form for the six months ended June 30, 2020, which primarily includes mobile applications and aggregators' platforms, reflecting our ability to harness the power of technology in our business model. We were also the first in the world to commercially implement facial recognition payment technologies, "Smile to Pay", in 2017 in collaboration with Alipay. Following positive guest feedback, we have since implemented "Smile to Pay" in approximately 1,000 KFC restaurants across China as of June 30, 2020.

These technologies have also enabled us to streamline our operations and enhance operational efficiency. For example, digital ordering and payment technologies have allowed us to optimize restaurant staffing and reduce associated costs for ordering and cash management. In addition to these technologies, we are also focusing on applying the latest technologies to supply chain management, operations and staff management to improve the employee experience and our management efficiency.

Delivery

As early as 2010, we identified delivery as a significant growth driver and began to offer delivery services, first through our own delivery platform, and later, in 2015, also through partnering with third-party delivery aggregators to generate traffic. In 2019, we enjoyed one of the highest delivery sales contributions among restaurant chains in China, according to the F&S Report, with such sales accounting for 21% of total Company sales for the same year.

We also distinguish ourselves by being one of the few restaurant chains in China with a significant online platform to generate traffic. Our hybrid model of working with third-party delivery aggregators also enables us to increase traffic. We deploy dedicated riders to deliver KFC or Pizza Hut orders originated from our own platform and aggregators' platforms. We believe that dedicated riders have enabled us to gain greater control over delivery quality and improve our ability to make timely deliveries during peak hours. Moreover, we have applied AI-enabled delivery technologies to increase delivery efficiency and, in turn, guest satisfaction.

We continue to optimize our delivery services by creating synergies between brick-and-mortar restaurant units and delivery services, taking advantage of our extensive restaurant network in China to improve efficiency and increase margins. We also seek to implement innovative delivery strategies to capture business opportunities. In 2017, we began to collaborate with China Railway to deliver KFC digital orders on certain train routes. Further, in response to the COVID-19 outbreak, in January 2020, KFC and Pizza Hut were among the earliest restaurant brands in China to roll out contactless delivery nationwide. This arrangement helps us reduce the risk of disease transmission and protect our guests, staff and riders, while driving delivery sales.

Highest commitment to food safety with world-class supply chain management and operations

Food quality and safety are our highest priority. Our unwavering commitment to food safety is reflected in our holistic multi-level quality assurance system covering all major aspects of our operations, including suppliers, logistics, restaurants and delivery. Key features of our quality assurance system include the following:

- *Stringent oversight.* We maintain a Food Safety Committee at the Board level. The Food Safety Committee assists the Board in its oversight of the Company's

practices, programs, procedures and initiatives relating to food safety, and is responsible for monitoring trends, issues and concerns affecting our food safety practices, and the risks arising therefrom, in light of our overall efforts related to food safety. Each restaurant general manager is responsible for day-to-day food quality and safety management at his/her restaurant unit. Area managers will also check the implementation of food safety and quality related standards and measures. Our quality assurance department conducts on-site inspection at each restaurant on a regular basis.

- *Comprehensive control measures.* We are relentless in ensuring quality in every aspect of our operations. We have stipulated detailed food quality inspection standards for each type of food and beverage offered in our restaurants to ensure the highest quality. We perform stringent selection, training, evaluation and audit of upstream suppliers. Moreover, we monitor all participants along our entire supply chain with over 25 sets of quality assurance modules, close to 900 raw material inspections, 40 key processes, 200 checkpoints, 2,000 types of logistics center and truck audits and over 17,000 types of restaurant food safety-related excellence checks.
- *Robust supply chain infrastructure.* We have built a world-class in-house supply chain infrastructure for better control and assurance over food safety, which we believe distinguishes us from our peers, many of which outsource their supply chain solutions to third parties. Our nationwide supply chain network includes 25 logistics centers, six consolidation centers and over 2,100 refrigerated trucks with cold-chain storage and transportation capabilities, ensuring that our food is delivered efficiently and with high quality consistency.
- *Investment in technology and design.* We invest heavily in our supply chain management system and restaurant design and equipment. Our integrated supply chain management systems allow for systematic monitoring, from tracing food ingredients to their source to real-time central monitoring of our logistics and transportation network. We have also invested in top-of-the-line equipment, such as high-quality refrigerators, in every single restaurant unit, and restaurant and kitchen design to enhance food safety and reduce human error.

Strong financial performance

We believe we set ourselves apart from competitors by achieving strong and steady growth without sacrificing financial performance, especially considering the size of our 9,954-strong restaurant network. Key indicators of our strong financial performance include the following:

- *Sustained business growth.* Our restaurant network expanded by approximately 2,500 net units from the Spin-off in October 2016 to June 30, 2020. Our revenue and operating profit increased at CAGRs of 7% and 12%, respectively, from 2016 to 2019. Our System sales, reflecting the results of Company-owned restaurants and franchise and unconsolidated affiliate restaurants, achieved growth in every quarter since the Spin-off and up to the year-end of 2019.
- *Same-store sales growth.* Our same-store sales grew at an average of 3% each year from 2016 to 2019⁽¹⁾, benefitting from our focus on innovating in food and strengthening our value proposition, daypart opportunities, digital experience and delivery. KFC delivered strong sales performance in 2019, marking the fourth year

(1) Percentage here excludes the impact of foreign exchange translation.

BUSINESS

of positive same-store sales growth. In 2019, we continued to make progress with the Pizza Hut revitalization program, which focuses on fixing the fundamentals, including investing in product upgrades and enhancing digital capabilities through expanding our digital user base while strengthening delivery core capabilities and enhancing our asset portfolio to drive growth. This enabled Pizza Hut to achieve same-store sales growth in 2019.

- *Strong profitability.* We have achieved healthy profit growth and solid margin expansion. From 2017 to 2019, our operating profit increased from US\$778 million to US\$901 million and net income increased from US\$398 million to US\$713 million, respectively, and we achieved Adjusted Operating Profit⁽²⁾ CAGR and Adjusted Net Income⁽²⁾ CAGR of 8.5% and 14.2%, respectively. During the same period, our operating profit as a percentage of total revenue increased from 10.0% to 10.3% and our net income as a percentage of total revenue increased from 5.1% to 8.1%, and our Adjusted Operating Profit⁽²⁾ as a percentage of total revenue increased from 10.0% to 10.4% and our Adjusted Net Income⁽²⁾ as a percentage of total revenue increased from 7.2% to 8.3%. Our track record of improving our margin profile is supported by our strong restaurant-level profitability. Average cash payback periods of our KFC and Pizza Hut units were approximately two years and three to four years, respectively.
- *Strong cash flow.* Our net cash provided by operating activities increased by 34% from US\$884 million in 2017 to US\$1,185 million in 2019, reflecting our strong earnings and profitability, and providing solid support for our continued growth.

Seasoned and passionate senior management team and committed restaurant management team empowered by a culture of founder's mentality and the spirit of innovation

We are led by a world-class and passionate senior management team of industry veterans with an average of over 20 years of restaurant, retail and technology experience. Their deep expertise in and foresight on the evolving restaurant industry, and continued focus on innovation and revolutionizing the restaurant business model have laid the foundation for our success.

We believe that our employees are the heart and soul of our operations and the driving force of our growth. We seek to empower our employees by encouraging a founder's mentality and the spirit of innovation and adopting a "fair, care and pride" people philosophy. By doing so, we have been able to develop and maintain a committed and loyal group of approximately 10,000 RGMs, who are vital to our operations, which we believe enables us to retain know-how and talent within our operations and ensure quality consistency of our restaurants.

Our commitment to employees is reflected by the numerous awards we have received, including the Top Employer China for 2020 awarded by the Top Employers Institute and the 2018 Best Community Program awarded at the Global CSR Summit. In addition, we were among the first companies in the PRC to be included in the 2019 Bloomberg Gender Equality Index.

(2) See "Financial Information — Non-GAAP Measures" for definitions and reconciliations of the most directly comparable U.S. GAAP financial measures to the non-GAAP measures.

BUSINESS STRATEGY

Our primary strategy is to grow sales and profits across our portfolio of brands through organic growth, growth of franchises and development of new restaurant concepts, along with growing our online business.

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, or over two times our restaurant count as of year-end 2019 and we are currently tracking over 800 cities that do not have a KFC or Pizza Hut restaurant.

- *Further expand geographical coverage.* According to the F&S Report, restaurant chains have a low penetration rate in China, especially in lower-tier cities, with only approximately 332 chain restaurants per million people in 2019 compared to approximately 891 in the United States. 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.
- *Restaurant development pipeline.* We are keen to explore various new restaurant formats to support further expansion, including different store designs or service models aimed at addressing the needs of different guests and for different occasions, such as drive-thru restaurants and less capital-intensive models. We believe that our first-mover advantage and in-depth local know-how will help us build robust development pipelines to seize the market opportunities.
- *Franchise opportunity.* While we continue to focus on the operation of our self-owned restaurant units, we will also continue to seek franchise opportunities for both our core and emerging brands. As of June 30, 2020, approximately 15% of our restaurants were operated by franchisees after consolidation of Huang Ji Huang. 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, COFFii & JOY, East Dawning, Taco Bell and Lavazza, 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 menu items to meet evolving consumer preferences and local tastes, drive guest engagement and continue to broaden our brand appeal. Each of our restaurant brands has proprietary menu items, and emphasizes the preparation

of food with high quality ingredients. We will continue to develop unique recipes and special seasonings to provide appealing, tasty and convenient food choices at competitive prices. In addition, KFC plans to continue focusing on 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. 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 expanded its freshly ground coffee (“**K-coffee**”) offerings in breakfast and afternoon dayparts, and Pizza Hut continued its focus on breakfast and business lunch to further grow same-store sales.
- *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 digital menu boards and 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.

Continue to invest in technology, with a focus on our digital and delivery capabilities

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 June 30, 2020, our loyalty programs had over 240 million members and over 75 million members for KFC and Pizza Hut, respectively, and 97% of payments were made through digital form for the six months ended June 30, 2020. The programs have been effective in increasing order frequency and enhancing guest loyalty. 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 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 O2O market. This is where digital online ordering technologies interact with traditional brick and mortar retail to enhance the customer experience. According to the F&S Report, the food delivery service market in terms of gross transaction value in China is expected to double in size from 2019 to 2024. 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. 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.

BUSINESS

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 comprising our three Chinese restaurant brands, namely Little Sheep, East Dawning, and Huang Ji Huang.

We are also building a coffee portfolio to capture today's underserved coffee market in China across different customer segments, including K-Coffee which offers convenience and value, balanced by our newly incubated concept COFFii & JOY which offers an artisanal coffee experience. In 2019, we sold 137 million cups of coffee at KFC, representing a 48% increase from 2018. We are also partnering with a global coffee brand, Lavazza, to explore and develop the Lavazza coffee shop concept in China.

Prudently pursue investments in high-quality assets

Our investment strategy primarily focuses on two areas, brands, and 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 and a larger share of customer stomach. Also, we look for potential opportunities for enabler investments, to build our strategic moat and further enhance our competitiveness. We will prudently assess investment targets based on each candidate's strategic value, brand equity, business scale and financial performance, amongst other factors. As of the Latest Practicable Date, other than those disclosed in this prospectus, we did not have any specific acquisition or investment targets and were not in negotiations with any specific acquisition or investment targets.

RESTAURANT BRANDS

We had over 9,900 restaurants as of June 30, 2020 and US\$8.8 billion of revenue in 2019. 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, COFFii & JOY, East Dawning, Taco Bell and Lavazza. The following table sets forth a breakdown of our revenue by segments for the period indicated. For details of our segment reporting, see "Appendix I — Accountants' Report" to this prospectus.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2018		2017		2020		2019	
	<i>(unaudited)</i>									
	<i>(in millions of U.S. dollars, except percentages)</i>									
KFC	6,040	68.8%	5,688	67.6%	5,066	65.2%	2,576	70.5%	3,050	68.9%
Pizza Hut	2,054	23.4%	2,111	25.1%	2,093	26.9%	748	20.5%	1,053	23.8%
All other segments ⁽¹⁾	158	1.8%	115	1.4%	106	1.4%	78	2.1%	64	1.4%
Corporate and unallocated ⁽²⁾ ..	562	6.4%	517	6.1%	504	6.5%	271	7.4%	280	6.3%
Subtotal	8,814	100.4%	8,431	100.2%	7,769	100.0%	3,673	100.5%	4,447	100.4%
Elimination	(38)	(0.4)%	(16)	(0.2)%	—	—	(17)	(0.5)%	(19)	(0.4)%
Total revenues	8,776	100.0%	8,415	100.0%	7,769	100.0%	3,656	100.0%	4,428	100.0%

BUSINESS

- (1) Representing revenue we generated from Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Daojia, and our e-commerce business.
- (2) Primarily includes revenues from transactions with franchisees and unconsolidated affiliates derived from our central procurement model whereby food and paper products are centrally purchased and then mainly sold to KFC and Pizza Hut franchisees and unconsolidated affiliates. They represent amounts that have not been allocated to any segment for performance reporting purposes.

KFC

KFC is the leading and the largest QSR brand in China in terms of 2019 System sales, according to the F&S Report. Founded in Corbin, Kentucky in the U.S. by Colonel Harland D. Sanders in 1939, KFC opened its first restaurant in Beijing, China as early as 1987. As of June 30, 2020, there were over 6,700 KFC restaurants in over 1,400 cities across China. In addition to the Original Recipe® chicken, KFC in China has an extensive menu featuring pork, seafood, rice dishes, fresh vegetables, soups, congee, desserts and many others, including freshly ground coffee. KFC also seeks to increase revenue from different dayparts with breakfast, coffee, dessert and delivery. 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 2019.

Pizza Hut

Pizza Hut is the leading and the largest CDR brand in China in terms of 2019 System sales and number of restaurants as of December 31, 2019, according to the F&S Report, offering multiple dayparts, including breakfast, lunch, afternoon tea and dinner. Since opening its first China restaurant unit in Beijing in 1990, Pizza Hut grown rapidly. As of June 30, 2020, there were over 2,200 Pizza Hut restaurants in over 500 cities across China. Pizza Hut in China has an extensive menu offering a broad variety of pizzas, steaks, entrees, pasta, rice dishes, appetizers, beverages and desserts. Measured by number of restaurants, we believe Pizza Hut had an approximate five-to-one lead over its nearest western CDR competitor in China as of the end of 2019.

Other Brands

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

- *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 260 restaurant units in both China and international markets as of June 30, 2020. Of these, over 240 restaurant 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 600 restaurants in China and internationally as of June 30, 2020. Huang Ji Huang primarily operates a franchise model and is an industry-leading simmer pot brand. To the best knowledge of the Company, none of the core connected persons at the level of the Company is a controlling shareholder of the seller of Huang Ji Huang.
- *COFFii & JOY.* COFFii & JOY is a coffee concept developed by us in 2018, featuring specialty coffee. As of June 30, 2020, there were 55 COFFii & JOY units in China.

BUSINESS

- *East Dawning.* East Dawning is a Chinese QSR brand located predominantly in bustling transportation hubs. As of June 30, 2020, there were 11 East Dawning restaurant units across 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 June 30, 2020, there were nine Taco Bell restaurant units in China.
- *Lavazza.* In April 2020, we partnered with Lavazza Group, the world-renowned family-owned Italian coffee company, and established a joint venture, to explore and develop the Lavazza coffee shop concept in China. As the first step, a new Lavazza flagship store was opened in Shanghai, China.

RESTAURANTS NETWORK

With over 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 2019 System sales, with over 9,900 restaurants covering over 1,400 cities primarily in China as of June 30, 2020.

BUSINESS

In the six months ended June 30, 2020, and the year ended December 31, 2019, 2018 and 2017, we opened 348, 1,006, 819 and 691 new restaurant units, respectively, of which 307, 742, 566 and 408 were KFC restaurant units and 19, 132, 157 and 180 were Pizza Hut restaurant units, respectively. In April 2020, we completed the Huang Ji Huang acquisition, which had over 600 restaurant units as of June 30, 2020. The majority of the Company-owned restaurant units opened during the Track Record Period had an initial monthly breakeven period of approximately one to three months. During the same period, our new KFC and Pizza Hut restaurant units had an average cash payback period of approximately two years and three to four years, respectively. The following table sets forth the total number of restaurant units and their movement for the period indicated.

	For the six months ended June 30,	For the year ended December 31,		
	2020	2019	2018	2017
Number of restaurant units at the beginning of the period				
KFC	6,534	5,910	5,488	5,224
Pizza Hut	2,281	2,240	2,195	2,081
Other brands ⁽²⁾	385	334	300	257
Total	9,200	8,484	7,983	7,562
Number of new restaurant units opened or acquired during the period				
KFC	307	742	566	408
Pizza Hut	19	132	157	180
Other brands ⁽²⁾	648 ⁽¹⁾	132	96	103
Total	974	1,006	819	691
Number of restaurant units closed during the period ⁽³⁾				
KFC	92	118	144	144
Pizza Hut	42	91	112	66
Other brands ⁽²⁾	86	81	62	60
Total	220	290	318	270
Number of restaurant units at the end of the period				
KFC	6,749	6,534	5,910	5,488
Pizza Hut	2,258	2,281	2,240	2,195
Other brands ⁽²⁾	947	385	334	300
Total	9,954	9,200	8,484	7,983

(1) Including the restaurants of Huang Ji Huang as a result of the acquisition.

(2) Other brands include Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza restaurant units.

(3) Our restaurant closures during the Track Record Period were primarily due to termination or non-renewal of leases, store relocations and other commercial reasons, including closure of under-performing stores.

As of June 30, 2020, 1,527 of our 9,954 restaurants were franchise restaurants, among which 571 were KFC restaurants, 108 were Pizza Hut restaurants and over 600 were Huang Ji

BUSINESS

Huang restaurants. For details, see “— Operational Management — Franchise Restaurants Management.” In addition, as of the same date, approximately 10% of our restaurants were unconsolidated affiliates. All of these restaurants were KFC restaurants, representing approximately 14% of total KFC restaurants as of June 30, 2020. These unconsolidated affiliates are held by PRC joint venture entities partially owned by us, which helped KFC establish its initial presence in certain regions of China. Set forth below is a breakdown of our restaurant unit count for the period indicated.

	As of June 30, 2020	As of December 31, 2019	2018	2017
Company-owned				
KFC	5,231	5,083	4,597 ⁽¹⁾	4,112
Pizza Hut	2,150	2,178	2,188	2,166
Other brands	98	94	47	29
<i>Subtotal</i>	<u>7,479</u>	<u>7,355</u>	<u>6,832</u>	<u>6,307</u>
Unconsolidated affiliates				
KFC	947	896	811 ⁽¹⁾	891
Pizza Hut	—	—	—	—
Other brands	—	—	—	—
<i>Subtotal</i>	<u>947</u>	<u>896</u>	<u>811</u>	<u>891</u>
Franchises				
KFC	571	555	502	485
Pizza Hut	108	103	52	29
Other brands	848	291	287	271
<i>Subtotal</i>	<u>1,527</u>	<u>949</u>	<u>841</u>	<u>785</u>
Others ⁽²⁾	1	—	—	—
Total	<u>9,954</u>	<u>9,200</u>	<u>8,484</u>	<u>7,983</u>

(1) During the first quarter of 2018, we completed the acquisition of an additional 36% interest in an unconsolidated affiliate (“**Wuxi KFC**”) that operates KFC stores in and around Wuxi, China, increasing our equity interest to 83% and allowing us to consolidate Wuxi KFC. As a result of the acquisition of Wuxi KFC as disclosed in Note 1 of “Appendix I — Accountants’ Report,” the restaurant units of Wuxi KFC have been transferred from unconsolidated affiliates to Company-owned.

(2) Representing the Lavazza flagship store we opened in Shanghai, China.

In April 2020, we entered into a definitive agreement to acquire an additional 25% equity interest in Suzhou KFC, for cash consideration of US\$149 million. Upon closing of the acquisition on August 3, 2020, we increased our equity interest in this unconsolidated affiliate to 72%, which will allow us to consolidate Suzhou KFC.

RESTAURANT PERFORMANCE

The following table sets forth our same-store sales growth (decline) for the period indicated.

	2020 1H	2019	2018
KFC	(11)%	4%	2%
Pizza Hut	(22)%	1%	(5)%
Overall	(13)%	3%	1%

BUSINESS

The following table sets forth the same-store number of transaction growth (decline) and ticket average growth (decline) for KFC and Pizza Hut for the period indicated.

	<u>2020 1H</u>	<u>2019</u>	<u>2018</u>
<i>Same-store number of transaction growth (decline)⁽¹⁾</i>			
KFC	(24)%	1%	(1)%
Pizza Hut	(15)%	7%	(2)%
<i>Same-store ticket average growth (decline)⁽²⁾</i>			
KFC	18%	3%	3%
Pizza Hut	(8)%	(6)%	(2)%

- (1) Same-store number of transaction growth (decline) represents the estimated period-over-period percentage change in the number of transactions 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.
- (2) Ticket average is calculated by dividing restaurant sales by the number of transactions. Same-store ticket average growth (decline) represents the estimated period-over-period percentage change in ticket average 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.

Same-store sales growth of KFC in 2018 and 2019 were led by the growth in delivery sales, product and value innovation, effective marketing campaigns and pricing. Same-store sales for Pizza Hut declined by 5% in 2018 due to the decline in the number of transactions and increased promotional activities to improve value proposition (which reduced ticket averages). Same store sales for Pizza Hut increased by 1% in 2019 as a result of the improvement in value proposition and general revitalization initiatives undertaken. The same-store sales decline of KFC and Pizza Hut in the six months ended June 30, 2020 was primarily due to the impact of the COVID-19 pandemic.

The following table sets forth the ticket average⁽¹⁾ of all of our KFC and Pizza Hut restaurants for the period indicated.

	<u>For the six months ended June 30</u>	<u>For the year ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<i>(RMB)</i>			
KFC	43	37	36	35
Pizza Hut	108	113	120	122

- (1) Ticket average is calculated by dividing restaurant sales by the number of transactions.

OPERATIONAL MANAGEMENT

Restaurant Unit Management

Our restaurant management structure varies among our restaurant brands and by unit size. Generally, each restaurant operated by us 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 area managers. In addition, senior operations leaders regularly visit restaurants to promote adherence to system standards and mentor restaurant teams. 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, including food safety and quality, food handling and product preparation

procedures, equipment maintenance, facility standards and accounting control procedures (including cash management). 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 Restaurants Management

As of June 30, 2020, 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.

We enter into franchise agreements with our franchisees. Our franchise agreements typically require the franchisee to pay an initial, non-refundable fee as well as 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 expiration. Under the franchise agreements, the franchisees are entitled to use the operational manuals, procedures and other know-how in relation to restaurant operations, as well as the trademarks or other intellectual properties for the purpose of restaurant operations in accordance with our standards and specifications. We train the employees of the franchisees to help ensure that their operations strictly comply with the franchise agreements and our internal standards. We may terminate the franchise agreements under certain circumstances, including insolvency of the franchisee, franchisee's material breach of the franchise agreement and the failure to maintain accurate records of restaurant operations, among others. During the franchise period and for a certain period after termination of the franchise agreements, a franchisee may not engage in restaurant businesses of the same or similar nature to our restaurant brand. During the Track Record Period, we did not experience any breach of franchise agreements that had a material adverse impact on our business operations.

Our franchise restaurants are designed to promote consistency and quality. 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. Our franchise restaurants do not have notable operational differences compared to Company-owned restaurants.

We believe that it is important to maintain strong and open relationships with our franchisees and their representatives. To this end, we invest 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. Going forward, we plan to continue to develop our franchise restaurant portfolio over time.

Supply Chain Management

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 close to 1,500 staff, including around 300 staff in food safety and quality assurance at our headquarters and regional offices. The supply chain management team monitors all

participants along our entire value chains, including upstream suppliers, logistics centers, logistics service providers and restaurant units consisting of over 25 sets of quality assurance modules, close to 900 raw material inspections, 40 key processes, 200 check points, 2,000 types of logistics center and truck audits, and over 17,000 types of restaurant food safety related excellence checks, among others.

Supplier and Procurement Management

Our quality assurance department is primarily responsible for overall food safety and quality management for food ingredients, packaging and smallwares at the supplier level. Our procurement management department is primarily responsible for day-to-day management of our procurement and suppliers. We implement a strict supplier qualification process that includes new 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 each food ingredients and consumables we procure. All suppliers are required to enter into a quality assurance agreement with us to guarantee that all product formulas, raw material specifications, packaging specifications and quality assurance programs documentation provided to us fully comply with all relevant PRC food laws and regulations, as well as our technical standards.

For poultry, one of our major food ingredients, we have established an upstream breeding management system for poultry suppliers, requiring them to inspect and register farms in accordance with our standards. Only poultry from registered farms can be processed and released into the supply chain. We require poultry suppliers to implement veterinary drugs register management. Every year, we invite veterinary drug experts to perform compliance and scientific reviews of the drugs used by the suppliers and provide continuous improvement guidance. Working with poultry farming and safety experts, we integrated advanced farming, perspectives, practices and technologies from China and abroad and compiled and published the “Yum China Poultry Farming Technical Manual” and the “Yum China Management Guidelines on the Use of Veterinary Drugs in Poultry Farming.” These manuals are shared with poultry suppliers to support their learning and compliance in this area.

We conduct annual unannounced food safety testing on key raw materials including poultry and other meats, seafood, vegetables, seasonings and other key materials. We engage a third-party lab for such testing, and only those raw materials that are in compliance with the relevant standards will be released into our supply chain. Our quality assurance department also conducts regular onsite audits of food and beverage suppliers, either on an announced or unannounced basis, to assess the effectiveness of suppliers’ management systems, and perform a comprehensive evaluation of suppliers’ food safety and quality performance. Based on the assessment results, we grade suppliers as T1, T2, and T3 based on their performance with T1 being the best and T3 being in great need for improvement. We reward T1 suppliers with incentives, support T2 and T3 suppliers with improvement counseling, and eliminate those who fail to meet the requirements, thus driving suppliers to strive for continuous improvement. For suppliers of raw materials with lower food safety risks (such as ambient products and seasonings), we require them to obtain the Global Food Safety Initiatives certification.

Logistics Management

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. Some key features of our logistics management system include (i) a customized warehouse management system implemented at all logistics centers enabling end-to-end tracking of products; (ii) an automatic sorting system capable of sorting and

packing over 70,000 cases per day; (iii) a transportation management system allowing routing optimization; and (iv) deployment of Internet of Things and GPS technologies which allow real-time tracking of and data collection from all trucks, including truck location and on-board product temperature for product quality and food safety purposes.

As of June 30, 2020, we had a logistics network of 25 logistics centers and six consolidation centers across China. Each of our logistics centers is staffed with a professional quality assurance specialist who is responsible for inspecting storage facilities and the receipt, distribution, and unloading of goods. These centers implement unified standards, such as logistics center audits and performance tracking, to conduct strict audits of the logistics distribution system, including logistics centers and transportation.

When we established our logistics centers, we also employed an advanced and comprehensive cold chain design to ensure that the temperature of our chillers, freezers and products meets our standards at all times. We currently deploy over 2,100 refrigerated trucks with cold chain storage and transportation capabilities. All frozen and refrigerated storage and transportation vehicles have been equipped with temperature recorders to track and record temperature changes during transportation. Our logistics centers have also been progressively equipped with a warehouse management system, which enables product tracking from suppliers, logistics centers and restaurants to provide added assurance to the integrity of our supply chain. Each of our logistics centers is staffed with a full-time quality assurance specialist responsible for inspecting storage facilities and the receipt, distribution and unloading of goods.

Food Safety and Quality Control

Food safety is our top priority. Food safety system includes 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. Our food safety standards also ensure compliance with applicable laws and regulations in China when building new or renovating existing restaurants. In late 2012, there was media attention surrounding an investigation by the Shanghai FDA of our poultry supply management. In 2014, an undercover report was televised in China depicting improper food handling practices by supplier Shanghai Husi Food Co., Ltd., a division of OSI Group, which is a large, global supplier to many in the restaurant industry. This triggered extensive news coverage in China that shook consumer confidence and impacted brand usage. Subsequently, the Shanghai FDA launched an investigation into this matter, alleging illegal activity by OSI Group. Since the 2012 incident and up to the Latest Practicable Date, we were not aware of any investigations by the local FDA. During the Track Record Period, there was no adverse publicity on food safety and foodborne illness concerns that had a material adverse impact on us and we were not subject to any investigation regarding the safety of our menu items or the hygiene of our restaurants by any government authorities that had a material adverse impact on us.

We have established a Food Safety Committee at the Board level. The Food Safety Committee assists the Board in its oversight of the Company's practices, programs, procedures and initiatives relating to food safety, and is responsible for monitoring trends, issues and concerns affecting our food safety practices, and the risks arising therefrom, in light of our overall efforts related to food safety. For details, see "Directors, Senior Management and Employees." Our food safety department and quality assurance department is responsible for food safety management and compliance management across all of our restaurant brands. See "Risk Factors — Risks Relating to Our Business and Industry — Food safety and foodborne illness concerns may have an adverse effect on our reputation and business."

Our food safety department formulates and updates our internal regulations and standards in relation to food safety from time to time. We have stipulated detailed food quality inspection standards for each type of food and beverage offered in our restaurant to ensure the highest

quality. Our quality assurance team consists of around 300 professionals directly responsible for food safety and quality assurance. Each restaurant general manager is responsible for day-to-day food quality and safety management at his/her restaurant unit. Area managers will also check the implementation of food safety and quality related standards and measures. Our quality assurance department conducts on-site inspection at each restaurant on a regular basis. We conduct over 3,200 quality checks on our main menu items each year. We have also invested in top-of-the-line equipment, such as high-quality refrigerators, in every single restaurant unit, and have incorporated elements in our restaurant and kitchen design to enhance hygiene and reduce human error. We require all of our restaurant staff to attend and pass food safety trainings and tests, which focus on hygiene, disease prevention, food safety and regulatory compliance in day-to-day operations.

For our delivery system, we have established our own 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 requirements, delivery facilities, equipment and strict management of third-party platforms. For example, take-away food for all brands is sealed with tamper proof covers to ensure food safety throughout the delivery process.

We have implemented industry-leading restaurant operating standards and procedures for each restaurant brand to ensure that each restaurant implements consistent food safety standards and serves food that is consistent in quality and taste. Restaurant operating standards and procedures include the receipt of raw materials, food and raw material storage temperature control, shelf-life management, thawing and cooking process, personal hygiene, and the cleaning and sanitation of utensils and equipment. During business hours, the RGM is responsible for duty inspections on food safety, including raw material management, food preparation, cleaning, sanitation, personal hygiene, equipment maintenance and pest control. Area managers will also check the implementation of food safety and quality related standards and measures when they visit restaurants under their management.

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, smallwares, water, ice, and food to ensure they meet the required standards.

Expansion Management

We believe that there are significant expansion 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 6,715 at the end of 2014 to 9,200 at the end of 2019, representing a CAGR of approximately 6%, which further increased to 9,954 as of June 30, 2020. We expect to expand our business through organic growth, growth of franchise units and development of new restaurant brands. For details, see “— Business Strategy.”

Subject to revision based on future impacts of the COVID-19 outbreak that cannot be predicted at this time, we plan to open between 800 and 850 new restaurant units in 2020, excluding Huang Ji Huang. 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, 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 availability 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. The average capital spending for each new KFC and Pizza Hut restaurant unit in 2020 is expected to remain relatively stable at approximately RMB2 to 3 million.

With respect to franchise development, in 2019, we entered into strategic agreements with both China Petrochemical Corporation (“**Sinopec**”) and China National Petroleum Corporation (“**CNPC**”) to collaborate on the development of franchise restaurants of KFC at gas stations operated by Sinopec and CNPC across China. Sinopec and CNPC collectively operate over 50,000 gas stations in China. As of June 30, 2020, there were seven franchise restaurants in gas stations operated by Sinopec or CNPC in China. As vehicle ownership continues to grow in China, we believe that gas stations and highway service areas can provide us with an opportunity to expand our operations and guest base.

SUSTAINABILITY

“Creating A Responsible Ecosystem” is our sustainability strategy. We are committed to being a deeply responsible company economically, socially and environmentally and we have been consistently providing our guests with safe and high-quality products while fulfilling a commitment to sustainable economic, social and environmental development. Our sustainability efforts primarily consist of three aspects: restaurant sustainability, supply chain sustainability and social/community sustainability.

Restaurant Sustainability

We are aware of the environmental impact of our operations and we always follow the principle of sustainability when designing, building and operating our restaurants. Key aspects of our efforts to develop restaurant sustainability are summarized below.

- *Energy efficiency.* We continue to promote the application of innovative technologies and systems to reduce greenhouse gas (GHG) emissions and improve energy efficiency, including kitchen cooking fume exhaust control system, heat pump water heater, high-efficiency DC air conditioning system, and LED lighting, among others. In addition, we include energy efficiency into the performance evaluation criteria of our restaurant management teams. We are committed to reducing average restaurant energy consumption and GHG emissions by an additional 10% by 2025 against the 2017 baseline.
- *Water.* In 2018, we developed an electrostatic thawing solution that can help KFC restaurants reduce thawing water consumption significantly compared with traditional thawing equipment. In 2019, we commenced pilot testing of such thawing equipment in selected KFC restaurants in Beijing, Shanghai and Shenzhen. We also installed water-saving faucets which consume 50% less water in newly-built company-owned and remodeled restaurants.
- *Packaging.* Guided by our 4R Principles (Reduce, Reuse, Recycle, Replace), we drive innovation in the application of new packaging solutions, new materials and new technologies to reduce packaging usage, which enables us to save over 8,000 tons of paper and 1,000 tons of plastic in 2019. We have also launched our in-house developed reusable serving baskets in over 6,000 KFC restaurants across China. The reusable serving baskets are designed to reduce disposable paper

packaging without compromising customers' dining experience, which enables us to save over 2,000 tons of paper and reduce restaurant waste by approximately 20% per year. We are also exploring every opportunity to utilize recycled materials for non-food contact paper packaging where applicable. In 2019, approximately 20 tons of recycled material in non-food contact was used.

- *Food waste.* In 2019, we introduced sophisticated kitchen equipment and AI technology for precise production forecasting, improved cold chain to reduce food loss, and strengthened the back of house operation, which effectively reduced the loss and waste of chicken products. We successfully saved about 50 tons of food loss through these technologies in 2019.
- *Cooking oil.* We were the first restaurant company in China to get the ISCC (International Sustainability and Carbon Certification) certification for used cooking oil that will be converted into sustainable biodiesel following a successful pilot project in Chengdu. In addition, we have installed oil-saving equipment and implemented management practice at our restaurants, which enabled us to save over 1,700 tons of cooking oil in 2019.
- *Balanced and nutritious meals.* We increase the use of grains, fruit and vegetables, beans and nuts to enrich menu choices and provide our guests with balanced meals. We also reduce the use of sugar by upgrading our products and formulation, such as sugar-free and fiber-rich coke. In addition, we are committed to providing children with balanced food that is delicious, healthy and nutritious. Kid's meals at KFC and Pizza Hut comply with the Nutrition Guideline issued by the Chinese Nutrition Society.
- *Green building.* We have implemented internal green building standards and all of our restaurant have been designed and built in accordance with such green building standards since 2016.

Supply Chain Sustainability

In addition to building our own sustainable restaurants, we also develop innovative programs to improve sustainability performance across our supply chain. We require all of our suppliers to sign the Yum China Supplier Code of Conduct before they become our suppliers to ensure they are legally compliant with all applicable laws and regulations in areas such as child/minor labor, forced labor, health and safety, discrimination, disciplinary measures, working hours, wages and benefits, environmental management and security. We also engage a professional third-party to perform on-site CSR audits of major suppliers. Suppliers who are assessed with the lowest grade (Grade C) of our A, B, C, grading system are required to take immediate corrective actions and undergo a follow-up audit. If the follow-up audit is still unsatisfactory, the supplier will be considered high risk and our partnership with such supplier will be carefully reviewed.

We have been continuously making efforts to create a greener ecosystem. We embrace every opportunity to engage our suppliers to collectively drive environmental sustainability priorities and responsible business practices. Below are key aspects of our sustainability efforts with our suppliers.

- *Deforestation.* We refuse to purchase from suppliers palm oil or paper products that knowingly cause deforestation. Since becoming a member of Roundtable on Sustainable Palm Oil ("RSPO") in 2017, all of our purchased palm oil has been RSPO certified.

- *Animal welfare.* We only purchase poultry from large-scale poultry suppliers that demonstrate and maintain compliance with animal welfare regulations and practices. All poultry suppliers must implement and adhere to our animal welfare guidelines during poultry breeding and poultry slaughtering. In 2019, we developed the Yum China Animal Welfare Policies, to establish a series of animal welfare standards for our suppliers of farmed animal protein, and to regulate their behavior from animal farming to slaughtering.
- *Pesticides.* Suppliers are required to strengthen their tests on pesticide residue in agricultural ingredients, ensuring that the agricultural products supplied to us comply with the relevant regulations and food safety standards. We are exploring advanced management practices and promote Yum China Good Agricultural Practices at upstream vegetable bases with rigorous control of base selection, soil and water safety, planting technology, pesticide management, fertilizer use, and good practices operations. We also set up a strict monitoring system of pesticide residue and conduct regular tests when necessary on all key agricultural ingredients.
- *Veterinary drugs.* We have adopted a series of measures to manage suppliers on regulatory compliance and judicious use of drugs in the breeding of livestock, poultry and aquatic products. We conduct sampling tests on these products on a regular basis to ensure compliance with veterinary drug use as stipulated by the Ministry of Agriculture and Rural Affairs.
- *Food additives.* Our suppliers are required to provide information on the use of food additives in their products in accordance with Chinese national standards. We also conduct sampling tests of such food ingredients to test additive levels. We alert our suppliers once any new food laws, regulations and standards are promulgated.

Social and Community Sustainability

With over two billion guest visits per year, we are always searching for ways to be a positive influence on our local communities and society. Our efforts primarily focus on four areas — poverty alleviation, community care, child and youth development and advocacy for healthy lifestyles. Below are examples of our social and community sustainability campaigns.

- *The One Yuan Donation.* We founded “The One Yuan Donation” program in 2008 in partnership with China Foundation for Poverty Alleviation, encouraging our guests and employees to donate one yuan to enrich the diets of children in impoverished regions. In 2019, we launched the V-Gold donation campaign, where V-Gold loyalty program members may also donate their reward points for charity. As of June 30, 2020, the campaign had raised over RMB210 million and provided nutritious meals to approximately 712,000 students and modern kitchen equipment to over 1,000 schools.
- *KFC Angel Restaurants.* KFC introduced Angel Restaurants in 2012 as a platform and has created over 400 employment opportunities for people with special needs since then. KFC has tailored its operation processes, modified restaurant equipment and revised employee trainings to assist these “angel employees” working at our restaurants. After comprehensive and systematic training, all “angel employees” are able to skillfully operate equipment, prepare products and provide guests with warm-hearted services.

- *KFC Little Migratory Birds Fund.* In 2016, KFC partnered with the China Children and Teenagers' Fund to launch a fund for left-behind and migrant children. The mission of the fund is to look after the emotional and mental well-being of left-behind and migrant children in China through reading, sports and art activities. KFC also arranges for left-behind and migrant children to visit nearby KFC restaurants for a variety of activities, such as storytelling, traditional culture learning, drawing and singing. By the end of 2019, KFC had donated over 1,800 reading corners to communities and schools with where left-behind and migrant children gathered. Since its establishment, approximately two million left-behind and migrant children have benefited from the fund.
- *Grow Local Initiative Program.* In 2018, we initiated "Grow Local Yunnan Truffle" project. In its first phase, we partnered with the Chinese Academy of Sciences as well as third-party nutrition experts and agricultural service companies to train farmers in Yunnan on the scientific harvesting of truffles. We also issued one of the first scientific training manuals on sustainable truffle farming in Yunnan. In the second phase, we procured local truffles from such suppliers and Pizza Hut introduced a range of truffle pizzas featuring high-quality truffles from Yunnan. Pizza Hut is also planning to use its Super App, as well as other online resources, to provide a stable and sustainable e-commerce platform for specialty agricultural produce that meet our quality standards. We also launched a similar "Grow Local Dragon Fruit" project in Guizhou and "Grow Local Pear" project in Anhui in 2019.

In addition to local communities, we believe our over 400,000 employees form an unbeatable team and are our most valuable assets and we are dedicated to providing a sustainable environment for them. For details, see "— Employees"

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 "好吃好玩, 有裏有面" ("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, the largest online presence among Chinese restaurant companies, measured by total application downloads from an iOS system, digital members, monthly active users and proportion of digital ordering, according to the F&S Report. In March 2020, we were named by Fast Company, the world's leading business media brand with an editorial focus on innovation, as one of the top 10 most innovative companies in China for 2020, alongside technology industry leaders.

Dining Experience

Menu Innovations

Offering appealing, tasty and convenient food at great prices is our value proposition. While we are keenly aware of the strength of our core menu items. At the same time, we believe that introducing new menu items that meet evolving consumer preferences and local tastes can

create excitement for our guests and drive them to visit, which is crucial to our ability to maintain our brand excellence and broaden our brand appeal. Each of our restaurant brands has proprietary menu items, many developed in China, and emphasizes the preparation of food with high quality ingredients, as well as unique recipes and special seasonings to provide appealing, tasty and convenient food choices at competitive prices. As of June 30, 2020, we had a dedicated food innovation team of approximately 40 professionals who primarily focus on the development and innovation of new recipes and improvement of existing products. In 2019, we launched around 400 new and improved products across all of our restaurant brands with over 150 campaigns organized to support the marketing of our new products. 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 western QSR and CDR dining in China.

Since KFC's entering into the PRC market in 1987, our efforts in menu innovation have been gradually paying off. KFC was the first western QSR brand in China to offer Chinese-style breakfast (such as congee and fried dough sticks). We also rolled out local tastes (such as meat mooncake (小鮮肉酥餅), Yunnan rose cake (雲南玫瑰酥餅) and green dumpling with salted egg and floss (鹹蛋黃肉鬆青團), nationally to celebrate Chinese festivals. In 2019, KFC launched an "unlimited" premium burger line, including a chicken and shrimp burger and an Australian beef burger. As part of KFC's limited time offerings, we also launched shrimp burger, double flavor spicy chicken, Portobello mushroom burger and double down burger. Additionally, KFC added a wing tip bucket, duck wraps and an upgraded stuffed croissant and beef congee to its breakfast line, while launching a variety of tea drinks (such as yogurt topped oolong tea). For Pizza Hut, we also launched new products such as lava Musang-king durian pizza, double thin & crispy pizza, dragon fruit drinks, snow pizza, and brewed wine desserts.

In addition to offering an innovative menu, we also seek to offer guests a superior value proposition, such as the KFC bucket, combo meals and special offers for loyalty program members. In 2019, we launched various value meal campaigns, such as KFC's Crazy Thursday campaign, which offers core products at attractive prices on Thursdays to all guests, and Pizza Hut's "Two dishes for 99 RMB" (mainly pizza and steak menu items) and "Scream Wednesday" for loyalty program members, which have been widely popular. Scream Wednesday also offers core products at attractive prices, including pizzas, steak and dessert options, and has received positive consumer feedback. We have also tied in menu innovation with value campaigns, such as designing special items including special edition pizza, piloted appetizers and drinks for "Scream Wednesday."

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. According to the F&S Report, KFC was one of the earliest adopters of mobile ordering among restaurant chains in China. 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. In January 2019, KFC introduced AI-enabled menus to recommend personalized menu items and discounts to guests based on their ordering patterns and taste preferences. In 2019, digital orders accounted for approximately 55% of KFC and Pizza Hut Company sales, indicating the popularity of this function among guests. For the six months ended June 30, 2020, digital orders accounted for approximately 80% of KFC and Pizza Hut Company sales, which was partially influenced by the COVID-19 pandemic.

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, according to the F&S Report. We commenced mobile payment cooperation with WeChat Pay in 2016. Digital payments accounted for an increasing percentage of our orders, from 33% in 2016 to 61% in 2017, and further to 81% in 2018, 91% in 2019 and 97% in the six months ended June 30, 2020. The increasing percentage indicates growing customer 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. According to the F&S Report, YUMC Pay was the first proprietary in-App payment solution in the restaurant industry in China, which offers a convenient payment option for users within a single App.

Through the collaboration with Alipay, 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 1,000 KFC restaurants across China as of June 30, 2020. KFC introduced AI technologies to personalize menus for diners in January 2019. Such technology analyzes guests’ ordering patterns and local tastes to enable KFC Super App to recommend personalized menu items which guests are most likely interested in. KFC Super App then offers additional personalized and discounted trade-up options. In addition, we also have adopted AI technology to analyze and forecast transaction volume so that we can improve labor scheduling and reduce wastage.

Guest Loyalty and Interaction

According to the F&S Report, KFC and Pizza Hut were the first QSR and CDR restaurant brands in China to launch super Apps, respectively. China has entered into an age of super Apps, such as WeChat, 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. KFC rolled out “KFC Super App”, its proprietary self-developed smartphone application, for market testing in 2015. In early 2016, KFC Super App was implemented nationwide.

BUSINESS

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. As of December 31, 2019, the KFC and Pizza Hut Super Apps were, by far, the most downloaded Apps in the PRC restaurant industry, approximately three times the size of the second ranked player in terms of downloads from an iOS system or in terms of downloads and updates from an Android system, and had the highest number of MAUs among our peers, approximately three times the size of the competitor with the second-largest MAUs in China. For details of our loyalty programs, see “— Guests and Marketing.” The following table sets forth certain operational data of our KFC and Pizza Hut Super Apps as of and for the period indicated.

	MAU ⁽¹⁾ in June 2020	Number of downloads from an iOS system as of June 30, 2020	Number of downloads and updates from an Android system as of June 30, 2020
		<i>(in millions)</i>	
KFC Super App	89	51	527
Pizza Hut Super App	13	14	111
Total	102	65	638

(1) MAU refers to the monthly active users of the KFC Super App, Pizza Hut Super App, as well as the mini-programs embedded in third party applications.

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. As of June 30, 2020, we had approximately 700 million downloads and updates of our KFC and Pizza Hut Super Apps, with over 100 million MAUs in June 2020. These downloads and activities enable members to place digital orders, which primarily include delivery, mobile pre-order and tableside self-ordering. Digital ordering grew from 38% of sales in 2018 to 55% in 2019, and were 80% for the six months ended June 30, 2020. 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. While our overall sales declined for the six months ended June 30, 2020 primarily due to the impact of the COVID-19 pandemic, our period-over-period member sales grew by double digits for the same period. All of these are facilitated by our strong Super Apps and WeChat mini programs at our core brands.

We believe a creative and fun interaction with our guests can help us enhance the guest experience and guest loyalty, which will ultimately lead to increased sales. In December 2018, we developed and launched KFC Pocket Stores in the KFC Super App. This mobile game invites guests to personalize and cultivate their own virtual KFC stores. Gamified features such as the ability to unlock new products and design the guests’ storefront further augment the guest experience, enhance the guest interaction and ultimately lead to increased sales for us. The KFC Pocket Store was awarded three Gold Cannes Lions Awards (one of the most prestigious creative awards worldwide) at the Cannes Lions Festival 2019. In addition, we rolled out a program where guests can choose the store’s background music via the KFC Super App and listen to a favorite tune while they eat: a mobile juke box at certain KFC restaurants in February 2017. This technology has now been promoted in almost all KFC stores except for stores located at transportation hubs or special stores. Starting in 2018, certain KFC stores in Shanghai and Hangzhou commenced to use robot arms to prepare ice cream cones, which creates a fun and efficient guest experience and helps attract guest traffic.

Delivery Business

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, according to the F&S Report. 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 online to offline, or O2O, aggregators such as Meituan (美團) and Eleme (餓了麼), the two largest online ordering and delivery platforms in China, to generate 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 2019 and the six months ended June 30, 2020, approximately 40% and 20% of respective delivery orders and delivery sales of KFC and Pizza Hut, respectively, were generated from our own channels, including mobile and online platforms. We have also made investments in delivery outside our restaurant brands, including via the acquisition of a controlling interest in the holding company of Daojia, an established online food delivery service provider.

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 gives us greater control over delivery quality and improves 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. According to the F&S Report, we are the first and one of the few restaurants in China to use dedicated riders for delivery services. In 2019, Company sales through delivery accounted for 21% of total Company sales for the same period, which further increased to 32% for the six months ended June 30, 2020, partially driven by the increased delivery orders as a result of the COVID-19 pandemic.

Going forward, we will continue to improve our delivery efficiency by adopting AI-enabled technology. Such technology will analyze big data of rider activities and deliver route information to optimize business cycles and improve scheduling efficiency of riders and other labors. We also seek to implement innovative delivery strategies to capture business opportunities. For example, in 2017, we began to collaborate with China Railway to deliver KFC digital orders on certain train routes. Further, in response to the COVID-19 outbreak, in January 2020, KFC and Pizza Hut became one of the first restaurant brands in China to roll out contactless delivery nationwide. This arrangement helps us to reduce the risk of disease transmission and protect our guests, staff and riders, while maintaining delivery sales.

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 for KFC and Pizza Hut to meet different guest needs. For example, we are opening more small-format restaurant units which will provide us the flexibility for further market penetration. We are also reshaping certain restaurants by providing fewer seats and focusing more on delivery orders. 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. Over 80% of KFC restaurant units as of December 31, 2019 were remodeled or built in the past five years. Pizza Hut is also well-regarded for offering consumers a contemporary casual dining setting. In 2019,

BUSINESS

over 20% of Pizza Hut units were remodeled. Our brands also look to improve efficiency to drive sales growth. For example, we simplified our menus items and fine-tuned our digital menu boards and in-store self-service order kiosks.

R&D Center

In January 2019, we opened a world-class 27,000 square-foot innovation center in downtown Shanghai, which, to the best knowledge of Frost & Sullivan, is the largest innovation center in the restaurant industry in China in terms of gross floor area. The innovation center is an integrated research and development facility that has been designed to generate new ideas and concepts to enable the rapid roll-out of innovative products. Its state of the art facilities include a test kitchen, a sensory test area, a coffee training studio, as well as a suite of labs covering restaurant equipment and technology innovation, packaging innovation, new store model prototyping, quality assurance, and content production. The newly-established innovation center has already generated immense benefits to us in (i) inventing and developing new menu items with new ingredients as well as new cooking methods for catering to guests' local tastes; (ii) developing and prototyping new restaurant models to enhance the guest experience as well as operations efficiency; (iii) providing operational and technical trainings to new coffee baristas; (iv) innovating new restaurant equipment and technologies to improve sustainable growth and operational efficiency; and (v) developing new packaging materials and packaging solutions that are more environmentally friendly.

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. 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.

Our in-house and integrated supply chain management system and logistics management system are driven by innovative digitalization and automation technologies. See “— Operational Management — Supply Chain Management” for details.

SUPPLIER

Our 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 and vegetables. The shelf life of vegetables is generally three days and the shelf lives of protein ingredients generally vary from six months to one year. Alternative sources for most of these products are generally available. During the Track Record Period and up to the Latest Practicable Date, we did not experience any incidents of food supply interruption, early termination of contractual arrangements with suppliers or failure to secure sufficient quantities of food materials that had a material adverse impact on us.

BUSINESS

Prices paid for supplies fluctuate. The chart below illustrates the sensitivity analysis of our food and paper costs on profit for the period indicated⁽¹⁾, assuming all other factors remain unchanged.

Hypothetical changes in food and paper costs of US\$1,051 million for the six months ended June 30, 2020

	<u>-10%</u>	<u>-5%</u>	<u>-2%</u>	<u>-1%</u>	<u>+1%</u>	<u>+2%</u>	<u>+5%</u>	<u>+10%</u>
	<i>(in millions of U.S. dollars)</i>							
Food and paper costs	946	998	1,030	1,040	1,062	1,072	1,104	1,156
Changes in food and paper costs in the six months ended June 30, 2020	(105)	(53)	(21)	(11)	11	21	53	105
Change in net income ⁽¹⁾	79	39	16	8	(8)	(16)	(39)	(79)

Hypothetical changes in food and paper costs of US\$2,479 million for the year ended December 31, 2019

	<u>-10%</u>	<u>-5%</u>	<u>-2%</u>	<u>-1%</u>	<u>+1%</u>	<u>+2%</u>	<u>+5%</u>	<u>+10%</u>
	<i>(in millions of U.S. dollars)</i>							
Food and paper costs	2,231	2,355	2,429	2,454	2,504	2,529	2,603	2,727
Changes in food and paper costs in 2019	(248)	(124)	(50)	(25)	25	50	124	248
Changes in net income ⁽¹⁾	186	93	37	19	(19)	(37)	(93)	(186)

Hypothetical changes in food and paper costs of US\$2,326 million for the year ended December 31, 2018

	<u>-10%</u>	<u>-5%</u>	<u>-2%</u>	<u>-1%</u>	<u>+1%</u>	<u>+2%</u>	<u>+5%</u>	<u>+10%</u>
	<i>(in millions of U.S. dollars)</i>							
Food and paper costs	2,093	2,210	2,279	2,303	2,349	2,373	2,442	2,559
Changes in food and paper costs in 2018	(233)	(116)	(47)	(23)	23	47	116	233
Changes in net income ⁽¹⁾	174	87	35	17	(17)	(35)	(87)	(174)

Hypothetical changes in food and paper costs of US\$2,034 million for the year ended December 31, 2017

	<u>-10%</u>	<u>-5%</u>	<u>-2%</u>	<u>-1%</u>	<u>+1%</u>	<u>+2%</u>	<u>+5%</u>	<u>+10%</u>
	<i>(in millions of U.S. dollars)</i>							
Food and paper costs	1,831	1,932	1,993	2,014	2,054	2,075	2,136	2,237
Changes in food and paper costs in 2017	(203)	(102)	(41)	(20)	20	41	102	203
Changes in net income ⁽¹⁾	153	76	31	15	(15)	(31)	(76)	(153)

(1) We apply the statutory tax rate of 25% in China for the calculation of the sensitivity analysis.

We have measures in place to effectively manage raw material costs in light of price fluctuations. When prices increase, the brands may attempt to pass on such increases to their guests, although there is no assurance that this can be done practically. We also control our raw material costs through entering into long-term bulk purchase agreements for our key food ingredients.

We partner with over 800 independent suppliers, which are mostly China-based. We have maintained long-term business relationships of over 12 years with eight of the ten largest suppliers. We, along with multiple independently owned and operated distributors, utilize 25 logistics centers and six consolidation centers to distribute supplies to our own and franchise restaurant units, as well as to third-party customers. Our supply chain strategy of working with multiple suppliers, as well as the building of a vast logistics network, allows for continuous supply of products in the event that supply from an individual supplier or logistics center becomes unfeasible.

Starting from August 2016, we adopted a central procurement model whereby we centrally purchase the vast majority of food and paper products from approved suppliers for most of our restaurants. We believe this central procurement model allows us to maintain quality control and achieve better purchase prices and terms through volume purchases. Effective anti-kickback policies and procedures are crucial to the integrity of our procurement system. All of our employees, including those responsible for procurement, are required to complete FCPA training.

During the Track Record Period, our purchase amount from our five largest suppliers accounted for less than 30% of our total purchases for the six months ended June 30, 2020 and each of the years ended December 31, 2019, 2018 and 2017.

GUESTS AND MARKETING

Our restaurant brands have broad appeal. KFC opened its first restaurant in China as early as 1987, being the first major global restaurant brand to enter the China market, according to the F&S Report. Adapting to local market conditions and local tastes, we expanded rapidly across city tiers in China and established one of the largest network of self-operated restaurants and supply chain operations, ensuring quality and consistency of our products and services across China. As a result, dining at our KFC and Pizza Hut restaurants became the first taste of western food for many Chinese guests.

KFC and Pizza Hut each operates a loyalty program that allows registered members to earn points for each qualifying purchase, which may be redeemed for future purchases of KFC or Pizza Hut branded products or other products for free or at a discounted price. Our two billion guest visits per year provide a major target demographic for our digital member acquisition. Starting from May 2018, KFC and Pizza Huts' K-Gold programs were merged into a single program "V-Gold program", which was further upgraded in-house to include the loyalty programs for Taco Bell. We believe that one single loyalty program for multiple brands can create cross-selling opportunities. Members earn V-Gold points through purchases at our respective brands and may redeem these points for coupons or vouchers that may be used at other brands. For the six months ended June 30, 2020, approximately 15% of membership points redeemed were cross-brands. Almost 10% of points earned from KFC were spent on Pizza Hut products, and approximately 50% of points earned from Pizza Hut were spent on KFC products. As of June 30, 2020, KFC had over 240 million loyalty program members and Pizza Hut had over 75 million, each including approximately 50 million unique loyalty members for both KFC and Pizza Hut. Our marketing efforts reach these unique individuals to motivate sign ups at both KFC and Pizza Hut, and there is cross selling potential to drive KFC members to sign up for Pizza Hut memberships and vice versa. In the six months ended June 30, 2020, KFC member sales represented 63% of KFC's System sales and Pizza Hut member sales represented 49% of Pizza Hut's System sales.

Our loyalty program also enables us to generate additional revenue. For example, the average revenue per KFC and Pizza Hut's active loyalty program member almost doubled in 2019 as compared to that in 2016. Such a large number of loyalty program members in turn provides a

substantial amount of valuable guest behavioral data. These valuable guest behavioral data enable us to perform big data and AI analysis and better understand the food and taste preferences of our guests, which inform our menu innovation endeavors and enable us to offer a variety of personalized value-added services, such as dish recommendations based on ordering history. See “—Innovation and Digitalization” for details. With decades of accumulated consumer know-how and loyalty in China, KFC and Pizza Hut are ingrained into the daily lives of Chinese consumers and have been established as leading restaurant brands in China.

In order to further enhance our guest loyalty, we also offer a subscription-based privilege membership program, which allows us to better implement targeted marketing efforts. KFC launched their privilege membership subscription program in July 2018 and Pizza Hut also launched a family privilege membership program in the fourth quarter of 2018. With such privilege membership subscription programs, members can receive different types of privileges that cater to their spending preferences, such as KFC’s delivery, breakfast and coffee privileges, as well as super privileges, which combines all three, and Pizza Hut’s family, delivery and steak privileges. Privilege subscription program members may also choose among monthly, quarterly or annual membership. We observed a greater-than doubling in frequency and overall spending for KFC privilege members during their subscription period. Because of broad appeal and strong brand awareness, since the launch of such privilege membership programs and up to June 30, 2020, we had sold approximately 26 million accumulative privilege membership subscriptions.

From time to time, we receive feedback or complaints from guests at our restaurants. To enhance guest satisfaction, we have established detailed procedures to handle complaints. Each restaurant staff member is required to resolve customer complaints promptly and each restaurant general manager is responsible for serious customer complaints or incidents. We take various remedial actions promptly to address guest complaints, including replacing dishes that were the subject of the customer’s complaints or waiving charges on dishes. During the Track Record Period, we did not experience any material customer complaint with respect to our restaurants that had a material adverse impact on us.

We design our branding, marketing and promotional strategies to enhance our brand image and awareness. We generally adopt an omni-channel marketing approach, including online advertising, social media campaigns and offline events and campaigns to enhance our brand awareness and brand recognition. In addition, we also engage celebrities as brand ambassadors to market our brands from time to time, which we believe can help to promote our brand image and drive our guest awareness, especially among the younger generation in China. Our marketing expenses incurred for stores in our system were US\$409 million for the year ended December 31, 2019. Sales and marketing spending relating to innovation accounted for approximately 40% of total marketing expenses, including marketing activities relating to our proprietary apps, customer relationship management, delivery and digital media advertising, among others.

During the Track Record Period, our revenue generated from our five largest customers accounted for less than 10% of our total revenues for the six months ended June 30, 2020 and each of the years ended December 31, 2019, 2018 and 2017.

COMPETITION

Data from the NBS indicates that sales in the restaurant industry in China totaled approximately US\$658 billion (equivalent to RMB4,672.1 billion) in 2019. Industry conditions vary by region, with local Chinese restaurants and western restaurant chains present, but we possess the largest market share (as measured by System sales according to

BUSINESS

the F&S Report). 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, concepts covering restaurant, delivery and shared kitchens. Specifically, with the proliferation of food delivery services in China, shared kitchens have gained increasing popularity in China as the shared kitchens can be rented to enable small-scale food preparation and leverage food delivery services to cater to the food delivery market. Food processors and small scale restaurant operators that utilize shared kitchen could pose competition to traditional fast food restaurants and restaurants' food delivery businesses. Shared kitchens enable players to address the evolving tastes of consumers with more flexibility and agility due to lowered capital expenditure and operating costs. However, shared kitchen participants may have less stringent food safety and quality standards, limited growth opportunities and lack of product development capabilities compared to scaled operators with strong brand recognition. 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.

PRICING

Generally, pricing of our menu items is determined by our headquarters. Pricing is set and updated periodically based on costs and prevailing market conditions (including prices of our competitors). Within the same brand, prices for the same menu items may differ across different restaurants based on location type, geographical region and channels. These pricing differences reflect cost conditions, income levels, market trends and customer feedback.

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.

BUSINESS

EMPLOYEES

As of June 30, 2020, we employed 405,241 persons, substantially all of whom are located in China. As of the same date, we had 877 employees who are responsible for marketing, information technology, food innovation, packaging, equipment and restaurant excellence at our headquarters and regional offices, the majority of whom were involved in our innovative activities. Our employees include both full-time and part-time employees, and our employee count may fluctuate from time to time due to seasonality. The table below sets forth a breakdown of our employees by function as of June 30, 2020.

	<u>Number of Employees</u>
Restaurant level	
Restaurant management team	32,867
Restaurant crew member	363,424
Headquarters, regional offices and logistics centers	
Operational management	3,222
Site development and construction management	1,307
Supply chain management	1,129
Marketing, information technology, food innovation, packaging, equipment and restaurant excellence	877
Food safety and quality assurance	304
Others ⁽¹⁾	2,111
Total	<u>405,241</u>

(1) Others primarily include staff that are responsible for finance, human resources, public affairs, legal and other supporting functions.

We have always been committed to creating a fair, inclusive and diverse workplace for our employees as we believe they are our most valuable assets. We offer comprehensive compensation and benefits package to ensure our employees are rewarded for their individual contributions. Our employee Code of Conduct holds every employee accountable for treating our colleagues with respect and fairness, allowing them to be recognized and rewarded based on their performance. We have established an independent labor union, which all employees are encouraged to join.

As RGMs hold the most important leadership positions in the Company and are responsible for day-to-day management of each restaurant unit, we believe RGMs' strong sense of ownership and pursuit of excellence will help us continue to grow and generate good returns for shareholders and for RGMs themselves. We implemented a systematic training plan to provide a comprehensive career progression path for RGMs. We also offer certain stock ownership programs for eligible RGMs. We hold an annual RGM convention that brings together RGMs from across China. At this event, our RGMs come together to experience and learn more about Yum China's culture and development plans. At the same time, the RGM convention also serves as an important platform for RGMs to share insights and experiences, as well as to motivate each other for the year ahead. In 2018, we implemented the RGM Family Care Program to provide additional supplemental insurance coverage for family members of eligible RGMs who have worked at the RGM position for over two years and we proactively expanded the RGM Family Care Program to provide health insurance coverage for all restaurant management team members.

Our commitment to employees is reflected in the numerous awards we have received, including the Top Employer China for 2020 awarded by the Top Employers Institute and the 2018 Best Community Program awarded at the Global CSR Summit. In addition, we were

BUSINESS

among the first companies in the PRC to be included in the 2019 Bloomberg Gender Equality Index.

PROPERTIES

As of June 30, 2020, we leased land, building or both for over 7,400 units in China. We believe that our properties are generally in good operating condition and are suitable for the purposes for which they are being used. The Company-owned units are further detailed as follows:

- KFC leased land, building or both (including land use rights) for approximately 5,202 units;
- Pizza Hut leased land, building or both (including land use rights) for approximately 2,137 units; and
- in addition to KFC and Pizza Hut, we also leased land, building or both (including land use rights) for approximately 97 units for our other restaurant brands.

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 land use rights for seven non-store properties of Little Sheep, Huang Ji Huang and logistics centers. We sublease over 170 properties to franchisees and other third parties.

INTELLECTUAL PROPERTY

Our use of certain material trademarks and service marks is governed by a master license agreement between us and YUM. 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, Taiwan and Macau. 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. As such, we are able to enjoy, and have been enjoying the value of the well-recognized international brands owned by YUM. In addition, we were also 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 by and between YUM and us on October 31, 2016. The name license agreement can only 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 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.

BUSINESS

As of June 30, 2020, we had 50 registered patents and 10 publicly filed patent applications in China, which cover key areas of our business, including Super Apps, ordering, delivery, payment, marketing, loyalty program, membership management, supply chain and packaging. We have also registered over 530 trademarks in China and various other countries and jurisdictions.

INSURANCE

We have obtained insurance policies that we believe are customary and appropriate for businesses of our size and type and in line with the standard commercial practice in China. See “Risk Factors — Risks Relating to Our Business and Industry — Our insurance policies may not provide adequate coverage for all claims associated with our business operations.” for details.

OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We are subject to environmental protection and occupational health and safety laws and regulations in the PRC. For details on our environmental protection efforts, see “— Sustainability — Restaurant Sustainability.” During the Track Record Period, we complied with the relevant applicable environmental and occupational health and safety laws and regulations in all material respects in the PRC. Our environmental protection expenses were not material during the Track Record Period and is expected to remain at similar levels. We strive to provide a safe working environment for our employees and implement work safety guidelines for all of our employees.

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 Accountants’ Report as set out in Appendix I to this prospectus, is not likely to have a material adverse effect on the our results of operations, financial condition or cash flows. Matters faced by us 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 were not involved in any material legal proceedings as of the Latest Practicable Date.

COMPLIANCE, LICENSES AND PERMITS

We are subject to various laws affecting our business, including laws and regulations concerning information 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 (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, which could be obtained upon satisfactory compliance with, among other things, the applicable laws and regulations in relation to food safety, environmental protection and fire safety. The food business license normally has a validity period of five years according to applicable PRC laws and regulations. The environmental protection assessment and inspection registration or approval, and the fire safety inspection acceptance approval or alternative approval do not have validity periods under applicable PRC laws and regulations.

Our PRC Legal Advisor is of the opinion that, to the extent that our PRC legal Advisor has conducted PRC legal due diligence on the Major Subsidiaries incorporated in the PRC (not

including the branches of each of the Major Subsidiaries) and certain selected Company-owned restaurants, during the Track Record Period, the Major Subsidiaries incorporated in the PRC complied with applicable PRC laws and regulations in all material respects, and obtained all requisite licenses and approvals that were material for their operations in the PRC, and that as at the Latest Practicable Date, these licenses and approvals required for their operations remained valid and in effect in material respects and that no material legal impediment to their renewal existed. In addition, as of the Latest Practicable Date, we owned two ICP licenses (互聯網信息服務業務經營許可證) with respect to Daojia's online food delivery business. For details of our acquisition of Daojia, see "Our History and Corporate Structure — Corporate Structure." We have not historically been materially adversely affected by such licensing and regulation or by any difficulty, delay or failure to obtain required licenses or permits.

RISK MANAGEMENT AND INTERNAL CONTROL

We had a long history of internal control in accordance with the United States standards and we have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. We have established three Board committees to oversee specific risks in our business operations, including the Audit Committee, Compensation Committee and Food Safety Committee. The Audit Committee engages in substantive discussions with our management regarding our major risk exposures and the steps management has taken to monitor and control such exposure, including our risk assessment and risk management policies. The Compensation Committee oversees the risks that may be implicated by our compensation program. The Food Safety Committee oversees the risks arising from our food safety practice. For details of the functions and composition of these Board Committees, see "Directors, Senior Management and Employees — Board Practices — Board Committees."

Specifically, due to the complexity of the food supply chain, we maintain a high degree of vigilance in order to ensure the effective operations of our food safety management system. We have established a dynamic food safety risk monitoring system allowing for detailed quality management according to the characteristics of different types of raw materials and food contact materials. This system, which was established based on risk research and assessment, ensures effective risk management and early warning, and has strengthened our food safety protection systems. At the same time, risk assessments are regularly conducted on restaurant operations and delivery. Our quality assurance department holds risk assessment meetings with relevant departments every month. Risk assessments are based on several factors including industry dynamics, media coverage, government supervision, sampling test reports, food laws and regulations, and supply chain management, among others. The assessments carefully evaluate food safety risks, quality risks, regulatory risks, food fraud and other risks, based on assessment levels, which contribute to the improvement of management systems and introduction of new management measures.

The Board and the Audit Committee are also involved in oversight of our 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 our 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.

ENVIRONMENT, SOCIAL AND GOVERNANCE

Sets forth below are key components of our environment, social and governance efforts.

- *Nutritious food.* We are committed to providing safe and nutritious food in a way that is economically, socially and environmentally sustainable. For example, we advocated well balanced diet, less sugar, less oil, less salt by using a wide variety of ingredients such as meat, poultry, grains, dairy products, fruits and vegetables and application of multiple cooking methods in the preparation of food, including frying, roasting, boiling, sautéing and grilling. We increase the use of grains, fruits and vegetables, beans and nuts to enrich menu choices and provide customers with balanced meals. For example, we use more than 50 varieties of fruits and vegetables in our food.
- *Packaging.* We aim to reduce our environmental footprint through 4R Principles (Reduce, Reuse, Recycle and Replace) with the application of new packaging solutions, new materials, innovative technologies and various other methods. We follow local regulations on classification of waste generated during restaurant operation, and engage our customers and other stakeholders to drive for plastic and waste reduction. In 2019, we saved over 8,000 tons of paper packaging and 1,000 tons of plastic packaging through packaging reduction initiatives; and saved more than 2,000 tons of paper packaging and reduced approximately 20% of restaurant waste through the use of reusable serving basket. The reusable serving baskets have been rolled to all KFC restaurants across China.
- *Food waste.* We also strive to reduce food waste at our restaurants. In 2019, we introduced sophisticated kitchen equipment and AI technology for precise production forecasting, improved cold chain to reduce food loss, and strengthened the back of house operation, which effectively reduced the loss and waste of chicken products. We successfully saved about 50 tons of food loss through these technologies in 2019.
- *Supply chain.* We are dedicated to developing innovative programs to improve sustainability performance across our supply chain. Since becoming a member of Roundtable on Sustainable Palm Oil (“RSPO”) in 2017, all of our purchased palm oil has been RSPO certified. We only purchase poultry from large-scale poultry suppliers that demonstrate and maintain compliance with animal welfare regulations and practices, as well as our animal welfare guidelines. Further, we have also promote Yum China Good Agricultural Practices at upstream vegetable bases with rigorous control of base selection, soil and water safety, planting technology, pesticide management, fertilizer use, and good practices operations.
- *Social and community.* Our social and community sustainability efforts primarily focus on four areas — poverty. alleviation, community care, child and youth development and advocacy for healthy lifestyles. We founded “The One Yuan Donation” program in 2008 in partnership with China Foundation for Poverty Alleviation. We also launched KFC Angel Restaurants in 2012. In 2016, KFC partnered with the China Children and Teenagers’ Fund to launch a fund for left behind and migrant children.
- *Corporate Governance.* We had a long history of internal control in accordance with the United States standards and we have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. We have established three Board committees to oversee specific risks in our business operations, including the Audit Committee, Compensation Committee and Food Safety Committee.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements included in “Appendix I — Accountants’ Report” to this prospectus, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with U.S. GAAP, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this prospectus, including those set forth in “Risk Factors” and “Forward-Looking Statements” in this prospectus.

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 re-compute due to rounding. Throughout this prospectus when we refer to the “financial statements,” we are referring to the “consolidated financial statements,” unless the context indicates otherwise.

OVERVIEW

Yum China is the largest restaurant company in China in terms of 2019 System sales, according to the F&S Report. We had US\$8.8 billion of revenue in 2019 and over 9,900 restaurants as of June 30, 2020. 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, COFFii & JOY, East Dawning, Taco Bell and Lavazza. We have the exclusive right to operate and sub-license the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Taiwan and Macau. We own the intellectual property of the Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning concepts outright. We also partnered with Lavazza Group, the world-renowned family-owned Italian coffee company, and established a joint venture, to explore and develop the Lavazza coffee shop concept in China. KFC was the first major global restaurant brand to enter China as early as 1987. With more than 30 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of 2019 System sales, with over 9,900 restaurants covering over 1,400 cities primarily in China as of June 30, 2020. We believe that there are significant expansion 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 QSR brand in China in terms of 2019 System sales, according to the F&S Report. As of June 30, 2020, KFC operated over 6,700 restaurants in over 1,400 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 2019.

Pizza Hut is the leading and the largest CDR brand in China in terms of 2019 System sales and number of restaurants, according to the F&S Report. As of June 30, 2020, Pizza Hut

FINANCIAL INFORMATION

operated over 2,200 restaurants in over 500 cities across China. Measured by number of restaurants, we believe Pizza Hut had an approximate five-to-one lead over its nearest western CDR competitor in China as of the end of 2019.

We have two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, East Dawning, Taco Bell, Daojia, COFFii & JOY and our e-commerce business, are combined and referred to as “all other segments”, as those operating segments are insignificant both individually and in the aggregate. For additional details of our reportable operating segments, see Note 17 of “Appendix I — Accountants’ Report.”

We intend for this financial information section 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 section, we discuss the following performance metrics:

- We provide 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 (“**System sales**”). Sales of franchise and unconsolidated affiliate restaurants typically generate ongoing franchise fees for the Company at a rate of approximately 6% of System sales. Franchise and unconsolidated affiliate restaurant sales are not included in Company sales in the 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.
- Same-store sales growth (“**Same-store sales growth**”) represents 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.
- Company sales (“**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 (“**Restaurant margin**”) percentage is defined as Restaurant profit divided by Company sales. Within the Company sales and Restaurant profit analysis, Store portfolio actions (“**Store portfolio actions**”) represent the net impact of new-unit openings, acquisitions, refranchising and store closures, and Other (“**Other**”) primarily represents the impact of same-store sales as well as the impact of changes in restaurant operating costs such as inflation/deflation.

FINANCIAL INFORMATION

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Expansion of Our Restaurant Network

With over 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 2019 System sales, with over 9,900 restaurants covering over 1,400 cities primarily in China as of June 30, 2020. The following table sets forth the total number of restaurant units and their movement for the period indicated.

	For the six months ended June 30, 2020	For the year ended December 31, 2019	2018	2017
Number of restaurant units at the beginning of the period				
KFC	6,534	5,910	5,488	5,224
Pizza Hut	2,281	2,240	2,195	2,081
Other brands ⁽²⁾	385	334	300	257
Total	9,200	8,484	7,983	7,562
Number of new restaurant units opened or acquired during the period				
KFC	307	742	566	408
Pizza Hut	19	132	157	180
Other brands ⁽²⁾	648 ⁽¹⁾	132	96	103
Total	974	1,006	819	691
Number of restaurant units closed during the period ⁽²⁾				
KFC	92	118	144	144
Pizza Hut	42	91	112	66
Other brands	86	81	62	60
Total	220	290	318	270
Number of restaurant units at the end of the period				
KFC	6,749	6,534	5,910	5,488
Pizza Hut	2,258	2,281	2,240	2,195
Other brands	947	385	334	300
Total	9,954	9,200	8,484	7,983

(1) Including the restaurants of Huang Ji Huang as a result of the acquisition.

(2) Our restaurant closures during the Track Record Period were primarily due to termination or non-renewal of leases, store relocations and other commercial reasons, including closure of under-performing stores.

For details of our expansion strategy, see “Business — Business Strategy — Continue to strategically expand our restaurant network.”

FINANCIAL INFORMATION

Same-Store Sales Growth

Same-store sales growth is a significant indicator of the overall strength of our business. The following table sets forth our same-store sales growth (decline) for the period indicated.

	<u>2020 1H</u>	<u>2019</u>	<u>2018</u>
KFC	(11)%	4%	2%
Pizza Hut	(22)%	1%	(5)%
Overall	(13)%	3%	1%

System Sales Growth

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.

Set forth below is our System sales growth/(decline) for the period indicated.

	<u>For the six months ended June 30, 2020</u>	<u>For the year ended December 31, 2019</u>	<u>2018</u>
System sales growth/(decline)	(16)%	4%	7%
System sales growth/(decline), excluding F/X	(13)%	9%	5%

Restaurant Profit and Margin

The following table sets forth our Restaurant profit and Restaurant margin for the period indicated.

	<u>For the year ended December 31,</u>						<u>For the six months ended June 30,</u>			
	<u>2019</u>		<u>2018</u>		<u>2017</u>		<u>2020</u>		<u>2019</u>	
	<u>Restaurant profit</u>	<u>Restaurant margin</u>	<u>Restaurant profit</u>	<u>Restaurant margin</u>	<u>Restaurant profit</u>	<u>Restaurant margin</u>	<u>Restaurant profit</u>	<u>Restaurant margin</u>	<u>Restaurant profit</u>	<u>Restaurant margin</u>
	<i>(in millions of U.S. dollars, except percentages)</i>									
KFC	1,042	17.8%	984	17.9%	877	18.0%	349	14.1%	534	18.1%
Pizza Hut ...	227	11.1%	215	10.3%	292	13.9%	48	6.4%	135	12.9%
Overall ..	1,266	16.0%	1,199	15.7%	1,171	16.7%	396	12.2%	669	16.7%

Our Restaurant margin was 16.0%, 15.7% and 16.7% in 2019, 2018 and 2017, respectively, primarily due to changes in Restaurant margin of Pizza Hut while the Restaurant margin of KFC remained relatively stable during these periods. Our Restaurant margin was 12.2% and 16.7% for the six months ended June 30, 2020 and 2019, respectively, primarily due to the adverse impact from the COVID-19 pandemic. For details, see “— Results of Operations — Segment Results.”

RESULTS OF OPERATIONS

Summary

All comparisons within this summary are versus the same period a year ago. For a discussion of the seasonality of our operations, see “Business — Seasonality.” NM refers to changes over 100%, from negative to positive amounts or from zero to an amount. %B/(W) represents period-over-period change in percentage.

FINANCIAL INFORMATION

As compared to the six months ended June 30, 2019, our total revenues for the same period in 2020 decreased 17%, or 15% excluding the impact of F/X, primarily due to the decrease of Company sales for the six months ended June 30, 2020 which was driven by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, partially offset by the net unit growth. As compared to the six months ended June 30, 2019, the decrease in operating profit for the same period in 2020 was primarily driven by same-store sales declines, temporary store closures, commodity inflation and higher store impairment charges, partially offset by labor efficiency, one-time reductions in social security contributions and lease concessions, and utilities savings. As compared to the six months ended June 30, 2019, net income for the same period in 2020 decreased 52%, or 50%, excluding F/X, mainly due to the decrease in our operating profit.

As compared to 2018, our total revenues in 2019 increased 4%, or 9% excluding the impact of F/X, attributable to solid sales performance at KFC with same-store sales growth of 4% and 1% same-store sales growth at Pizza Hut. The increase was also attributable to new-unit openings of 1,006 or 8% net unit growth, bringing total store count to 9,200 in over 1,300 cities. As compared to 2018, the increase in operating profit in 2019, excluding the impact of F/X, was primarily driven by strong sales and margin expansion, partially offset by the negative impact from lapping a gain recognized from re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition in 2018, and higher G&A expenses in 2019. As compared to 2018, net income for 2019 increased 1%, or 6%, excluding F/X, mainly due to investment gain and the increase in operating profit, partially offset by the impact from the U.S. Tax Act, while Adjusted Net Income⁽¹⁾, excluding F/X, increased 26%.

As compared to 2017, our total revenues in 2018 increased 8%, or 6% excluding the impact of F/X, attributable to solid sales performance at KFC with same-store sales growth of 2%. The increase was also attributable to new-unit openings of 819 or 6% net unit growth, bringing total store count to 8,484 across more than 1,200 cities. As compared to 2017, the increase in operating profit in 2018, excluding the impact of F/X, was driven by strong sales, a gain recognized from re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition, G&A expenses savings and productivity improvements, partially offset by wage and commodity inflation, and higher investment in product upgrades and promotions. As compared to 2017, net income for 2018 increased 78%, or 70% excluding F/X, mainly due to the increase in operating profit and impact from the U.S. Tax Act, partially offset by investment loss, while Adjusted Net Income⁽¹⁾, excluding F/X, increased 4%.

Financial highlights of 2019 compared to 2018, 2018 compared to 2017 and the six months ended June 30, 2020 compared to the six months ended June 30, 2019 are presented below. Percentage changes in System sales and same-store sales presented in the tables below are excluding the impact of F/X.

	% Change				
	2019 vs. 2018				
	System sales	Same-store sales	Net new units	Operating profit (Reported)	Operating profit (Ex F/X)
KFC	11	4	11	6	11
Pizza Hut	3	1	2	17	22
All other segments ⁽¹⁾	7	(12)	15	(13)	(17)
Total	9	3	8	(4)	1

⁽¹⁾ See “— Non-GAAP Measures” for definitions and reconciliations of the most directly comparable U.S. GAAP financial measures to the non-GAAP measures.

FINANCIAL INFORMATION

- (1) 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.

	% Change				
	2018 vs. 2017				
	System sales	Same-store sales	Net new units	Operating profit (Reported)	Operating profit (Ex F/X)
KFC	7	2	8	11	8
Pizza Hut	(1)	(5)	2	(38)	(41)
All other segments ⁽¹⁾	(20)	(7)	11	(9)	(16)
Total	5	1	6	21	16

- (1) Sales from non-Company-owned restaurants are excluded from System sales and same-store sales.

	% Change				
	2020 1H vs. 2019 1H				
	System sales	Same-store sales	Net new units	Operating profit (Reported)	Operating profit (Ex F/X)
KFC	(10)	(11)	9	(37)	(34)
Pizza Hut	(25)	(22)	—	NM ⁽¹⁾	NM ⁽¹⁾
All other segments ⁽²⁾	69	(29)	NM ⁽¹⁾	(31)	(33)
Total	(13)	(13)	14	(56)	(54)

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

- (2) 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 following table sets forth select data from our consolidated statements of income and other data for the period indicated.

	For the year ended December 31,			For the six months ended June 30,		% B/(W) ⁽¹⁾					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X	Reported	Ex F/X	Reported	Ex F/X
<i>(in millions of U.S. dollars, except percentages and per share data)</i>											
Company sales	7,925	7,633	6,993	3,240	4,015	4	9	9	7	(19)	(16)
Franchise fees and income	148	141	141	72	75	5	9	1	(2)	(4)	(1)
Revenues from transactions with franchisees and unconsolidated affiliates	654	603	599	318	324	9	13	1	(1)	(2)	1
Other revenues	49	38	36	26	14	31	34	4	4	86	94
Total revenues	8,776	8,415	7,769	3,656	4,428	4	9	8	6	(17)	(15)
Restaurant profit	1,266	1,199	1,171	396	669	6	11	2	(1)	(41)	(39)
Restaurant margin % ...	16.0%	15.7%	16.7%	12.2%	16.7%	0.3 ppts.	0.3 ppts.	(1.0) ppts.	(1.0) ppts.	(4.5) ppts.	(4.5) ppts.
Operating profit	901	941	778	225	507	(4)	1	21	16	(56)	(54)
Interest income, net	39	36	25	17	19	7	12	47	44	(8)	(4)
Investment gain (loss)	63	(27)	—	37	27	NM	NM	NM	NM	40	40
Income tax provision ...	(260)	(214)	(379)	(77)	(139)	(21)	(26)	43	45	44	43

FINANCIAL INFORMATION

	For the year ended December 31,			For the six months ended June 30,		%B/(W) ⁽¹⁾					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
						Ex		Ex		Ex	
						(unaudited) Reported F/X		Reported F/X		Reported F/X	
	(in millions of U.S. dollars, except percentages and per share data)										
Net income – including non-controlling interests	743	736	424	202	414	1	6	74	66	(51)	(49)
Net income – non-controlling interests	30	28	26	8	14	(6)	(11)	(7)	(4)	44	42
Net income – Yum China Holdings, Inc.	713	708	398	194	400	1	6	78	70	(52)	(50)
Diluted Earnings Per Common Share ..	1.84	1.79	1.00	0.50	1.03	3	8	79	71	(51)	(50)
Effective tax rate	25.9%	22.6%	47.2%	27.8%	25.2%						
Supplementary information – Non-GAAP Measures⁽²⁾											
Adjusted Operating Profit	912	855	775	230	507						
Adjusted Net Income	729	606	559	199	408						
Adjusted Diluted Earnings Per Common Share	1.88	1.53	1.40	0.51	1.05						
Adjusted Effective Tax Rate	24.9%	26.5%	26.9%	27.3%	23.8%						
Adjusted EBITDA	1,378	1,340	1,242	480	749						

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

(2) See “— Non-GAAP Measures” for definitions and reconciliations of the most directly comparable U.S. GAAP financial measures to the non-GAAP measures.

Non-GAAP Measures

In addition to the results provided in accordance with GAAP throughout this section, the Company provides non-GAAP measures adjusted for Special Items, which include Adjusted Operating Profit, Adjusted Net Income, Adjusted Earnings Per Common Share, Adjusted Effective Tax Rate and Adjusted EBITDA, which we define as net income including non-controlling 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 tables set forth the reconciliations of the most directly comparable U.S. GAAP financial measures to the non-GAAP adjusted financial measures.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2018	2017	2020	2019
	(in millions of U.S. dollars, except percentages and per share data)				
<u>Non-GAAP Reconciliations</u>					
Reconciliation of Operating Profit to Adjusted Operating Profit					
Operating profit	901	941	778	225	507
Special Items, operating profit ^(a)	(11)	86	3	(5)	—
Adjusted Operating Profit	912	855	775	230	507

FINANCIAL INFORMATION

	For the year ended December 31,			For the six months ended June 30,	
	2019	2018	2017	2020	2019
<i>(in millions of U.S. dollars, except percentages and per share data)</i>					
Reconciliation of Net Income to Adjusted Net Income					
Net income – Yum China Holdings, Inc.	713	708	398	194	400
Special Items, net income – Yum China Holdings, Inc. ^(a)	(16)	102	(161)	(5)	(8)
Adjusted Net Income – Yum China Holdings, Inc.	<u>729</u>	<u>606</u>	<u>559</u>	<u>199</u>	<u>408</u>
Reconciliation of Earnings Per Common Share to Adjusted Earnings Per Common Share					
Basic Earnings Per Common Share	1.89	1.84	1.03	0.51	1.06
Special Items, Basic Earnings Per Common Share	(0.04)	0.26	(0.41)	(0.02)	(0.02)
Adjusted Basic Earnings Per Common Share	<u>1.93</u>	<u>1.58</u>	<u>1.44</u>	<u>0.53</u>	<u>1.08</u>
Diluted Earnings Per Common Share	1.84	1.79	1.00	0.50	1.03
Special Items, Diluted Earnings Per Common Share	(0.04)	0.26	(0.40)	(0.01)	(0.02)
Adjusted Diluted Earnings Per Common Share	<u>1.88</u>	<u>1.53</u>	<u>1.40</u>	<u>0.51</u>	<u>1.05</u>
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate					
Effective tax rate ^(b)	25.9%	22.6%	47.2%	27.8%	25.2%
Impact on effective tax rate as a result of Special Items	1.0%	(3.9)%	20.3%	0.5%	1.4%
Adjusted Effective Tax Rate	<u>24.9%</u>	<u>26.5%</u>	<u>26.9%</u>	<u>27.3%</u>	<u>23.8%</u>

(a) Special Items for the six months ended June 30, 2020 and the years ended December 31, 2019, 2018 and 2017 consist of derecognition of indemnification assets related to Daojia, share-based compensation cost recognized for a special award of performance stock units (“Partner PSU Awards”) granted to select employees, impairment on intangible assets and goodwill attributable to the Daojia business, impact from the U.S. Tax Act, gain recognized from the remeasurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition, and income from the reversal of contingent consideration previously recorded for a business combination. For details, see “— Details of Special Items.”

(b) For more details of income taxes, see Note 16 of “Appendix I — Accountants’ Report.”

FINANCIAL INFORMATION

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

	For the year ended December 31,			For the six months ended June 30,	
	2019	2018	2017	2020	2019
<i>(in millions of U.S. dollars)</i>					
Reconciliation of Net Income to Adjusted EBITDA					
Net income – Yum China Holdings, Inc.	713	708	398	194	400
Net income – non-controlling interests ...	30	28	26	8	14
Income tax provision	260	214	379	77	139
Interest income, net	(39)	(36)	(25)	(17)	(19)
Investment (gain) loss	(63)	27	–	(37)	(27)
Operating profit	901	941	778	225	507
Special Items, operating profit ^(a)	11	(86)	(3)	5	–
Adjusted Operating Profit	912	855	775	230	507
Depreciation and amortization	428	445	409	214	217
Store impairment charges	38	40	58	36	25
Adjusted EBITDA	1,378	1,340	1,242	480	749

(a) For details, see “— Details of Special Items.”

Details of Special Items

Details of Special Items are presented below:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2018	2017	2020	2019
<i>(in millions of U.S. dollars, except percentages and per share data)</i>					
Daojia impairment ⁽¹⁾	(11)	(12)	–	–	–
Gain from re-measurement of equity interest upon acquisition ⁽²⁾	–	98	–	–	–
Income from the reversal of contingent consideration ⁽³⁾	–	–	3	–	–
Derecognition of indemnification assets related to Daojia ⁽⁴⁾	–	–	–	(3)	–
Share-based compensation expense for Partner PSU Awards ⁽⁵⁾	–	–	–	(2)	–
Special Items, operating profit	(11)	86	3	(5)	–
Tax effect on Special Items ⁽⁶⁾	1	(21)	–	–	–
Impact from the U.S. Tax Act ⁽⁷⁾	(8)	36	(164)	–	(8)
Special Items, net income – including non-controlling interests	(18)	101	(161)	(5)	(8)
Special Items, net income – non-controlling interests ⁽¹⁾	(2)	(1)	–	–	–
Special Items, net income – Yum China Holdings, Inc.	(16)	102	(161)	(5)	(8)
Weighted-average diluted shares outstanding (in millions)	388	395	398	387	389
Special Items, Diluted Earnings Per Common Share	(0.04)	0.26	(0.40)	(0.01)	(0.02)

FINANCIAL INFORMATION

- (1) During the years ended December 31, 2019 and 2018, we recorded impairment charges of US\$11 million and US\$12 million, respectively, on intangible assets and goodwill attributable to the Daojia business. The amount was included in closures and impairment expenses in our consolidated statements of income, but was not allocated to any segment for performance reporting purposes. For the years ended December 31, 2019 and 2018, we recorded tax benefits of US\$1 million and US\$3 million, respectively, associated with the Daojia impairment, and allocated US\$2 million and US\$1 million of the after-tax impairment charges to non-controlling interests, respectively. For more details of the Daojia impairment, see Note 5 of “Appendix I — Accountants’ Report.”
- (2) As a result of the acquisition of Wuxi KFC in the first quarter of 2018, we recognized a gain of US\$98 million from the re-measurement of our previously held 47% equity interest at fair value, which was not allocated to any segment for performance reporting purposes. For more details of the gain from re-measurement of equity interest upon acquisition, see Note 5 of “Appendix I — Accountants’ Report.”
- (3) During the year ended December 31, 2017, we recognized income from the reversal of contingent consideration previously recorded for a business combination as the likelihood of making payment became remote.
- (4) For the six months ended June 30, 2020, we 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.
- (5) In February 2020, we 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. We recognized share-based compensation cost of \$2 million associated with the Partner PSU Awards for the six months ended June 30, 2020.
- (6) Tax effect was determined based upon the nature, as well as the jurisdiction, of each Special Item at applicable tax rate.
- (7) We incurred an estimated one-time income tax charge of US\$164 million in the fourth quarter of 2017, as a result of the U.S. Tax Act, due to the transition tax on deemed repatriation of accumulated undistributed earnings of foreign subsidiaries, and additional tax related to the revaluation of certain deferred tax assets. In the fourth quarter of 2018, we recognized a tax benefit of US\$36 million as a result of adjusting the provisional amount of the transition tax previously recorded. We completed the evaluation of the impact on our transition tax computation based on the final regulations that were released by the U.S. Treasury Department and the IRS and became effective in the first quarter of 2019, and recorded an additional tax expense of US\$8 million for the transition tax accordingly in the first quarter of 2019.

The Company excludes impact from Special Items for the purpose of evaluating performance internally. Special Items are not included in any of our segment results. In addition, the Company provides Adjusted EBITDA because we believe that investors and analysts may find it useful in measuring operating performance without regard to items such as income tax, interest income, net, investment gain or loss, depreciation and amortization, store impairment charges, and Special Items. Store impairment charges included as an adjustment item in Adjusted EBITDA primarily resulted from our semi-annual impairment evaluation of long-lived assets of individual restaurants, and additional impairment evaluation whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If these restaurant-level assets were not impaired, depreciation of the assets would have been recorded and included in EBITDA. Therefore, store impairment charges were a non-cash item similar to depreciation and amortization of our long-lived assets of restaurants. The Company believes that investors and analyst may find it useful in measuring operating performance without regard to such non-cash item.

FINANCIAL INFORMATION

These adjusted measures are not intended to replace the presentation of our financial results in accordance with U.S. 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

	For the year ended December 31,			For the six months ended		%B/(W)					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X	Reported	Ex F/X	Reported	Ex F/X
<i>(in millions of U.S. dollars, except percentages)</i>											
Company sales	5,839	5,495	4,863	2,480	2,949	6	11	13	10	(16)	(13)
Franchise fees and income	136	132	134	65	69	2	7	(1)	(3)	(7)	(3)
Revenues from transactions with franchisees and unconsolidated affiliates	64	61	69	31	32	6	10	(12)	(13)	(1)	2
Other revenue	1	—	—	—	—	NM	NM	NM	NM	(12)	(9)
Total revenues	6,040	5,688	5,066	2,576	3,050	6	11	12	10	(16)	(13)
Restaurant profit	1,042	984	877	349	534	6	11	12	9	(35)	(32)
Restaurant margin %	17.8%	17.9%	18.0%	14.1%	18.1%	(0.1) pts.	(0.1) pts.	(0.1) pts.	(0.1) pts.	(4.0) pts.	(4.0) pts.
G&A expenses	207	193	176	88	98	(7)	(12)	(10)	(8)	10	7
Franchise expenses	69	69	69	32	35	—	(5)	(2)	4	11	7
Expenses for transactions with franchisees and unconsolidated affiliates	64	60	70	31	32	(5)	(8)	11	12	1	(2)
Closure and impairment expenses, net	9	10	20	11	7	15	13	48	49	(64)	(73)
Other income, net	(56)	(50)	(57)	(29)	(30)	10	15	(11)	(13)	—	3
Operating profit	949	895	802	312	493	6	11	11	8	(37)	(34)

Performance Metrics

	2020 1H	2019	2018
System sales growth /(decline)	(14)%	6%	10%
System sales growth /(decline), excluding F/X	(10)%	11%	7%
Same-store sales growth /(decline)	(11)%	4%	2%

Unit Count

	2020 1H	2019	2018	2017	% Increase		
					2020 1H	2019	2018
Company-owned	5,231	5,083	4,597	4,112	N/A ⁽¹⁾	11	12
Unconsolidated affiliates	947	896	811	891	N/A ⁽¹⁾	10	(9)
Franchisees	571	555	502	485	N/A ⁽¹⁾	11	4
Total	6,749	6,534	5,910	5,488	N/A⁽¹⁾	11	8

(1) The “% increase” only indicates year-to-year comparison at year-end of the unit count and therefore the % increase for the six months ended June 30, 2020 is not applicable.

FINANCIAL INFORMATION

	<u>2019</u>	<u>New Builds</u>	<u>Closures</u>	<u>Refranchised</u>	<u>2020 1H</u>
Company-owned	5,083	227	(79)	–	5,231
Unconsolidated affiliates	896	63	(12)	–	947
Franchisees	555	17	(1)	–	571
Total	<u>6,534</u>	<u>307</u>	<u>(92)</u>	<u>–</u>	<u>6,749</u>

	<u>2018</u>	<u>New Builds</u>	<u>Closures</u>	<u>Refranchised</u>	<u>2019</u>
Company-owned	4,597	586	(83)	(17)	5,083
Unconsolidated affiliates	811	106	(21)	–	896
Franchisees	502	50	(14)	17	555
Total	<u>5,910</u>	<u>742</u>	<u>(118)</u>	<u>–</u>	<u>6,534</u>

	<u>2017</u>	<u>New Builds</u>	<u>Acquired⁽¹⁾</u>	<u>Closures</u>	<u>Refranchised</u>	<u>2018</u>
Company-owned	4,112	443	159	(108)	(9)	4,597
Unconsolidated affiliates	891	98	(157)	(21)	–	811
Franchisees	485	25	(2)	(15)	9	502
Total	<u>5,488</u>	<u>566</u>	<u>–</u>	<u>(144)</u>	<u>–</u>	<u>5,910</u>

(1) As a result of the acquisition of Wuxi KFC as disclosed in Note 1 of “Appendix I — Accountants’ Report,” the restaurant units of Wuxi KFC have been transferred from unconsolidated affiliates to Company-owned.

	<u>2016</u>	<u>New Builds</u>	<u>Closures</u>	<u>Refranchised</u>	<u>2017</u>
Company-owned	3,913	320	(111)	(10)	4,112
Unconsolidated affiliates	836	73	(16)	(2)	891
Franchisees	475	15	(17)	12	485
Total	<u>5,224</u>	<u>408</u>	<u>(144)</u>	<u>–</u>	<u>5,488</u>

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

- Company Sales and Restaurant Profit

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

	<u>Six months ended June 30,</u>				
		<u>Store</u>			
<u>Income (Expense)</u>	<u>2019</u>	<u>portfolio</u>	<u>Other</u>	<u>F/X</u>	<u>2020</u>
		<u>actions</u>			
		<i>(in millions of U.S. dollars)</i>			
Company sales	2,949	(54)	(327)	(88)	2,480
Cost of sales	(926)	12	74	29	(811)
Cost of labor	(631)	(15)	68	20	(558)
Occupancy and other operating expenses	(858)	(24)	93	27	(762)
Restaurant profit	<u>534</u>	<u>(81)</u>	<u>(92)</u>	<u>(12)</u>	<u>349</u>

The decrease in Company sales and Restaurant profit, excluding the impact of F/X, was primarily driven by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, higher promotion costs and commodity inflation of 2%, partially

FINANCIAL INFORMATION

offset by labor efficiency, one-time reductions in social security contributions and lease concessions, and utilities savings.

- Franchise Fees and Income

The decrease in franchise fees and income, excluding the impact of F/X, was primarily driven by same-store sales decline and temporary closure of restaurants operated by unconsolidated affiliates and franchisees due to the impact of the COVID-19 pandemic, partially offset by net unit growth.

- G&A Expenses

The decrease in G&A expenses, excluding the impact of F/X, was primarily driven by one-time reductions in social security contributions, realignment of cost structure and higher government incentives received, partially offset by merit compensation increases.

- Operating Profit

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

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018 and Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

- Company Sales and Restaurant Profit

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

2019 vs. 2018					
Income (Expense)	Store portfolio				
	2018	actions	Other	F/X	2019
<i>(in millions of U.S. dollars)</i>					
Company sales	5,495	414	194	(264)	5,839
Cost of sales	(1,679)	(136)	(102)	82	(1,835)
Cost of labor	(1,167)	(89)	(45)	56	(1,245)
Occupancy and other operating expenses	(1,665)	(125)	(5)	78	(1,717)
Restaurant profit	<u>984</u>	<u>64</u>	<u>42</u>	<u>(48)</u>	<u>1,042</u>
2018 vs. 2017					
Income (Expense)	Store portfolio				
	2017	actions	Other	F/X	2018
<i>(in millions of U.S. dollars)</i>					
Company sales	4,863	395	114	123	5,495
Cost of sales	(1,455)	(130)	(58)	(36)	(1,679)
Cost of labor	(1,013)	(91)	(40)	(23)	(1,167)
Occupancy and other operating expenses	(1,518)	(118)	8	(37)	(1,665)
Restaurant profit	<u>877</u>	<u>56</u>	<u>24</u>	<u>27</u>	<u>984</u>

FINANCIAL INFORMATION

In 2019, the increase in Company sales and Restaurant profit, excluding the impact of F/X, was mainly driven by same-store sales growth, net unit growth, labor efficiency, a decrease in utilities expenses and other restaurant operating costs, partially offset by commodity inflation of 4%, wage inflation of 5% and higher promotion cost.

In 2018, the increase in Company sales and Restaurant profit, excluding the impact of F/X, was driven by net unit growth including the acquisition of Wuxi KFC, same-store sales growth, labor efficiency, and a decrease in advertising expenses, partially offset by wage inflation of 6%, higher promotion cost and commodity inflation of 2%.

- Franchise Fees and Income

In 2019, the increase in franchise fees and income, excluding the impact of F/X, was primarily driven by same-store sales growth and net unit growth for the unconsolidated affiliates and franchisees, partially offset by the impact from the acquisition of Wuxi KFC in 2018.

In 2018, the decrease in franchise fees and income, excluding the impact of F/X, was primarily driven by the acquisition of Wuxi KFC, partially offset by net unit growth and same-store sales growth for the unconsolidated affiliates and franchisees.

- G&A Expenses

In 2019, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs mainly due to merit increases and higher performance-based compensation associated with strong operating results of KFC.

In 2018, the increase in G&A expenses, excluding the impact of F/X, was driven by higher compensation cost mainly due to merit increases.

- Operating Profit

In both 2019 and 2018, the increase in operating profit, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit, partially offset by higher G&A expenses.

FINANCIAL INFORMATION

Pizza Hut

	For the year ended December 31,			For the six months ended June 30,		% B/(W)					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X	Reported	Ex F/X	Reported	Ex F/X
	(in millions of U.S. dollars, except percentages)										
Company sales	2,045	2,106	2,090	744	1,048	(3)	2	1	(2)	(29)	(26)
Franchise fees and income	4	3	2	2	2	71	79	18	16	14	18
Revenues from transactions with franchisees and unconsolidated affiliates	4	2	1	2	2	NM	NM	12	11	8	11
Other revenue	1	—	—	—	1	NM	NM	NM	NM	(25)	(23)
Total revenues	2,054	2,111	2,093	748	1,053	(3)	2	1	(2)	(29)	(26)
Restaurant profit	227	215	292	48	135	5	10	(26)	(29)	(64)	(63)
Restaurant margin %	11.1%	10.3%	13.9%	6.4%	12.9%	0.8 ppts.	0.8 ppts.	(3.6) ppts.	(3.6) ppts.	(6.5) ppts.	(6.5) ppts.
G&A expenses	101	102	108	47	51	1	(4)	5	8	8	5
Franchise expenses	2	2	2	1	1	(32)	(38)	(22)	(19)	(3)	(6)
Expenses for transactions with franchisees and unconsolidated affiliates	4	2	1	2	2	NM	NM	(10)	(9)	(20)	(24)
Closure and impairment expenses, net	14	19	27	15	6	27	24	31	32	NM	NM
Other income, net	—	(2)	—	—	—	NM	NM	NM	NM	NM	NM
Operating profit . .	114	97	157	(13)	79	17	22	(38)	(41)	NM	NM

Performance Metrics

	2020 1H	2019	2018
System sales growth /(decline)	(28)%	(2)%	1%
System sales growth /(decline), excluding F/X	(25)%	3%	(1)%
Same-store sales growth /(decline)	(22)%	1%	(5)%

Unit Count

	% Increase / (decrease)							
	2020 1H	2019	2018	2017	2020 1H	2019	2018	
Company-owned	2,150	2,178	2,188	2,166	N/A ⁽¹⁾	—	1	
Franchisees	108	103	52	29	N/A ⁽¹⁾	98	79	
Total	2,258	2,281	2,240	2,195	N/A⁽¹⁾	2	2	

(1) The “% increase” only indicates year-to-year comparison at year-end of the unit count and therefore the % increase for the six months ended June 30, 2020 is not applicable.

FINANCIAL INFORMATION

	<u>2019</u>	<u>New Builds</u>	<u>Closures</u>	<u>Refranchised</u>	<u>2020 1H</u>
Unit Count					
Company-owned	2,178	17	(42)	(3)	2,150
Franchisees	103	2	–	3	108
Total	<u>2,281</u>	<u>19</u>	<u>(42)</u>	<u>–</u>	<u>2,258</u>

	<u>2018</u>	<u>New Builds</u>	<u>Closures</u>	<u>Refranchised</u>	<u>2019</u>
Company-owned	2,188	117	(90)	(37)	2,178
Franchisees	52	15	(1)	37	103
Total	<u>2,240</u>	<u>132</u>	<u>(91)</u>	<u>–</u>	<u>2,281</u>

	<u>2017</u>	<u>New Builds</u>	<u>Closures</u>	<u>Refranchised</u>	<u>2018</u>
Company-owned	2,166	140	(110)	(8)	2,188
Franchisees	29	17	(2)	8	52
Total	<u>2,195</u>	<u>157</u>	<u>(112)</u>	<u>–</u>	<u>2,240</u>

	<u>2016</u>	<u>New Builds</u>	<u>Closures</u>	<u>Refranchised</u>	<u>2017</u>
Company-owned	2,057	180	(66)	(5)	2,166
Franchisees	24	–	–	5	29
Total	<u>2,081</u>	<u>180</u>	<u>(66)</u>	<u>–</u>	<u>2,195</u>

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

- Company Sales and Restaurant Profit

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

	<u>Six months ended June 30,</u>				
		<u>Store</u>			
<u>Income (Expense)</u>	<u>2019</u>	<u>portfolio</u>	<u>Other</u>	<u>F/X</u>	<u>2020</u>
		<u>actions</u>			
					<i>(in millions of U.S. dollars)</i>
Company sales	1,048	(76)	(201)	(27)	744
Cost of sales	(314)	22	47	9	(236)
Cost of labor	(280)	14	44	7	(215)
Occupancy and other operating expenses	(319)	14	51	9	(245)
Restaurant profit	<u>135</u>	<u>(26)</u>	<u>(59)</u>	<u>(2)</u>	<u>48</u>

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

- G&A Expense

The decrease in G&A expenses, excluding the impact of F/X, was primarily driven by one-time reductions in social security contributions and realignment of cost structure.

FINANCIAL INFORMATION

- Operating Loss

The operating loss, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit mainly due to the impact of the COVID-19 pandemic and higher store impairment charges, partially offset by lower G&A expenses.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018 and Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

- Company Sales and Restaurant Profit

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

2019 vs. 2018					
<u>Income (Expense)</u>	Store portfolio				
	<u>2018</u>	<u>actions</u>	<u>Other</u>	<u>F/X</u>	<u>2019</u>
	<i>(in millions of U.S. dollars)</i>				
Company sales	2,106	9	22	(92)	2,045
Cost of sales	(637)	(4)	(21)	29	(633)
Cost of labor	(538)	(1)	(35)	25	(549)
Occupancy and other operating expenses	(716)	5	46	29	(636)
Restaurant profit	<u>215</u>	<u>9</u>	<u>12</u>	<u>(9)</u>	<u>227</u>
2018 vs. 2017					
<u>Income (Expense)</u>	Store portfolio				
	<u>2017</u>	<u>actions</u>	<u>Other</u>	<u>F/X</u>	<u>2018</u>
	<i>(in millions of U.S. dollars)</i>				
Company sales	2,090	60	(93)	49	2,106
Cost of sales	(566)	(21)	(37)	(13)	(637)
Cost of labor	(519)	(14)	8	(13)	(538)
Occupancy and other operating expenses	(713)	(17)	30	(16)	(716)
Restaurant profit	<u>292</u>	<u>8</u>	<u>(92)</u>	<u>7</u>	<u>215</u>

In 2019, the increase in Company sales and Restaurant profit, excluding the impact of F/X, was primarily driven by same-store sales growth, Store portfolio actions, labor efficiency, commodity deflation of 2%, and savings in utilities and other restaurant operating costs, partially offset by higher promotion costs and wage inflation of 5%.

In 2018, the decrease in Company sales, excluding the impact of F/X, was primarily driven by same-store sales decline, partially offset by net unit growth. The decrease in Restaurant profit, excluding the impact of F/X, was primarily driven by higher promotion and product upgrade costs, wage inflation of 6% and same-store sales decline, partially offset by labor efficiency and net unit growth.

- G&A Expenses

In 2019, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs due to higher performance-based compensation and merit increases, and lower government incentives received, partially offset by lower shared cost allocation associated with store development activities.

FINANCIAL INFORMATION

In 2018, the decrease in G&A expenses, excluding the impact of F/X, was primarily driven by higher government incentives received and lower performance-based compensation, partially offset by higher compensation costs due to merit increases.

- Operating Profit

In 2019, the increase in operating profit, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit and lower closure and store impairment expenses, partially offset by higher G&A expenses.

In 2018, the decrease in operating profit, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit, partially offset by lower closure and impairment expenses primarily due to lapping the impact of the Pizza Hut business integration during 2017, and lower G&A expenses.

All Other Segments

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

	For the year ended December 31,			For the six months ended June 30,		% B/(W)					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X	Reported	Ex F/X	Reported	Ex F/X
<i>(in millions of U.S. dollars, except percentages)</i>											
Company sales . . .	41	32	40	16	18	27	32	(18)	(20)	(13)	(10)
Franchise fees and income	8	6	5	5	4	22	27	41	39	27	32
Revenues from transactions with franchisees and unconsolidated affiliates	28	26	25	16	12	8	12	4	1	22	27
Other revenues . . .	81	51	36	41	30	59	63	41	41	37	42
Total revenues . .	158	115	106	78	64	37	41	10	8	20	24
Restaurant (loss) profit	(3)	–	2	(3)	(1)	NM	NM	NM	NM	(72)	(64)
Restaurant margin %	(7.3)%	(2.8)%	2.9%	(15.5)%	(7.8)%	(4.5) ppts.	(4.5) ppts.	(5.7) ppts.	(5.7) ppts.	(7.7) ppts.	(7.7) ppts.
G&A expenses . . .	34	33	26	19	16	(1)	(4)	(28)	(26)	(19)	(23)
Expenses for transactions with franchisees and unconsolidated affiliates	23	21	21	13	11	(12)	(15)	5	6	(14)	(18)
Other operating costs and expenses	69	43	28	36	26	(62)	(66)	(51)	(54)	(41)	(46)
Closure and impairment expenses, net . .	2	–	–	3	2	NM	NM	98	99	(53)	(59)
Other (income) loss, net	–	(2)	2	–	–	NM	NM	NM	NM	(93)	(93)
Operating loss . .	(14)	(12)	(9)	(12)	(10)	(13)	(17)	(9)	(16)	(31)	(33)

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

- Total Revenues

The increase in total revenues, excluding the impact of F/X, was primarily driven by the consolidation of Huang Ji Huang and the increase in demand of online orders of certain product categories (mainly fresh grocery products), partially offset by the same-store sales decline due to the impact of COVID-19 pandemic.

FINANCIAL INFORMATION

- G&A Expenses

The increase in G&A expenses, excluding the impact of F/X, was primarily driven by the consolidation of Huang Ji Huang.

- Operating Loss

The increase in operating loss, excluding the impact of F/X, was primarily driven by the increase in Restaurant loss and higher store impairment charges, partially offset by the operating profit generated by Huang Ji Huang.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018 and Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

- Company Sales

In 2019, the increase in Company sales, excluding the impact of F/X, was primarily driven by higher sales generated from our e-commerce business and the launch of the COFFii & JOY concept.

In 2018, the decreases in Company sales, excluding the impact of F/X, were primarily driven by restaurant unit closures and refranchising of Little Sheep restaurant units.

- Other Revenues and Other Operating Costs and Expenses

In 2019 and 2018, the increase in other revenues and other operating costs and expenses, excluding the impact of F/X, was primarily driven by inter-segment revenue transactions generated from our e-commerce business and Daojia.

- G&A Expenses

In 2019, G&A expenses increased mainly due to an increase of G&A expenses incurred by Little Sheep, partially offset by a decrease of G&A expenses incurred by Daojia.

In 2018, G&A expenses increased mainly due to G&A expenses incurred by Daojia.

- Operating Loss

In 2019, the increase in operating loss, excluding the impact of F/X, was primarily due to the operating loss incurred by Little Sheep and COFFii & JOY, partially offset by the improvement in operating results of our other operating segments.

In 2018, the increase in operating loss, excluding the impact of F/X, was primarily due to an increase of operating loss of Daojia and a decrease of operating profit of Little Sheep.

FINANCIAL INFORMATION

Corporate and Unallocated

	For the year ended December 31,			For the six months ended June 30,		%B/(W)					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
						Ex (unaudited) Reported		Ex F/X Reported		Ex F/X Reported	
(in millions of U.S. dollars, except percentages)											
Revenues from transactions with franchisees and unconsolidated affiliates ⁽¹⁾	558	514	504	269	278	8	13	2	1	(3)	–
Other revenues	4	3	–	2	2	56	61	NM	NM	(6)	(2)
Expenses for transactions with franchisees and unconsolidated affiliates ⁽¹⁾	554	512	500	270	276	(8)	(13)	(2)	(1)	3	(1)
Other operating costs and expenses	4	2	–	2	2	(68)	(75)	NM	NM	17	14
Corporate G&A expenses	145	128	185	58	58	(13)	(17)	31	31	1	(2)
Unallocated closures and impairments	11	12	–	–	–	1	1	NM	NM	–	–
Other unallocated income	4	98	9	(3)	1	(95)	(95)	NM	NM	NM	NM
Interest income, net	39	36	25	17	19	7	12	47	44	(8)	(4)
Investment gain (loss)	63	(27)	–	37	27	NM	NM	NM	NM	40	40
Income tax provision ⁽²⁾	(260)	(214)	(379)	(77)	(139)	(21)	(26)	43	45	44	43
						(3.3)	(3.3)	24.6	24.6	2.6	2.6
Effective tax rate ⁽²⁾	25.9%	22.6%	47.2%	27.8%	25.2%	ppts	ppts	ppts	ppts	ppts	ppts

(1) 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 deemed corporate revenues and expenses in nature.

(2) For more details, see Note 16 of "Appendix I — Accountants' Report."

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

- Revenues from Transactions with Franchisees and Unconsolidated Affiliates

The change in revenues from transactions with franchises and unconsolidated affiliates, excluding the impact of F/X, was in line with the change in system sales of related franchisees and unconsolidated affiliates.

- Corporate G&A Expenses

The increase in corporate G&A expenses, excluding the impact of F/X, was primarily driven by merit compensation increases, partially offset by one-time reductions in social security contributions and realignment of cost structure.

- Investment Gain

The Investment gain relates to our investment in equity securities of Meituan. See Note 5 of "Appendix I — Accountants' Report."

- Income Tax Provision

Our income tax provision includes tax on our earnings at the Chinese statutory tax rate of 25%, withholding tax on repatriation of earnings outside of China and U.S. corporate income

FINANCIAL INFORMATION

tax, if any. The higher effective tax rates for the six months ended June 30, 2020 were primarily due to the U.S. tax related to gain recognized on investment in equity securities of Meituan during the second quarter and prior periods.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018 and Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

- Revenues from Transactions with Franchisees and Unconsolidated Affiliates

In 2019, the increase in revenues from transactions with franchisees and unconsolidated affiliates, excluding the impact of F/X, was mainly driven by System sales growth of franchisees and unconsolidated affiliates and an increase in the selling prices of food and paper products due to commodity inflation, partially offset by the impact from the acquisition of Wuxi KFC.

In 2018, the increase in revenues from transactions with franchisees and unconsolidated affiliates, excluding the impact of F/X, was mainly driven by System sales growth of franchisees and unconsolidated affiliates, partially offset by the impact from the acquisition of Wuxi KFC.

- Corporate G&A Expenses

In 2019, the increase in corporate G&A expenses, excluding the impact of F/X, was mainly driven by higher compensation costs and lower government incentives received.

In 2018, the decrease in corporate G&A expenses, excluding the impact of F/X, was driven by higher government incentives received, lower performance-based compensations and lower professional service fees.

- Unallocated Closures and Impairments

In 2019 and 2018, unallocated closures and impairments represent the impairment charges of US\$11 million and US\$12 million on goodwill and intangible assets acquired from Daojia, respectively. For more details, see Note 5 of “Appendix I — Accountants’ Report.”

- Other Unallocated Income

In 2018, other unallocated income primarily includes a gain of US\$98 million recognized from the re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition. For more details, see Note 5 of “Appendix I — Accountants’ Report.”

- Interest Income, Net

The increases in interest income, net for both 2019 and 2018 were driven by higher returns on larger balances of short-term investments and cash equivalents which mainly include time deposits.

- Investment Gain (Loss)

The investment gain or loss represents the unrealized gain or loss related to investment in equity securities of Meituan. For more details, see Note 5 of “Appendix I — Accountants’ Report.”

FINANCIAL INFORMATION

- **Income Tax Provision**

Our income tax provision includes tax on our earnings at the PRC statutory tax rate of 25%, withholding tax on repatriation of earnings outside of China, and U.S. corporate income tax, if any. Our effective tax rate was 25.9%, 22.6%, and 47.2% in 2019, 2018 and 2017, respectively. The effective tax rate was lower in 2018 but higher in 2017 due to the tax benefit of US\$36 million recorded in 2018 reducing the provisional amount of the transition tax of US\$164 million recorded in 2017 pursuant to the U.S. Tax Act.

TAXATION

United States

In December 2017, the U.S. enacted the U.S. 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 U.S. 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.

PRC

Generally, our income is subject to the PRC statutory tax rate of 25%. Pursuant to the 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%.

Hong Kong

Our subsidiaries incorporated in Hong Kong are generally subject to Hong Kong profits tax at a rate of 16.5%. For the years 2018 and onwards, the first HK\$2 million of profits generated by one entity incorporated in Hong Kong is taxed at a rate of 8.25%, while the remaining profits will continue to be taxed at the 16.5% tax rate. For the years ended December 31, 2019, 2018 and 2017, our Hong Kong subsidiaries did not incur any profits tax in Hong Kong as they either did not generate taxable income or incurred losses for these years. For the six months ended June 30, 2020, our Hong Kong subsidiaries were not expected to incur any profits tax for the same reason. The payments of dividends by these companies to us are not subject to any withholding tax in Hong Kong.

FINANCIAL INFORMATION

SIGNIFICANT KNOWN EVENTS, TRENDS OR UNCERTAINTIES EXPECTED TO IMPACT FUTURE RESULTS

Impact of the COVID-19 Pandemic

Our business could be materially and adversely affected by the outbreak of a widespread health epidemic, such as coronavirus, avian flu, or African swine flu. Starting in late January 2020, the COVID-19 pandemic has significantly impacted the Company's operations. The pace of recovery is uneven with recent sales and traffic still below pre-outbreak levels as people continue to avoid going out and practice social distancing. More than 99% of stores in China were open as of July 2020, with sales and profits trending unevenly. Sales were primarily impacted by significantly reduced traffic at transportation and tourist locations, delayed and shortened school holidays and resurging regional infections. At this time, management cannot ascertain the full impact of the COVID-19 pandemic on the Company's operations, which depends on the evolving nature of the COVID-19 pandemic and governmental responses thereto, the economic recovery within China and globally, the impact on consumer behavior and other related factors. The Company expects that COVID-19 will have a material adverse impact on the Company's results of operations, cash flows and financial condition for the full year 2020. For details, see "Summary — The Impact of the COVID-19 Pandemic."

Tax Examination on Transfer Pricing

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

PRC Value-Added Tax

Effective May 1, 2016, a 6% output VAT replaced the 5% 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

FINANCIAL INFORMATION

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 June 30, 2020, December 31, 2019, 2018 and 2017, an input VAT credit asset of US\$237 million, US\$243 million, US\$226 million and US\$176 million, were recorded in other assets, respectively, and payable of US\$6 million, US\$5 million, US\$5 million and US\$2 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 June 30, 2020 and December 31, 2019, 2018 and 2017. Any input VAT credit asset would be classified as prepaid expenses and other current assets if the Company expected to use the credit within one year.

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

Foreign Currency Exchange Rate

The reporting currency of the Company is the US\$. Most of the revenues, costs, assets and liabilities of the Company are denominated in 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 “— Quantitative and Qualitative Disclosures About Market Risk” for a further discussion.

LIQUIDITY AND CAPITAL RESOURCES

Historically we have funded our operations through cash generated from the operation of our Company-owned stores and from our franchise operations and dividend payments from our unconsolidated affiliates.

Our ability to fund our future operations and capital needs will depend on our ongoing ability to generate cash from operations. We believe our principal uses of cash in the future will be primarily to fund our operations and to make capital spending, distributions to our Shareholders and share repurchases as well as any acquisition or investment we may make. As a result of the COVID-19 pandemic, we have taken, and continue to take, certain actions to provide additional liquidity and flexibility, which include temporarily suspending our share repurchase program and, for the second and third quarter of 2020, dividends, partial disposal of our investment in Meituan, as well as increasing our credit facilities. We believe that our future cash from operations, together with our access to funds on hand and capital markets, will provide adequate resources to fund these uses of cash and that our existing cash, net cash from operations and credit facilities will be sufficient to fund our operations and anticipated capital spending for the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

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

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

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

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

Dividends and Share Repurchases

Our Board of Directors has authorized an aggregate of US\$1.4 billion for our share repurchase program. Yum China may repurchase shares under this program from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. During the six months ended June 30, 2020 and the years ended December 31, 2019, 2018 and 2017, the Company repurchased US\$7 million or 0.2 million, US\$261 million or 6.2 million, US\$312 million or 9.0 million, and US\$128 million or 3.4 million Shares, respectively, under the repurchase program.

On October 4, 2017, the board of directors approved a regular quarterly cash dividend program, and declared an initial cash dividend of US\$0.10 per share on Yum China's common stock. Total cash dividends of US\$38 million were paid to shareholders in December 2017. The Company paid a cash dividend of US\$0.10 per share for each of the first three quarters of 2018 and US\$0.12 per share for the fourth quarter of 2018 and each quarter of 2019. Total cash dividends of US\$181 million and US\$161 million were paid to shareholders in 2019 and 2018, respectively.

For the six months ended June 30, 2020, the Company paid cash dividends of US\$45 million, or US\$0.12 per Share.

Due to the unprecedented effects of the COVID-19 pandemic and associated economic uncertainty, the Company announced in April 2020 that it would temporarily suspend its share repurchases and, through the end of the third quarter of 2020, dividends.

Our ability to declare and pay any dividends on our stock may be restricted by earnings available for distribution under applicable Chinese laws. The laws, rules and regulations applicable to our Chinese subsidiaries permit payments of dividends only out of their accumulated profits, if any, determined in accordance with applicable Chinese accounting standards and regulations. Under Chinese law, an enterprise incorporated in China is required to set aside at least 10% of its after-tax profits each year, after making up previous years'

FINANCIAL INFORMATION

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. As of June 30, 2020, the sum of our cash and cash equivalents plus short-term investment, then less total liabilities of Yum China Holdings, Inc. was US\$202 million.

Borrowing Capacity

As of June 30, 2020, the latest practicable date for ascertaining such information, the Company had credit facilities of RMB3,713 million (approximately US\$526 million), comprising of onshore credit facilities of RMB2,300 million (approximately US\$326 million) in the aggregate and offshore credit facilities of US\$200 million in the aggregate.

The credit facilities had remaining terms ranging from less than one year to three years as of June 30, 2020. Each credit facility bears interest based on the Loan Prime Rate (“LPR”) published by the National Interbank Funding Centre of the PRC or London Interbank Offered Rate (“LIBOR”) administered by the ICE Benchmark Administration. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Some of the credit facilities contain covenants limiting, among other things, certain additional indebtedness and liens, and certain other transactions specified in the respective agreement. Some of the onshore credit facilities contain sub-limits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of June 30, 2020, we had outstanding bank guarantees of RMB89 million (approximately US\$13 million) 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 bank borrowings outstanding as of June 30, 2020.

Contractual Obligations

Our significant contractual and other long-term obligations and payments as of June 30, 2020 included:

	Total	Remainder of 2020	2021- 2022	2023- 2024	Thereafter
	<i>(in millions of U.S. dollars)</i>				
Finance leases ⁽¹⁾	36	2	8	6	20
Operating leases ⁽¹⁾	2,543	274	854	605	810
Purchase obligation ⁽²⁾	157	20	63	28	46
Transition tax ⁽³⁾	51	6	9	21	15
Total contractual obligations	2,787	302	934	660	891

(1) These obligations, which are shown on a nominal basis, relate primarily to more than 7,400 Company-owned restaurants. For more details, see Note 11 of “Appendix I — Accountants’ Report.”

(2) 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.

FINANCIAL INFORMATION

- (3) This amount represents an updated 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 contractual obligations table US\$21 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.

Cash Flow

The following table sets forth selected data from our consolidated statements of cash flow for the period indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2018	2017	2020	2019
					(unaudited)
	(in millions of U.S. dollars)				
Net cash provided by operating activities . .	1,185	1,333	884	452	657
Net cash used in investing activities . . .	(910)	(552)	(557)	(761)	(368)
Net cash used in financing activities . .	(480)	(518)	(185)	(59)	(259)

Net Cash Provided by Operating Activities

In the six months ended June 30, 2020, our net cash provided by operating activities was US\$452 million as compared to US\$657 million for the same period in 2019. The decrease was primarily driven by the net income decrease.

In 2019, net cash provided by operating activities was US\$1,185 million as compared to US\$1,333 million in 2018. The decrease was primarily driven by timing of payments for inventory along with other working capital changes.

In 2018, net cash provided by operating activities was US\$1,333 million as compared to US\$884 million in 2017. The increase was primarily driven by higher operating profit and timing of payments for inventory.

Net Cash Used in Investing Activities

In the six months ended June 30, 2020, our net cash used in investing activities was US\$761 million as compared to US\$368 million for the same period in 2019. The increase is mainly due to cash consideration paid for the acquisition of Huang Ji Huang, and the net impact on cash flow resulting from purchases and maturities of short-term investments and long-term time deposits, partially offset by cash proceeds from partial disposal of our investment in equity securities of Meituan.

FINANCIAL INFORMATION

In 2019, net cash used in investing activities was US\$910 million as compared to US\$552 million in 2018. The increase was primarily driven by the net impact on cash flow resulting from purchases and maturities of short-term investments, partially offset by lapping the impact from the acquisition of Wuxi KFC and investment in Meituan's ordinary shares in 2018.

In 2018, net cash used in investing activities was US\$552 million as compared to US\$557 million in 2017. The decrease was primarily driven by the net impact on cash flow resulting from purchases and maturities of short-term investments, partially offset by the acquisition of Wuxi KFC, investment in Meituan's ordinary shares and higher capital spending.

Net Cash Used in Financing Activities

In the six months ended June 30, 2020, our net cash used in financing activities was US\$59 million as compared to US\$259 million in 2019. The decrease was primarily driven by the temporary suspension of our share repurchase program, as well as the temporary suspension of dividends through the end of the third quarter of 2020.

In 2019, net cash used in financing activities was US\$480 million as compared to US\$518 million in 2018. The decrease was primarily driven by a decrease in the number of shares repurchased, partially offset by an increase in cash dividends paid to Shareholders.

In 2018, net cash used in financing activities was US\$518 million as compared to US\$185 million in 2017. The increase was mainly driven by an increase in the number of shares repurchased and cash dividends paid to Shareholders in 2018.

Capital Spending

For the six months ended June 30, 2020 and 2019 and for the years ended December 31, 2019, 2018 and 2017, we had capital spending of US\$185 million, US\$212 million, US\$435 million, US\$470 million, and US\$415 million, respectively, primarily in relation to new restaurant openings, remodeling of existing restaurants, and investments in technology and supply chain infrastructure. Subject to revision based on future impacts of COVID-19 that cannot be predicated at this time, we expect our capital spending in 2020 to be approximately between US\$500 million and US\$550 million.

FINANCIAL INFORMATION

Working Capital

The following table sets forth details of our current assets and current liabilities as of the date indicated.

	As of June 30, 2020	As of December 31,		
		2019	2018	2017
	<i>(in millions of U.S. dollars)</i>			
Current assets				
Cash and cash equivalents	674	1,046	1,266	1,059
Short-term investments	1,034	611	122	205
Accounts receivables, net	83	88	80	79
Inventories, net	346	380	307	297
Prepaid expenses and other current assets	166	134	177	162
Total current assets	2,303	2,259	1,952	1,802
Current liabilities				
Accounts payable and other current liabilities	1,660	1,691	1,199	985
Income taxes payable	63	45	54	39
Total current liabilities	1,723	1,736	1,253	1,024
Net current assets	580	523	699	778

Working Capital Ratios

The following table set forth our working capital ratios for the period indicated:

	For the six months ended June 30,	For the year ended December 31,		
	2020	2019	2018	2017
Inventory turnover days ⁽¹⁾ . . .	50.3	41.5	38.9	40.8
Accounts receivable turnover days ⁽²⁾	4.3	3.5	3.5	3.6
Accounts payable turnover days ⁽³⁾	51.1	45.8	45.1	42.3

- (1) Inventory turnover days for each period equals the average of the beginning and ending balances of net inventory (including inventory procured by the Company, which is subsequently supplied to stores of unconsolidated affiliates and franchisees) for that period divided by total cost of food and paper for Company-owned stores and stores of unconsolidated affiliates and franchisees for that period, and multiplied by the number of days in that period.
- (2) Accounts receivable turnover days for each period equals the average of the beginning and ending balances of net accounts receivable for that period divided by total revenues for that period, and multiplied by the number of days in that period.
- (3) Account payable turnover days for each period equals the average of the beginning and ending balances of accounts payable related to inventory purchase and distribution for that period divided by total cost of food and paper for Company-owned stores and stores of unconsolidated affiliates and franchisees for that period and, multiplied by the number of days in that period.

Indebtedness

As of June 30, 2020, being the latest practicable date for the purpose of the indebtedness statement, our finance lease liabilities was US\$26 million and loans outstanding was US\$5

FINANCIAL INFORMATION

million. We also had operating lease liabilities of US\$2,078 million as of June 30, 2020. Since June 30, 2020, there has been no material adverse change to our indebtedness. Save as disclosed in the prospectus, as of the same date, we did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings and other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

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 six months ended June 30, 2020, the Company's operating profit would have decreased approximately US\$23 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 subscribed for 8.4 million of the ordinary shares of Meituan for US\$74 million. In the second quarter of 2020, we sold 4.2 million of the ordinary shares of Meituan for proceeds of US\$54 million. The equity investment is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. For details, see Note 5 of "Appendix I — Accountants' Report."

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 results of operations or financial condition. Actual results could differ from these estimates. Changes in the estimates and judgments could significantly affect our results of operations, financial condition and cash flows in future years. A description of what we consider to be our most significant critical accounting policies follows.

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

FINANCIAL INFORMATION

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

FINANCIAL INFORMATION

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 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. We have two material indefinite-lived intangible assets, which are our Little Sheep trademark and the newly-acquired Huang Ji Huang trademark. The Little Sheep trademark had a book value of US\$51 million, US\$52 million, US\$53 million and US\$56 million at June 30, 2020, December 31, 2019, 2018 and 2017, respectively. Upon acquisition of Huang Ji Huang in April 2020, we recognized and measured its trademark at fair value. Post acquisition, no events occurred or circumstances changed that indicate impairment might exist. As of June 30, 2020, the Huang Ji Huang trademark had a book value of US\$76 million.

In the six months ended June 30, 2020 and the years ended December 31, 2019, 2018 and 2017, we elected to perform the qualitative impairment assessment for the Little Sheep 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 Little Sheep trademark was not impaired during the Track Record Period and therefore the quantitative assessment was not required.

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.

FINANCIAL INFORMATION

In 2019 and 2018, we recorded impairment charges of US\$2 million and US\$12 million on finite-lived intangible assets of the Daojia business, respectively, primarily attributable to the platforms of the Daojia business. The fair value of platforms was determined using a relief-from-royalty valuation approach that was based on unobservable inputs, including estimated future sales, royalty rates 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.

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 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 US\$309 million, US\$254 million, US\$266 million and US\$108 million as of June 30, 2020, December 31, 2019, 2018 and 2017, respectively, was primarily related to the KFC and Pizza Hut and recently acquired Huang Ji Huang reporting units. The increase from 2017 to 2018 was primarily due to the acquisition of Wuxi KFC during the first quarter of 2018. We performed a qualitative impairment assessment for each of our individual reporting units of KFC and Pizza Hut each year during the Track Record Period, evaluating all pertinent factors including but not limited to the macroeconomics, industry and market conditions, and financial performance. KFC consecutively generated operating profit during the Track Record Period. Pizza Hut generated operating profit during the Track Record Period except for the first quarter of 2020, when it generated an operating loss of US\$28 million primarily due to the impact of the COVID-19 pandemic. Its operations improved during the second quarter of 2020 and generated an operating profit of US\$15 million. 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 of KFC and Pizza Hut exceeds their carrying amount during the Track Record Period and therefore no quantitative assessment was required. No impairment charge related to KFC and Pizza Hut on goodwill was recorded in the six months ended June 30, 2020 and the year ended December 31, 2019, 2018 and 2017.

FINANCIAL INFORMATION

As a result of our annual goodwill impairment review as of the beginning of our fourth quarter of 2019, goodwill related to the Daojia reporting unit was fully impaired, resulting in an impairment charge of US\$9 million. The fair value of the Daojia reporting unit was based on the estimated price a willing buyer would pay, and was determined using an income approach with future cash flow estimates supported by estimated future sales, margin, as well as the selection of an appropriate discount rate based on weighted-average cost of capital and company-specific risk premium.

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. 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 International 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 Black-Scholes option-pricing model and MCS model, 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.

FINANCIAL INFORMATION

PRC Value-Added Tax

As of June 30, 2020 and December 31, 2019, 2018 and 2017, an input VAT credit asset of US\$237 million, US\$243 million, US\$226 million and US\$176 million, were recorded in other assets, respectively, and payable of US\$6 million, US\$5 million, US\$5 million and US\$2 million, were recorded in 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 June 30, 2020 and December 31, 2019, 2018 and 2017. 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

The U.S. Tax Act

On December 22, 2017, the U.S. Tax Act was signed into law effective for tax years beginning after December 31, 2017. The U.S. Tax Act requires complex computations with significant estimates to be performed, significant judgments to be made in interpretation of the provisions, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, the SEC and other standard-setting bodies could interpret or issue guidance on how provisions of the U.S. Tax Act will be applied or otherwise administered that is different from our current interpretation. The Company incurred an estimated one-time income tax charge of US\$164 million in the fourth quarter of 2017, as a result of the U.S. Tax Act, due to the transition tax on deemed repatriation of accumulated undistributed earnings of foreign subsidiaries, and additional tax related to the revaluation of certain deferred tax assets. We completed our analysis of the U.S. Tax Act in the fourth quarter of 2018 according to guidance released by the U.S. Treasury Department and the IRS as of December 2018 and made an adjustment of US\$36 million to reduce the provisional amount of the transition tax recorded in 2017 accordingly. 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 US\$8 million for the transition tax accordingly.

Uncertain Tax Positions

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

FINANCIAL INFORMATION

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 June 30, 2020 and December 31, 2019, 2018 and 2017, we had US\$18 million, US\$19 million, US\$22 million and US\$28 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 currently exchanged with tax authorities focuses on our franchise arrangement with YUM. We have submitted information to the extent it is available to the Company. It is reasonably possible that there could be significant developments, including expert review and assessment by the STA, within the next 12 months. The ultimate assessment will depend upon further review of the information provided and ongoing technical and other discussions with the STA and in-charge local tax authorities, and therefore it is not possible to reasonably estimate the potential impact. We will continue to defend our transfer pricing position. However, if the STA prevails in the assessment of additional tax due based on its ruling, the assessed tax, interest and penalties, if any, could have a material adverse impact on our financial position, results of operations and cash flows.

Unremitted Earnings of Foreign Subsidiaries

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. We have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The 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 U.S. 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 US\$2 billion at June 30, 2020 and December 31, 2019, 2018 and 2017, respectively. 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.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

See Note 2 of "Appendix I — Accountants' Report" for details of recently adopted accounting pronouncements.

New Accounting Pronouncements Not Yet Adopted As of March 30, 2020

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

FINANCIAL INFORMATION

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 aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for the Company from January 1, 2021, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

From time to time we have guaranteed certain lines of credit and loans of franchisees and unconsolidated affiliates. As of June 30, 2020, guarantees on behalf of franchisees were immaterial and no guarantees were outstanding for unconsolidated affiliates.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to the stockholders of the Company as of June 30, 2020 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of Yum China Holdings, Inc. and its subsidiaries, or the Company, had the Global Offering been completed as of June 30, 2020 or at any future date.

	Consolidated net tangible assets attributable to the stockholders of the Company as of June 30, 2020 ⁽¹⁾	Estimated net proceeds from the Global Offering ^{(2),(4)}	Unaudited pro forma adjusted net tangible assets attributable to the stockholders of the Company	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾
	(in millions of U.S. dollars)	(in millions of U.S. dollars)	(in millions of U.S. dollars)	(US\$)	(HK\$)
Based on the indicative maximum offer price of HK\$468.00 per Offer Share	2,765 ⁽⁵⁾	2,487	5,252	12.53	97.14

Notes:

- (1) The consolidated net tangible assets attributable to the stockholders of the Company as of June 30, 2020 is based on the consolidated net assets attributable to the stockholders of the Company as of June 30, 2020 of US\$3,203 million, which is derived from the Accountants’ Report set out in Appendix I to this prospectus, with adjustments for goodwill and intangible assets attributable to the stockholders of the Company of US\$266 million and US\$172 million, respectively.
- (2) The estimated net proceeds from the Global Offering is based on the issuance of 41,910,700 shares at the indicative maximum offer price of HK\$468.00 per Offer Share after deduction of the estimated underwriting fees and other related expenses related to Global Offering and does not take into account any allotment and issuance of Shares pursuant to the exercise of Over-allotment Option, the 2016 Plan, the Warrant 1 or the Warrant 2, and any issuance or repurchase and cancellation of Shares.

FINANCIAL INFORMATION

- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments for the estimated net proceeds from the Global Offering as described in note (2) and on the basis of 418,986,084 Shares in issue assuming that the Global Offering has been completed on June 30, 2020, without taking into account of any allotment and issuance of Shares pursuant to the exercise of Over-allotment Option, the 2016 Plan, the Warrant 1 or the Warrant 2, and any issuance or repurchase and cancellation of Shares.
- (4) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balances stated in US\$ are converted into Hong Kong dollars at the rate of US\$1.00 to HK\$7.7502, the respective exchange rates on August 21, 2020 set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that US\$ amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.
- (5) Our net tangible book value (which represents the amount of our total consolidated assets, less the amount of our intangible asset, net, goodwill and total consolidated liabilities) was US\$2,794 million as of June 30, 2020, or US\$12.60 per shares on an unaudited pro forma adjusted basis.
- (6) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transactions of the Company entered into subsequent to June 30, 2020.

LISTING EXPENSES

Listing expenses to be borne by us are estimated to be approximately HK\$341 million (including underwriting commission). After June 30, 2020, approximately HK\$7 million was charged to our consolidated statements of income, and approximately HK\$334 million is expected to be accounted for as a deduction from equity upon the Listing. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. We do not expect such listing expenses to have a material adverse impact on our results of operation for the year ending December 31, 2020.

MATERIAL ADVERSE CHANGE

Our Directors confirm that, save as disclosed in this prospectus, as far as they are aware, there has been no material adverse change in our financial, trading position or prospects since June 30, 2020, being the latest date of our audited consolidated financial statements as set out in “Appendix I — Accountants’ Report” of this prospectus, up to the date of this prospectus.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

We confirm that, as at the Latest Practicable Date, save as disclosed in the prospectus, there were no circumstances that would give rise to a disclosure requirement under Rule 13.13 to 13.19 of the Hong Kong Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

GENERAL

The following table lists certain information in respect of our Directors and senior management:

<u>Name</u>	<u>Age</u>	<u>Position(s)/roles</u>	<u>Date of appointment⁽¹⁾</u>	<u>Year of joining our Group</u>
Directors				
Fred HU (Fred Zulu HU, 胡祖六)	57	Chairman of the Board, Independent Director	November 2, 2016	2016
Joey WAT (Chui Yung Joey WAT, 屈翠容)	49	Director	July 18, 2017	2014 ⁽²⁾
Peter A. BASSI	71	Independent Director	October 31, 2016	2016
Christian L. CAMPBELL	69	Independent Director	October 31, 2016	2016
Ed Yiu-Cheong CHAN (陳耀昌)	57	Independent Director	October 31, 2016	2016
Edouard ETEDGUI (Elias, Edouard ETEDGUI, 倪德祈)	68	Independent Director	October 31, 2016	2016
Cyril HAN (Xinyi HAN, 韓歆毅)	43	Independent Director	May 9, 2019	2016 ⁽³⁾
Louis T. HSIEH (謝東螢)	55	Independent Director	October 31, 2016	2016
Ruby LU (Rong LU, 盧蓉)	49	Independent Director	October 31, 2016	2016
Zili SHAO (Zili Stephen SHAO, 邵子力)	61	Independent Director	October 31, 2016	2016
William WANG (Yang WANG, 汪洋)	45	Independent Director	July 18, 2017	2016 ⁽⁴⁾
Senior Management				
Joey WAT (Chui Yung Joey WAT, 屈翠容)	49	Chief Executive Officer	March 2018	2014 ⁽²⁾
Andy YEUNG (Ka Wai Andy YEUNG, 楊家威)	47	Chief Financial Officer	October 2019	2019
Joseph CHAN (Wing Kin Joseph CHAN, 陳永堅)	51	Chief Legal Officer	June 2019	2019
Johnson HUANG (Ching-Shuan HUANG, 黃進栓)	58	General Manager, KFC	February 2017	2006
Jeff KUAI (Jun KUAI, 蒯俊)	40	General Manager, Pizza Hut	November 2017	2003

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- (1) Except for Ms. Joey Wat, Mr. Cyril Han and Mr. William Wang, the year of joining our Group for the other Directors refers to the year of their appointment as a Director.
- (2) Ms. Joey Wat joined Yum! Restaurants China in September 2014 as President of KFC China. She has served as our Director since July 2017 and as our Chief Executive Officer since March 2018.
- (3) Mr. Cyril Han served as a non-voting Board observer on the Board from November 2016 to May 2019.
- (4) Mr. William Wang served as a non-voting Board observer on the Board from November 2016 to July 2017.

BOARD OF DIRECTORS

Our Board of Directors currently consists of 11 Directors including 10 independent Directors. The Board is responsible for exercising other powers, functions and duties in accordance with the Constitutional Documents, and all applicable laws and regulations, including the Hong Kong Listing Rules. See “— Board Practices” for functions and duties of the Board.

Dr. Fred HU (胡祖六) has served as our independent Director and Chairman of the Board since November 2016. He has also 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 Hong Kong Exchanges and Clearing Limited, a company listed on the Hong Kong Stock Exchange (stock code: 0388), Industrial and Commercial Bank of China Limited, a company listed on 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). Dr. Hu also serves 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.

Ms. Joey WAT (屈翠容) has served as our Director 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

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Company's business and her industry acumen acquired in the course of a career that included several leadership roles in retail companies.

Mr. Peter A. BASSI has served as our independent Director since October 2016. He 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 in 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.

Mr. Christian L. CAMPBELL has served as our Director since October 2016 and became an independent Director in March 2019. He owns Christian L. Campbell Consulting LLC, which specializes in global corporate governance and compliance, and has served as its owner since February 2016. Mr. Campbell previously served as Senior Vice President, General Counsel and Secretary of YUM from its formation in 1997 until his retirement in February 2016. In 2001, Mr. Campbell's role was expanded to include Chief Franchise Policy Officer. In these positions, Mr. Campbell oversaw all legal matters at YUM and was responsible for the oversight of YUM purchasing as a director of YUM's purchasing cooperative with its franchisees. Prior to joining YUM, Mr. Campbell was a senior vice president and general counsel at Owens Corning, an NYSE-listed leading global producer of fiberglass insulation and composite building materials (NYSE: OC). Prior to Owens Corning, he was vice president and general counsel for Nalco Chemical Company, formerly an NYSE-listed company. In addition, Mr. Campbell was a founding director of Restaurant Supply Chain Solutions, LLC. ("RSCS"), a purchasing cooperative for YUM's U.S. franchising partners, and he served on RSCS's board of directors from its formation in 2000 until 2015. Mr. Campbell obtained his juris doctor degree from Harvard University in 1975. Mr. Campbell brings to our Board expertise in corporate governance and corporate compliance of publicly traded companies. In addition, Mr. Campbell brings to our Board extensive knowledge of the QSR industry, global franchising and corporate leadership.

Mr. Ed Yiu-Cheong CHAN (陳耀昌) has served as our independent Director since October 2016. Mr. Chan currently serves as a partner of Gaorong Capital where he previously served as a venture partner for its China portfolio from May 2018 to June 2019. He is also a non-executive director of Treasury Wine Estates Limited, a company listed on the Australian Securities Exchange (ASX: TWE), and an independent non-executive director of Link Real Estate Investment Trust, which is listed on the Hong Kong Stock Exchange (stock code: 0823). He served as the operating partner for SoftBank Investment Advisers, a global advisory firm, from June 2019 to June 2020. He also served as the advisor to Food Union China, a European based dairy company, from April 2018 to June 2019. From 2012 to February 2018, Mr. Chan served as vice chairman of Charoen Pokphand Group Company Limited and as executive director and vice chairman of C.P. Lotus Corporation. He served as the president and chief executive officer of Walmart China from November 2006 to October

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

2011. Prior to that, he was the regional director of North Asia of the Dairy Farm Group and a director of Dairy Farm Management Services Limited from November 2001 to November 2006. Mr. Chan obtained a master's degree in management from the Sloan School of Management, Massachusetts Institute of Technology in 1989. He brings to our Board knowledge of the food and beverage industry in Asia and extensive public company board and corporate governance experience.

Mr. Edouard ETTEDGUI (倪德祈) has served as our independent Director since October 2016. He 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.

Mr. Cyril HAN (韓歆毅) has served as our independent Director since May 2019. He has served as the chief financial officer of Ant Group Co., Ltd., an innovative technology provider, since April 2020. Mr. Han joined Ant Group Co., Ltd. in May 2014 and previously served as senior director and vice president. He joined Alibaba Group, a Chinese multinational conglomerate, as senior director of 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, and has 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), since November 2016. Mr. Han obtained his master's degrees in Economics from Tsinghua University in June 2001. He brings to our Board deep knowledge and insights in the fields of finance and technology.

Mr. Louis T. HSIEH (謝東螢) has served as our independent Director since October 2016. From May 2017 to October 2019, he 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). In previous years, 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.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Ruby LU (盧蓉) has served as our independent Director since October 2016. She 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. 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 served as chairman of the special committee and a member of the audit committee of iKang Healthcare Group, Inc. before it was taken private. She is currently an independent director on the board of Uxin Limited (NASDAQ: UXIN), where she also serves as the chairman of the compensation committee and a member of the audit committee and nominating and corporate governance committee. 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.

Mr. Zili SHAO (邵子力) has served as our independent Director since October 2016. He has also 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. Mr. Shao is the founder and chairman of MountVue Capital Management Co. Ltd (上海金浦瓴岳投資管理有限公司). 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, 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. Mr. Shao obtained his master’s degree in law from University of Melbourne in 1994. Mr. Shao brings to our Board extensive professional experience in Asia and public company board and corporate governance experience.

Mr. William WANG (汪洋) has served as our independent Director since July 2017. He 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 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.

Except as disclosed above, none of our Directors holds any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this prospectus. See the section headed “Major Shareholders” for further information about our Directors. Save as disclosed in this prospectus, there is no material matter relating to our Directors that needs to be brought to the attention of our Shareholders and the information of our Directors disclosed in this prospectus complies with the requirements under Rule 13.51(2) of the Hong Kong Listing Rules in all material respects.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

SENIOR MANAGEMENT

Ms. Joey WAT (屈翠容) has served as our Chief Executive Officer since March 2018 and as a member of our Board of Directors since July 2017. Please see “— Board of Directors” for a detailed biography.

Mr. Andy YEUNG (楊家威) 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. Mr. Yeung received a master’s degree in business administration (MBA) from Yale University in 1999.

Mr. Joseph CHAN (陳永堅) 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 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. He obtained his juris doctor degree from George Washington University in 1994.

Mr. Johnson HUANG (黃進栓) 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. He obtained a master’s degree in business administration from the University of Tennessee.

Mr. Jeff KUAI (蒯俊) has served as the General Manager, Pizza Hut since November 2017. Mr. Kuai previously served as the General Manager, Pizza Hut Home Service from March 2017 to October 2017 and as the Brand General Manager, Pizza Hut Home Service from October 2016 to March 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

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

technology infrastructure and productivity. He obtained a master's degree in information technology from Shanghai Jiao Tong University in 2007 and a master's degree in business administration (MBA) from Booth School of Business at the University of Chicago in 2014.

COMPENSATION

Compensation of Directors and Executive Officers

In compliance with our annual reporting requirements under the regulatory framework of the SEC applicable to NYSE-listed companies, we determine our NEOs annually, which generally include our Chief Executive Officer, Chief Financial Officer, three next most highly compensated executive officers and each executive officer who was not actively serving as of the last day of the most recently completed fiscal year but who did serve as the Company's Chief Executive Officer or Chief Financial Officer at any time during such year or receive compensation during such year greater than the compensation received by the least highly compensated actively serving NEO other than the Chief Executive Officer or Chief Financial Officer. For the three years ended December 31, 2019, 2018 and 2017, we paid and accrued aggregate compensation (including, where applicable, fees, salaries, bonus, stock awards, options and SAR awards, non-equity incentive plan compensation and all other compensation) of up to US\$32.2 million, US\$24.5 million and US\$29.8 million, respectively, to our Directors and NEOs as a group. For details, please refer to the following tables and footnotes summarizing the compensation awarded to, earned by or paid to our Directors and NEOs for the three years ended December 31, 2019, 2018 and 2017.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Director Compensation

Our employee Director, Ms. Joey Wat, does not receive additional compensation for serving on the Board. The table and footnotes below summarize compensation paid to each non-employee Director for the three years ended December 31, 2019, 2018 and 2017:

Name	Year	Fees Earned or Paid		Total
		in Cash⁽¹⁾	Stock Awards⁽²⁾	
		(US\$)	(US\$)	(US\$)
Fred HU	2019	225,000	290,000	515,000
	2018	131,275	192,058	323,333
	2017	225,008	234,992	460,000
Peter A. BASSI	2019	137,500	137,500	275,000
	2018	90,650	90,600	181,250
	2017	112,510	112,490	225,000
Christian L. CAMPBELL	2019	–	305,000	305,000
	2018	11	181,239	181,250
	2017	20	224,980	225,000
Ed Yiu-Cheong CHAN	2019	80,208	137,500	217,708
	2018	11	181,239	181,250
	2017	20	224,980	225,000
Edouard ETTEDGUI	2019	–	275,000	275,000
	2018	31	194,969	195,000
	2017	22	239,978	240,000
Cyril HAN ⁽³⁾	2019	–	275,000	275,000
Louis T. HSIEH	2019	80,208	137,500	217,708
	2018	1	202,916	202,917
	2017	36	244,964	245,000
Ruby LU	2019	–	295,000	295,000
	2018	11	181,239	181,250
	2017	20	224,980	225,000
Zili SHAO	2019	–	290,000	290,000
	2018	39	200,378	200,417
	2017	20	224,980	225,000
William WANG	2019	–	275,000	275,000
	2018	11	181,239	181,250
	2017	33	299,967	300,000

– Refers to nil.

- (1) Represents the portion of the annual retainer that the Director elected to receive in cash rather than equity, cash fees received in lieu of fractional shares and the annual cash retainer paid to Chairman of the Board.
- (2) Represents the grant date fair value for annual stock retainer awards granted in the particular fiscal year. Each Director received Shares of our common stock determined by dividing the applicable annual retainer by the closing market price of a Share of our common stock on the NYSE on the date of grant, with any fractional shares paid in cash rather than equity.
- (3) Mr. Cyril Han commenced service as our independent Director in May 2019.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Executive Compensation

The following table and footnotes summarize the total compensation awarded to, earned by or paid to our NEOs for the three years ended December 31, 2019, 2018 and 2017 to the extent required by SEC executive compensation disclosure rules:

Name	Year	Salary (US\$)	Bonus ⁽¹⁾ (US\$)	Stock Awards ⁽²⁾ (US\$)	Option/SAR Awards ⁽³⁾ (US\$)	Non-Equity Incentive Plan Compensation ⁽⁴⁾ (US\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ⁽⁵⁾ (US\$)	All Other Compensation ⁽⁶⁾ (US\$)	Total (US\$)	Adjusted Total Compensation Without Legacy Tax Reimbursements ⁽⁷⁾ (US\$)
Joey WAT	2019	1,180,667	–	2,500,031	2,500,012	4,355,208	–	1,634,083	12,170,001	10,900,805
	2018	1,041,667	–	2,500,032	2,516,929	1,635,469	–	2,792,279	10,486,376	8,035,756
	2017	739,858	200,000	2,000,021	1,139,167	1,904,782	–	1,583,655	7,567,483	6,288,915
Andy										
YEUNG	2019	189,895	–	1,000,030	–	322,407	–	29,638	1,541,970	1,541,970
Johnson HUANG	2019	695,833	–	440,013	440,007	1,682,635	–	386,480	3,644,968	3,466,790
	2018	644,583	–	440,007	440,011	866,775	–	453,540	2,844,916	2,602,846
	2017	443,158	165,000	805,898	379,722	975,762	–	280,672	3,050,212	2,958,208
Aiken										
YUEN	2019	512,527	99,552	228,005	228,010	882,224	–	193,251	2,143,569	2,107,840
Jacky LO ⁽⁸⁾ . . .	2019	526,701	333,499	440,013	440,007	742,068	–	261,216	2,743,504	2,648,582
	2018	641,093	–	440,007	440,011	501,482	–	352,315	2,374,908	2,173,418
	2017	407,917	–	–	208,848	657,261	–	291,305	1,565,331	1,422,027
Shella NG ⁽⁹⁾ . . .	2019	231,701	344,604	300,035	300,001	83,438	–	2,393,064	3,652,843	1,388,474
	2018	416,184	–	300,040	300,002	336,226	–	1,108,542	2,460,994	1,524,780
	2017	396,058	179,663	1,007,342	379,722	533,331	–	1,240,914	3,757,030	2,686,348
Danny TAN ⁽¹⁰⁾	2019	624,689	–	380,023	380,013	1,313,575	–	666,369	3,364,669	2,956,605
	2018	592,990	–	380,015	380,005	554,218	–	1,338,085	3,245,313	2,163,936
Micky PANT ⁽¹¹⁾ . . .	2018	1,018,077	–	–	–	–	41,145	223,603	1,282,825	1,282,825
	2017	1,100,000	–	–	4,000,008	3,689,400	62,098	719,511	9,571,017	9,571,017
Ted										
STEDEM ⁽¹²⁾	2017	246,635	–	–	1,139,167	286,571	690	213,354	1,886,417	1,886,417

– Refers to nil.

- (1) The amounts reported in this column for 2019 fiscal year represent a one-time discretionary payment to Mr. Jacky Lo, cash retention awards paid to Mr. Aiken Yuen and Ms. Shella Ng, and the guaranteed portion of Ms. Shella Ng's annual incentive award. The amounts reported in this column for 2017 fiscal year for Ms. Joey Wat, Ms. Shella Ng and Mr. Johnson Huang represent founder's cash retention awards approved by YUM in January 2016, in connection with the spin-off, the payment of which was subject to the executive's continued employment through January 31, 2017.
- (2) The amounts reported in this column for the particular fiscal year represent the grant date fair value of the RSU/PSU awards granted to relevant NEOs, calculated in accordance with Accounting Standards Codification Topic 718 ("ASC 718"), Compensation-Stock Compensation.
- (3) The amounts reported in this column represent the grant date fair value of the annual SAR awards granted to each of the NEOs identified in the particular fiscal year except for Mr. Andy Yeung (for the 2019 fiscal year), calculated in accordance with ASC 718.
- (4) Amounts in this column reflect the annual incentive awards earned for the applicable fiscal year performance periods under our annual bonus program. For Ms. Shella Ng, the amount reported in 2019 represents the portion of the amount annual incentive award in excess of the guaranteed annual bonus of US\$89,342, which is reflected in the "Bonus" column of this table.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- (5) Pursuant to SEC disclosure rules, the amounts reported for Mr. Micky Pant and Mr. Ted Stedem represent above-market earnings credited under the Yum China Holdings, Inc. Leadership Retirement Plan that exceed 120% of the applicable federal long-term rate.
- (6) Certain compensation included in the “All Other Compensation” column was denominated in RMB or Hong Kong Dollars. In particular, Mr. Jacky Lo, Mr. Danny Tan, Mr. Aiken Yuen and Ms. Shella Ng’s salaries and 2019 bonus awards were denominated in Hong Kong Dollars. Mr. Jacky Lo, Mr. Danny Tan and Ms. Shella Ng’s salaries and 2018 bonus awards were denominated in Hong Kong Dollars. Mr. Jacky Lo and Ms. Shella Ng’s salaries and 2017 bonus awards were denominated in Hong Kong Dollars.
- (7) The amounts in this column are calculated by subtracting the legacy tax reimbursements. 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). This column is provided 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 of this table.
- (8) Mr. Jacky Lo was identified as our NEO for the fiscal years of 2017, 2018 and 2019. He served as our Chief Financial Officer and Treasurer from September 2017 to October 2019.
- (9) Ms. Shella Ng was identified as our NEO for the fiscal years of 2017, 2018 and 2019. She served as our Chief Legal Officer and Corporate Secretary from October 2016 to April 2019.
- (10) Mr. Danny Tan was identified as our NEO for the fiscal years of 2018 and 2019. He has served as our Chief Supply Chain Officer since October 2016.
- (11) Mr. Micky Pant was identified as our NEO for the fiscal years of 2017 and 2018. He served as the Senior Advisor to the Company from March 2018 to February 2020, our Chief Executive Officer from October 2016 to February 2018 and the Chief Executive Officer of Yum! Restaurants China from August 2015 to October 2016.
- (12) Mr. Ted Stedem, our former Chief Financial Officer from October 2016 to June 2017, was identified as a NEO for the 2017 fiscal year.

The Nominating and Governance Committee of the Board considers advice from the compensation consultant, reviews and makes recommendations to the Board with respect to the compensation and benefits provided to Directors on an annual basis. We primarily use stock-based compensation to attract and retain qualified candidates to serve on the Board. We provide an annual retainer to our non-employee Directors, payable in our common stock, or, if requested by a Director, up to one-half in cash, and an additional annual cash retainer to our Chairman of the Board. The Chairpersons of our Board committees receive additional stock retainer. Our employee Director does not receive additional compensation for serving on the Board.

The Compensation Committee of the Board continuously evaluates our executive compensation programs with respect to the compensation and benefits of our executives based on the market and other considerations. Our executive compensation program consists of three primary pay components; (i) base salary; (ii) annual performance-based cash bonuses or short-term incentives; and (iii) long-term equity awards. Subject to the approval of our Compensation Committee, we may provide our executive officers with annual performance-based cash bonuses, which are calculated based on team performance measures, targets and weights established by the Compensation Committee at the beginning of each fiscal year and may also grant RSUs, SARs and/or PSUs to our executive officers annually under our long term incentive program. We provide our executive officers with certain employment benefits,

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

including post-employment benefits, change in control compensation, retirement benefits under our retirement scheme and certain perquisites provided to certain executive officers relating to overseas assignments.

For information regarding equity-based grants to Directors and executive officers, see “— Incentive Plans.”

Employment Agreements

We have entered into employment agreements with each of our executive officers. We may terminate their employment at any time by providing a prior notice of the termination. We may also terminate their employment in circumstances prescribed under and in accordance with the requirements of applicable labor law, including notice and payment in lieu. Executive officers may terminate their employment with us by providing a prior written notice. Subject to the non-solicitation and non-competition restrictive covenants as set out in our employment agreements with our executive officers, our letter agreements entered into with our executive officers provide severance pay for our executives.

Incentive Plans

Annual Performance-Based Incentive Program

Our annual performance-based incentive program is a cash-based plan which aims to motivate and reward short-term team and individual performance. We motivate the short-term performance of our executive officers through annual performance-based cash bonuses.

The following is the formula for calculating the annual performance-based bonuses:

$$\begin{array}{ccccccccc} \text{Base Salary} & & \times & \text{Target Bonus} & \times & \text{Team} & \times & \text{Individual} & = & \text{Final} \\ & & & \text{Percentage} & & \text{Performance} & & \text{Performance} & & \text{Individual} \\ & & & \text{(as a \% of} & & \text{Factor} & & \text{Factor} & & \text{Performance} \\ & & & \text{Base Salary)} & & \text{(0\%-200\%)} & & \text{(0\%-150\%)} & & \text{Bonus Payout} \end{array}$$

The Compensation Committee establishes team performance measures, targets and weights for the annual bonus program at the beginning of each fiscal year after receiving input recommendations from management and the Compensation Committee’s compensation consultant. The team performance objectives and targets are developed through the Company’s annual financial planning process, growth strategies, historical performance and expected future operating environment. 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. There is a threshold level of performance for all measures that must be met in order for any bonus to be paid. All measures have a cap on the level of performance above which no additional bonus will be paid regardless of performance above the cap.

2016 Plan

Our 2016 Plan is a long-term incentive plan effective on October 31, 2016, which authorizes the award of stock options, incentive options, SARs, restricted stock, stock units, RSUs, performance shares, PSUs and cash incentive awards to our employees and non-employee Directors. Its purposes are (i) to attract and retain persons eligible to participate in the 2016 Plan; (ii) to motivate participants, by means of appropriate incentives, to achieve long-range goals; (iii) to provide incentive compensation opportunities that are competitive with those of other similar companies; (iv) to align the interests of participants with those of our Shareholders; and (v) to issue awards pursuant to and in accordance with the employee matters agreement.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The 2016 Plan is administered by the Compensation Committee. For purposes of the 2016 Plan and subject to the terms and conditions of the 2016 Plan, our Compensation Committee has the authority and discretion (i) to select from among the eligible individuals those persons who shall receive awards under the 2016 Plan, (ii) to determine the time or times of receipt, (iii) to determine the types of awards and the number of shares covered by the awards, (iv) to establish the terms, conditions, performance criteria, restrictions, and other provisions of such awards, and, subject to the terms and conditions of the 2016 Plan, to cancel or suspend, reissue or repurchase awards, (v) to the extent that the Compensation Committee determines that the restrictions imposed by the 2016 Plan preclude the achievement of the material purposes of the awards in jurisdictions outside the United States, to modify those restrictions as the Compensation Committee determines to be necessary or appropriate to conform to applicable requirements or practices of jurisdictions outside of the United States, (vi) to conclusively interpret the 2016 Plan, (vii) to establish, amend, and rescind any rules and regulations relating to the 2016 Plan, (viii) to determine the terms and provisions of any award agreement made pursuant to the 2016 Plan, and (ix) to make all other determinations that may be necessary or advisable for the administration of the 2016 Plan.

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. Options and SARs expire ten years after grant. For further details on our Incentive Plans, please refer to “Appendix IV — Statutory and General Information — D. Incentive Plans.”

BOARD PRACTICES

Nomination of Directors

The Nominating and Governance Committee is responsible for recommending Director candidates to the full Board for nomination and election at the annual meetings of Shareholders. The Nominating and Governance Committee interviews a Director candidate before the candidate is submitted to the full Board for approval. Its charter provides that it may retain a third-party search firm to identify candidates from time to time. The Nominating and Governance Committee also considers Director candidates recommended by Shareholders or other sources in the same manner as nominees identified by the committee. Pursuant to our Bylaws, subject to certain terms and conditions, Shareholders owning at least 3% of the outstanding Shares of common stock for at least three consecutive years may 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. Director nominees will be elected by the affirmative vote of a majority of the votes cast by Shareholders at our annual general meeting.

Pursuant to the shareholders agreements we entered into with each of Pollos Investment and API Investment dated September 1, 2016 (the “**2016 Investment**”), Primavera identified two Director designees, Dr. Fred Hu and Mr. William Wang (the “**Director Nomination Right**”). In addition, Mr. Cyril Han served as the non-voting Board observer nominated by Ant Financial (the “**Observer Nomination Right**”) from November 2016 to May 2019 and was appointed as a Director at the 2019 annual general meeting.

The Director Nomination Right and the Observer Nomination Right are subject to, among other things, Primavera or Ant Financial meeting certain respective shareholding requirements, i.e., owning at least 50% of the number of Shares of common stock it owned immediately following the closing of the 2016 Investment.

The rights were an integral component of the overall agreement by such parties to be “anchor investors” in our Company to facilitate the spin-off of our Company from YUM Brands in

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

2016. Our Company believes that granting of such rights in 2016, as a part of the investment by the two shareholders, was in the best interests of our Company and Shareholders as a whole based on the following reasons:

- (i) at the time of the agreement by Primavera and Ant Financial to be the “anchor investors”, our Company was a wholly-owned subsidiary of YUM Brands. Our Company was preparing to be spun off from YUM Brands and become a separate, publicly traded company listed on the NYSE;
- (ii) the willingness of two large, sophisticated China-based investors to make a significant equity investment in our Company was important not only for the equity capital provided to our Company, but the investment represented a major vote of support in our Company’s business and equity valuation as it prepared to be publicly listed;
- (iii) the Director Nomination Right and the Observer Nomination Right are subject to respective minimum shareholding requirements; and
- (iv) the appointment of Dr. Hu and Mr. Wang as the Directors of our Company after it became an independent and publicly traded company has brought the Board extensive expertise in international affairs and the Chinese economy, and deep knowledge and investment insights of the Chinese market. In addition, as the Chairman of the Board, Dr. Hu also brings valuable business, strategic development and corporate leadership experience as well as expertise in economics, finance and global capital markets.

Our Company believes that the Board has exercised its fiduciary duties in nominating Directors for approval by the Shareholders based on the following reasons and save for the waivers from strict compliance with Rules 19C.07(3) and 19C.07(7) of the Hong Kong Listing Rules granted by the Hong Kong Stock Exchange, our Company is able to comply with the requirements under Rule 19C.07 of the Hong Kong Listing Rules:

- (i) the Nominating and Governance Committee, which is comprised entirely of independent Directors, is responsible for recommending Director candidates to the Board. When considering Director candidates to serve on the Board, the Nominating and Governance Committee may retain a third-party search firm to identify candidates from time to time;
- (ii) after the Nominating and Governance Committee recommends Director candidates to the Board, the Board may, after considering the background and relevant experience of the candidates, approve the relevant candidate to be nominated for election by the Shareholders at the annual meeting of Shareholders. 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;
- (iii) our Company has put forward a resolution at its 2019 and 2020 annual meetings for the Shareholders to approve the appointment of Dr. Hu and Mr. Wang, i.e., Directors nominated by Primavera. These resolutions have passed with greater than 90% of Shares of common stock present in person or by proxy voted in favor without exception;
- (iv) Mr. Cyril Han only served as a non-voting Board observer on the Board from November 2016 to May 2019. He was first recommended by the Nominating and Governance Committee for appointment as a Director at our Company’s 2019

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

annual general meeting considering his extensive knowledge and insights in the fields of finance and technology and deep understanding of our Company. Mr. Han's appointment has passed with greater than 99% of Shares of common stock present in person or by proxy voted in favor without exception in 2019 and 2020 annual meetings;

- (v) under the DGCL, all of the Directors owe our Company and its Shareholders fiduciary duties, including the duty of care, which requires that Directors be fully and adequately informed and act with care when making decisions and acting for the corporation, and the duty of loyalty, which requires that Directors act and make decisions in the best interest of the corporation and not in their personal interest. The Directors will also be subject to the same level of fiduciary duties under relevant Hong Kong laws upon the completion of the Listing on the Hong Kong Stock Exchange;
- (vi) notwithstanding the fact that Dr. Hu and Mr. Wang have been identified as Directors as nominated by Primavera or Mr. Han is serving as the chief financial officer of Ant Group Co., Ltd., the interests of Primavera and Ant Financial in respect of our Company align with those of the other Shareholders of our Company as a whole and each of Dr. Hu, Mr. Wang and Mr. Han is independent under the SEC rules, the listing requirements of the NYSE and the Hong Kong Listing Rules. Should there be a Board resolution involving Primavera or Ant Financial which may lead to a conflict of interest for Dr. Hu and Mr. Wang or Mr. Han, as the case may be, pursuant to the Constitutional Documents or applicable rules, Dr. Hu and Mr. Wang and/or Mr. Han, as the case maybe, will abstain from voting on the relevant Board resolution of our Company. In practice, during the Track Record Period, Dr. Hu and Mr. Wang and/or Mr. Han, as the case may be, were excused from Board deliberation or Board proceedings whenever there was a potential conflict of interest; and
- (vii) other Shareholders also enjoy rights to nominate alternative Director candidates for the annual meeting. Under the Bylaws, a Shareholder or Shareholders holding three percent of the outstanding shares for three years may include Director nominations in our Company's proxy materials (subject to a maximum of 20% of the Board and compliance with certain procedural requirements), which means that such Shareholders have a nearly cost-free ability to propose alternative Director candidates. Under Delaware law, a shareholder (regardless of size or length of shareholdings) has the right to propose alternative Directors to replace the entire Board if such holder is prepared to assume the costs of such proxy solicitation. Accordingly, the director nomination right granted to Primavera does not impair our Company's shareholder protection standards or the interests of the public Shareholders.

On the basis of the above, Sidley Austin, the Company's US legal advisors, advised that granting of such rights to Primavera or Ant Financial was in compliance with all applicable U.S. laws, including the requirements of Delaware law, the SEC rules and the listing requirements of the NYSE.

The Sponsor agrees with the Company's view set out above based on the following:

- (i) the representation and reasons presented by the Company;
- (ii) the advice from the Company's legal counsel, Sidley Austin;

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- (iii) this practice is not uncommon for companies listed on the stock exchanges in the United States;
- (iv) review of an excerpt of the shareholder's agreement entered into among Pollos Investment, API Investment and the Company on November 1, 2016 relating to director designation rights; and
- (v) review of the charter of the Nominating and Governance Committee relating to its working procedures and responsibilities.

Code of Conduct and Corporate Governance Principles

We have adopted a Code of Conduct, which is applicable to all of our Directors, executive officers, employees and our subsidiaries. Our Code of Conduct is publicly available on our website.

In addition, our Board has adopted Corporate Governance Principles covering a variety of matters. Our Corporate Governance Principles is intended to embody the governance principles and procedures by which the Board functions, reflecting certain guiding principles with respect to our Board's structure, procedures and committees. The guidelines is not intended to change or interpret any applicable law, rule or regulation or our Bylaws. Our Corporate Governance Principles is publicly available on our website.

Duties of Directors

Under the DGCL, all of our Directors owe us and our Shareholders fiduciary duties, including the duty of care, which requires that Directors be fully and adequately informed and act with care when making decisions and acting for the corporation, and the duty of loyalty, which requires that Directors act and make decisions in the best interest of the corporation and not in their personal interest. Under Delaware law, directors are presumed to comply with the duty of care and are liable only for breaches committed with gross negligence. Our Certificate of Incorporation includes provisions that require us to indemnify, to the fullest extent allowable under the DGCL, Directors or officers for monetary damages for actions taken as a our Director or officer or while serving at our request as a Director or officer or another position at another corporation or enterprise, as the case may be. Our Certificate of Incorporation expressly authorizes the Company to carry Directors' and officers' insurance to protect the Company and our Directors, officers, employees and agents from certain liabilities.

Board Committees

Our Board has established four standing committees in connection with the discharge of its responsibilities, namely the Audit Committee, the Compensation Committee, the Nominating and Governance Committee and the Food Safety Committee. Our Audit Committee, Compensation Committee and Nominating and Governance Committee consists solely of independent Directors and are governed by a written charter.

Audit Committee

Our Audit Committee currently consists of Christian L. Campbell, Peter A. Bassi, Ed Yiu Cheong Chan, Cyril Han and Louis T. Hsieh. Mr. Campbell is the chairman of our Audit Committee. Each of Mr. Bassi, Mr. Chan, Mr. Han and Mr. Hsieh satisfies the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. All members of our Audit Committee satisfy the requirements for an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual and meet the criteria for independence set forth in Rule 10A-3 of the U.S. Exchange Act.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The Audit Committee oversees our accounting and financial reporting processes and the audits of our financial statements. Our Audit Committee assists the Board, among other things, in its oversight of:

- the integrity of the financial statements of the Company;
- the compliance by the Company with legal and regulatory requirements;
- the Company's system of internal controls and procedures, including disclosure controls and procedures;
- the independent auditor's qualifications and independence; and
- the performance of the Company's internal audit function and independent auditors.

Compensation Committee

Our Compensation Committee currently consists of Ruby Lu, Christian L. Campbell, Edouard Ettegui and William Wang. Ms. Lu is the chairwoman of our Compensation Committee. All members of our Compensation Committee satisfy the requirements for an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual and qualify as an "outside" director within the meaning of Internal Revenue Code Section 162(m) and as a "non-employee" director within the meaning of Rule 16b-3 under the U.S. Exchange Act.

Our Compensation Committee is responsible for, among other things:

- overseeing the Company's executive compensation plans and programs;
- reviewing and recommending changes to these plans and programs;
- monitoring the performance of the Chief Executive Officer and other senior executives in light of corporate goals set by the Compensation Committee; and
- reviewing and approving the compensation level of the Chief Executive Officer and other senior executive officers based on the Compensation Committee's evaluation.

Nominating and Governance Committee

Our Nominating and Governance Committee currently consists of Fred Hu, Christian L. Campbell, Edouard Ettegui and Ruby Lu. Dr. Hu is the chairman of our Nominating and Governance Committee. All members of our Nominating and Governance Committee satisfy the "independence" requirements of Section 303A of the NYSE Listed Company Manual.

Our Nominating and Governance Committee is responsible for, among other things:

- identifying and proposing to the Board individuals qualified to become Board members and recommending to the Board Director nominees for each committee;
- advising the Board on matters of corporate governance;
- reviewing and reassessing from time to time the adequacy of the Company's Corporate Governance Principles and recommending any proposed changes to the Board for approval;

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- receiving comments from all Directors and reporting annually to the Board with assessment of the Board's performance;
- reviewing annually and making recommendations to the Board with respect to the compensation and benefits of Directors;
- reviewing management succession planning and making recommendations to the Board; and
- reviewing emerging corporate governance issues and best practices.

Food Safety Committee

Our Food Safety Committee currently consists of Zili Shao, Peter A. Bassi and Edouard Ettegui. Mr. Shao is the chairman of our Food Safety Committee. Our Food Safety Committee assists the Board in its oversight of the Company's practices, procedures, strategies and initiatives relating to food safety.

Our Food Safety Committee is responsible for, among other things:

- reviewing, evaluating and advising the Board regarding the practices, procedures, strategies and initiatives to protect food safety;
- reviewing, evaluating and advising 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;
- reviewing, evaluating and advising any corrective action taken by management to address any food safety related risks or incident, if any; and
- advising the Board regarding any proposed action in relation thereto.

MAJOR SHAREHOLDERS

The following table sets forth information with respect to beneficial ownership of our Shares as of the Latest Practicable Date, unless otherwise noted, by:

- each of our Directors and senior management;
- our Directors and senior management as a group; and
- each person known to us to beneficially own 5% or more of our Shares.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC and includes all Shares the Shareholder actually owns beneficially or of record, all Shares over which the Shareholder has or shares voting or dispositive control and all Shares the Shareholder has the right to acquire within 60 days of the Latest Practicable Date. Except as indicated in the footnotes to the table, we believe that the persons named in the table have sole voting and investment power with respect to all Shares owned beneficially by them.

Name	Number of Shares Beneficially Owned	
	Number	Percentage ⁽¹⁾
Directors and Senior Management:		
Fred HU	32,563	*
Joey WAT ⁽²⁾	213,224	*
Peter A. BASSI	57,588	*
Christian L. CAMPBELL ⁽³⁾	165,914	*
Ed Yiu-Cheong CHAN	27,876	*
Edouard ETTEDGUI	28,083	*
Cyril HAN	12,386	*
Louis T. HSIEH	59,669	*
Ruby LU	31,898	*
Zili SHAO	27,980	*
William WANG	24,688	*
Andy YEUNG	—	—
Joseph CHAN	—	—
Johnson HUANG ⁽⁴⁾	84,008	*
Jeff KUAI ⁽⁵⁾	30,892	*
All Directors and Senior Management as a group	796,769	0.2%
Greater than 5% Beneficial Owner:		
Invesco Ltd. (“Invesco”) ⁽⁶⁾	40,606,420	10.8%
BlackRock, Inc. (“BlackRock”) ⁽⁷⁾	27,342,317	7.2%
Primavera Capital Management Ltd (“Primavera Capital”) ⁽⁸⁾	23,876,745.35	6.3%

* This person beneficially owns less than 1% of our issued and outstanding Shares.

(1) Based on 377,195,679 Shares issued and outstanding as of the Latest Practicable Date.

(2) Represent (i) 56,529 Shares of common stock and (ii) 156,695 Shares issuable upon the exercise of vested SARs.

(3) Represent (i) 59,877 Shares of common stock directly held by Mr. Christian L. Campbell, (ii) 80 Shares of our common stock held by Mr. Campbell’s spouse and (iii) 105,957 Shares issuable upon the exercise of vested SARs.

(4) Represent (i) 17,654 Shares of common stock and (ii) 66,354 Shares issuable upon the exercise of vested SARs.

MAJOR SHAREHOLDERS

- (5) Represent (i) 8,345 Shares of common stock and (ii) 22,547 Shares issuable upon the exercise of vested SARs.
- (6) Based on the Form 13F filed with the SEC by Invesco on August 14, 2020, Invesco held 40,606,420 Shares of common stock as of June 30, 2020.
- (7) Based on the Form 13F filed with the SEC by BlackRock on August 14, 2020, BlackRock held 27,342,317 Shares of common stock as of June 30, 2020.
- (8) Based on Amendment No. 5 to the Schedule 13D under the U.S. Exchange Act filed with the SEC by Primavera Capital on May 20, 2020, represent (i) 16,364,778 Shares of common stock owned by Primavera Capital and (ii) 7,511,967.35 warrants directly held by Pollos Upside, which represents 7,511,967.35 Shares issuable under Warrant 1. Primavera Capital is the investment manager of Primavera Capital Fund II L.P. and, as such, holds discretionary investment authority and voting power with respect to shares of its portfolio companies, including the Shares of common stock held through Pollos Investment and Pollos Upside. Therefore, Primavera Capital is deemed to have the sole power to vote and dispose or direct the disposition of such Shares.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of our authorized share capital as of the Latest Practicable Date and immediately following the completion of the Global Offering:

Authorized Share Capital

	<u>CLASS OF SHARES</u>	<u>SHARES</u>	<u>TOTAL PAR VALUE</u> <u>(US\$)</u>
Authorized share capital	Shares of common stock	1,000,000,000	10,000,000
	Shares of preferred stock	100,000,000	1,000,000

Our authorized share capital consists of 1,000,000,000 Shares of common stock, with a par value of US\$0.01 per Share, and 100,000,000 shares of preferred stock, with a par value of US\$0.01 per share. As of the Latest Practicable Date, 377,195,679 Shares of common stock were issued and outstanding, and no share of preferred stock was issued and outstanding.

Issued Share of Common Stock

<u>Description of Shares</u>	<u>Shares</u>	<u>Total par value</u> <u>(US\$)</u>	<u>Approximate percentage of authorized shares of common stock</u> <u>%</u>
Issued and outstanding Shares of common stock	377,195,679	3,771,956.79	37.7
Issued and outstanding Shares of common stock immediately following completion of the Global Offering (assuming no exercise of the Over-allotment Option)	419,106,379	4,191,063.79	41.9
Issued and outstanding Shares of common stock immediately following completion of the Global Offering (assuming full exercise of the Over-allotment Option)	425,392,979	4,253,929.79	42.5

Assumptions

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any allotment and issuance of Shares pursuant to the 2016 Plan, the Warrant 1 or the Warrant 2, and any issuance or repurchase and cancellation of Shares that we may make after the Latest Practicable Date.

RANKING

Our Company will have only one issued class of Shares upon completion of the Global Offering. The issued Shares are Shares of common stock in the share capital of our Company and rank *pari passu* in all respects with all Shares of common stock currently in issue or to be issued and, in particular, will rank equally and in full for all dividends or other distributions declared, made or paid on the Shares of common stock in respect of a record date which falls after the date of this prospectus.

SHARE CAPITAL

Under the terms of our Certificate of Incorporation, our Board is authorized, subject to limitations prescribed by DGCL, to issue up to 100,000,000 shares of preferred stock in one or more series without further action by the holders of our Shares of common stock, and has the discretion, subject to limitations prescribed by the DGCL and by our Certificate of Incorporation, to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of shares of preferred stock.

2016 PLAN

See “Directors, Senior Management and Employees — Compensation — Incentive Plans — 2016 Plan” and “Appendix IV — Statutory and General Information — D. Incentive Plans — 2. 2016 Plan” for further details.

SHARE REPURCHASES

Share Repurchase under the Investment Agreements

Pursuant to the investment agreements we entered into with each of Pollos Investment and API Investment dated September 1, 2016, we issued 17,064,172.74 and 2,080,996.68 Shares of common stock at US\$24.03 per share to Primavera and Ant Financial, respectively, on November 1, 2016, subject to adjustment depending on the volume-weighted average trading price (the “VWAP”) of Shares of common stock for a specified period post-closing. If the adjusted VWAP price per share exceeded US\$24.03, we were required to repurchase for par value per Share a number of Shares held by Primavera and Ant Financial. On January 9, 2017, we repurchased from Primavera and Ant Financial 699,394.74 and 85,291.68 Shares of common stock, respectively, at par value of US\$0.01 per Share, based on the adjusted VWAP price per Share as determined on December 30, 2016.

Share Repurchase Program

One February 7, 2017, our Board authorized a US\$300 million share repurchase program. On October 4, 2017, such authorization was increased from US\$300 million to an aggregate of US\$550 million. On October 30, 2018, the Board further expanded the share repurchase authorization to an aggregate of US\$1.4 billion. For the six months ended June 30, 2020 and the years ended December 31, 2019, 2018 and 2017, we repurchased 0.2 million, 6.2 million, 9.0 million and 3.4 million Shares of our common stock at a total costs of US\$7 million, US\$261 million, US\$312 million and US\$128 million, respectively. As of June 30, 2020, US\$692 million remained available for future share repurchases under the authorization. We 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.

SHARE CAPITAL

The table below summarizes the repurchases we made during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

Month	Total number of Shares purchased ⁽¹⁾ (thousands)	Average price paid per Share ⁽²⁾ (US\$)	Approximate dollar value of Shares that may yet be repurchased under the plans or programs (millions)
For the year ended December 31, 2017			
March 2017	—	—	—
April 2017	37	33.06	299
May 2017	1,036	36.39	261
June 2017	1,651	39.98	195
July 2017	523	36.75	176
August 2017	109	36.52	172
September 2017	—	—	—
October 2017	—	—	—
November 2017	—	—	—
December 2017	—	—	—
For the year ended December 31, 2018			
January 2018	—	—	—
February 2018	—	—	—
March 2018	—	—	—
April 2018	39	38.68	420
May 2018	1,471	38.20	364
June 2018	400	39.18	349
July 2018	1,514	35.76	295
August 2018	—	—	295
September 2018	1,152	34.33	255
October 2018	3,389	32.59	995
November 2018	136	34.84	990
December 2018	897	33.53	960
For the year ended December 31, 2019			
January 2019	896	34.24	929
February 2019	314	41.44	916
March 2019	497	42.28	895
April 2019	471	44.62	874
May 2019	822	41.28	840
June 2019	466	42.90	820
July 2019	495	44.45	798
August 2019	498	44.09	776
September 2019	438	45.69	756
October 2019	526	43.69	733
November 2019	466	42.94	713
December 2019	309	45.87	699
For the six months ended June 30, 2020			
January 2020	127	43.38	693
February 2020	36	43.87	692
March 2020	—	—	692
April 2020	—	—	—
May 2020	—	—	—
June 2020	—	—	—

(1) The Shares of common stock repurchased by our Company for such period have been rounded to the nearest thousands.

(2) Pursuant to our share repurchase program, we repurchased Shares of common stock from the market.

SHARE CAPITAL

REGISTRATION RIGHTS

We have granted to Primavera and Ant Financial (the “**Investors**”) certain customary registration rights with respect to their Shares of common stock, including demand registration rights (no more than two written requests of the Company in any given calendar year and no more than four in the aggregate) and piggyback registration rights. Upon request from the Investors, we are required to file a shelf registration statement with the SEC and use commercially reasonable efforts to cause the shelf registration statement to become effective (and to remain effective for five years, or if earlier, until the securities covered by the shelf registration statement have been sold or until the Investors no longer hold at least 2% of the Company’s Shares of common stock). The Investors are entitled to assign their registration rights to a transferee in a permitted transfer, and any rights and obligations under the shareholders agreement to any of their respective affiliates.

Demand Registration Rights

Subject to any applicable lock-up agreement they may enter into, at any time after the completion of our initial public offering, the Investors have the right to demand that we file a registration statement for disposition in accordance with the intended method of disposition stated in such demand. We have the right to postpone, upon written notice to the Investors, the filing or the effectiveness of a registration statement or require the Investors to suspend the use of this prospectus for sales of registrable securities in respect of any demand registration in the event of a black period of up to 60 days if the Board determines in good faith that such registration and offering would reasonably be expected to materially adversely detrimental to us, provided that we may not utilize this right more than once in any 12-month period.

Piggyback Registration Rights

If we initiate any underwritten offering, we shall notify all holders of registrable securities and afford them an opportunity to include in the registration all or any part of their registrable securities that each such holder may request to be registered.

Form S-3 Registration Rights

The Investors have the right to request, by written notice, that we file a registration statement on Form S-3 providing for an offering to be made on a continuous basis pursuant to Rule 415 under the U.S. Securities Act to permit or facilitate the offer, sale and distribution, from time to time, of an amount of registrable securities then held by the Investors that equals or is greater than the registrable amount. We also have the right to postpone a registration pursuant to this request in the event of a blackout period of up to 60 days if the Board determines in good faith that it would be seriously detrimental to us for such registration statement to be filed. We may not utilize this right more than once in any 12-month period.

Withdrawal Rights

The Investors, after having notified or directed the Company to include any or all of their registrable securities in a registration statement under the U.S. Securities Act, shall have the right to withdraw any such notice or direction with respect to any or all of the registrable securities designated by it for registration by giving written notice to such effect to the Company.

Expenses of registration

We will pay all expenses (other than underwriting discounts and commissions) in connection with the demand registration, Form S-3 registration and piggyback registration including,

SHARE CAPITAL

among others, (i) all registration and filing fees, (ii) printers' and accounting fees, (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of our public accountants and counsel and the Investors' counsel, and (v) our expenses incurred in connection with any "road show."

Limitation on granting of further registration rights

We shall not, without the prior written consent of the Investors, enter into any agreement with any holder or prospective holder of any securities of the Company that would allow such holder or prospective holder to (i) require us to effect a registration or (ii) include any securities in any registration filed under demand registration rights, piggyback registration rights and Form S-3 registration rights.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$19,274 million, after deducting underwriting commissions, fees and estimated expenses payable by us in connection with the Global Offering based on an indicative maximum Public Offer Price of HK\$468.00 per Share and assuming the Over-allotment Option is not exercised, or HK\$22,178 million if the Over-allotment Option is exercised in full.

We currently intend to apply these net proceeds for the following purposes:

- Approximately 45%, or HK\$8,673 million, will be used to expand and deepen our restaurant network. We believe we have the potential to grow to 20,000 restaurants or more in the future. We will focus on increasing our geographic footprint in both existing and new cities, and are tracking over 800 cities that do not have a KFC and Pizza Hut restaurant. We will continue to remodel and expand our restaurant network, and explore various new restaurant formats to support expansion, including different store designs or service models aimed at addressing the needs of different guests and for different occasions. We plan to continue to grow our emerging brands and focus on exploring suitable business models, product innovation and operational enhancement for these emerging brands. We will also continue to seek franchise opportunities for both our core and emerging brands to develop our franchisee-owned store portfolio over time.
- Approximately 45%, or HK\$8,673 million will be used for investments in (i) digitalization and supply chain, (ii) food innovation and value proposition, and (iii) high quality assets.
 - *Digitalization and supply chain.* We will continue to invest in technology with a focus on improving our overall technology infrastructure, digital and delivery capabilities and supply chain. For example, we will continue to invest in and develop our end-to-end digital capabilities with new digital, delivery and payment technologies, to support our growth and to meet our customers' evolving consumptions needs. We plan to invest in digitalization, automation and AI to more effectively connect online traffic with our offline assets, as well as focus on connecting our front-end, guest facing systems to back-end systems such as operations and supply chain. We will continue to introduce innovative technologies, new delivery menu items and novel delivery service concepts for our delivery business.
 - *Food innovation and value proposition.* We will continue our food innovation and strengthen our value proposition. We will seek to introduce innovative menu items to meet evolving consumer preference and local tastes, drive guest engagement and continue to broaden our brand appeal. As part of such efforts, we plan to continue to develop unique recipes and special seasonings to provide appealing, tasty and convenient food choices at competitive prices. In addition, we will continue to focus on our value proposition with product offering and value campaigns.
 - *High quality assets.* We intend to focus on high-quality brands and enablers to capture growth opportunities and further enhance our competitiveness. We will prudently assess investment targets based on each candidate's strategic value, brand equity, business scale and financial performance, amongst other factors.
- Approximately 10%, or HK\$1,928 million, will be used for our working capital and general corporate purposes.

UNDERWRITING

HONG KONG UNDERWRITERS

Goldman Sachs (Asia) L.L.C.

Citigroup Global Markets Asia Limited

CMB International Capital Limited

UBS AG Hong Kong Branch

ABCI Securities Company Limited

AMTD Global Markets Limited

BOCI Asia Limited

China International Capital Corporation Hong Kong Securities Limited

CLSA Limited

The Hongkong and Shanghai Banking Corporation Limited

ICBC International Securities Limited

UNDERWRITING

We publish this prospectus solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. We expect the International Offering to be fully underwritten by the International Underwriters. If, for any reason, we do not agree with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 1,676,500 Hong Kong Offer Shares and the International Offering of initially 40,234,200 International Offer Shares, subject, in each case, to reallocation on the basis as described in “Structure of the Global Offering” as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on August 31, 2020. Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus, and the Hong Kong Underwriting Agreement at the Public Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the 2016 Plan, the Warrant 1 and the Warrant 2, on the Main Board of the Hong Kong Stock

UNDERWRITING

Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled, in their absolute discretion and by giving written notice to us to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

- trading generally shall have been suspended or materially limited on, or by, as the case may be, any of the New York Stock Exchange, the NASDAQ Global Market or the Hong Kong Stock Exchange;
- trading in the Company's securities shall have been suspended on any exchange or in any over-the-counter market;
- a material disruption in securities settlement, payment or clearance services in the United States, the PRC or Hong Kong shall have occurred;
- any moratorium on commercial banking activities shall have been declared by United States Federal, New York, the PRC or Hong Kong; or
- there shall have occurred any outbreak or escalation of hostilities, or any change in financial markets, currency exchange rates or controls or any calamity or crisis that, in the reasonable judgment of the Joint Global Coordinators, is material and adverse and which, singly or together with any other event specified in this paragraph, makes it, in the reasonable judgment of the Joint Global Coordinators, impracticable to proceed with the offer, sale or delivery of the Offer Shares on the terms and in the manner contemplated in this prospectus, and the registration statement, the general disclosure package and the final prospectus to be filed or issued by us in connection with the International Offering.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

Except for (i) the issue, offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to Over-Allotment Option), (ii) the grant or issue of securities pursuant to the terms of the 2016 Plan, the Warrant 1 and the Warrant 2, (iii) any capitalization issue, capital reduction or consolidation or sub-division of the Shares, (iv) any repurchase of securities pursuant to any share repurchase programs existing on the date of the Hong Kong Underwriting Agreement, (v) the filing of any registration statement on Form S-8 or successor form, or (vi) the facilitation of the establishment of a trading plan on behalf of a Shareholder, officer or Director of the Company pursuant to Rule 10b5-1 under the U.S. Exchange Act, during the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date (the "Lock-up Period"), we have undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sponsor not to,

UNDERWRITING

without the prior written consent of the Sponsor and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules,

- (a) offer, issue, sell, pledge, or otherwise dispose of, either directly or indirectly, conditionally or unconditionally, any Shares, or any securities convertible into or exchangeable or exercisable for or that represent the right to receive, any Shares, or deposit any Shares with a depositary in connection with the issue of depositary receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or any securities convertible into or exchangeable or exercisable for or that represent the right to receive, any Shares; or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or contract to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above.

Hong Kong Underwriters' Interests in the Company

Save as disclosed in this prospectus and save for their respective obligations under the Hong Kong Underwriting Agreement, as at the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares, or any securities of any of our members or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of any of our members.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, we expect to enter into the International Underwriting Agreement with among others, the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. The International Offering will consist of a U.S. offering and a non-U.S. offering. We expect that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See “Structure of the Global Offering — The International Offering.”

Over-allotment Option

We expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from

UNDERWRITING

the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which we may be required to issue up to an aggregate of 6,286,600 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the International Offer Price, to, among other things, cover over-allocations in the International Offering, if any. See “Structure of the Global Offering — Over-allotment Option.”

Commissions and Expenses

The Underwriters will receive an underwriting commission of up to 1.25% of the aggregate offer price of all the Offer Shares (including any Offer Shares to be issued by us pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees. For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an indicative offer price of HK\$468.00 per Offer Share for both the Hong Kong Public Offering and the International Offering and the exercise of the Over-allotment Option in full) will be up to approximately HK\$282.0 million.

The aggregate underwriting commissions and fees together with the Hong Kong Stock Exchange listing fees, the SFC transaction levy and the Hong Kong Stock Exchange trading fee, SEC registration fees, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be up to approximately HK\$378.1 million (assuming an indicative offer price of HK\$468.00 per Offer Share for both the Hong Kong Public Offering and the International Offering and the exercise of the Over-allotment Option in full) and will be paid by us.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering, together, the Syndicate Members and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to our assets, securities and/or instruments and/or persons and entities with relationships with us and may also include swaps and other financial instruments entered into for hedging purposes in connection with our loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering,

UNDERWRITING

proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering.” Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and certain of our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of the Offer Shares in the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

We publish this prospectus in connection with the Hong Kong Public Offering as part of the Global Offering.

The listing of the Shares on the Main Board of the Hong Kong Stock Exchange is sponsored by the Sponsor. The Sponsor made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

We are initially offering 41,910,700 Offer Shares under the Global Offering comprising:

- the Hong Kong Public Offering of initially 1,676,500 Shares (subject to adjustment) in Hong Kong as described in “— The Hong Kong Public Offering” below; and
- the International Offering of initially 40,234,200 Shares (subject to adjustment and the Over-allotment Option) pursuant to the shelf registration statement on Form S-3ASR that was filed with the SEC and became effective on August 28, 2020, and the preliminary prospectus supplement filed with the SEC on August 28, 2020 and the final prospectus supplement to be filed with the SEC on or about September 4, 2020.

Investors may either (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or (ii) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 10.0 % of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the 2016 Plan, the Warrant 1 and the Warrant 2. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 11.3 % of the total Shares in issue immediately following the completion of the Global Offering (without taking into account the Shares to be issued pursuant to the 2016 Plan, the Warrant 1 and the Warrant 2).

References in this prospectus to applications, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering 1,676,500 Shares for subscription by the public in Hong Kong at the Public Offer Price, representing 4.0% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 0.4% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the 2016 Plan, the Warrant 1 and the Warrant 2).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers,

STRUCTURE OF THE GLOBAL OFFERING

dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in “— Conditions of the Global Offering” below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Public Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 838,250 Hong Kong Offer Shares is liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

We have applied for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules to the effect as further described below.

1,676,500 Offer Shares are initially available in the Hong Kong Public Offering, representing approximately 4% of the Offer Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 10 times or more but less than 15 times, (b) 15 times or more but less than 20 times and (c) 20 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 2,724,200 Offer Shares (in the case of (a)), 3,143,350 Offer Shares (in the case of (b)) and 6,915,300 Offer Shares (in the case of (c)), representing approximately 6.5%, 7.5% and 16.5% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offer Shares to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEx-GL91-18 issued by the Hong Kong Stock Exchange, if such allocation is done other than pursuant to Practice Note 18 of the Hong Kong Listing Rules, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 3,353,000 Shares).

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the results announcement of the Hong Kong Public Offering, which is expected to be published on Wednesday, September 9, 2020.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he/she has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the indicative maximum Public Offer Price of HK\$468.00 per Offer Share in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$23,635.80 for one board lot of 50 Shares. If the Public Offer Price, as finally determined in the manner described in “— Pricing and Allocation” below, is less than the maximum Public Offer Price of HK\$ 468.00 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in “How to Apply for Hong Kong Offer Shares.”

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The International Offering will consist of an initial offering of 40,234,200 Offer Shares offered by us (subject to adjustment and the Over-allotment Option), representing 96% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 9.6% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares to be issued pursuant to the 2016 Plan, the Warrant 1 and the Warrant 2).

Allocation

The International Offering will include marketing of Offer Shares in the United States as well as to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “— Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our benefit and the benefit of the shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at

STRUCTURE OF THE GLOBAL OFFERING

any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 6,286,600 Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the International Offer Price under the International Offering to cover over-allocations in the International Offering, if any. The Stabilizing Manager may choose to borrow certain Shares and/or defer the settlement of certain Shares in order to cover any over-allocation of Shares in the International Offering.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 1.5% of the total Shares in issue immediately following the completion of the Global Offering. If the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Public Offer Price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as our best interest, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in clauses (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;

STRUCTURE OF THE GLOBAL OFFERING

- liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Sunday, October 4, 2020, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Public Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Public Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

We will ensure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

In addition, stabilization transactions with respect to the our Shares traded on the NYSE may be effected by one of the International Underwriters or its affiliates before and after the listing of the Shares on the Hong Kong Stock Exchange in accordance with applicable laws and regulations.

Over-Allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Public Offer Price or a combination of these means.

PRICING AND ALLOCATION

Determining the Offer Price

We will determine the pricing for the Offer Shares for the purpose of the various offerings under the Global Offering on the Price Determination Date, which is expected to be on or about Friday, September 4, 2020 and, in any event, no later than Wednesday, September 9, 2020, by agreement with the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

STRUCTURE OF THE GLOBAL OFFERING

We will determine the Public Offer Price by reference to, among other factors, the closing price of the Shares on the NYSE on the last trading day on or before the Price Determination Date (which is accessible to the Shareholders and potential investors at <https://www.nyse.com/quote/XNYS:YUMC>), and the Public Offer Price will not be more than HK\$468.00 per Hong Kong Offer Share. The historical prices of our Shares and trading volume on the NYSE are set out below.

Period	High (US\$)	Low (US\$)	ADTV (million Shares)⁽¹⁾
Fiscal year of 2019	49.00	32.84	2.31
Fiscal year of 2020 (up to the Latest Practicable Date)	56.09	38.33	2.75

(1) Average daily trading volume (“ADTV”) represents daily average number of our Shares traded over the relevant period.

Applicants under the Hong Kong Public Offering must pay, on application, the maximum Public Offer Price of HK\$468.00 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, amounting to a total of HK\$23,635.80 for one board lot of 50 Shares. We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the Shares on the NYSE on the last trading day on or before the Price Determination Date were to exceed the maximum Public Offer Price as stated in this prospectus and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price.

In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this prospectus or the International Offer Price.

We reserve the right not to proceed with the Hong Kong Public Offering or the International Offering on or at any time until the Price Determination Date if, for any reason, including as a result of volatility in the price of our Shares or other changes in market conditions, we do not agree with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Wednesday, September 9, 2020.

The International Underwriters will be soliciting from prospective investors’ indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with our consent, reduce the number of Offer Shares offered below as stated in this prospectus at any time on or prior

STRUCTURE OF THE GLOBAL OFFERING

to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website and the website of the Hong Kong Stock Exchange at www.yumchina.com and www.hkexnews.hk, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares will be final. If the number of Offer Shares is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced.

Announcement of Final Pricing of the Offer Shares

The final pricing of the Offer Shares, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in “How to Apply for Hong Kong Offer Shares — D. Publication of Results.”

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, our agreeing with the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on the pricing of the Offer Shares.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in “Underwriting.”

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the 2016 Plan on the Main Board of the Hong Kong Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;
- the pricing of the Offer Shares having been agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us;

STRUCTURE OF THE GLOBAL OFFERING

- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

If, for any reason, we do not agree the pricing of the Offer Shares with the Joint Global Coordinators (on behalf of the Underwriters) on or before Wednesday, September 9, 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website and the website of the Hong Kong Stock Exchange at www.yumchina.com and www.hkexnews.hk, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares — F. Refund of Application Monies.” In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Thursday, September 10, 2020, provided that the Global Offering has become unconditional in all respects at or before that time.

DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, September 10, 2020, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, September 10, 2020.

The Shares will be traded in board lots of 50 Shares each and the stock code of the Shares will be 9987.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at www.yumchina.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (WUMP) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our IPO Services Agent and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8646 from 9:00 a.m. to 9:00 p.m. on Tuesday, September 1, 2020, Wednesday, September 2, 2020 and Thursday, September 3, 2020 and from 9:00 a.m. to 12:00 noon on Friday, September 4, 2020.

A. Applications for the Hong Kong Offer Shares

1. How to Apply

We will not provide any printed application forms for use by the public.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at www.eipo.com.hk;
- (2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

We, the Joint Global Coordinators, the **White Form eIPO** Service Provider and our and their respective agents may reject or accept any application, in full or in part, for any reason at our or their discretion.

2. Who Can Apply

Eligibility for the Application

You can apply for the Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older; and
- have a Hong Kong address.

If an application is made by a person under a power of attorney, we and the Joint Global Coordinators may accept it at our or their discretion, and on any conditions we or they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong Listing Rules or any relevant waivers that have been granted by the Hong Kong Stock Exchange (details of the relevant waivers are set out in the sections headed "Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Subscription for Shares by existing shareholders" and "Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Dealings in the Shares prior to the Listing"), you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares and/or a substantial shareholder of any of our subsidiaries;
- you are our director or chief executive and/or a director or chief executive officer of our subsidiaries;
- you are a close associate of any of the above persons;
- you are a core connected person of the Company or a person who will become a core connected person of the Company immediately upon the completion of the Global Offering; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for the Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus you:

- undertake to execute all relevant documents and instruct and authorize us and/or the Joint Global Coordinators (or their agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by our Constitutional Documents;
- agree to comply with our Constitutional Documents and, the Companies (WUMP) Ordinance and the DGCL;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;
- agree that none of us, the Relevant Persons and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- agree to disclose to us, the IPO Services Agent, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or any of them may require about you and the person(s) for whose benefit you have made the application;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither we nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- authorize (i) us to place your name(s) or the name of HKSCC Nominees on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under our Constitutional Documents and (ii) us and/or our agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in “— Personal Collection” below to collect the Share certificate(s) and/or refund check(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that we, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the **White Form eIPO** service or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
50	23,635.80	600	283,629.62	4,000	1,890,864.14	60,000	28,362,962.16
100	47,271.60	700	330,901.23	4,500	2,127,222.16	80,000	37,817,282.88
150	70,907.41	800	378,172.83	5,000	2,363,580.18	100,000	47,271,603.60
200	94,543.21	900	425,444.43	6,000	2,836,296.22	200,000	94,543,207.20
250	118,179.01	1,000	472,716.04	7,000	3,309,012.25	300,000	141,814,810.80
300	141,814.81	1,500	709,074.05	8,000	3,781,728.29	400,000	189,086,414.40
350	165,450.61	2,000	945,432.07	9,000	4,254,444.32	500,000	236,358,018.00
400	189,086.41	2,500	1,181,790.09	10,000	4,727,160.36	600,000	283,629,621.60
450	212,722.22	3,000	1,418,148.11	20,000	9,454,320.72	700,000	330,901,225.20
500	236,358.02	3,500	1,654,506.13	40,000	18,908,641.44	838,250 ⁽¹⁾	396,254,217.18

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Applying Through the White Form eIPO Service

General

Individuals who meet the criteria in “— Who Can Apply” above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to us. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

If you have any questions on how to apply through the **White Form eIPO** service for the Hong Kong Offer Shares, please contact the telephone enquiry line of the **White Form eIPO** Service Provider at +852 2862 8646 which is available from 9:00 a.m. to 9:00 p.m. on Tuesday, September 1, 2020, Wednesday, September 2, 2020 and Thursday, September 3, 2020 and from 9:00 a.m. to 12:00 noon on Friday, September 4, 2020.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service through the designated website at www.eipo.com.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Tuesday, September 1, 2020 until 11:30 a.m. on Friday, September 4, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, September 4, 2020, the last day for applications, or such later time as described in “C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

HOW TO APPLY FOR HONG KONG OFFER SHARES

6. Applying Through CCASS EIPO Service

General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these electronic application instructions through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to us, the Sponsor, the Joint Global Coordinators, the IPO Services Agent and the Hong Kong Share Registrar.

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a **broker** or **custodian** or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and
- HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
 - declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you understand that we, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- authorize us to place HKSCC Nominees' name on our register of members as the holder of the Hong Kong Offer Shares allocated to you, and despatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;
- agree that neither we nor any of the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- agree to disclose to us, the IPO Services Agent, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us, and to become binding when you give the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by us;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Hong Kong Offer Shares;
- agree with us, for ourselves and for the benefit of each shareholder (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for us and on behalf of each shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with our Constitutional Documents, the Companies (WUMP) Ordinance and the Cayman Companies Law; and
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Public Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Public Offer Price is less than the maximum Public Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, September 1, 2020 – 9:00 a.m. to 8:30 p.m.
Wednesday, September 2, 2020 – 8:00 a.m. to 8:30 p.m.
Thursday, September 3, 2020 – 8:00 a.m. to 8:30 p.m.
Friday, September 4, 2020 – 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, September 1, 2020 until 12:00 noon on Friday, September 4, 2020 (24 hours daily, except on Friday, September 4, 2020, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, September 4, 2020, the last day for applications, or such later time as described in “C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

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- (1) The times in this subsection are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

Personal Data

The following Personal Information Collection Statement applies to any personal data held by us, the IPO Services Agent, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of us and our IPO Services Agent and Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to us or our agents, IPO Services Agent and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the IPO Services Agent and the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of us or our IPO Services Agent and Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform us, IPO Services Agent and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;
- maintaining or updating our Register of Members;
- verifying identities of the holders of our Shares;
- establishing benefit entitlements of holders of our Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from us and our subsidiaries;
- compiling statistical information and profiles of the holder of our Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable us, IPO Services Agent and the Hong Kong Share Registrar to discharge our or their obligations to holders of our Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by us, IPO Services Agent and our Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but we, IPO Services Agent and our Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us, IPO Services Agent or the Hong Kong Share Registrar in connection with their respective business operation;
- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

We, IPO Services Agent and our Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether we, IPO Services Agent or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We, IPO Services Agent and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed “Corporate Information” in this prospectus or as notified from time to time, for the attention of the secretary, IPO Services Agent, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

7. Warning for Electronic Applications

The application for the Hong Kong Offer Shares by **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. We, the Relevant Persons, the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS EIPO** service or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS internet System for submission of **electronic application instructions**, they should go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, September 4, 2020.

8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If an unlisted company makes an application and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. How Much are the Hong Kong Offer Shares

The maximum Public Offer Price is HK\$468.00 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 50 Hong Kong Offer Shares, you will pay HK\$23,635.80.

You must pay the maximum Public Offer Price, together with brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, in full upon application for the Hong Kong Offer Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 50 Hong Kong Offer Shares. If you make an **electronic application instruction** for more than 50 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the section “— 4. Minimum Application Amount and Permitted Numbers”.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Hong Kong Listing Rules), and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Public Offer Price, see “Structure of the Global Offering — Pricing and Allocation.”

C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions

HOW TO APPLY FOR HONG KONG OFFER SHARES

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, September 4, 2020. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, September 4, 2020 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” we will make an announcement on our websites at <http://www.yumchina.com> and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

D. Publication of Results

We expect to announce the pricing of the Offer Shares on Friday, September 4, 2020 on our website at <http://www.yumchina.com> and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

We expect to announce the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Wednesday, September 9, 2020 on our website at <http://www.yumchina.com> and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at <http://www.yumchina.com> and www.hkexnews.hk, respectively, by no later than 9:00 a.m. on Wednesday, September 9, 2020;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID function” on a 24 hour basis from 8:00 a.m. on Wednesday, September 9, 2020 to 12:00 midnight on Tuesday, September 15, 2020; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Wednesday, September 9, 2020 to Friday, September 11, 2020 and Monday, September 14, 2020.

If we accept your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR HONG KONG OFFER SHARES

E. Circumstances in Which You Will Not be allocated the Hong Kong Offer Shares

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked:

By applying through the **CCASS EIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus; or
- if any supplement to this prospectus is issued, in which case we will notify applicants who have already submitted an application that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

If we or our agents exercise discretion to reject your application:

We, the Joint Global Coordinators, the **White Form eIPO** Service Provider and our and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the Hong Kong Offer Shares and the International Offer Shares;
- your payment is not made correctly;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at www.eipo.com.hk;
- you apply for more than 838,250 Hong Kong Offer Shares, being 50% of the 1,676,500 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- we or the Joint Global Coordinators believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or
- the Underwriting Agreements do not become unconditional or are terminated.

F. Refund of Application Monies

If an application is rejected, not accepted or accepted in part only, or if the Public Offer Price as finally determined is less than the maximum Public Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in “Structure of the Global Offering — Conditions of the Global Offering” are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or around Wednesday, September 9, 2020.

G. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the Share certificates will be deposited into CCASS as described below).

The Company will not issue temporary document of title in respect of the Offer Shares. The Company will not issue receipt for sums paid on application.

Subject to arrangement on despatch/collection of Share certificates and refund checks as mentioned below, any refund checks and Share certificate(s) are expected to be posted on or around Wednesday, September 9, 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, September 10, 2020, provided that the Global Offering has become unconditional in all respects at or before that time.

Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Collection

- ***If you apply through White Form eIPO service:***
 - If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, September 9, 2020, or any other place or date notified by us.
 - If you do not personally collect your Share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
 - If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, September 9, 2020 by ordinary post and at your own risk.
 - If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.
- ***If you apply through CCASS EIPO service:***

Allocation of the Hong Kong Offer Shares

- For the purposes of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, September 9, 2020 or on any other date determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in "— Publication of Results" above on Wednesday, September 9, 2020. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, September 9, 2020 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have instructed your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that **broker** or **custodian**.
- If you have applied as a CCASS Investor Participant, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, September 9, 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of the Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Public Offer Price and the maximum Public Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your **broker** or **custodian** on Wednesday, September 9, 2020.

H. Admission of the Shares into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

We have made all necessary arrangements to enable the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I - 1 to I - 73, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF YUM CHINA HOLDINGS, INC. AND GOLDMAN SACHS (ASIA) L.L.C.

Introduction

We report on the historical financial information of Yum China Holdings, Inc. ("Yum China" and, together with its subsidiaries, the "Company") set out on pages I - 4 to I - 73, which comprises the consolidated balance sheets of the Company as at December 31, 2017, 2018 and 2019 and June 30, 2020 and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of equity and the consolidated statements of cash flows, for each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I - 4 to I - 73 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated September 1, 2020 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial

Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's financial position as at December 31, 2017, 2018 and 2019 and June 30, 2020 and of the Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Company which comprises the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of equity and the consolidated statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I - 4 have been made.

Dividends

We refer to note 15 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

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September 1, 2020

HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the consolidated financial statements of the Company for each of the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020 (collectively referred as "Historical Financial Statements"). The consolidated financial statements for each of the years ended December 31, 2017, 2018 and 2019 were audited by KPMG Huazhen LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") relating to the financial statements and the effectiveness of internal control over financial reporting. The consolidated financial statements for the six months ended June 30, 2020 were audited by KPMG Huazhen LLP in accordance with the standards of PCAOB relating to the financial statements only.

The Historical Financial Information is presented in United States Dollars. All values are rounded to the nearest million except when otherwise indicated.

Consolidated Statements of Income

Yum China Holdings, Inc.

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

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					<i>(Unaudited)</i>
Revenues					
Company sales	\$7,925	\$7,633	\$6,993	\$3,240	\$4,015
Franchise fees and income	148	141	141	72	75
Revenues from transactions with franchisees and unconsolidated affiliates	654	603	599	318	324
Other revenues	49	38	36	26	14
Total revenues	<u>8,776</u>	<u>8,415</u>	<u>7,769</u>	<u>3,656</u>	<u>4,428</u>
Costs and Expenses, Net					
Company restaurants					
Food and paper	2,479	2,326	2,034	1,051	1,245
Payroll and employee benefits	1,807	1,714	1,543	778	916
Occupancy and other operating expenses	<u>2,373</u>	<u>2,394</u>	<u>2,245</u>	<u>1,015</u>	<u>1,185</u>
Company restaurant expenses	6,659	6,434	5,822	2,844	3,346
General and administrative expenses	487	456	495	212	223
Franchise expenses	71	71	71	33	36
Expenses for transactions with franchisees and unconsolidated affiliates	645	595	592	316	321
Other operating costs and expenses	37	29	28	23	11
Closures and impairment expenses, net	36	41	47	29	15
Other income, net	<u>(60)</u>	<u>(152)</u>	<u>(64)</u>	<u>(26)</u>	<u>(31)</u>
Total costs and expenses, net	<u>7,875</u>	<u>7,474</u>	<u>6,991</u>	<u>3,431</u>	<u>3,921</u>
Operating Profit	901	941	778	225	507
Interest income, net	39	36	25	17	19
Investment gain (loss)	<u>63</u>	<u>(27)</u>	<u>–</u>	<u>37</u>	<u>27</u>
Income Before Income Taxes	1,003	950	803	279	553
Income tax provision	<u>(260)</u>	<u>(214)</u>	<u>(379)</u>	<u>(77)</u>	<u>(139)</u>
Net income — including noncontrolling interests	743	736	424	202	414
Net income — noncontrolling interests	<u>30</u>	<u>28</u>	<u>26</u>	<u>8</u>	<u>14</u>
Net Income — Yum China Holdings, Inc.	<u>\$ 713</u>	<u>\$ 708</u>	<u>\$ 398</u>	<u>\$ 194</u>	<u>\$ 400</u>
Weighted-average common shares outstanding (in millions):					
Basic	377	384	387	376	378
Diluted	388	395	398	387	389
Basic Earnings Per Common Share	<u>\$ 1.89</u>	<u>\$ 1.84</u>	<u>\$ 1.03</u>	<u>\$ 0.51</u>	<u>\$ 1.06</u>
Diluted Earnings Per Common Share	<u>\$ 1.84</u>	<u>\$ 1.79</u>	<u>\$ 1.00</u>	<u>\$ 0.50</u>	<u>\$ 1.03</u>

See accompanying Notes to the Historical Financial Information.

Consolidated Statements of Comprehensive Income

Yum China Holdings, Inc.

(in US\$ millions)

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					<i>(Unaudited)</i>
Net income — including noncontrolling interests	\$743	\$ 736	\$424	\$202	\$414
Other comprehensive (loss) income, net of tax of nil					
Foreign currency (loss) gain arising during the year/period	<u>(32)</u>	<u>(160)</u>	<u>142</u>	<u>(35)</u>	<u>1</u>
Comprehensive income — including noncontrolling interests	711	576	566	167	415
Comprehensive income — noncontrolling interests	<u>30</u>	<u>22</u>	<u>31</u>	<u>6</u>	<u>15</u>
Comprehensive Income — Yum China Holdings, Inc.	<u>\$681</u>	<u>\$ 554</u>	<u>\$535</u>	<u>\$161</u>	<u>\$400</u>

See accompanying Notes to the Historical Financial Information.

APPENDIX I**ACCOUNTANTS' REPORT****Consolidated Balance Sheets**

Yum China Holdings, Inc.

(in US\$ millions)

	As of June 30,	As of December 31,		
	2020	2019	2018	2017
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 674	\$1,046	\$1,266	\$1,059
Short-term investments	1,034	611	122	205
Accounts receivable, net	83	88	80	79
Inventories, net	346	380	307	297
Prepaid expenses and other current assets	166	134	177	162
Total Current Assets	\$2,303	\$2,259	\$1,952	\$1,802
Property, plant and equipment, net	1,504	1,594	1,615	1,691
Operating lease right-of-use assets	1,886	1,985	–	–
Goodwill	309	254	266	108
Intangible assets, net	183	94	116	101
Deferred income taxes	99	95	89	105
Investments in unconsolidated affiliates	68	89	81	95
Other assets	611	580	491	385
Total Assets	\$6,963	\$6,950	\$4,610	\$4,287
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY				
Current Liabilities				
Accounts payable and other current liabilities	\$1,660	\$1,691	\$1,199	\$ 985
Income taxes payable	63	45	54	39
Total Current Liabilities	1,723	1,736	1,253	1,024
Non-current operating lease liabilities	1,677	1,803	–	–
Non-current finance lease obligations	24	26	25	28
Other liabilities	252	210	355	388
Total Liabilities	3,676	3,775	1,633	1,440
Redeemable Noncontrolling Interest Equity	12	–	1	5
Common stock, \$0.01 par value; 1,000 million shares authorized; 397 million shares, 395 million shares, 392 million shares, and 389 million shares issued at June 30, 2020, and December 31, 2019, 2018 and 2017, respectively; 377 million shares, 376 million shares, 379 million, and 385 million shares outstanding at June 30, 2020, and December 31, 2019, 2018 and 2017, respectively	4 (728)	4 (721)	4 (460)	4 (148)
Treasury stock	2,444	2,427	2,402	2,375
Additional paid-in capital	1,565	1,416	944	397
Retained earnings	(82)	(49)	(17)	137
Accumulated other comprehensive (loss) income				
Total Yum China Holdings, Inc. Stockholders' Equity	3,203	3,077	2,873	2,765
Noncontrolling interests	72	98	103	77
Total Equity	3,275	3,175	2,976	2,842
Total Liabilities, Redeemable Noncontrolling Interest and Equity	\$6,963	\$6,950	\$4,610	\$4,287

See accompanying Notes to the Historical Financial Information.

Consolidated Statements of Equity
Yum China Holdings, Inc.
(in US\$ millions)

	Yum China Holdings, Inc.						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Redeemable Total Noncontrolling Equity Interest
Shares Amount	Shares Amount	Shares Amount	Shares Amount	Shares Amount	Shares Amount	Shares Amount	Shares Amount
Balance at December 31, 2016	383	\$4	\$2,344	\$ 37	\$ -	(1)	\$66 \$2,431
Net Income			398			26	424
Foreign currency translation adjustment				137		5	142
Comprehensive income							566
Dividends declared						(22)	(22)
Cash dividends declared (\$0.10 per common share)			(38)			2	(38)
Acquisition of business							2
Repurchase of shares of common stock					(3)	(128)	(128)
Exercise and vesting of share- based awards	6	-	5				5
Share-based compensation			26				26
Balance at December 31, 2017	389	\$4	\$2,375	\$397	\$137	(4)	\$77 \$2,842
							\$5

See accompanying Notes to the Historical Financial Information.

Consolidated Statements of Equity (Continued)

Yum China Holdings, Inc.
(in US\$ millions)

	Yum China Holdings, Inc.						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Redeemable Total Noncontrolling Equity Interest
	Shares Amount	Shares Amount	Shares Amount	Shares Amount	Shares Amount	Shares Amount	Shares Amount
Balance at December 31, 2017	389	\$4	\$2,375	\$ 397	\$ 137	\$ (148)	\$ 5
Net Income (loss)			708			29	737
Foreign currency translation adjustment				(154)		(6)	(160)
Comprehensive income (loss)						577	(1)
Dividends declared						(33)	(33)
Cash dividends declared (\$0.42 per common share)			(161)				(161)
Acquisition of business						36	36
Repurchase of shares of common stock					(9)	(312)	(312)
Exercise and vesting of share-based awards	3	—	—				—
Share-based compensation			24				24
Revaluation of redeemable noncontrolling interest			3				3
Balance at December 31, 2018	392	\$4	\$2,402	\$ 944	\$ (17)	\$ (460)	\$ 1

See accompanying Notes to the Historical Financial Information.

Consolidated Statements of Equity (Continued)

Yum China Holdings, Inc.
(in US\$ millions)

	Yum China Holdings, Inc.						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Redeemable Total Noncontrolling* Equity Interest
	Shares Amount	Shares Amount	Shares Amount	Shares Amount	Shares Amount	Shares Amount	Shares Amount
Balance at December 31, 2018	392	\$4	\$2,402	\$ 944	\$(17)	(13)	\$103 \$2,976 \$ 1
Net Income (loss)				713		32	745 (2)
Foreign currency translation adjustment						–	(32) –
Comprehensive income (loss)							
Dividends declared						713	(2)
Cash dividends declared (\$0.48 per common share)				(181)		(34)	(34) (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)	\$ 98 \$3,175 \$ –

*: Amounts may not add due to rounding.

See accompanying Notes to the Historical Financial Information.

Consolidated Statements of Equity (Continued)

Yum China Holdings, Inc.
(in US\$ millions)

Yum China Holdings, Inc.								
	Common Stock Shares* Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)		Treasury Stock Shares* Amount	Noncontrolling Interests		Redeemable Noncontrolling Interest
			Retained Earnings			Total Equity		
Balance at December 31, 2019	395	\$4	\$2,427	\$1,416	\$(49)	(19)	\$ 98 \$3,175	\$ -
Net Income				194			8	202
Foreign currency translation adjustment					(33)		(2)	(35)
Comprehensive income							167	-
Acquisition of business							-	12
Dividends declared							(32)	(32)
Cash dividends declared (\$0.12 per common share)				(45)			(45)	
Repurchase of shares of common stock						-	(7)	(7)
Exercise and vesting of share- based awards	2	-	-				-	-
Share-based compensation			17				17	
Balance at June 30, 2020	397	\$4	\$2,444	\$1,565	\$(82)	(20)	\$ 72 \$3,275	\$12

*: Shares may not add due to rounding.

See accompanying Notes to the Historical Financial Information.

Consolidated Statements of Equity (Continued)

Yum China Holdings, Inc.
(in US\$ millions)

	Yum China Holdings, Inc.						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Redeemable Total Noncontrolling Equity Interest
	Shares Amount	Capital	Earnings	Income (Loss)	Shares Amount	Interests	Equity Interest
Balance at December 31, 2018	392	\$4	\$2,402	\$ 944	\$(17)	(13)	\$103 \$2,976
Net Income			400				14 414
Foreign currency translation adjustment							1 1
Comprehensive income							415
Dividends declared							(34) (34)
Cash dividends declared (\$0.24 per common share)			(91)				(91)
Repurchase of shares of common stock					(4)	(140)	(140)
Exercise and vesting of share- based awards	2	-	-				-
Share-based compensation			15				15
Cumulative effect of accounting change			(60)				(3) (63)
Balance at June 30, 2019	394	\$4	\$2,417	\$1,193	\$(17)	(17)	\$ 81 \$3,078

See accompanying Notes to the Historical Financial Information.

Consolidated Statements of Cash Flows

Yum China Holdings, Inc.

(in US\$ millions)

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
	<i>(Unaudited)</i>				
Cash Flows — Operating Activities					
Net income — including noncontrolling interests	\$ 743	\$ 736	\$ 424	\$ 202	\$ 414
Depreciation and amortization	428	445	409	214	217
Non-cash operating lease cost	339	—	—	178	167
Closures and impairment expenses	36	41	47	29	15
Gain from re-measurement of equity interest upon acquisition	—	(98)	—	—	—
Investment (gain) loss	(63)	27	—	(37)	(27)
Equity income from investments in unconsolidated affiliates	(69)	(65)	(65)	(34)	(37)
Distributions of income received from unconsolidated affiliates	73	63	45	25	38
Deferred income taxes	16	33	62	6	6
Share-based compensation expense	26	24	26	17	15
Changes in accounts receivable	(9)	(13)	1	6	(5)
Changes in inventories	(77)	(23)	(11)	35	(1)
Changes in prepaid expenses and other current assets	(3)	(22)	(15)	17	—
Changes in accounts payable and other current liabilities	171	254	(56)	(16)	70
Changes in income taxes payable	(8)	17	3	17	3
Changes in non-current operating lease liabilities	(381)	—	—	(194)	(188)
Other, net	(37)	(86)	14	(13)	(30)
Net Cash Provided by Operating Activities	1,185	1,333	884	452	657
Cash Flows — Investing Activities					
Capital spending	(435)	(470)	(415)	(185)	(212)
Purchases of short-term investments	(1,024)	(604)	(596)	(1,093)	(409)
Purchase of long-term time deposits	—	—	—	(57)	—
Maturities of short-term investments	534	680	479	662	248
Contribution to unconsolidated affiliates	—	—	—	(13)	—
Acquisition of business, net of cash acquired	—	(91)	(25)	(177)	—
Investment in equity securities	—	(74)	—	—	—
Disposal of equity securities	—	—	—	54	—
Other, net	15	7	—	48	5
Net Cash Used in Investing Activities	(910)	(552)	(557)	(761)	(368)
Cash Flows — Financing Activities					
Repurchase of shares of common stock	(265)	(307)	(128)	(8)	(143)
Cash dividends paid on common stock	(181)	(161)	(38)	(45)	(91)
Dividends paid to noncontrolling interests	(32)	(36)	(22)	(7)	(25)
Other, net	(2)	(14)	3	1	—
Net Cash Used in Financing Activities	(480)	(518)	(185)	(59)	(259)
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	(6)	(56)	32	(6)	—
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	(211)	207	174	(374)	30
Cash, Cash Equivalents and Restricted Cash — Beginning of Year/Period	1,266	1,059	885	1,055	1,266
Cash, Cash Equivalents and Restricted Cash — End of Year/Period	\$ 1,055	\$ 1,266	\$ 1,059	\$ 681	\$ 1,296
Supplemental Cash Flow Data					
Cash paid for income tax	255	208	232	64	135
Non-cash Investing and Financing Activities					
Capital expenditures included in accounts payable and other current liabilities	150	137	142	122	104

See accompanying Notes to the Historical Financial Information.

I. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(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, COFFii & JOY, East Dawning and Taco Bell concepts (collectively, the “concepts”). In connection with the separation of the Company in 2016 from its former parent company, Yum! Brands, Inc. (“YUM”), Yum! Restaurants Asia Pte. Ltd., a wholly-owned indirect subsidiary of YUM, and Yum Restaurants Consulting (Shanghai) Company Limited (“YCCL”), a wholly-owned indirect subsidiary of the Company, entered into a 50-year master license agreement with automatic renewals for additional consecutive renewal terms of 50 years each, subject only to YCCL being in “good standing” and unless YCCL gives notice of its intent not to renew, for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its subsidiaries for the development and operation of the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the People’s Republic of China (the “PRC” or “China”), excluding Hong Kong, Taiwan and Macau. In exchange, we pay a license fee to YUM equal to 3% of net system sales from both our Company and franchise restaurants. We own the intellectual property of Little Sheep, COFFii & JOY and East Dawning, and pay no license fee related to these concepts.

In 1987, KFC was the first quick-service restaurant brand to enter China. As of June 30, 2020, there are over 6,700 KFCs in China. We maintain a 58% and 70% controlling interest in the entities that own and operate the KFCs in Shanghai and Beijing, respectively. During the first quarter of 2018, the Company completed the acquisition of an additional 36% equity interest in an unconsolidated affiliate that operates KFC stores in and around Wuxi, China (“Wuxi KFC”), for cash consideration of approximately \$98 million, increasing the Company’s equity interest to 83%, allowing the Company to consolidate the entity. The acquisition was considered immaterial. We began consolidating Wuxi KFC upon the completion of acquisition. We have a 47% noncontrolling ownership in each of our unconsolidated affiliates that own and operate KFCs in Hangzhou and Suzhou.

The first Pizza Hut in China opened in 1990. As of June 30, 2020, there are over 2,200 Pizza Hut restaurants in China.

In 2017, the Company completed the acquisition of a controlling interest in the holding company of DAOJIA.com.cn (“Daojia”), an established online food delivery service provider. The Company agreed to pay cash consideration of \$36.7 million to the sellers and made a concurrent capital contribution of \$25.0 million to Daojia. As of the completion of the acquisition, the Company held 90% of Daojia’s outstanding shares of common stock, or 80% of its equity interests on a fully-diluted basis. Daojia became an operating segment of the Company. The acquisition was considered immaterial.

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 CDR franchise business, for cash consideration of \$185 million. Huang Ji Huang became an operating segment of the Company. The acquisition was considered immaterial.

Note 1 – Description of Business (Continued)

In the quarter ended June 30, 2020, the Company partnered with 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. As the first step, a new Lavazza flagship store was opened in Shanghai, China.

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, East Dawning, Taco Bell, Daojia, newly developed COFFii & JOY and our e-commerce business, with the latter two becoming operating segments starting from the first quarter of 2019, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate.

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. As of June 30, 2020, December 31, 2019, 2018 and 2017, the Company had future lease payments due from franchisees, on a nominal basis, of approximately \$44 million, \$47 million, \$59 million and \$80 million, respectively. 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

Note 2 – Summary of Significant Accounting Policies (Continued)

operations have been included in the Company's Consolidated Financial Statements since the acquisition date.

We consolidate the entities that operate KFCs in Shanghai, Beijing and Wuxi where we have controlling interests of 58%, 70% and 83%, respectively. We report Net income attributable to noncontrolling interests, which includes the minority shareholders of the entities, separately on the face of our Consolidated Statements of Income. The portion of equity not attributable to the Company for these entities is reported within equity, separately from the Company's stockholders' equity on the Consolidated Balance Sheets.

We have a noncontrolling 47% interest in each of the entities that operate the KFCs in Hangzhou and Suzhou. These entities are not VIEs and our lack of majority voting rights precludes us from controlling these affiliates. Thus, we do not consolidate these affiliates. Instead, we account for them under the equity method. Our share of the net income or loss of these unconsolidated affiliates is included in Other income, net in our Consolidated Statements of Income.

The results of Huang Ji Huang's operations have been included in the Company's Consolidated Financial Statements since its acquisition date of April 8, 2020.

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 (loss) 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 within restaurant margin in Occupancy and other operating expenses. Total license fees paid to YUM were \$273 million, \$263 million, \$245 million, \$116 million and \$139 million during the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition. In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASC 606”), to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The standard allows for either a full retrospective or modified retrospective transition method. Additional amendments were subsequently issued by the FASB to clarify the implementation guidance. The Company adopted these standards on January 1, 2018, and applied the full retrospective approach. Therefore, revenue for all three years during the Track Record Period was consistently accounted for in accordance with ASC 606.

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 sales presents 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 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

Note 2 – Summary of Significant Accounting Policies (Continued)

benefits, the Company considers likelihood of future redemption based on historical redemption pattern and reviews such estimates periodically based upon the latest available information regarding redemption and expiration patterns.

Franchise Fees and Income

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

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

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

The Company centrally purchases substantially all food and paper products from suppliers for substantially all of our restaurants, including franchisees and unconsolidated affiliates, and then sells and delivers them to the restaurants. 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

Note 2 – Summary of Significant Accounting Policies (Continued)

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 \$344 million, \$341 million, \$333 million, \$139 million and \$174 million in the years ended 2019, 2018 and 2017 and the six months ended June 30, 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 \$65 million, \$62 million, \$69 million, \$31 million and \$32 million in the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 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 expenses (“**G&A expense**”). Research and development expenses were \$4 million, \$4 million, \$5 million, \$2 million and \$2 million in the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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 less than the undiscounted cash flows we expect to generate from such assets. If the assets are not deemed to be recoverable, impairment is measured based on the excess of their carrying value over their fair value.

For purposes of impairment testing for our restaurants, we have concluded that an individual restaurant is the lowest level of independent cash flows unless our intent is to rebrand restaurants as a group. We review our long-lived assets of such individual restaurants (primarily 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. One of 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 acquiring 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 rebranding 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 right-of-use 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 rebranded for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. We evaluate the recoverability of these restaurant assets by comparing estimated sales proceeds plus holding period cash flows, if any, to the carrying value of the restaurant or group of restaurants. For restaurant assets that are not deemed to be recoverable, we recognize impairment for any excess of carrying value over the fair value of the restaurants, which is based on the expected net sales proceeds. To the extent ongoing agreements to be

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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 Tax Act requires complex computations with significant estimates to be performed, significant judgments to be made in interpretation of the provisions, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, the SEC and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our current interpretation. We completed our analysis of the Tax Act in the fourth quarter of 2018 according to guidance released by the U.S. Treasury Department and the IRS as of December 2018 and made an adjustment of \$36 million to reduce the provisional amount for transition tax recorded in 2017 accordingly. 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. 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

Note 2 – Summary of Significant Accounting Policies (Continued)

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 16 for a further discussion of our income taxes.

Fair Value Measurements. Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. For those assets and liabilities we record or disclose at fair value, we determine fair value based upon the quoted market price, if available. If a quoted market price is not available for identical assets, we determine fair value based upon the quoted market price of similar assets or the present value of expected future cash flows considering the risks involved, including counterparty performance risk if appropriate, and using discount rates appropriate for the duration. The fair values are assigned a level within the fair value hierarchy, depending on the source of the inputs into the calculation.

Level 1 Inputs based upon quoted prices in active markets for identical assets.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 Inputs that are unobservable for the asset.

Cash and Cash Equivalents. Cash equivalents represent highly liquid investments with original maturities not exceeding three months and are primarily comprised of time deposits 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 primarily represent time deposits with original maturities of over three months but less than one year when purchased.

Accounts Receivable. Accounts Receivable consist of trade receivables and royalties from franchisees and unconsolidated affiliates, and are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts receivable on the 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. Trade receivables that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. As of June 30, 2020,

Note 2 – Summary of Significant Accounting Policies (Continued)

December 31, 2019, 2018, and 2017, the ending balances of provision for accounts receivable were \$1 million, \$1 million, \$1 million, and \$2 million, respectively, and amounts of accounts receivable past due were immaterial. Receivables due from unconsolidated affiliates including trade receivables and dividend receivables were \$92 million, \$58 million, \$65 million and \$69 million, as of June 30, 2020 and December 31, 2019, 2018 and 2017, respectively.

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. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Receivable balances are written off after all collection efforts have been exhausted. As of June 30, 2020 and December 31, 2019, 2018 and 2017, 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 FASB on January 1, 2019, using a modified retrospective method for leases that exist at, or are entered into after, January 1, 2019, and has not recast the comparative periods presented in the Consolidated Financial Statements.

Prior to the adoption of ASC 842, operating leases were not recognized on the balance sheet of the Company, but rent expenses with fixed escalating payments and/or rent holidays were recognized on a straight-line basis over the lease term. Contingent rentals are generally based on sales levels, and thus are included in rent expense when attainment of the contingency is considered probable (e.g., when Company sales occur).

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

Note 2 – Summary of Significant Accounting Policies (Continued)

amortization of the ROU asset and interest on the lease liability. This is consistent with the historical recognition of finance leases, which was unchanged upon adoption of ASC 842. 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 right-of-use assets if they meet the definition of lease.

See Note 11 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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 the 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 experiences 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 which 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	5 to 10 years
Huang Ji Huang franchise related assets	19 years
Daojia platform	8 years
Customer-related assets	2-15 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 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 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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, 2018 and 2017 and six months ended June 30, 2020 and 2019, we recorded an impairment charge of \$11 million, \$12 million, nil, nil and nil, respectively, on intangible assets and goodwill attributable to the Daojia business. See Note 5 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 the earnings or losses of equity method investees are included within Other income, net on our Consolidated Statements of Income. We record impairment charges related to an investment in an unconsolidated affiliate whenever events or circumstances indicate that a decrease in the fair value of an investment has occurred which is other than temporary. In addition, we evaluate our investments in unconsolidated affiliates for impairment when they have experienced two consecutive years of operating losses.

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.

Financial Instruments. We account for derivative instruments and liability-classified equity contracts (e.g., warrants) 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 and liability-classified equity contracts are determined at discrete points in time using standard valuation techniques.

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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 13 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 June 30, 2020, December 31, 2019, 2018 and 2017, an input VAT credit asset of \$237 million, \$243 million, \$226 million and \$176 million, were recorded in Other assets, respectively, and payable of \$6 million, \$5 million, \$5 million, and \$2 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 June 30, 2020, and December 31, 2019, 2018 and 2017, respectively. Any input VAT credit asset would be classified as Prepaid expenses and other current assets if the Company expected to use the credit within one year.

Note 2 – Summary of Significant Accounting Policies (Continued)

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 4 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.

Recent Accounting PronouncementsRecently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The standard allows for either a full retrospective or modified retrospective transition method. In March, April and May 2016, the FASB issued the following amendments to clarify the implementation guidance: ASU No. 2016-04, *Liabilities — Extinguishments of liabilities (Subtopic 450-20): Revenue of Breakage for Certain Prepaid Stored-Value Products (a consensus of the FASB Emerging Issues Task Force)*, ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU No. 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* and ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The Company adopted these standards on January 1, 2018 and applied the full retrospective approach and recast the financial statements for 2017.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). ASU 2016-01 amends various aspects of the recognition, measurement, presentation and disclosure of financial instruments. Certain equity investments will be measured at fair value with changes recognized in net income. We adopted ASU 2016-01 on January 1, 2018. The adoption did not have a material impact on our financial statements, as we did not have such equity investments prior to the adoption and our equity investment in Meituan Dianping acquired in September 2018 (see Note 5) was required to be re-measured to fair value in each future reporting period with corresponding changes recorded in our Consolidated Statements of Income.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)* (“ASU 2016-15”), which provides clarification regarding how certain cash receipts and cash payment are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. We adopted ASU 2016-15 on January 1, 2018, and such adoption did not have a material impact on our financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”), which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory,

Note 2 – Summary of Significant Accounting Policies (Continued)

when the transfer occurs. We adopted ASU 2016-16 on January 1, 2018, and such adoption did not have a material impact on our financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”), which requires that entities show the changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. We adopted ASU 2016-18 on January 1, 2018, and such adoption did not have a material impact on our financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. We adopted ASU 2017-01 on January 1, 2018, and such adoption did not have a material impact on our financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation — Stock Compensation (“Topic 718”): Scope of Modification Accounting* (“ASU 2017-09”), which clarifies that modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the changes in terms or conditions. We adopted ASU 2017-09 on January 1, 2018, and such adoption did not have a material impact on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASC 842”), which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The FASB subsequently issued amendments to clarify the implementation guidance. The Company adopted these standards on January 1, 2019, using a modified retrospective method for leases that exist at, or are entered into after, January 1, 2019, and has not recast the comparative periods presented in the Consolidated Financial Statements. Additionally, we elected the package of practical expedients that allowed us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. We also elected the hindsight practical expedient to determine the reasonably certain lease term for existing leases.

Upon the adoption of ASC 842, the Company recognized ROU assets and lease liabilities of approximately \$2.0 billion and \$2.2 billion, respectively, for operating leases of the land and/or building of our restaurants and office spaces based on the present value of lease payments over the lease term. In addition, an impairment charge of \$60 million (net of related impact on deferred taxes and noncontrolling interests) on ROU 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 ROU assets been recognized at the time of impairment. The adoption of ASC 842 would not have a material impact on the Consolidated Statements of Income and Cash Flows for the years ended December 31, 2018 and 2017.

Note 2 – Summary of Significant Accounting Policies (Continued)

The following table summarizes the effect on the Consolidated Balance Sheets as a result of adopting ASC 842.

	December 31, 2018	Effect of adoption	January 1, 2019
ASSETS			
Current Assets			
Cash and cash equivalents	\$1,266		\$1,266
Short-term investments	122		122
Accounts receivable, net	80		80
Inventories, net	307		307
Prepaid expenses and other current assets	177	(39) ^(a)	138
Total Current Assets	1,952	(39)	1,913
Property, plant and equipment, net	1,615	(1)	1,614
Operating lease right-of-use assets	–	1,997 ^(b)	1,997
Goodwill	266		266
Intangible assets, net	116	(2) ^(c)	114
Deferred income taxes	89	19 ^(d)	108
Investments in unconsolidated affiliates	81	(1)	80
Other assets	491	(4) ^(c)	487
Total Assets	\$4,610	\$1,969	\$6,579
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY			
Current Liabilities			
Accounts payable and other current liabilities	\$1,199	\$ 320 ^(e)	\$1,519
Income taxes payable	54		54
Total Current Liabilities	1,253	320	1,573
Non-current operating lease liabilities	–	1,860 ^(f)	1,860
Non-current finance lease liabilities	25	–	25
Other liabilities	355	(148) ^(g)	207
Total Liabilities	1,633	2,032	3,665
Redeemable Noncontrolling Interest	1		1
Equity			
Common stock	4		4
Treasury stock	(460)		(460)
Additional paid-in capital	2,402		2,402
Retained earnings	944	(60) ^(h)	884
Accumulated other comprehensive loss	(17)		(17)
Total Yum China Holdings, Inc. Stockholders' Equity	2,873	(60)	2,813
Noncontrolling interests	103	(3) ⁽ⁱ⁾	100
Total Equity	2,976	(63)	2,913
Total Liabilities, Redeemable Noncontrolling Interest and Equity	\$4,610	\$1,969	\$6,579

(a) Represents the current portion of prepaid rent reclassified to operating lease ROU assets.

(b) Represents the net result of capitalization of operating lease payments and reclassification of prepaid rent, initial direct cost, deferred rent accrual and lease incentives, and offset by impairment of operating lease ROU assets that existed prior to the date of adoption.

Note 2 – Summary of Significant Accounting Policies (Continued)

- (c) Represents initial direct cost, favorable lease and non-current prepaid rent reclassified to operating lease ROU assets.
- (d) Represents the deferred tax impact related to impairment of operating lease ROU assets.
- (e) Represents recognition of the current portion of operating lease liabilities, offset by the reclassification of accrued rental payments and the current portion of deferred rent accrual to operating lease ROU assets.
- (f) Represents recognition of the non-current operating lease liabilities.
- (g) Represents reclassification of the non-current portion of deferred rent accrual and lease incentives to operating lease ROU assets.
- (h) Represents an impairment charge on operating lease ROU assets arising from existing operating leases as of January 1, 2019, net of related impact on deferred taxes and noncontrolling interests, with a corresponding reduction to the carrying amount of operating lease ROU assets. The impairment charge was recorded for those restaurants under operating leases with full impairment on the long-lived assets before January 1, 2019, as the additional impairment charge would have been recorded before January 1, 2019 had the operating lease ROU assets been recognized at the time of impairment.
- (i) Represents impairment of operating lease ROU assets attributable to noncontrolling interests.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (“ASU 2018-02”). The new guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Tax Act”) and will improve the usefulness of information reported to financial statement users. ASU 2018-02 is effective for the Company from January 1, 2019, with early adoption permitted. We adopted the standard on January 1, 2019, and such adoption did not have a material impact on our financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718) Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-07”). The new guidance largely aligns the accounting for share-based awards issued to employees and non-employees. Existing guidance for employee awards will apply to nonemployee share-based transactions with limited exceptions. The new guidance also clarifies that any share-based payment awards issued to customers should be evaluated under ASC 606, *Revenue from Contracts with Customers*. ASU 2018-07 is effective for the Company from January 1, 2019, with early adoption permitted. We adopted the standard on January 1, 2019, and such adoption did not have a material impact on our financial statements.

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

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – changes to the Disclosure Requirements for Fair Value*

Note 2 – Summary of Significant Accounting Policies (Continued)

Measurement (“ASU 2018-13”), which amends the fair value measurement guidance by modifying disclosure requirements. ASU 2018-13 is effective for the Company from January 1, 2020, with early adoption permitted. We adopted the standard on January 1, 2020, and such adoption did not have a material impact on our financial statements.

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

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

New Accounting Pronouncements Not Yet Adopted

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

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

Note 3 – Revenue

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

Year Ended December 31, 2019							
Revenues	Pizza Hut All Other and				Combined	Elimination	Consolidated
	KFC	Hut	Segments	Unallocated			
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

Year Ended December 31, 2018							
Revenues	Pizza Hut All Other and				Combined	Elimination	Consolidated
	KFC	Hut	Segments	Unallocated^(a)			
Company sales	\$5,495	\$2,106	\$ 32	\$ –	\$7,633	\$ –	\$7,633
Franchise fees and income	132	3	6	–	141	–	141
Revenues from transactions with franchisees and unconsolidated affiliates	61	2	26	514	603	–	603
Other revenues	–	–	51	3	54	(16)	38
Total revenues	\$5,688	\$2,111	\$115	\$517	\$8,431	\$(16)	\$8,415

- (a) As COFFii & JOY and our e-commerce business became operating segments starting from the first quarter of 2019, revenue by segment information for 2018 has been recast to align with the change in segment reporting. Additional details on our reportable segments are included in Note 17.

Note 3 – Revenue (Continued)

Year Ended December 31, 2017							
Revenues	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	\$4,863	\$2,090	\$ 40	\$ –	\$6,993	\$–	\$6,993
Franchise fees and income	134	2	5	–	141	–	141
Revenues from transactions with franchisees and unconsolidated affiliates	69	1	25	504	599	–	599
Other revenues	–	–	36	–	36	–	36
Total revenues	<u>\$5,066</u>	<u>\$2,093</u>	<u>\$106</u>	<u>\$504</u>	<u>\$7,769</u>	<u>\$–</u>	<u>\$7,769</u>

Six Months Ended June 30, 2020							
Revenues	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	\$2,480	\$744	\$16	\$ –	\$3,240	\$ –	\$3,240
Franchise fees and Income	65	2	5	–	72	–	72
Revenues from transactions with franchisees and unconsolidated affiliates	31	2	16	269	318	–	318
Other revenues	–	–	41	2	43	(17)	26
Total revenues	<u>\$2,576</u>	<u>\$748</u>	<u>\$78</u>	<u>\$271</u>	<u>\$3,673</u>	<u>\$(17)</u>	<u>\$3,656</u>

Six Months Ended June 30, 2019 (Unaudited)							
Revenues	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	\$2,949	\$1,048	\$18	\$ –	\$4,015	\$ –	\$4,015
Franchise fees and Income	69	2	4	–	75	–	75
Revenues from transactions with franchisees and unconsolidated affiliates	32	2	12	278	324	–	324
Other revenues	–	1	30	2	33	(19)	14
Total revenues	<u>\$3,050</u>	<u>\$1,053</u>	<u>\$64</u>	<u>\$280</u>	<u>\$4,447</u>	<u>\$(19)</u>	<u>\$4,428</u>

Note 3 – Revenue (Continued)Franchise Fees and Income

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					<i>(Unaudited)</i>
Initial fees, including renewal fees	\$ 8	\$ 7	\$ 6	\$ 7	\$ 4
Continuing fees and rental income	140	134	135	65	71
Franchise fees and income	<u>\$148</u>	<u>\$141</u>	<u>\$141</u>	<u>\$72</u>	<u>\$75</u>

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 \$9 million, \$9 million, \$8 million and \$12 million at June 30, 2020, December 31, 2019, 2018 and 2017, respectively.

Contract Liabilities

Contract liabilities at June 30, 2020, December 31, 2019, 2018 and 2017 were as follows:

	As of June 30, 2020	As of December 31, 2019 2018 2017		
Contract liabilities				
- Deferred revenue related to prepaid stored-value products	\$100	\$ 86	\$ 70	\$ 50
- Deferred revenue related to upfront franchise fees	39	39	37	39
- Deferred revenue related to customer loyalty programs	25	24	17	16
- Deferred revenue related to privilege membership programs	21	16	3	–
- Others	3	3	–	–
Total	<u>\$188</u>	<u>\$168</u>	<u>\$127</u>	<u>\$105</u>

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

Note 3 – Revenue (Continued)

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 \$68 million, \$46 million, \$30 million, \$63 million and \$48 million in the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, respectively. Changes in contract liability balances were not materially impacted by business acquisition, change in estimate of transaction price or any other factors during any of the 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 4 – 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):

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					<i>(Unaudited)</i>
Net Income – Yum China Holdings, Inc.	\$ 713	\$ 708	\$ 398	\$ 194	\$ 400
Weighted-average common shares outstanding (for basic calculation) ^(a)	377	384	387	376	378
Effect of dilutive share-based awards ^(a)	8	9	10	7	8
Effect of dilutive warrants ^(b)	3	2	1	4	3
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	388	395	398	387	389
Basic Earnings Per Share	\$1.89	\$1.84	\$1.03	\$0.51	\$1.06
Diluted Earnings Per Share	\$1.84	\$1.79	\$1.00	\$0.50	\$1.03
Share-based awards and warrants excluded from the diluted EPS computation ^(c)	2	6	10	4	2

- (a) As a result of the separation, shares of Yum China common stock were distributed to YUM's shareholders of record as of October 19, 2016 and included in the calculated weighted-average common shares outstanding. Holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards of either YUM or Yum China in their entirety. Any subsequent exercise of these awards, whether held by the Company's employees or YUM's employees, would increase the number of common shares outstanding. The incremental shares arising from outstanding equity awards are included in the computation of diluted EPS, if there is dilutive effect. See Note 14 for a further discussion of share-based compensation.

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

- (b) Pursuant to the investment agreements dated September 1, 2016 (Note 10), Yum China issued to strategic investors two tranches of warrants on January 9, 2017, with each tranche initially providing the right to purchase 8,200,405 shares of Yum China common stock, at an initial exercise price of \$31.40 and \$39.25 per share, respectively, subject to customary anti-dilution adjustments. The warrants may be exercised at any time through October 31, 2021. The incremental shares arising from outstanding warrants are included in the computation of diluted EPS, if there is dilutive effect when the average market price of Yum China common stock for the year exceeds the applicable exercise price of the warrants.
- (c) These outstanding employee stock options, stock appreciation rights, RSUs, PSUs and warrants were excluded from the computation of diluted EPS because to do so would have been antidilutive for the years and periods presented, or because certain PSUs are contingently issuable based on the achievement of performance and market conditions, which have not been met as of June 30, 2020.

Note 5 – Items Affecting Comparability of Net Income and Cash FlowsGain from re-measurement of equity interest upon acquisition

In the first quarter of 2018, the Company completed the acquisition of Wuxi KFC. In connection with the acquisition, the Company also recognized a gain of \$98 million from the re-measurement of our previously held 47% equity interest at fair value using discounted cash flow valuation approach and incorporating assumptions and estimates that are not observable in the market. Key assumptions used in estimating future cash flows included projected revenue growth and operating expenses, which were based on internal projections, historical performance of stores, and the business environment, as well as the selection of an appropriate discount rate based on weighted-average cost of capital and company-specific risk premium. The gain was not allocated to any segment for performance reporting purposes.

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 Hong Kong Stock Exchange in September 2018. In the second quarter of 2020, the Company sold 4.2 million of its 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 recorded \$14 million of U.S. tax in the six months ended June 30, 2020, including \$7 million and \$7 million related to gain on our investment in equity securities of Meituan recognized during the six months ended June 30, 2020 and prior year, respectively.

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.

Note 5 – Items Affecting Comparability of Net Income and Cash Flows (Continued)

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

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					<i>(Unaudited)</i>
Unrealized gains (losses) recorded on equity securities still held as of the end of the period	\$63	\$(27)	\$–	\$38	\$27
(Losses) recorded on equity securities sold during the period	–	–	–	(1)	–
Gains (losses) recorded on equity securities	<u>\$63</u>	<u>\$(27)</u>	<u>\$–</u>	<u>\$37</u>	<u>\$27</u>

Daojia impairment

During the years ended December 31, 2019 and 2018, we recorded impairment charges of \$2 million and \$12 million, respectively, on the intangible assets acquired from the Daojia business primarily attributable to its platform. Additionally, during the year ended December 31, 2019, 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 years ended December 31, 2019 and 2018, these non-cash impairment charges totaling \$11 million and \$12 million, respectively, 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 tax benefit of \$1 million and \$3 million associated with the impairment, respectively, and allocated \$2 million and \$1 million of the after-tax impairment charge to Net Income — noncontrolling interests, respectively, which resulted in a net impairment charge of \$8 million and \$8 million allocated to Net Income — Yum China Holdings, Inc., respectively, for the years ended December 31, 2019 and 2018.

Transition Tax

The Company recorded \$164 million as an additional income tax expense in the fourth quarter of 2017, the period in which the Tax Act was enacted. It includes an estimated one-time transition tax of \$130 million on the deemed repatriation of accumulated undistributed foreign earnings, \$5 million primarily related to the re-measurement of certain deferred tax assets based on the rates at which they are expected to reverse in the future, and the valuation allowance of \$30 million for certain deferred tax assets. We completed our analysis of the Tax Act in the fourth quarter of 2018 according to guidance released by the U.S. Treasury Department and IRS as of December 2018 and made an adjustment of

Note 5 – Items Affecting Comparability of Net Income and Cash Flows (Continued)

\$36 million to reduce the provisional amount for transition tax recorded in 2017 accordingly. 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.

Impact of COVID-19 Pandemic

The COVID-19 pandemic has significantly impacted the Company's operations in the six months ended June 30, 2020. The decrease in Operating profit was mainly driven by same-store sales declines and temporary store closures resulting from the COVID-19 pandemic, and offset by one-time rent concessions of \$25 million from landlords and a one-time government subsidy in the form of a reduction in social security contributions of \$49 million. Operating profit for the six months ended June 30, 2020 was \$225 million, a decrease of 56% from the six months ended June 30, 2019.

Restaurant-level Impairment

We recorded restaurant-level impairment charges of \$36 million (including property, plant and equipment of \$31 million and ROU assets of \$5 million) and \$25 million (including property, plant and equipment of \$12 million and ROU assets of \$13 million) for the six months ended June 30, 2020 and June 30, 2019, respectively. The increase in restaurant-level impairment charges in 2020 mainly resulted from the adverse effects of the COVID-19 pandemic. See Note 12 for additional information.

Partner PSU Awards

In February 2020, the Company's Board of Directors approved new grants of SARs, RSUs and PSUs to employees under the Yum China Holdings, Inc. Long Term Incentive Plan (the "2016 Plan"). The awards will be earned based on their respective vesting terms, with PSUs subject to market conditions or performance conditions. A special award of PSUs ("Partner PSU Awards") was granted to select employees who were deemed critical to the Company's execution of its strategic operating plan. These Partner PSU Awards will only vest if threshold performance goals are achieved over a four-year performance period, with the payout ranging from 0% to 200% of the target number of shares. Partner PSU Awards were granted to address increased competition for executive talent, motivate transformational performance and encourage management retention. Given the unique nature of these grants, the Compensation Committee of the Board does not intend to grant similar, special grants to the same employees during the performance period. The impact from these special awards is excluded from metrics that management uses to assess the Company's performance. The Company recognized a share-based compensation cost associated with the Partner PSU Awards of \$2 million for the six months ended June 30, 2020.

Note 6 – Other Income, net

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					(Unaudited)
Equity income from investments in unconsolidated affiliates	\$69	\$ 65	\$65	\$34	\$37
Gain from re-measurement of equity interest upon acquisition ^(a)	–	98	–	–	–
Derecognition of indemnification asset ^(b)	–	–	–	(3)	–
Foreign exchanges and other	(9)	(11)	(1)	(5)	(6)
Other income, net	<u>\$60</u>	<u>\$152</u>	<u>\$64</u>	<u>\$26</u>	<u>\$31</u>

- (a) As a result of the acquisition of Wuxi KFC in the first quarter of 2018, as disclosed in Note 5, the Company recognized a gain of \$98 million from the re-measurement of our previously held 47% equity interest at fair value, which was not allocated to any segment for performance reporting purposes.
- (b) In the six months ended June 30, 2020, the Company derecognized a \$3 million indemnification asset previously recorded for the Daojia acquisition as the indemnification right pursuant to the purchase agreement expired. The expense was included in Other income, net, but was not allocated to any segment for performance reporting purposes.

Note 7 – Supplemental Balance Sheet Information

	As of June 30,	As of December 31,		
<u>Accounts Receivable, net</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accounts receivable, gross	\$84	\$89	\$81	\$81
Allowance for doubtful accounts	(1)	(1)	(1)	(2)
Accounts receivable, net	<u>\$83</u>	<u>\$88</u>	<u>\$80</u>	<u>\$79</u>

	As of June 30,	As of December 31,		
<u>Prepaid Expenses and Other Current Assets</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Receivables from payment processors and aggregators	\$ 26	\$ 41	\$ 49	\$ 40
Prepaid rent	1	2	42	41
Dividends receivable from unconsolidated affiliates	51	8	20	21
Other prepaid expenses and current assets	88	83	66	60
Prepaid expenses and other current assets	<u>\$166</u>	<u>\$134</u>	<u>\$177</u>	<u>\$162</u>

Note 7 – Supplemental Balance Sheet Information (Continued)

	As of June 30,	As of December 31,		
Property, Plant and Equipment	2020	2019	2018	2017
Buildings and improvements	\$ 2,146	\$ 2,159	\$ 2,121	\$ 2,184
Finance leases, primarily buildings	30	30	26	28
Machinery and equipment and construction in progress	1,254	1,282	1,201	1,204
Property, plant and equipment, gross	3,430	3,471	3,348	3,416
Accumulated depreciation	(1,926)	(1,877)	(1,733)	(1,725)
Property, plant and equipment, net	<u>\$ 1,504</u>	<u>\$ 1,594</u>	<u>\$ 1,615</u>	<u>\$ 1,691</u>

Depreciation and amortization expense related to property, plant and equipment was \$408 million, \$414 million, \$391 million, \$205 million and \$205 million in the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, respectively.

	As of June 30,	As of December 31,		
Other Assets	2020	2019	2018	2017
VAT assets	\$237	\$243	\$226	\$176
Land use right ^(a)	129	133	138	131
Investment in equity securities	93	110	47	–
Long-term deposits	73	71	64	56
Investment in long-term time deposits ^(b)	57	–	–	–
Costs to obtain contracts	9	9	8	12
Restricted cash	7	9	–	–
Others	6	5	8	10
Other Assets	<u>\$611</u>	<u>\$580</u>	<u>\$491</u>	<u>\$385</u>

(a) Amortization expense related to land use right was \$4 million, \$5 million, \$4 million, \$2 million and \$2 million in the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, respectively.

(b) As of June 30, 2020, the Company had \$57 million invested in long-term time deposits, bearing a fixed interest rate with original maturity of three years. The asset is restricted for use in order to secure the balance of prepaid store-value cards issued by the Company pursuant to regulatory requirements.

Note 7 – Supplemental Balance Sheet Information (Continued)

	As of June 30,	As of December 31,		
	2020	2019	2018	2017
Accounts Payable and Other Current Liabilities				
Accounts payable	\$ 566	\$ 623	\$ 619	\$420
Operating leases liabilities	401	382	–	–
Accrued compensation and benefits	179	223	200	219
Contract liabilities	155	135	96	72
Accrued capital expenditures	122	150	137	142
Accrued marketing expenses	94	64	32	28
Other current liabilities	143	114	115	104
Accounts payable and other current liabilities	<u>\$1,660</u>	<u>\$1,691</u>	<u>\$1,199</u>	<u>\$985</u>

	As of June 30,	As of December 31,		
	2020	2019	2018	2017
Other Liabilities				
Deferred income tax liabilities	\$101	\$ 67	\$ 65	\$ 32
Accrued income tax payable	62	69	71	112
Contract liabilities	33	33	31	33
Deferred rental accrual	–	–	144	162
Other noncurrent liabilities	56	41	44	49
Other liabilities	<u>\$252</u>	<u>\$210</u>	<u>\$355</u>	<u>\$388</u>

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

	As of June 30,	As of December 31,		
	2020	2019	2018	2017
Cash and cash equivalents as presented in Consolidated Balance Sheets	\$674	\$1,046	\$1,266	\$1,059
Restricted cash included in Other assets ^(c)	7	9	–	–
Cash, Cash Equivalents and Restricted Cash as presented in Consolidated Statements of Cash Flows	<u>\$681</u>	<u>\$1,055</u>	<u>\$1,266</u>	<u>\$1,059</u>

- (c) As of June 30, 2020, the \$7 million of restricted cash included in Other assets within our Consolidated Balance Sheet represents amounts deposited into an escrow account pursuant to a definitive agreement entered into in April 2020 to acquire an additional 25% equity interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China (“Suzhou KFC”). The Suzhou KFC acquisition was completed on August 3, 2020 and was considered immaterial. As of December 31, 2019, the \$9 million of restricted cash represents amounts deposited into an escrow account pursuant to a definitive agreement entered into in August 2019 to acquire a controlling interest in the Huang Ji Huang group. The Huang Ji Huang acquisition was completed on April 8, 2020 and was considered immaterial.

Note 8 – 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, 2016				
Goodwill, gross	\$ 461	\$ 70	\$ 9	\$ 382
Accumulated impairment losses ^(a)	(382)	—	—	(382)
Goodwill, net	79	70	9	—
Goodwill acquired and allocated	23	5	9	9
Effect of currency translation adjustment and other	6	5	1	—
Balance as of December 31, 2017				
Goodwill, gross	490	80	19	391
Accumulated impairment losses ^(a)	(382)	—	—	(382)
Goodwill, net	108	80	19	9
Goodwill acquired ^(b)	175	175	—	—
Effect of currency translation adjustment and other	(17)	(17)	—	—
Balance as of December 31, 2018				
Goodwill, gross	648	238	19	391
Accumulated impairment losses ^(a)	(382)	—	—	(382)
Goodwill, net	266	238	19	9
Goodwill impairment ^(c)	(9)	—	—	(9)
Effect of currency translation adjustment and other	(3)	(3)	—	—
Balance as of December 31, 2019				
Goodwill, gross	\$ 645	\$235	\$19	\$ 391
Accumulated impairment losses	(391)	—	—	(391)
Goodwill, net	\$ 254	\$235	\$19	\$ —
Goodwill acquired ^(d)	59	—	—	59
Effect of currency translation adjustment and other	(4)	(3)	(1)	—
Balance as of June 30, 2020				
Goodwill, gross	700	232	18	450
Accumulated impairment losses	(391)	—	—	(391)
Goodwill, net	309	232	18	59

(a) Accumulated impairment losses represent Little Sheep goodwill related impairment.

(b) Goodwill acquired resulted from the acquisition of Wuxi KFC. (Note 1).

(c) In 2019, we recorded an impairment charge of \$9 million on goodwill attributable to the Daojia reporting unit (Note 5).

(d) Goodwill acquired resulted from the acquisition of Huang Ji Huang. (Note 1).

Note 8 – Goodwill and Intangible Assets (Continued)

Intangible assets, net as of June 30, 2020, and December 31, 2019, 2018 and 2017 are as follows:

June 30, 2020				
	Gross Carrying Amount^(a)	Accumulated Amortization	Accumulated Impairment Losses^(b)	Net Carrying Amount
Finite-lived intangible assets				
Reacquired franchise rights	\$147	\$(118)	\$ –	\$ 29
Huang Ji Huang franchise related assets ^(c)	21	–	–	21
Daojia platform	16	(4)	(12)	–
Customer-related assets	12	(9)	(2)	1
Other	9	(4)	–	5
	<u>205</u>	<u>(135)</u>	<u>(14)</u>	<u>56</u>
Indefinite-lived intangible assets				
Little Sheep trademark	51	–	–	51
Huang Ji Huang trademark ^(c)	76	–	–	76
	<u>127</u>	<u>–</u>	<u>–</u>	<u>127</u>
Total intangible assets	<u>\$332</u>	<u>\$(135)</u>	<u>\$(14)</u>	<u>\$183</u>
December 31, 2019				
	Gross Carrying Amount^(a)	Accumulated Amortization	Accumulated Impairment Losses^(b)	Net Carrying Amount
Finite-lived intangible assets				
Reacquired franchise rights	\$148	\$(113)	\$ –	\$ 35
Daojia platform	16	(4)	(12)	–
Customer-related assets	12	(8)	(2)	2
Other ^(d)	9	(4)	–	5
	<u>\$185</u>	<u>\$(129)</u>	<u>\$(14)</u>	<u>\$ 42</u>
Indefinite-lived intangible assets				
Little Sheep trademark	\$ 52	\$ –	\$ –	\$ 52
Total intangible assets	<u>\$237</u>	<u>\$(129)</u>	<u>\$(14)</u>	<u>\$ 94</u>
December 31, 2018				
	Gross Carrying Amount^(a)	Accumulated Amortization	Accumulated Impairment Losses^(b)	Net Carrying Amount
Finite-lived intangible assets				
Reacquired franchise rights ^(e)	\$150	\$(100)	\$ –	\$ 50
Daojia platform	16	(3)	(10)	3
Customer-related assets	12	(8)	(2)	2
Other	17	(9)	–	8
	<u>\$195</u>	<u>\$(120)</u>	<u>\$(12)</u>	<u>\$ 63</u>
Indefinite-lived intangible assets				
Little Sheep trademark	\$ 53	\$ –	\$ –	\$ 53
Total intangible assets	<u>\$248</u>	<u>\$(120)</u>	<u>\$(12)</u>	<u>\$116</u>

Note 8 – Goodwill and Intangible Assets (Continued)

	December 31, 2017			
	Gross Carrying Amount ^(a)	Accumulated Amortization	Accumulated Impairment Losses	Net Carrying Amount
Finite-lived intangible assets				
Reacquired franchise rights	\$100	\$ (87)	\$–	\$ 13
Daojia platform	18	(1)	–	17
Customer-related assets	12	(6)	–	6
Other	19	(10)	–	9
	<u>\$149</u>	<u>\$(104)</u>	<u>\$–</u>	<u>\$ 45</u>
Indefinite-lived intangible assets				
Little Sheep trademark	\$ 56	\$ –	\$–	\$ 56
Total intangible assets	<u>\$205</u>	<u>\$(104)</u>	<u>\$–</u>	<u>\$101</u>

- (a) Changes in gross carrying amount include effect of currency translation adjustment.
- (b) In 2019 and 2018, we recorded impairment charges of \$2 million and \$12 million on intangible assets acquired from Daojia primarily attributable to the Daojia platform, respectively. See Note 5 for details.
- (c) Increase in gross carrying amount of finite-lived and indefinite-lived intangible assets primarily resulted from the acquisition of Huang Ji Huang. (Note 1).
- (d) Decrease in Others in 2019 is primarily due to the reclassification of favorable lease assets, with a gross value of \$7 million and accumulated amortization of \$5 million, to right-to-use assets upon adoption of ASC 842.
- (e) Increase in gross carrying amount of reacquired franchise rights in 2018 primarily resulted from the acquisition of Wuxi KFC. (Note 1).

Amortization expense for finite-lived intangible assets was \$16 million, \$26 million, \$14 million, \$6 million and \$10 million in the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, respectively. Amortization expense for finite-lived intangible assets is expected to approximate \$7 million for the remainder of 2020, \$13 million in 2021, \$13 million in 2022, \$3 million in 2023 and \$2 million in 2024.

Note 9 – Credit Facilities

As of June 30, 2020, the Company had credit facilities of RMB3,713 million (approximately \$526 million), comprised of onshore credit facilities of RMB2,300 million (approximately \$326 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 three years as of June 30, 2020. Each credit facility bears interest based on the prevailing rate stipulated by the People's Bank of China, Loan Prime Rate ("LPR") published by the National Interbank Funding Centre of the PRC or London Interbank Offered Rate ("LIBOR") administered by the ICE Benchmark Administration. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Some of the credit facilities contain covenants limiting, among other things, certain additional indebtedness and liens, and certain other transactions specified in the respective agreement. Interest on any outstanding borrowings is due at least monthly. Some of the onshore credit facilities contain sub-limits for overdrafts,

Note 9 – Credit Facilities (Continued)

non-financial bonding, standby letters of credit and guarantees. As of June 30, 2020, we had outstanding bank guarantees of RMB89 million (approximately \$13 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 bank borrowings outstanding as of June 30, 2020.

Note 10 – 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) shares of Yum China common stock representing in the aggregate 5% of Yum China common stock issued and outstanding immediately following the separation subject to Post-Closing Adjustment for a final aggregate ownership of between 4.3% and 5.9% in Yum China and (ii) two tranches of warrants (the “Warrants”), exercisable for an approximate additional 4% ownership, in the aggregate, of Yum China common stock issued and outstanding after the separation, taking into account the shares previously issued to the Investors. Immediately before the closing of the Investment, Yum China had 363,758,219 shares of common stock issued and outstanding, with a par value US\$0.01 per share. Pursuant to the Investment Agreements, on November 1, 2016, Yum China issued 17,064,172.74 and 2,080,996.68 shares of common stock (the “Closing Shares”) at US\$24.03 per share (“Closing Price”) to Primavera and Ant Financial, respectively, subject to adjustment as described below.

Pursuant to the Investment Agreements, the Investors and the Company determined the volume weighted-average trading price (“VWAP”) per share of Company common stock over the trading days occurring over the period from December 1, 2016 to December 30, 2016 (the “Measurement Period”), and discounted such VWAP by 8% (the “Adjusted VWAP Price Per Share”).

Since the Adjusted VWAP Price Per Share of \$25.05 exceeded the Closing Price of US\$24.03 paid by the Investors at the Closing Date, on January 9, 2017, the Company repurchased from Primavera and Ant Financial 699,394.74 and 85,291.68 shares of common stock, respectively, at par value of \$0.01 per share, based on the Adjusted VWAP Price Per Share as determined on December 30, 2016. The repurchased shares were included in Treasury Stock as of December 31, 2016 in the Consolidated Financial Statements.

In addition, pursuant to the terms of the Investment Agreements, on January 9, 2017, Yum China issued to each of the Investors two tranches of 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 purchasable by Primavera and Ant Financial under the first tranche of Warrants, at an initial exercise price of \$39.25 per share. The initial exercise price for the Warrants was based on \$12 billion and \$15 billion for the first tranche and second tranche, respectively, divided by the number of shares of common stock, including the Closing Shares after the Post-Closing Adjustment, issued and outstanding as of the Closing Date. The

Note 10 – Investment Agreements with Strategic Investors (Continued)

Warrants may be exercised at any time through October 31, 2021 and contain customary anti-dilution protections.

As a result of the issuance of the Closing Shares and the Post-Closing Adjustment (excluding shares issuable upon exercise of the Warrants), Primavera and Ant Financial collectively beneficially owned approximately 4.8% of the outstanding shares of Yum China common stock as of January 9, 2017, or approximately 8.7% of the outstanding shares of Yum China common stock as of January 9, 2017 assuming the full exercise of both tranches of Warrants by each of the Investors.

Total cash proceeds of \$460 million from the closing of the Investment were first allocated to the Post-Closing Adjustment and Warrants based on their fair value on November 1, 2016, with the residual value of \$364 million allocated to the shares of common stock issued.

In October and November 2019, Primavera entered into pre-paid forward sale transactions with several financial institutions (the “Dealers”), pursuant to which Primavera is obligated to deliver to the Dealers all of its second tranche of Warrants. The Warrants or interests are subsequently transferrable in the secondary market to other financial investors.

Note 11 – Leases

As of June 30, 2020, we operated over 7,400 company-owned restaurants, leasing the underlying land and/or building. We generally enter into lease agreements for our restaurants with initial terms of 10 to 20 years. Most of our lease agreements contain termination options that permit us to terminate the lease agreement early if the restaurant’s unit contribution is negative for a specified period of time. We generally do not have renewal options for our leases. Such options are accounted for only when it is reasonably certain that we will exercise the options. The rent under the majority of our current restaurant lease agreements is generally payable in one of three ways: (i) fixed rent; (ii) the higher of a fixed base rent or a percentage of the restaurant’s sales; or (iii) a percentage of the restaurant’s sales. Most leases require us to pay common area maintenance fees for the leased property. In addition to restaurants leases, we also lease office spaces, logistics centers and equipment. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In limited cases, we sub-lease certain restaurants to franchisees in connection with 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.

Note 11 – Leases (Continued)

Supplemental Balance Sheet

	As of June 30, 2020	As of December 31, 2019	Account Classification	
Assets				
Operating lease right-of-use assets	\$1,886	\$1,985	Operating lease right-of-use assets	
Finance lease right-of-use assets	17	18	Property, plant and equipment, net	
Total leased assets	\$1,903	\$2,003		
Liabilities				
Current				
Operating lease liabilities	\$ 401	\$ 382	Accounts payable and other current liabilities	
Finance lease liabilities	2	2	Accounts payable and other current liabilities	
Non-current				
Operating lease liabilities	1,677	1,803	Non-current operating lease liabilities	
Finance lease liabilities	24	26	Non-current finance lease liabilities	
Total lease liabilities	\$2,104	\$2,213		
Summary of Lease Cost				
	Year Ended December 31, 2019	Six Months Ended June 30, 2020	Account Classification	
		2019		
		(unaudited)		
Operating lease cost	\$472	\$241	\$234	Occupancy and other operating expenses, G&A or Franchise expenses
Finance lease cost				
Amortization of leased assets	1	1	1	Occupancy and other operating expenses
Interest on lease liabilities	2	1	1	Interest expense, net
Variable lease cost ^(a)	325	104	171	Occupancy and other operating expenses or Franchise expenses
Short-term lease cost	10	5	5	Occupancy and other operating expenses or G&A
Sub-lease income	(27)	(12)	(14)	Franchise fees and income or Other revenues
Total lease cost	\$783	\$340	\$398	

- (a) In the six months ended June 30, 2020, the Company was granted \$25 million in lease concessions from landlords related to the effects of the COVID-19 pandemic. The lease concessions were primarily in the form of rent reduction over the period of time when the Company's restaurant business was adversely impacted. The Company applied the

Note 11 – Leases (Continued)

interpretive guidance in a FASB staff Q&A document issued in April 2020 and elected: (1) not to evaluate whether a concession received in response to the COVID-19 pandemic is a lease modification and (2) to assume such concession was contemplated as part of the existing lease contract with no contract modification. Such concession was recognized as negative variable lease cost in the period the concession was granted.

Supplemental Cash Flow Information	Year Ended December 31,	Six Months Ended June 30,	
	2019	2020	2019
			<i>(unaudited)</i>
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$481	\$233	\$241
Operating cash flows from finance leases	1	1	1
Financing cash flows from finance leases	2	1	1
Right-of-use assets obtained in exchange for new lease liabilities ^(b) :			
Operating leases	\$346	\$ 93	\$119
Finance leases	4	(1)	–

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

Lease Term and Discount Rate	Year Ended December 31,	Six Months Ended June 30,	
	2019	2020	2019
			<i>(unaudited)</i>
Weighted-average remaining lease term (years)			
Operating leases	7.1	6.9	7.2
Finance leases	11.5	11.1	12.1
Weighted-average discount rate			
Operating leases	6.1%	6.0%	6.1%
Finance leases	5.9%	5.8%	5.7%

Note 11 – Leases (Continued)**Summary of Future Lease Payments and Lease Liabilities**

Maturities of lease liabilities as of June 30, 2020 and December 31, 2019 were as follows:

As of June 30, 2020			
	Amount of Operating Leases	Amount of Finance Leases	Total
Remainder of 2020	\$ 274	\$ 2	\$ 276
2021	457	4	461
2022	397	4	401
2023	334	3	337
2024	271	3	274
Thereafter	810	20	830
Total undiscounted lease payment	2,543	36	2,579
Less: imputed interest ^(c)	465	10	475
Present value of lease liabilities	<u>\$2,078</u>	<u>\$26</u>	<u>\$2,104</u>

As of December 31, 2019			
	Amount of Operating Leases	Amount of Finance Leases	Total
2020	\$ 504	\$ 4	\$ 508
2021	448	4	452
2022	389	4	393
2023	325	3	328
2024	261	3	264
Thereafter	781	21	802
Total undiscounted lease payment	2,708	39	2,747
Less: imputed interest ^(c)	523	11	534
Present value of lease liabilities	<u>\$2,185</u>	<u>\$28</u>	<u>\$2,213</u>

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

As of June 30, 2020, we have additional lease agreements that have been signed but not yet commenced, with total undiscounted minimum lease payments of \$115 million. These leases will commence between the third quarter of 2020 and 2023 with lease terms of 1 year to 20 years.

Note 11 – Leases (Continued)

Future minimum lease payments under non-cancellable leases as of December 31, 2018 and 2017 were as follows:

Commitments as of December 31, 2018			
	Amount of Operating Leases	Amount of Finance Leases	Total
2019	\$ 466	\$ 3	\$ 469
2020	440	3	443
2021	394	3	397
2022	336	3	339
2023	275	3	278
Thereafter	864	22	886
	<u>\$2,775</u>	<u>\$37</u>	<u>\$2,812</u>

Commitments as of December 31, 2017			
	Amount of Operating Leases	Amount of Finance Leases	Total
2018	\$ 481	\$ 3	\$ 484
2019	450	3	453
2020	424	3	427
2021	378	4	382
2022	317	4	321
Thereafter	1,070	28	1,098
	<u>\$3,120</u>	<u>\$45</u>	<u>\$3,165</u>

At December 31, 2018 and 2017, the present value of minimum payments under finance leases was \$27 million and \$29 million, after deducting imputed interest of \$10 million and \$16 million, respectively. The current portion of finance lease obligations was \$2 million and \$1 million as of December 31, 2018 and 2017, respectively and was classified in Accounts payable and other current liabilities.

Note 12 – 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.

Note 12 – Fair Value Measurements and Disclosures (Continued)

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 the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020.

	Balance at June 30, 2020	Fair Value Measurement or Disclosure at June 30, 2020		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	\$ 230		\$ 230	
Money market funds	52	52		
Fixed rate debt securities ^(a)	28		28	
Total cash equivalents	310	52	258	–
Short-term investments:				
Time deposits	1,034		1,034	
Total short-term investments	1,034	–	1,034	–
Other assets:				
Investment in equity securities	93	93		
Long-term time deposits	57		57	
Total	\$1,494	\$145	\$1,349	\$–

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

Note 12 – Fair Value Measurements and Disclosures (Continued)

	Balance at December 31, 2018	Fair Value Measurement or Disclosure at December 31, 2018		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	\$ 570		\$570	
Money market funds	226	226		
Fixed income debt securities ^(a)	153	153		
Total cash equivalents	949	379	570	–
Short-term investments:				
Time deposits	122		122	
Total short-term investments	122	–	122	–
Other assets:				
Investment in equity securities	47	47		
Total	\$1,118	\$426	\$692	\$–

	Balance at December 31, 2017	Fair Value Measurement or Disclosure at December 31, 2017		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	\$635		\$635	
Money market funds	93	93		
Total cash equivalents	728	93	635	–
Short-term investments:				
Time deposits	143		143	
Fixed income debt securities ^(a)	62	62		
Total short-term investments	205	62	143	–
Total	\$933	\$155	\$778	\$–

(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 June 30, 2020, the fair value of restaurant-level assets, if determined to be impaired, are primarily represented by the price market participant would pay to sub-lease the operating lease ROU assets and acquire remaining restaurants assets, which reflects the highest and best use of the assets. Significant unobservable inputs used in the fair value measurement include market rental prices, which were 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

Note 12 – Fair Value Measurements and Disclosures (Continued)

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, 2019, 2018 and 2017 and the six months ended June 30, 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.

	Year Ended December 31,			Six Months Ended June 30,		Account Classification
	2019	2018	2017	2020	2019	
					(Unaudited)	
ROU impairment prior to the adoption of ASC 842 ^(a)	\$ 82	\$ –	\$ –	\$ –	\$ 82	Retained Earnings
Restaurant-level impairment ^(b)	28	27	41	30	19	Closure and impairment expenses, net
Daojia impairment ^(c)	11	12	–	–	–	Closure and impairment expenses, net
Income from the reversal of contingent consideration ^(d)	–	–	(3)	–	–	Other income, net
Total	<u>\$121</u>	<u>\$39</u>	<u>\$38</u>	<u>\$30</u>	<u>\$101</u>	

- (a) 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.
- (b) Restaurant-level impairment charges are recorded in Closures and impairment expenses, net and resulted 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 an impairment indicator. A trend of continuing operating losses for certain restaurants due to the COVID-19 pandemic resulted in higher impairment during the second quarter of 2020. We also performed an additional impairment evaluation upon adoption of ASC 842 in the first quarter of 2019. The remaining net book value of assets at fair value as of each relevant measurement date, after considering the impairment charge recorded during the six months ended June 30, 2020, was \$76 million. The remaining net book value of assets at fair value as of each relevant measurement date, after considering the impairment charge recorded during the years ended December 31, 2019, 2018 and 2017, was insignificant.

Note 12 – Fair Value Measurements and Disclosures (Continued)

- (c) See Note 5 for further discussion.
- (d) During 2017, we recognized income of \$3 million from the reversal of contingent consideration previously recorded for a business combination (Level 3), as the fair value of such contingent consideration is considered to be nil given the remote likelihood of the payment obligation.

Note 13 – 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 of \$5.1 million, \$4.8 million, \$4.4 million and \$4.2 million attributable to our employees under the YCHLRP as of June 30, 2020, December 31, 2019, 2018 and 2017, respectively, are included in our Consolidated Balance Sheets.

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, 2019, 2018 and 2017 and the six months ended June 30, 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. Over the track record periods, we are required to make contributions to the local social security bureau between 10% and 22% of the previous year's average basic salary amount of the geographical area where the employees are under our employment. Contributions are recorded in the 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. During the six

Note 13 – Retirement Plans (Continued)

months ended June 30, 2020, the Company also received one-time government subsidy related to COVID-19 pandemic 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 \$160 million, \$174 million, \$157 million, \$72 million and \$84 million to the government-sponsored plan for the years ended December 31, 2019, 2018 and 2017 and six months ended June 30, 2020 and 2019, respectively.

Note 14 – Share-Based CompensationOverview

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

Note 14 – Share-Based Compensation (Continued)

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 Option 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:

	Years Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
Risk-free interest rate	2.5%	2.5%	1.9%	1.5%	2.5%
Expected term (years)	6.50	6.50	6.75	6.50	6.50
Expected volatility	32.0%	33.0%	34.0%	33.2%	32.0%
Expected dividend yield	1.2%	1.0%	0.0%	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. Based on analysis of the historical exercise and post-vesting termination behavior, the Company determined that employees exercised the awards on average after 6.5 years. 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 Company initially had no plan to pay dividends at the time of the grant. 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 2019 and 2018, and six months ended June 30, 2020 and 2019, 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 and 2018, 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

Note 14 – Share-Based Compensation (Continued)

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 and 2018 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 the 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 February 2020 are cliff vested based only on the Company’s achievement of performance goals with a relative total shareholder return payout modifier against MSCI China Index, measured over a three-year period. The fair value of annual PSU awards was determined based on the outcome of the MCS model. The assumptions used in determining the grant date fair value of annual PSU awards include the risk-free interest rate of 1.4% and expected volatility of 33.4%.

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, 2019, 2018 and 2017, and six months ended June 30, 2020 and 2019, a total of 60,419, 45,425, 56,763, 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 \$2.4 million, \$1.8 million, \$2.3 million, \$2.6 million and \$2.4 million respectively, was immediately recognized in full in the Consolidated Statements of Income.

Note 14 – Share-Based Compensation (Continued)Award Activity*Stock Options and SARs*

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in US\$ millions)
	(in thousands)			
Outstanding at the beginning of 2017	24,728	17.88		
Granted	2,234	26.56		
Exercised	(4,168)	15.50		
Forfeited or expired	(1,199)	22.90		
Outstanding at the end of 2017	21,595 ^(a)	18.96	5.55	455
Exercisable at the end of 2017	14,072	16.69	4.24	328
Granted	1,179	40.29		
Exercised	(4,493)	15.12		
Forfeited or expired	(611)	24.14		
Outstanding at the end of 2018	17,670 ^(b)	21.18	5.23	226
Exercisable at the end of 2018	12,407	18.64	4.20	185
Granted	1,469	41.66		
Exercised	(4,234)	16.58		
Forfeited or expired	(532)	32.02		
Outstanding at the end of 2019	14,373 ^(c)	24.22	5.11	342
Exercisable at the end of 2019	10,583	20.92	4.15	287
Granted	1,314	42.71		
Exercised	(2,229)	18.81		
Forfeited or expired	(153)	37.00		
Outstanding at June 30, 2020	13,305 ^(d)	26.80	5.36	283
Exercisable at June 30, 2020	10,100	22.79	4.36	255

(a) As of December 31, 2017, outstanding awards include 890,249 stock options and 20,704,787 SARs with weighted-average exercise prices of \$14.74 and \$19.14, respectively. Outstanding awards represent Yum China awards held by employees of both the Company and YUM.

(b) As of December 31, 2018, outstanding awards include 669,433 stock options and 17,000,656 SARs with weighted-average exercise prices of \$16.35 and \$21.37, respectively. Outstanding awards represent Yum China awards held by employees of both the Company and YUM.

(c) As of December 31, 2019, outstanding awards include 497,480 stock options and 13,875,168 SARs with weighted-average exercise prices of \$18.50 and \$24.42, respectively. Outstanding awards represent Yum China awards held by employees of both the Company and YUM.

(d) As of June 30, 2020, outstanding awards include 496,428 stock options and 12,808,777 SARs with weighted-average exercise prices of \$18.50 and \$27.13, respectively.

Note 14 – Share-Based Compensation (Continued)

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 the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019 was \$13.43, \$13.52, \$10.19, \$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, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019 was \$39 million, \$31 million, \$44 million, \$23 million and \$29 million, respectively.

As of June 30, 2020, \$34 million of unrecognized compensation cost related to unvested stock options and SARs, which will be reduced by any forfeitures that occur, is expected to be recognized over a remaining weighted-average vesting period of approximately 1.84 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 the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019 was \$14 million, \$14 million, \$11 million, \$14 million and \$13 million, respectively.

RSUs and PSUs

	Shares (in thousands)	Weighted- Average Grant Date Fair Value
Unvested at the beginning of 2017	546	23.81
Granted	563	28.46
Vested	(79)	22.02
Forfeited	(81)	25.68
Unvested at the end of 2017	<u>949</u>	<u>26.56</u>
Granted	302	39.50
Vested	(183)	25.03
Forfeited	(80)	28.93
Unvested at the end of 2018	<u>988</u>	<u>30.60</u>
Granted	332	44.75
Vested	(219)	24.11
Forfeited	(130)	36.76
Unvested at the end of 2019	<u>971</u>	<u>36.08</u>
Granted	1,163	39.75
Vested	(307)	26.97
Forfeited	(17)	39.64
Unvested at June 30, 2020	<u>1,810</u>	<u>39.95</u>

The weighted-average grant-date fair value of RSUs and PSUs granted in the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019 was \$44.75, \$39.50, \$28.46, \$39.75 and \$45.30, respectively. The weighted-average grant-date fair value of annual and Partner PSUs granted in the six months ended June 30, 2020 was \$39.51. As of June 30, 2020, \$12 million of unrecognized compensation cost related to

Note 14 – Share-Based Compensation (Continued)

615,853 unvested RSUs and \$27 million of unrecognized compensation cost related to 1,194,275 PSUs, which will be reduced by any forfeiture that occurs, are expected to be recognized over a remaining weighted-average vesting period of approximately 1.60 and 3.27 years, respectively.

Impact on Net Income

Share-based compensation expense was \$26 million, \$24 million, \$26 million, \$17 million and \$15 million for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, respectively. Deferred tax benefits of \$1 million, \$1 million, \$3 million, \$1 million and \$1 million was recognized in the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, respectively.

Note 15 – 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 June 30, 2020, 397 million shares of Yum China common stock were issued and 377 million shares were outstanding.

On October 27, 2016, a duly authorized committee of Yum China's board of directors adopted a stockholder rights plan (the "Rights Plan"), pursuant to which the board declared a dividend, to Yum China's sole stockholder of record as of October 27, 2016, of one preferred stock purchase right (a "Right") for each of share of Yum China common stock. Before the Rights Plan expired on October 27, 2017, the Rights would trade with, and would be inseparable from, Yum China common stock. The original dividend of the Rights to the existing shareholder was recorded at fair value, which was insignificant given the contingent nature of the Rights. The embedded Rights were considered clearly and closely related to the underlying equity host and, therefore, did not require separate accounting.

Share Repurchase Program

The Company repurchased 6.2 million, 9.0 million, 3.4 million, 0.2 million and 3.5 million shares of common stock at a total cost of \$261 million, \$312 million, \$128 million, \$7 million and \$140 million for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020, \$692 million remained available for repurchase under the current authorization. The Company temporarily suspended the share repurchase in the second quarter of 2020.

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. Total cash dividends of \$38 million were paid to shareholders in December 2017. The Company paid a cash dividend of \$0.10 per share for each of the first three quarters of 2018 and \$0.12 per share for the fourth quarter of 2018, each quarter of 2019 and the first quarter of 2020. Total cash dividends of \$181 million, \$161 million, \$45 million and \$91 million were paid to shareholders in the years ended December 31, 2019 and 2018 and the six months ended June 30, 2020 and 2019, respectively. The Company temporarily suspended its dividend payments in the second quarter of 2020.

Note 15 – Equity (Continued)Accumulated Other Comprehensive Income (“AOCI”)

The Company's other comprehensive income (loss) for the years ended December 31, 2019, 2018, and 2017 and the six months ended June 30, 2020 and 2019, and AOCI balances as of June 30, 2020, December 31, 2019, 2018 and 2017 were comprised solely of foreign currency translation adjustments. Other comprehensive loss was \$32 million, \$160 million and \$35 million for the years ended December 31, 2019 and 2018 and the six months ended June 30, 2020, respectively, and other comprehensive gain was \$142 million and \$1 million for the year ended December 31, 2017 and the six months ended June 30, 2019, respectively. The accumulated balances reported in AOCI in the Consolidated Balance Sheets for currency translation adjustments were net loss of \$82 million, \$49 million and \$17 million as of June 30, 2020, December 31, 2019 and 2018, respectively, and net gain of \$137 million as of December 31, 2017. There was no tax effect related to the components of other comprehensive income for all years and periods 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 \$616 million as of June 30, 2020.

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 16 – 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.

Based on the information available, we made a reasonable estimate of the effects and recorded the provisional amount of \$164 million as an additional income tax expense in the fourth quarter of 2017. This amount included an estimated one-time transition tax of \$130 million on the deemed repatriation of accumulated undistributed foreign earnings, \$4 million primarily related to the re-measurement of certain deferred tax assets based on the rates at which they are expected to reverse in the future, and the valuation allowance of \$30 million for certain deferred tax assets. After utilizing existing qualified foreign tax credits, the total payable of the estimated one-time transition tax was \$83 million as of December 31, 2017 of which \$7 million was included in Income taxes payable and \$76 million was included in Other liabilities.

We completed our analysis of the Tax Act in the fourth quarter of 2018 according to guidance released by the U.S. Treasury Department and the IRS as of December 2018 and made a reversal to provisional amount in the amount of \$36 million for the transition tax recorded in 2017 accordingly. 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.

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:

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					<i>(unaudited)</i>
U.S.	\$ (7)	\$ (3)	\$ (13)	\$ (6)	\$ (2)
Mainland China	941	979	806	246	524
Other Foreign	\$ 69	(26)	10	39	31
	<u>\$1,003</u>	<u>\$950</u>	<u>\$803</u>	<u>\$279</u>	<u>\$553</u>

Note 16 – Income Taxes (Continued)

The details of our income tax provision (benefit) are set forth below:

		Year Ended December 31,			Six Months Ended June 30,	
		2019	2018	2017	2020	2019
						(unaudited)
Current:	Federal	\$ 16	\$ (33)	\$ 85	\$ 5	\$ 10
	Foreign	228	214	232	66	123
		<u>\$244</u>	<u>\$181</u>	<u>\$317</u>	<u>\$71</u>	<u>\$133</u>
Deferred:	Federal	\$ (1)	\$ –	\$ 77	\$11	\$ –
	Foreign	17	33	(15)	(5)	6
		<u>\$ 16</u>	<u>\$ 33</u>	<u>\$ 62</u>	<u>\$ 6</u>	<u>\$ 6</u>
		<u>\$260</u>	<u>\$214</u>	<u>\$379</u>	<u>\$77</u>	<u>\$139</u>

The reconciliation of income taxes calculated at the U.S. federal statutory rate to our effective tax rate is set forth below:

		Year Ended December 31,						Six Months Ended June 30,			
		2019		2018		2017		2020		2019	
										(unaudited)	
U.S. federal											
statutory rate		\$211	21.0%	\$199	21.0%	\$281	35.0%	\$59	21.0%	\$116	21.0%
Impact from the											
Tax Act		8	0.8	(36)	(3.8)	164	20.4	–	–	8	1.4
Statutory rate											
differential											
attributable to											
foreign											
operations		53	5.3	56	5.8	(60)	(7.5)	11	4.2	26	4.9
Adjustments to											
reserves and											
prior years		(2)	(0.2)	(4)	(0.4)	(1)	(0.2)	(4)	(1.6)	(7)	(1.3)
Change in											
valuation											
allowances		2	0.2	(4)	(0.4)	2	0.2	3	1.2	–	–
Impact from											
investment											
(gain) loss		(10)	(1.0)	4	0.5	–	–	7	2.4	(4)	(0.8)
Others, net		(2)	(0.2)	(1)	(0.1)	(7)	(0.7)	1	0.6	–	–
Effective income											
tax rate		<u>\$260</u>	<u>25.9%</u>	<u>\$214</u>	<u>22.6%</u>	<u>\$379</u>	<u>47.2%</u>	<u>\$77</u>	<u>27.8%</u>	<u>\$139</u>	<u>25.20%</u>

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 favorable impact in 2017 is primarily attributable to the statutory income tax rate of 25% in China, which is lower than the historical U.S. federal statutory rate of 35%. The negative impact in the year

Note 16 – Income Taxes (Continued)

ended December 31, 2019 and 2018 as well as the six months ended June 30, 2020 and 2019 is primarily due to the decrease of the U.S. federal statutory rate to 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 offset items reflected in the 'Statutory rate differential attributable to foreign operations' line.

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 change in valuation allowance as a result of the Tax Act in the amount of \$29.6 million was included in 'Impact from the Tax Act'. The impact of certain changes may offset items reflected in 'Statutory rate differential attributable to foreign operations'.

Impact from investment (gain) loss. This item relates to the gain or loss on investment in equity securities of Meituan. The Company recorded \$14 million U.S. tax in the six months ended June 30, 2020, including \$7 million and \$7 million related to gains on investment in equity securities of Meituan recognized during the six months ended June 30, 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.

Note 16 – Income Taxes (Continued)

The details of June 30, 2020, and December 31, 2019, 2018 and 2017 deferred tax assets (liabilities) are set forth below:

	<u>As of June 30, 2020</u>	<u>As of December 31, 2019</u>	<u>2018</u>	<u>2017</u>
Operating losses and tax credit carryforwards	\$ 37	\$ 25	\$ 28	\$ 43
Tax benefit from Little Sheep restructuring	18	18	18	20
Employee benefits	4	4	6	5
Share-based compensation	5	5	5	6
Leases	61	61	41	45
Other liabilities	13	13	12	10
Deferred income and other	64	58	50	49
Gross deferred tax assets	202	184	160	178
Deferred tax asset valuation allowances	(46)	(47)	(50)	(68)
Net deferred tax assets	<u>\$ 156</u>	<u>\$ 137</u>	<u>\$ 110</u>	<u>\$ 110</u>
Intangible assets	(42)	(23)	(28)	(25)
Property, plant and equipment	(77)	(59)	(31)	(2)
Gain from re-measurement of equity interest upon acquisition	(22)	(22)	(23)	–
Unrealized gains from equity securities	(11)	–	–	–
Others	(6)	(5)	(4)	(10)
Gross deferred tax liabilities	<u>\$(158)</u>	<u>\$(109)</u>	<u>\$(86)</u>	<u>\$(37)</u>
Net deferred tax assets (liabilities)	<u>\$ (2)</u>	<u>\$ 28</u>	<u>\$ 24</u>	<u>\$ 73</u>
Reported in Consolidated Balance Sheets as:				
Deferred income taxes	99	95	89	105
Other liabilities	(101)	(67)	(65)	(32)
	<u>\$ (2)</u>	<u>\$ 28</u>	<u>\$ 24</u>	<u>\$ 73</u>

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. We have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The 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 \$2 billion at June 30, 2020, December 31, 2019, 2018 and 2017, respectively. 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 June 30, 2020, December 31, 2019, 2018 and 2017, the Company had operating loss carryforwards of approximately \$142 million, \$94 million, \$111 million and \$165 million,

Note 16 – Income Taxes (Continued)

respectively, primarily related to our Little Sheep and Daojia business as well as certain underperforming entities, most of which will expire by 2025. 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, \$208 million and \$232 million, \$64 million and \$135 million in the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 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:

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					<i>(unaudited)</i>
Beginning of Year/Period	\$22	\$28	\$26	\$19	\$22
Additions on tax positions	4	3	8	5	3
Reductions due to statute expiration	(7)	(9)	(6)	(6)	(7)
End of Year/Period	<u>\$19</u>	<u>\$22</u>	<u>\$28</u>	<u>\$18</u>	<u>\$18</u>

In the years of 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, our unrecognized tax benefits were increased by \$4 million, \$3 million, \$8 million, 5 million and 3 million respectively. The unrecognized tax benefits balance of \$18 million as of June 30, 2020 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 \$18 million as of June 30, 2020, which is included in Other liabilities on the Consolidated Balance Sheet, may decrease by approximately \$6 million in the next 12 months, which if recognized, would affect the 2021 effective tax rate. The accrued interest and penalties related to income taxes at June 30, 2020, December 31, 2019, 2018 and 2017 are set forth below:

	As of June 30,	As of December 31,		
	2020	2019	2018	2017
Accrued interest and penalties	\$3	\$5	\$6	\$7

During 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, a net benefit of \$1 million and \$1 million and a net expense of \$2 million and a net benefit of \$2 million and \$3 million, respectively, for interest and penalties was recognized in our Consolidated Statements of Income as components of our income tax provision.

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

Note 16 – Income Taxes (Continued)

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

Note 17 – Segment Reporting

The Company has two reportable segments: KFC and Pizza Hut. Starting from the first quarter of 2019, our newly developed COFFii & JOY concept and e-commerce business became operating segments, as their financial results started being regularly reviewed by the Company's chief operating decision maker. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Daojia and our e-commerce business, are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in the aggregate. Segment financial information for prior years has been recast due to alignment with this change in segment reporting. There was no impact on the Consolidated Financial Statements of the Company as a result of this change. See Note 1.

Year Ended December 31, 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	<u>\$6,040</u>	<u>\$2,054</u>	<u>\$158</u>	<u>\$562</u>	<u>\$8,814</u>	<u>\$(38)</u>	<u>\$8,776</u>

Year Ended December 31, 2018							
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated ^(a)	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	\$5,688	\$2,111	\$ 99	\$517	\$8,415	\$ –	\$8,415
Inter-segment revenue	–	–	16	–	16	(16)	–
Total	<u>\$5,688</u>	<u>\$2,111</u>	<u>\$115</u>	<u>\$517</u>	<u>\$8,431</u>	<u>\$(16)</u>	<u>\$8,415</u>

Note 17 – Segment Reporting (Continued)

	Year Ended December 31, 2017						
				Corporate and			
	KFC	Pizza Hut	All Other Segments	Unallocated ^(a)	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	\$5,066	\$2,093	\$106	\$504	\$7,769	\$—	\$7,769
Inter-segment revenue	—	—	—	—	—	—	—
Total	\$5,066	\$2,093	\$106	\$504	\$7,769	\$—	\$7,769

	Six Months Ended June 30, 2020					
				Corporate and		
	KFC	Pizza Hut	All Other Segments	Unallocated ^(a)	Combined	Elimination Consolidated
Revenues						
Revenue from external customers	\$2,576	\$748	\$61	\$271	\$3,656	\$ – \$3,656
Inter-segment revenue	–	–	17	–	17	(17) –
Total	\$2,576	\$748	\$78	\$271	\$3,673	(17) \$3,656

	Six Months Ended June 30, 2019 (unaudited)						
				Corporate and			
	KFC	Pizza Hut	All Other Segments	Unallocated ^(a)	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	\$3,050	\$1,053	\$45	\$280	\$4,428	\$ –	\$4,428
Inter-segment revenue	–	–	19	–	19	(19)	–
Total	\$3,050	\$1,053	\$64	\$280	\$4,447	\$(19)	\$4,428

Operating Profit	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					(unaudited)
KFC ^(b)	\$ 949	\$ 895	\$ 802	\$ 312	\$ 493
Pizza Hut	114	97	157	(13)	79
All Other Segments	(14)	(12)	(9)	(12)	(10)
Unallocated revenues from transactions with franchisees and unconsolidated affiliates ^(c)	558	514	504	269	278
Unallocated Other revenues	4	3	–	2	2
Unallocated expenses for transactions with franchisees and unconsolidated affiliates ^(c)	(554)	(512)	(500)	(270)	(276)
Unallocated Other operating costs and expenses	(4)	(2)	–	(2)	(2)
Unallocated and corporate G&A expenses	(145)	(128)	(185)	(58)	(58)
Unallocated Closures and impairment expense ^(d)	(11)	(12)	–	–	–
Unallocated Other income/(loss) ^(e)	4	98	9	(3)	1
Operating Profit	901	941	778	225	507
Interest income, net ^(a)	39	36	25	17	19
Investment gain (loss) ^(a)	63	(27)	–	37	27
Income Before Income Taxes	<u>\$1,003</u>	<u>\$ 950</u>	<u>\$ 803</u>	<u>\$ 279</u>	<u>\$ 553</u>

Note 17 – Segment Reporting (Continued)

Depreciation and Amortization	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					(unaudited)
KFC	\$290	\$296	\$265	\$145	\$147
Pizza Hut	120	129	126	57	60
All Other Segments	5	8	4	3	2
Corporate and Unallocated	13	12	14	9	8
	<u>\$428</u>	<u>\$445</u>	<u>\$409</u>	<u>\$214</u>	<u>\$217</u>

Impairment Charges	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					(unaudited)
KFC ^(f)	\$16	\$14	\$27	\$16	\$12
Pizza Hut ^(f)	20	26	31	17	11
All Other Segments ^(f)	2	–	–	3	2
Corporate and Unallocated ^(d)	11	12	–	–	–
	<u>\$49</u>	<u>\$52</u>	<u>\$58</u>	<u>\$36</u>	<u>\$25</u>

Capital Spending	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
					(unaudited)
KFC	\$264	\$292	\$227	\$111	\$138
Pizza Hut	71	77	93	31	34
All Other Segments	10	6	2	3	4
Corporate and Unallocated	90	95	93	40	36
	<u>\$435</u>	<u>\$470</u>	<u>\$415</u>	<u>\$185</u>	<u>\$212</u>

Total Assets	As of June 30,		As of December 31,	
	2020	2019	2018	2017
KFC ^(g)	\$3,025	\$3,160	\$1,745	\$1,544
Pizza Hut	854	950	558	668
All Other Segments	356	166	132	144
Corporate and Unallocated ^(h)	2,728	2,674	2,175	1,931
	<u>\$6,963</u>	<u>\$6,950</u>	<u>\$4,610</u>	<u>\$4,287</u>

- (a) Amounts have not been allocated to any segment for performance reporting purposes.
- (b) Includes equity income from investments in unconsolidated affiliates of \$69 million, \$65 million, \$65 million, \$34 million and \$37 million in the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, respectively.
- (c) Primarily includes revenues and associated expenses of transactions with franchisee and unconsolidated affiliates derived from the Company's central procurement model whereby the Company centrally purchases substantially all food and paper products

Note 17 – Segment Reporting (Continued)

from suppliers then sells and delivers to all 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 and 2018, respectively. See Note 5.
- (e) In 2018, the unallocated other income primarily includes gain from re-measurement of previously held equity interest in connection with the acquisition of Wuxi KFC. See Note 5.
- (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 12).
- (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 18 – ContingenciesIndemnification 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

Note 18 – Contingencies (Continued)

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 June 30, 2020, guarantees on behalf of franchisees were immaterial and no guarantees were outstanding for 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 June 30, 2020.

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 19 – Subsequent Events**Acquisition of Additional Interest in Unconsolidated Affiliate**

On August 3, 2020, the Company completed the acquisition of an additional 25% equity interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China ("Suzhou KFC"), for cash consideration of \$149 million. Upon closing of the acquisition, the Company increased its equity interest to 72%, allowing the Company to consolidate Suzhou KFC. The acquisition was considered immaterial.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to June 30, 2020.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountants' Report from the reporting accountants of our Company, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and our historical financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to the stockholders of the Company as of June 30, 2020 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of Yum China Holdings, Inc. and its subsidiaries, or the Company, had the Global Offering been completed as of June 30, 2020 or at any future date.

	Consolidated net tangible assets attributable to the stockholders of the Company as of June 30, 2020 ⁽¹⁾	Estimated net proceeds from the Global Offering ^{(2),(4)}	Unaudited pro forma adjusted net tangible assets attributable to the stockholders of the Company	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾
	(in millions of US\$)	(in millions of US\$)	(in millions of US\$)	US\$	HK\$
Based on the indicative maximum offer price of HK\$468.00 per Offer Share	2,765 ⁽⁵⁾	2,487	5,252	12.53	97.14

Notes:

- (1) The consolidated net tangible assets attributable to the stockholders of the Company as of June 30, 2020 is based on the consolidated net assets attributable to the stockholders of the Company as of June 30, 2020 of US\$3,203 million, which is derived from the Accountants' Report set out in Appendix I to this prospectus with adjustments for goodwill and intangible assets attributable to the stockholders of the Company of US\$266 million and US\$172 million, respectively.
- (2) The estimated net proceeds from the Global Offering is based on the issuance of 41,910,700 shares at the indicative maximum offer price of HK\$468.00 per Offer Share after deduction of the estimated underwriting fees and other related expenses related to Global Offering and does not take into account any allotment and issuance of Shares pursuant to the exercise of Over-allotment Option, the 2016 Plan, the Warrant 1 or the Warrant 2, and any issuance or repurchase and cancellation of Shares.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments for the estimated net proceeds from the Global Offering as described in note (2) and on the basis of 418,986,084 Shares in issue assuming that the Global Offering has been completed on June 30, 2020, without taking into account of any allotment and issuance of Shares pursuant to the exercise of Over-allotment Option, the 2016 Plan, the Warrant 1 or the Warrant 2, and any issuance or repurchase and cancellation of Shares.
- (4) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balances stated in US\$ are converted into Hong Kong dollars at the rate of US\$1.00 to HK\$7.7502, the respective exchange rates on August 21, 2020 set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that US\$ amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.
- (5) Our net tangible book value (which represents the amount of our total consolidated assets, less the amount of our intangible asset, net, goodwill and total consolidated liabilities) was US\$2,794 million as of June 30, 2020, or US\$12.60 per shares on an unaudited pro forma adjusted basis.
- (6) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transactions of the Company entered into subsequent to June 30, 2020.

B. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Company's pro forma financial information for the purpose in this prospectus.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF YUM CHINA HOLDINGS, INC.**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Yum China Holdings, Inc. ("Yum China" and, together with its subsidiaries, the "Company") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at June 30, 2020 and related notes as set out in Part A of Appendix II to the prospectus dated September 1, 2020 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Company's financial position as at June 30, 2020 as if the Global Offering had taken place at June 30, 2020. As part of this process, information about the Company's financial position as at June 30, 2020 has been extracted by the Directors from the Company's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Company as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at June 30, 2020 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Company; and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
September 1, 2020

APPENDIX III SUMMARY OF OUR CONSTITUTIONAL DOCUMENTS AND THE DGCL

Yum China Holdings, Inc. is a corporation incorporated under the laws of the State of Delaware, the United States, and our affairs are governed by our Constitutional Documents and the DGCL, as well as other applicable laws, regulations, policies and procedures. The following is a summary of certain material terms of our Certificate of Incorporation and our Bylaws, each of which is available for inspection at the address specified in “Appendix V — Documents Available for Inspection,” as well as certain provisions of the DGCL and the U.S. Exchange Act. The summary is qualified in its entirety by reference to such documents, which you must read along with the applicable provisions of the DGCL and U.S. Exchange Act for complete information about the rights of our Shareholders and powers of our Directors.

SUMMARY OF CONSTITUTIONAL DOCUMENTS

General

Our authorized capital stock consists of 1,100,000,000 shares, of which 1,000,000,000 are shares of common stock, par value \$0.01 per share, and 100,000,000 are shares of preferred stock, par value \$0.01 per share.

Our authorized but unissued shares of common stock and preferred stock will generally be available for future issuance without the approval of the Company’s stockholders. The number of authorized shares may be increased or decreased (but not below the number of shares thereof then outstanding) by amendment to the Certificate of Incorporation. The Company may use authorized but unissued shares for a variety of purposes, including future public offerings to raise additional capital, to fund acquisitions and as employee compensation.

Common Stock

Voting. Each holder of our common stock is entitled to one vote for each share on all matters to be voted upon by the common stockholders, and there are no cumulative voting rights. Except as otherwise provided by law, the Certificate of Incorporation or the Bylaws, in all matters other than the election of directors, the affirmative vote of a majority of the shares present in person or represented by proxy at a meeting in which a quorum is present and entitled to vote on the matter is the act of the stockholders.

Dividends. Subject to any preferential rights of any outstanding preferred stock and the effect of applicable abandoned property, escheat or similar laws, holders of our common stock are entitled to receive ratably the dividends, if any, as may be declared from time to time by our Board out of funds legally available for that purpose.

Liquidation, Dissolution or Winding Up. If there is a liquidation, dissolution or winding up of the Company, holders of our common stock would be entitled to a ratable distribution of our assets remaining after the payment in full of liabilities and any preferential rights of any then-outstanding preferred stock.

Other Rights. Holders of our common stock have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Preferred Stock

Under the terms of our Certificate of Incorporation, our Board is authorized, subject to limitations prescribed by the DGCL, to issue up to 100,000,000 shares of preferred stock in one or more series without further action by the holders of our common stock. Our Board has the discretion, subject to limitations prescribed by the DGCL and by our Certificate of Incorporation, to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

Board of Directors

Powers. The business and affairs of the Company are managed by or under the direction of our Board, and the Board may exercise all such powers of the Company (including powers related to the incurrence of debt) and do all such lawful acts and things as are not by the DGCL, the Certificate of Incorporation or the Bylaws required to be exclusively exercised or done by the stockholders.

Term. Each director is elected to serve a term of one year, with each director's term to expire at the annual meeting next following the director's election. Notwithstanding the expiration of the term of a director, the director will continue to hold office until a successor is elected and qualified or until his or her earlier death, resignation or removal.

Size; Vacancies. Our Certificate of Incorporation provides that the number of directors on our Board will be not less than three nor more than 15 and that the exact number of directors will be fixed by resolution of a majority of our entire Board (assuming no vacancies). Any vacancies created on our Board resulting from any increase in the authorized number of directors or death, resignation, retirement, disqualification, removal from office or other cause will be filled by a majority of our Board then in office, even if less than a quorum is present, or by a sole remaining director. Any director appointed to fill a vacancy on our Board will be appointed for a term expiring at the next election of directors and until his or her successor has been elected and qualified.

Election. Subject to the rights of the holders of any series of preferred shares to elect directors under specified circumstances, a majority of the votes cast at any meeting for the election of directors shall elect directors. A majority of votes cast means that the number of shares voted "for" a director's election exceeds 50% of the number of votes cast with respect to that director's election. Notwithstanding the foregoing, in the event of a contested election of directors, directors are elected by the vote of a plurality of the votes cast. If an incumbent director nominee is not elected and no successor has been elected at such meeting, the director is required to promptly tender his or her resignation to the Board for consideration. If such incumbent director's resignation is not accepted by the Board, such director will continue to serve until the next annual meeting and until his or her successor is duly elected, or his or her earlier death, resignation or removal.

Removal. Directors may be removed with or without cause by the affirmative vote of a majority of the voting power of the outstanding common stock.

Actions of the Board. A majority of all directors in office shall constitute a quorum for the transaction of business at any meeting of the Board. A majority of directors who are present at a meeting at which a quorum is present will constitute the required vote to effect any action taken by the Board. There is no specific provision requiring a quorum of independent directors to effect actions taken by the Board, including actions with respect to the

APPENDIX III SUMMARY OF OUR CONSTITUTIONAL DOCUMENTS AND THE DGCL

compensation of directors. Any action required or permitted to be taken at a meeting of the Board may also be taken without a meeting if the action is taken in writing by all members of the Board.

Committees of the Board

The Board may create and make appointments to one or more committees of the Board comprised exclusively of directors who serve at the pleasure of the Board and who may have and exercise such powers of the Board in directing the management of the business and affairs of the Company as the Board may delegate, in its sole discretion, consistent with the provisions of the DGCL and the Certificate of Incorporation.

Meetings of Stockholders

Annual Meetings. The annual meeting of the stockholders will be held on such date and at such place, if any, and time as the Board determines, for the purpose of electing directors and the transaction of such business as may be a proper subject for action at the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board (or any duly authorized committee thereof), or (c) otherwise properly brought before the annual meeting by any stockholder (i) who is a stockholder of record both on the date of the giving of the notice such business and at the time of the annual meeting, (ii) who is entitled to vote at the meeting, and (iii) who complies with the advance notice procedures set forth in our Bylaws.

Under the DGCL, the Company is generally required to hold an annual meeting of stockholders at least once every 13 months. The rules of the NYSE also require the Company to hold an annual meeting of stockholders during each fiscal year.

Special Meetings. Our Certificate of Incorporation provides that only our Board (or the chairman of our Board, our Chief Executive Officer or our Secretary with the concurrence of a majority of our Board) may call special meetings of our stockholders.

The Board has resolved, subject to the completion of the Listing, at the 2021 annual meeting and at subsequent annual meetings, if necessary, to present a proposal to our stockholders to amend our Constitutional Documents to provide for the right to call a special meeting of the Company by holders of 25% or more of our outstanding shares of common stock (the “**25% Requisition Right**”), and to recommend that our stockholders approve such proposal. The 25% Requisition Right shall be subject to customary terms and conditions.

The Board undertakes that, after the completion of the Listing and before the approval of the 25% Requisition Right by the stockholders, in the event that shareholders holding 25% or more of our outstanding shares of common stock request that a special meeting be called, the Board will, subject to customary terms and conditions, support such request.

Notice of Meetings. The Company has adopted the default notice period for stockholder meetings under the DGCL. Under the Bylaws, at least 10 and no more than 60 days prior to any annual or special meeting of the stockholders, the Company must notify the stockholders entitled to vote at such meeting of the date, time and place, if any, and means of remote communication, if any, of the meeting and, in the case of a special meeting or where otherwise required by the Certificate of Incorporation or by statute, shall briefly describe the purpose or purposes of the meeting.

APPENDIX III SUMMARY OF OUR CONSTITUTIONAL DOCUMENTS AND THE DGCL

The Company is subject to the e-proxy rules of the U.S. Securities and Exchange Commission (the “SEC”). Since the Company has historically opted not to mail proxy materials to each stockholder and instead relies on electronic delivery, the Company is subject to the e-proxy rules and is required to notify stockholders of the electronic availability of the proxy materials (which include, among other things, the notice of the stockholder meeting) at least 40 days before the stockholder meeting to which the proxy materials relate. Accordingly, for stockholder meetings to which the e-proxy rules apply, the minimum number of days in advance that the Company must notify stockholders of an annual or special meeting is 40 days. If the e-proxy rules are not applicable — i.e., if the Company opts to mail its proxy materials to stockholders — then the Company would not be bound by the 40-day notice requirement. If the Company opts to mail its proxy materials, then it would, in consonance with the NYSE recommendation on the setting of the record date, give notice to stockholders at least 30 days in advance of the meeting.

The Company undertakes that it will provide at least 14 days’ notice for a general meeting after the Listing.

Record Date. For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of the stockholders, or entitled to receive payment of any dividend, the Board may fix in advance a date as the record date for the determination of stockholders. The record date must not be more than 60 days before the meeting or action requiring a determination of stockholders. If no record date is fixed for the determination of stockholders, the record date is the day the notice of the meeting is mailed or the day the action requiring a determination of stockholders is taken.

Quorum. Except as otherwise prescribed by statute or the Bylaws, at any meeting of the stockholders, the presence in person or by proxy of the holders of record of a majority of the issued and outstanding shares of capital stock of the Company entitled to vote thereat constitutes a quorum for the transaction of business.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our 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 or a committee of our Board) to be presented at a meeting but not included in our proxy statement. To be timely, a stockholder’s notice to the Secretary of the Company must generally be delivered to or mailed and received at the principal executive offices of the Company: (a) in the case of an annual meeting, not more than 120 days and not less than 90 days prior to the anniversary date of the immediately preceding annual meeting; provided, however, in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the 10th day following the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever first occurs and (b) in the case of a special meeting called for the purpose of electing directors, not later than the close of business on the 10th day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made, whichever first occurs. In addition, to be considered timely, a stockholder’s notice must be updated and supplemented as required by our Bylaws, and must set forth the information specified in our Bylaws.

Proxy Access. Our Bylaws also include provisions permitting, subject to certain terms and conditions, stockholders owning at least 3% of our outstanding common stock for at least three consecutive years to use our annual meeting proxy statement to nominate a number of

APPENDIX III SUMMARY OF OUR CONSTITUTIONAL DOCUMENTS AND THE DGCL

director candidates not to exceed 20% of the number of directors in office, subject to reduction in certain circumstances.

Stockholder Proposals pursuant to the U.S. Exchange Act Rule 14a-8. Stockholders who have continuously held at least US\$2,000 in market value of the Company's voting securities for at least one year, and who continue to hold those securities through the date of the applicable meeting, may also submit a shareholder proposal for inclusion in our proxy statement for that meeting, in accordance with the U.S. Exchange Act Rule 14a-8. To be timely, a stockholder's notice to the Secretary of the Company must be received (a) in the case of a regularly scheduled annual meeting, not less than 120 calendar days before the date of the Company's proxy statement released to stockholders in connection with the previous year's annual meeting; provided, however, in the event that the annual meeting is called for a date that is not within 30 days before or after the previous year's annual meeting, then the deadline is a reasonable time before the Company begins to print and send its proxy materials and (b) in the case of a meeting of stockholders other than a regularly scheduled annual meeting, the deadline is a reasonable time before the Company begins to print and send its proxy materials. Any proposals submitted pursuant to the U.S. Exchange Act Rule 14a-8 must also comply with the other requirements of that Rule.

Stockholder Action by Written Consent

Our 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.

Transfers of Shares

The shares of the Company's capital stock may be transferred on the books of the Company, in the case of certificated shares of stock, by the holder thereof in person or by such person's attorney duly authorized in writing, upon surrender for cancellation of certificates for at least the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, with such proof of the authenticity of the signature as the Company or its agents may reasonably require; and, in the case of uncertificated shares of stock, upon receipt of proper transfer instructions from the registered holder of the shares or by such person's attorney duly authorized in writing, and upon compliance with appropriate procedures for transferring shares in uncertificated form. No transfer of shares shall be valid as against the Company for any purpose until it shall have been entered in the share records of the Company by an entry showing from and to whom transferred. Notwithstanding anything to the contrary in the Bylaws, at all times that the Company's shares are listed on a stock exchange, the shares must comply with all direct registration system eligibility requirements established by such exchange, including any requirement that shares of the Company's capital stock be eligible for issue in book-entry form.

There are no provisions in our Certificate of Incorporation or Bylaws relating to restriction on ownership of our shares.

Exclusive Forum

Our Certificate of Incorporation provides that, unless our Board otherwise determines, a state court of the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of the Company, any action asserting a claim of breach of a fiduciary duty owed by any director or officer of the Company to the Company or the Company's stockholders, creditors or other constituents, any action asserting a claim against

APPENDIX III SUMMARY OF OUR CONSTITUTIONAL DOCUMENTS AND THE DGCL

the Company or any director or officer of the Company arising pursuant to any provision of the DGCL or the Company's Certificate of Incorporation or Bylaws, or any action asserting a claim against the Company or any director or officer of the Company governed by the internal affairs doctrine. However, if such court dismisses any such action for lack of subject matter jurisdiction, the action may be brought in the U.S. federal court for the District of Delaware. Although the Company's Certificate of Incorporation includes this exclusive forum provision, it is possible that a court could rule that this provision is inapplicable or unenforceable.

Indemnification and Limitation of Liability

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors, except for liability for any breach of the director's duty of loyalty to the corporation or its stockholders, for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, for unlawful payments of dividends or unlawful stock repurchases or redemptions described by Section 174 of the DGCL or for any transaction from which the director derived an improper personal benefit. Our Certificate of Incorporation includes such an exculpation provision.

Our Certificate of Incorporation includes provisions that require the Company to indemnify, to the fullest extent allowable under the DGCL, directors or officers for monetary damages for actions taken as a director or officer of the Company or while serving at the Company's request as a director or officer or another position at another corporation or enterprise, as the case may be. The Certificate of Incorporation also provides that the Company must, subject to certain conditions, advance reasonable expenses to its directors and officers. The Certificate of Incorporation expressly authorizes the Company to carry directors' and officers' insurance to protect the Company and its directors, officers, employees and agents from certain liabilities.

Amendments to Certificate of Incorporation and Bylaws

Pursuant to the DGCL and subject to the exceptions provided therein, amendments to the Certificate of Incorporation require approval of both the Board and a majority of the outstanding stock entitled to vote thereon.

The Board is authorized to adopt, amend or repeal the Bylaws, in whole or in part, without any action on the part of the stockholders. The Bylaws may also be amended or repealed by the stockholders even though the Bylaws may also be amended or repealed by the Board.

Delaware Anti-Takeover Statute

The Company is subject to Section 203 of the DGCL, an anti-takeover statute. In general, Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the time the person became an interested stockholder, unless: (a) prior to such time, the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (b) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) the voting stock owned by directors who are also officers or held in employee benefit plans in

which the employees do not have a confidential right to tender or vote stock held by the plan); or (c) on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder. Generally, a “business combination” includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns (or within three years prior to the determination of interested stockholder status did own) 15% or more of a corporation’s voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by our Board, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

Comparison of Certain Provisions of Hong Kong Law to Certain Provisions of Laws Applicable to the Company

Rights of Shareholders and Investor Protection. Please see the section headed “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Shareholder Protection” in this prospectus for further details of differences between Hong Kong law and U.S. securities laws, NYSE rules and Delaware law in relation to shareholder protection standards.

Appointment of Directors. Pursuant to Hong Kong law, the appointment of each director is required to be voted on individually. At a general meeting of a company, a motion for the appointment of two or more persons as directors of the company by a single resolution must not be made, unless a resolution that it may be so made has first been passed at the meeting without any vote against it. Pursuant to U.S. securities laws, the election of each director of the Company at an annual or special meeting is required to be voted on individually. Accordingly, the standard of shareholders’ protection under U.S. securities laws is similar to that under Hong Kong law.

Declaration of Interest of Directors. Pursuant to Hong Kong law, if a director is in any way, directly or indirectly, interested in a transaction, arrangement or contract, or a proposed transaction, arrangement or contract, with the company that is significant in relation to the company’s business, and the director’s interest is material, the director must declare the nature and extent of the director’s interest to the other directors. Pursuant to Delaware law, director fiduciary duties require that directors act in the best interest of the Company and not in their personal self-interest. Delaware law also provides that a transaction between the Company and a director, or the Company and another organization in which the director has a financial interest, shall not be void or voidable solely as a result of the self-interest, so long as the material facts as to the director’s relationship or interest are disclosed or known to the Board or committee (or stockholders voting thereon, as applicable) and the transaction is approved by a majority of disinterested directors (or the stockholders, as applicable), or else the transaction is fair to the Company. Accordingly, the standard of shareholders’ protection under Delaware law is similar to that under Hong Kong law.

Payment of Loss of Office or Retirement. Pursuant to Hong Kong law, without shareholders’ approval, a company must not make a payment for loss of office to a director or former director of the company. U.S. securities laws and Delaware law contain no similar requirement for shareholder approval, as the approval of director compensation is within the discretion of the Board (or a duly authorized committee). However, the duty of care provided by Delaware law would prohibit the waste of corporate assets, and director compensation must be disclosed in the Company’s annual proxy statement.

APPENDIX III SUMMARY OF OUR CONSTITUTIONAL DOCUMENTS AND THE DGCL

Loans to Directors. Pursuant to Hong Kong law, without shareholders' approval, a company must not make a loan to a director of the company or a body corporate controlled by such a director. In addition, without shareholders' approval, a public company must not make a quasi-loan to or enter into credit transaction with a director of the company. The Sarbanes-Oxley Act of 2002 generally prohibits the Company from making, or arranging for third parties to make, personal loans to directors. Accordingly, the standard of shareholders' protection under U.S. securities laws is similar to that under Hong Kong law.

Explanation of improving director's emoluments to be set out in notice of general meeting. Pursuant to Hong Kong law, a company must not at a general meeting amend its articles so as to provide emoluments or improved emoluments for a director of the company in respect of the office as director unless (a) there is set out in the notice calling the meeting or in a document attached to the notice an adequate explanation of the provision and (b) the provision is approved by a resolution not relating also to other matters. U.S. securities laws and Delaware law contain no similar requirement for shareholder approval, as the approval of director compensation is within the discretion of the Board (or a duly authorized committee). However, the duty of care provided by Delaware law would prohibit the waste of corporate assets, and director compensation must be disclosed in the Company's annual proxy statement.

Circumstances under which minority shareholders may be bought out or may be required to be bought out after a successful takeover or share repurchase. Pursuant to Hong Kong law, the minority shareholders of a company may be bought out or may require an offeror to buy out their interests if the offeror acquires nine-tenths in value of the shares for which the offer is made (or if the offer relates to shares of different classes, nine-tenths in value of the shares of that class). Pursuant to Delaware law, the shares held by minority stockholders of the Company may be acquired by an offeror owning at least 90% of the outstanding stock without the need for stockholder approval. Also under Delaware law, in certain circumstances following the acquisition of a majority of the shares of a publicly traded company, an offeror may acquire the remainder of the shares at the same price. In this regard, the standard of shareholders' protection under Delaware law is similar to that under Hong Kong law. However, there is no provision for minority stockholders to require an offeror to buy out their interests under similar circumstances.

MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following discussion summarizes the material U.S. federal income and estate tax considerations relating to the acquisition, ownership and disposition of the Shares purchased in this offering by a non-U.S. holder (as defined below). This discussion is based on the provisions of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), final, temporary and proposed U.S. Treasury regulations promulgated thereunder and current administrative rulings and judicial decisions, all as in effect as of the date hereof. All of these authorities may be subject to differing interpretations or repealed, revoked or modified, possibly with retroactive effect, which could materially alter the tax consequences to non-U.S. holders described in this prospectus.

There can be no assurance that the U.S. Internal Revenue Service ("**IRS**") will not take a contrary position to the tax consequences described herein or that such position will not be sustained by a court. No ruling from the IRS has been obtained with respect to the U.S. federal income or estate tax consequences to a non-U.S. holder of the purchase, ownership or disposition of the Shares.

APPENDIX III SUMMARY OF OUR CONSTITUTIONAL DOCUMENTS AND THE DGCL

This discussion is for general information only and is not tax advice. All prospective non-U.S. holders of the Shares should consult their own tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership and disposition of the Shares.

As used in this discussion, a “non-U.S. holder” is, for U.S. federal income tax purposes, a beneficial owner of the Shares that is not a U.S. holder. A “U.S. holder” means a beneficial owner of the Shares that is, for U.S. federal income tax purposes, (a) an individual who is a citizen or resident of the United States, (b) a corporation or other entity treated as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (d) a trust if it (1) is subject to the primary supervision of a court within the United States and one or more “United States persons” (within the meaning of the Code) have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

This discussion assumes that a prospective non-U.S. holder will hold the Shares as a capital asset within the meaning of the Code (generally, property held for investment). This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to a particular non-U.S. holder in light of that non-U.S. holder’s individual circumstances. In addition, this discussion does not address tax consequences to U.S. holders, any aspect of the U.S. federal alternative minimum tax, the Medicare contribution tax, U.S. state or local or non-U.S. taxes, or the special tax rules applicable to particular non-U.S. holders, such as insurance companies and financial institutions; tax-exempt organizations; pension plans; controlled foreign corporations; passive foreign investment companies; brokers and dealers in securities; persons that hold the Shares as part of a straddle, conversion transaction, or other integrated investment; and former citizens or residents of the United States subject to tax as expatriates.

If a partnership or other entity treated as a partnership for U.S. federal income tax purposes is an owner of the Shares, the treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. We urge any owner of the Shares that is a partnership and partners in that partnership to consult their tax advisors regarding the U.S. federal income and estate tax consequences of purchasing, owning and disposing of the Shares.

Stockholder Registers

Holders may hold Shares registered on the principal segment of our register of stockholders in the United States (such Shares, “U.S. registered Shares,” and such register, the “U.S. register”), which will be maintained by our principal Share registrar, Computershare US. Alternatively, holders may hold Shares registered on the Hong Kong register (such Shares, “Hong Kong registered Shares”), which will be maintained by our Hong Kong Share registrar, Computershare HK. Hong Kong registered Shares include Shares held through the services of CCASS. As discussed under the heading “Information About the Listing — Repositioning for Shares Trading and Settlement in Different Markets, Between Hong Kong and the United States,” holders of Hong Kong registered Shares will be able to reposition these Shares to the U.S. register, and vice versa. Any such repositioning will not be a taxable event for U.S. federal income tax purposes.

Distributions on the Shares

The gross amount of any distribution on the Shares (notwithstanding that such distribution may be paid net of any PRC withholding taxes) paid to non-U.S. holders will generally constitute a dividend for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Gross distributions in excess of our current and accumulated earnings and profits will generally constitute a return of capital to the extent of the non-U.S. holder's adjusted tax basis in the Shares, and will be applied against and reduce the non-U.S. holder's adjusted tax basis. Any remaining excess will be treated as capital gain, subject to the tax treatment described below in "— Gain on Sale, Exchange or Other Disposition of the Shares."

In the case of the U.S. registered Shares, provided such dividends are not effectively connected with the non-U.S. holder's conduct of a trade or business within the United States, dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at a rate of 30% on the gross amount paid. This 30% withholding tax rate may be subject to reduction or elimination pursuant to an applicable income tax treaty, provided the non-U.S. holder provides proper certification of its eligibility for such reduced rate (usually on an IRS Form W-8BEN or W-8BEN-E). No additional amounts will be paid to non-U.S. holders in respect of U.S. withholding tax. The withholding tax does not apply to dividends paid to a non-U.S. holder of U.S. registered Shares that provides an IRS Form W-8ECI, certifying that the dividends are effectively connected with the non-U.S. holder's conduct of a trade or business within the United States. Instead, the effectively connected dividends will be subject to regular U.S. income tax as if the non-U.S. holder were a U.S. resident, subject to an applicable income tax treaty providing otherwise. A non-U.S. corporation receiving effectively connected dividends may also be subject to an additional "branch profits" tax imposed at a rate of 30% (or a lower treaty rate, if applicable).

In the case of Hong Kong registered Shares, the 30% withholding tax will apply to all holders, including U.S. holders, non-U.S. holders for whom the dividends constitute income "effectively connected" with a U.S. trade or business and non-U.S. holders otherwise eligible for a reduced rate of U.S. withholding tax on such dividends under the provisions of an applicable income tax treaty in effect between the United States and another country. This is because there will not be a mechanism available through the trading, settlement and security transferring facilities in Hong Kong for such holders to provide to the applicable withholding agent the certifications required by applicable U.S. Treasury regulations to avoid withholding on effectively connected income or to receive the benefit of the lower applicable income tax treaty withholding tax rate with respect to U.S. source dividends. In addition, for the same reason, it is not certain whether such holders will be able to obtain documentation required to make or substantiate a claim with the IRS for a refund or credit of U.S. federal income tax withheld from such dividends. Holders may request from their brokers or custodians documentation showing the amount of dividends received and the amounts of U.S. withholding tax applied with respect to those dividends in order to substantiate their own tax refund or credit, although there is no guarantee that such documentation will be provided or that such refund or credit claim will be successful. Accordingly, such holders holding Hong Kong registered Shares should consider repositioning these Shares to the U.S. register as described under "Information About the Listing — Repositioning for Shares Trading and Settlement in Different Markets, Between Hong Kong and the United States" prior to the payment of a dividend. Also, non-U.S. holders should be aware that the United States has not entered into an income tax treaty with Hong Kong and certain other countries. No additional amount will be paid to non-U.S. holders in respect of U.S. withholding tax. Prospective investors are urged to consult their own tax advisors regarding the application to them of the

APPENDIX III SUMMARY OF OUR CONSTITUTIONAL DOCUMENTS AND THE DGCL

rules governing the withholding of U.S. federal income tax, and the rules governing the making of a claim with the IRS for a refund or credit of any excess amounts of U.S. federal income tax withheld, from such dividends paid to them. No additional amounts will be paid to non-U.S. holders in respect of U.S. withholding tax.

In addition to the 30% U.S. withholding tax described above, dividends received by a non-U.S. holder of Hong Kong registered Shares that are treated as effectively connected with a U.S. trade or business generally are subject to U.S. federal income tax at rates applicable to U.S. persons. A non-U.S. holder that is a corporation may, under certain circumstances, be subject to an additional “branch profits tax” imposed at a rate of 30%, or such lower rate as specified by an applicable income tax treaty between the United States and such non-U.S. holder’s country of residence.

Gain On Sale, Exchange or Other Disposition of the Shares

A non-U.S. holder will generally not be subject to any U.S. federal income tax or withholding on any gain realized from the non-U.S. holder’s sale, exchange or other disposition of the Shares unless:

- the gain is effectively connected with a U.S. trade or business (and, if an applicable income tax treaty so provides, is also attributable to a permanent establishment or a fixed base maintained within the United States by the non-U.S. holder), in which case the gain will be taxed on a net-income basis, generally in the same manner as if the non-U.S. holder were a U.S. person, and, if the non-U.S. holder is a corporation, the additional branch profits tax described above in “—Distributions on the Shares” may also apply;
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met, in which case the non-U.S. holder will be subject to a 30% tax on the net gain derived from the disposition, which may be offset by U.S.-source capital losses of the non-U.S. holder, if any; or
- we are, or have been at any time during the five-year period preceding such disposition (or the non-U.S. holder’s holding period, if shorter), a “United States real property holding corporation” (“USRPHC”) under Section 897 of the Code.

Generally, we will be a USRPHC if the fair market value of our U.S. real property interests equals or exceeds 50% of the sum of the fair market values of our worldwide real property interests and other assets used or held for use in a trade or business, all as determined under applicable U.S. Treasury regulations. We believe that we have not been and are not currently, and do not anticipate becoming in the future, a USRPHC for U.S. federal income tax purposes. Even if we become a USRPHC, however, as long as the Shares are regularly traded on an established securities market, the Shares will be treated as a United States real property interest only if a non-U.S. holder actually or constructively holds more than five percent of the Shares at any time during the shorter of the five-year period ending on the date of the sale or other taxable disposition and the non-U.S. holder’s holding period.

U.S. Federal Estate Tax

An individual non-U.S. holder who is treated as the owner, or who has made certain lifetime transfers, of an interest in the Shares will be required to include the value of the Shares in his or her gross estate for U.S. federal estate tax purposes and may be subject to U.S. federal estate tax, unless an applicable estate or other tax treaty provides otherwise.

FATCA

In addition to the withholding described above, legislation enacted in 2010, known as FATCA, imposes a 30% withholding tax on dividend payments made by a U.S. person to a foreign financial institution or non-financial foreign entity (including, in some cases, when a foreign financial institution or nonfinancial foreign entity is acting as an intermediary), unless (i) in the case of a foreign financial institution, such institution enters into (or is deemed to have entered into) an agreement with the U.S. Treasury Department to withhold on certain payments, and to collect and provide to the U.S. Treasury Department substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners), (ii) in the case of a non-financial foreign entity, such entity provides the withholding agent with a certification identifying the direct and indirect substantial U.S. owners of the entity, or (iii) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. An intergovernmental agreement between the United States and an applicable foreign country may modify these requirements. No additional amounts will be paid to non-U.S. holders in respect of FATCA withholding tax.

Each prospective purchaser of our Shares is advised to consult its own tax advisor with respect to the U.S. federal, state, local and non-U.S. tax consequences of purchasing, owning and disposing of our Shares. In particular, non-U.S. holders should consult their tax advisors regarding the possible implications of FATCA to them in connection with the purchase, ownership and disposition of the Shares.

Information Reporting

U.S. Treasury regulations require the applicable withholding agent to report annually to the IRS and to each non-U.S. holder the amount of distributions paid to such non-U.S. holders and the amount of tax withheld, if any. As described above under “Distributions on the Shares,” however, non-U.S. holders of Hong Kong registered Shares may not be able to obtain this information from their brokers. Copies of the information returns filed with the IRS to report the distributions and withholding may also be made available to the tax authorities in a country in which the non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

We were incorporated under the laws of the State of Delaware in the United States, pursuant to Sections 242 and 245 of the DGCL, on April 1, 2016. Our registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, U.S.

We have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance with an address at Unit 2806, Millennium City 5, No. 418 Kwun Tong Road, Kowloon, Hong Kong. Mr. Aiken Yuen has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong.

A summary of the material terms of our Constitutional Documents and certain provisions of the DGCL is set out in “Appendix III — Summary of our Constitutional Documents and the DGCL.”

2. Changes in Our Share Capital

As of the Latest Practicable Date, we had an authorized share capital of US\$11,000,000, divided into 1,100,000,000 Shares of par value US\$0.01 per Share, and 377,195,679 issued and outstanding Shares of common stock.

For details of the changes in the share capital of our Company during the Track Record Period, please refer to “Appendix I — Accountants’ Report — Historical Financial Information of the Company — Consolidated Statements of Equity” in this prospectus.

3. Changes in the Share Capital of Our Major Subsidiaries

There is no alteration in the share capital of our Major Subsidiaries which took place within the two years immediately preceding the date of this prospectus.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of Material Contract**

The following contract (not being the contract entered into in the ordinary course of business) was entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and may be material:

- (a) the Hong Kong Underwriting Agreement.

2. Our Intellectual Property Rights

We believe the protection of our trademarks, copyrights, domain names, trade names, trade secrets, patents and other proprietary rights is critical to our business. We rely on a combination of trademark, fair trade practice, copyright and trade secret protection laws and patent protection in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our trademarks. We also enter into service agreements containing restrictive covenants in relation to confidentiality with all of our employees, and we rigorously control access to our proprietary technology and information.

As of June 30, 2020, we had 50 registered patents and 10 publicly filed patent applications in China. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. In addition to patents, we have a large number of copyrights, trademarks and domain names, including over 530 registered trademarks in China and various other countries and jurisdictions.

We consider trademarks for our brands (and related logos and images) to be material to our business, including KFC (KFC, 肯德基), Pizza Hut (必胜客), Little Sheep (小肥羊, LITTLE SHEEP) and Huang Ji Huang (黄记煌). We also consider the ownership of domain names for yumchina.com, kfc.com.cn, pizzahut.com.cn, littlesheep.com and huangjihuang.com to be material to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND EXECUTIVE OFFICERS

1. Disclosure of Interests

See “Major Shareholders” for disclosure of interests of our Directors and senior management.

2. Directors’ Service Contracts

We have entered into employment agreement with our employee Director. See “Directors, Senior Management and Employees — Compensation — Employment Agreements.”

All our Directors have been nominated pursuant to our Certificate of Incorporation and Bylaws. Each of our Directors shall serve a term of one year, with their term to expire at the next annual meeting following the Director’s election.

3. Directors’ Remuneration

See “Directors, Senior Management and Employees — Compensation — Compensation of Directors and Executive Officers” for a discussion of Directors’ remuneration.

4. Disclosures relating to Directors and Experts

Except as disclosed in this prospectus:

- None of our Directors nor any of the persons listed in “— F. Other Information — 5. Qualification of Experts” is materially interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities, or are proposed to be acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities.
- None of our Directors nor any of the persons listed in “— F. Other Information — 5. Qualification of Experts” is materially interested in any contract or arrangement with us subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to our business as a whole.

- None of the persons listed in “— F. Other Information — 5. Qualification of Experts” has any shareholding in us or any of our Major Subsidiaries or has the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in us or any of our Major Subsidiaries.

D. INCENTIVE PLANS

1. Annual Performance-Based Incentive Program

Our annual performance-based incentive program is a cash-based plan which aims to motivate and reward short-term team and individual performance. We motivate the short-term performance of our executive officers through annual performance-based cash bonuses, which are based on role, responsibility, experience, market value and future potential of talent, in order to drive superior results year over year.

The following is the formula for calculating the annual performance-based bonuses:

$$\begin{array}{ccccccc} \text{Base} & \times & \text{Target Bonus} & \times & \text{Team} & \times & \text{Individual} & = & \text{Final} \\ \text{Salary} & & \text{Percentage} & & \text{Performance} & & \text{Performance} & & \text{Individual} \\ & & \text{(as a \% of} & & \text{Factor} & & \text{Factor} & & \text{Performance} \\ & & \text{Base Salary)} & & \text{(0\%-200\%)} & & \text{(0\%-150\%)} & & \text{Bonus Payout} \end{array}$$

Our Compensation Committee establishes the performance measures, targets and weights for the annual bonuses based on an evaluation of the annual performance objects and targets, actual performance, growth strategies and expected future operating environment, and consideration of recommendations from management and the Compensation Committee’s compensation consultant. 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. There is a threshold level of performance for all measures that must be met for any bonus to be paid. All measures have a cap on the level of performance above which no additional bonus will be paid regardless of performance above the cap.

2. 2016 Plan

Our 2016 Plan is a long-term incentive plan involving cash awards and equity incentives effective on October 31, 2016, which authorizes the award of stock options, SARs, restricted stock, stock units, RSUs, performance shares, incentive options, performance unit and cash incentive awards to our employees and non-employee Directors. As of the Latest Practicable Date, we issued only stock options, SARs, RSUs and PSUs under the 2016 Plan, and the outstanding share incentive awards accounted for approximately 4.0% of the Company’s total outstanding Shares of common stock. The following is a summary of the principal terms of our 2016 Plan. The terms of the 2016 Plan are not subject to the provisions of Chapter 17 of the Hong Kong Listing Rules.

(a) Purpose

The purposes of our 2016 Plan are (i) to attract and retain persons eligible to participate in the 2016 Plan; (ii) to motivate participants, by means of appropriate incentives, to achieve long-range goals; (iii) to provide incentive compensation opportunities that are competitive with those of other similar companies; (iv) to align the interests of participants with those of the our Shareholders; and (v) to issue awards pursuant to and in accordance with the employee matters agreement (the “**EMA**”).

(b) Types of Awards

The 2016 Plan authorizes the award of stock options (including incentive stock options (“**ISOs**”) and non-qualified stock options (“**NQOs**”)), SARs, full value awards (“**Full Value Awards**”) (including restricted stock awards, restricted stock unit awards, performance shares and PSUs) and cash incentive awards, each as described below. The 2016 Plan also provides for the grant of awards with respect to our Shares of common stock as provided in the EMA (“**EMA Awards**”).

(c) Eligibility and Participation

Any officer, Director or other employee of us or one of our subsidiaries, consultants, independent contractors or agents of us or one of our subsidiaries, and persons who are expected to become officers, employees, Directors, consultants, independent contractors or agents of us or one of our subsidiaries (but effective no earlier than the date on which such individual begins to provide services to us or one of our subsidiaries), including in any case, our non-employee Directors (“**Outside Directors**”) are eligible to participate in the 2016 Plan. Upon receiving a grant of an award under the 2016 Plan, an eligible individual shall be a “participant” in the 2016 Plan. EMA Awards will also be granted to those individuals who are entitled to them pursuant to the EMA, as described below.

(d) Terms of Awards

The 2016 Plan has been effective since October 31, 2016 and will continue in effect until terminated by our Board, provided that no award may be granted under the 2016 Plan on or after the tenth anniversary of the effective date of the 2016 Plan.

(e) Administration of the 2016 Plan

The 2016 Plan is generally administered by a “Committee” (the “**Committee**”), which generally means our Compensation Committee. For purposes of the 2016 Plan and subject to the terms and conditions of the 2016 Plan, the Committee has the authority and discretion (i) to select from among the eligible individuals those persons who shall receive awards under the 2016 Plan, (ii) to determine the time or times of receipt, (iii) to determine the types of awards and the number of Shares of common stock covered by the awards, (iv) to establish the terms, conditions, performance criteria, restrictions, and other provisions of such awards, and, subject to the terms and conditions of the 2016 Plan, to cancel or suspend awards, (v) to the extent that the Committee determines that the restrictions imposed by the 2016 Plan preclude the achievement of the material purposes of the awards in jurisdictions outside the United States, to modify those restrictions as the Committee determines to be necessary or appropriate to conform to applicable requirements or practices of jurisdictions outside of the United States, (vi) to conclusively interpret the 2016 Plan, (vii) to establish, amend, and rescind any rules and regulations relating to the 2016 Plan, (viii) to determine the terms and provisions of any award agreement made pursuant to the 2016 Plan, and (ix) to make all other determinations that may be necessary or advisable for the administration of the 2016 Plan.

Except as prohibited by applicable law or as necessary to preserve exemptions under the securities laws, the Committee may delegate any of its duties under the 2016 Plan to such agents as it determines from time to time (which delegation can be revoked at any time).

(f) Shares Available Under the 2016 Plan

We have reserved for issuance under the 2016 Plan 45,000,000 Shares of common stock. Shares of common stock available under the 2016 Plan may be authorized but unissued or shares currently held or subsequently acquired by us as treasury shares (to the extent permitted by law), including shares purchased in the open market or in private transactions.

Each Share of common stock delivered in respect of a Full Value Award is counted as covering two Shares of common stock except that, in the case of restricted stock or restricted stock units delivered pursuant to the settlement of earned annual incentives or delivered pursuant to EMA Awards, each Share of common stock shall be counted as covering one share. To the extent any Shares of common stock covered by an award are not delivered to a participant or beneficiary because the award is forfeited or canceled, used to satisfy the applicable tax withholding obligation, or settled in cash, such Shares of common stock shall not be deemed to have been delivered for purposes of determining the maximum number of Shares of common stock available for delivery under the 2016 Plan. If the exercise price of any stock option granted under the 2016 Plan is satisfied by tendering our Shares of common stock (by either actual delivery or by attestation, including net exercise), only the number of Shares of common stock issued net of the Shares of common stock tendered shall be deemed delivered for purposes of the 2016 Plan.

(g) Other Share Limitations

The following limitations shall apply under the 2016 Plan: (a) the number of Shares of common stock available for grants of ISOs under the 2016 Plan is equal to 45,000,000; (b) the maximum number of Shares that may be covered by stock options or SARs granted to any one individual during any five calendar-year period shall be 9,000,000; (c) in the case of Full Value Awards that are intended to be performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code (the “**Code**”) (the “**Performance-based Compensation**”), no more than 3,000,000 Shares of common stock may be subject to such awards granted to any one individual during any five calendar-year period (regardless of when such shares are deliverable); provided, however, that, in the case of any Full Value Award that is a performance unit award that is intended to Performance-based Compensation, no more than US\$10,000,000 may be subject to any such awards granted to any one individual during any one-calendar-year period (regardless of when such amounts are deliverable); (d) in the case of cash incentive awards that are intended to be Performance-based Compensation, the maximum amount payable to any participant with respect to any twelve-month performance period shall equal US\$10,000,000 (prorated for performance periods that are greater or lesser than twelve months); and (e) no Outside Director may be granted during any calendar year an award or awards having a value determined on the grant date in excess of US\$1,500,000.

(h) Awards under the 2016 Plan

The Committee shall designate the participants to whom awards are to be granted and the type of awards to be granted and shall determine the number of our Shares of common stock (or cash) subject to each award and the other terms and conditions thereof, not inconsistent with the 2016 Plan. In no event shall a stock option or SAR be exercisable later than the ten-year anniversary of the date on which the stock option or SAR is granted (or such shorter period required by law or the rules of any stock exchange on which the stock is listed). Awards may be settled through the delivery of

our Shares of common stock, the granting of replacement awards, or combination thereof as the Committee shall determine. Any award settlement, including payment deferrals, may be subject to such conditions, restrictions and contingencies as the Committee shall determine.

(i) Stock Options and SARs

The grant of a stock option under the 2016 Plan entitles the participant to purchase our Shares of common stock at an exercise price and during a specified time established by the Committee. Any stock option may be either an ISO or an NQO, as determined in the discretion of the Committee. An ISO is a stock option that is intended to satisfy the requirements applicable to an “incentive stock option” described in Section 422(b) of the Code and may only be granted to employees of us or our eligible subsidiaries. An NQO is a stock option that is not intended to be an ISO. An SAR entitles the participant to receive, in cash or stock, value equal to (or otherwise based on) the excess of: (a) the fair market value of a specified number of our Shares of common stock at the time of exercise; over (b) an exercise price established by the Committee.

The exercise price of each stock option or SAR granted shall be established by the Committee or shall be determined by a method established by the Committee at the time the stock option or SAR is granted, except that the exercise price shall not be less than the fair market value of a Share of common stock on the date of grant (except in limited circumstances such as substitute awards in the context of a corporate transaction or EMA Awards).

The exercise price of a stock option shall be payable in cash or by tendering (including by way of a net exercise), by either actual delivery of shares or by attestation, shares of stock acceptable to the Committee, and valued at fair market value as of the day of exercise, or in any combination thereof, as determined by the Committee or, if permitted by the Committee, by the participant’s irrevocably authorizing a third party to sell shares of stock (or a sufficient portion of the shares) acquired upon exercise of the stock option and remit to us a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise.

In no event shall a stock option or SAR be exercisable later than the ten-year anniversary of the date on which the stock option or SAR is granted (or such shorter period required by law or the rules of any stock exchange on which the stock is listed).

Except for either adjustments in connection with corporate transactions (discussed above) or reductions of the exercise price approved by our Shareholders, the exercise price for any outstanding option or SAR may not be decreased after the date of grant nor may an outstanding option or SAR granted under the 2016 Plan be surrendered to us as consideration for the grant of a replacement Option or SAR with a lower exercise price or a Full Value Award. Except as approved by our Shareholders, in no event shall any Option or SAR granted under the 2016 Plan be surrendered to us in consideration for a cash payment if, at the time of such surrender, the exercise price of the Option or SAR is greater than the then current fair market value of a Share of common stock.

(ii) Full Value Awards

A Full Value Award is a grant of one or more our Shares of common stock or a right to receive one or more our Shares of common stock in the future (including restricted stock, restricted stock units, performance shares, and performance units) that is contingent on continuing service, the achievement of performance objectives during a

specified period performance, or other restrictions as determined by the Committee. The grant of Full Value Awards may also be subject to such other conditions, restrictions and contingencies, as determined by the Committee. Full Value Awards made to employees be subject to minimum vesting requirements depending on the terms and purpose of the award.

(iii) Cash Incentive Awards

A Cash Incentive Award is the grant of a right to receive a payment of cash (or in the discretion of the Committee, shares of stock having value equivalent to the cash otherwise payable) that is contingent on achievement of performance objectives over a specified period established by the Committee. The grant of Cash Incentive Awards may also be subject to such other conditions, restrictions and contingencies, as determined by the Committee.

(iv) EMA Awards

As of the distribution date, the Committee shall grant EMA Awards to each individual who is entitled to an award with respect to our Shares of common stock pursuant to the terms of the EMA or who is otherwise entitled to receive a Share of common stock pursuant to the EMA. All EMA Awards will be made in accordance with the terms of the EMA. With respect to EMA Awards, the provisions of the EMA relating to such awards supersede any other Plan provisions.

The number of Shares of our common stock subject to an EMA Award granted to an EMA participant, and, to the extent applicable, the exercise price of the EMA Award, shall be determined in accordance with the applicable provision of the EMA and shall otherwise be subject to the same terms and conditions (including vesting, settlement and termination) as applied to the corresponding award granted by YUM pursuant to YUM's equity incentive compensation program, to which the EMA Award relates and otherwise shall be subject to the terms and conditions of the EMA. Any condition related to termination of a participant's employment or service with YUM or its affiliates or related to a determination by the Committee charged with administration of the YUM plans shall be based on an otherwise identical condition related to the termination of a participant's employment or service with us and our subsidiaries or a determination by the Committee under the 2016 Plan, respectively and as applicable.

(i) Performance-based Compensation

In general, Code Section 162(m) limits our compensation deduction to US\$1,000,000 paid in any tax year to any "covered employee" as defined under Code Section 162(m). This deduction limitation does not apply to certain types of compensation, including Performance-based Compensation. The terms of the 2016 Plan permit, but do not require, us to issue awards under the 2016 Plan that meet the requirements of Performance-based Compensation so that such awards will be deductible by us for federal income tax purposes. Full Value Awards granted under the 2016 Plan that are designated and structured as Performance-based Compensation will be conditioned on the achievement of one or more performance targets as determined by the Committee and one or more of the following performance measures: cash flow, earnings, earnings per share, market value added or economic value added, profits, return on assets, return on equity, return on investment, revenues, stock price, total shareholder return, customer satisfaction metrics, or restaurant unit development. Each goal may be expressed on an absolute and/or relative basis, may be based on or otherwise employ comparisons based on internal targets, the past performance of us and/or the past or current performance of

other companies, and in the case of earnings-based measures, may use or employ comparisons relating to capital, shareholders' equity and/or shares outstanding, investments or to assets or net assets. The performance targets established by the Committee may be with respect to us, a subsidiary, operating unit, division, or group or individual performance (or any combination thereof).

(j) Adjustments

In the event of a change in corporate capitalization (such as a stock split or stock dividend), a corporate transaction (such as a reorganization, reclassification, merger or consolidation or separation), other changes in our corporate structure, or a distribution to shareholders (other than a cash dividend that is not an extraordinary cash dividend) that affects our outstanding Shares of common stock, the Committee shall make such equitable adjustments, as it determines are necessary and appropriate, in: (a) the number and type of shares (or other property) with respect to which awards may be granted under the 2016 Plan; (b) the number and type of shares (or other property) subject to outstanding awards; (c) the grant or exercise price with respect to outstanding awards; (d) the limitations on shares reserved for issuance under the 2016 Plan and the limitations on the number of shares (or dollar amount) that can be subject to awards granted to certain individuals or within a specified time period; and (e) the terms, conditions or restrictions of outstanding awards and/or award agreements.

(k) Change in Control

Subject to the provisions relating to adjustments in the context of corporate transactions (described above) and except as otherwise provided in the 2016 Plan or the award agreement reflecting the applicable award, if a change in control occurs prior to the date on which an award is vested and prior to the participant's separation from service and if the participant's employment is involuntarily terminated by us or our subsidiaries (other than for cause) on or within two years following the change in control, then (a) all outstanding Options and SARs (regardless of whether in tandem with a SAR or Option, as applicable) shall become fully exercisable and (b) all Full Value Awards shall become fully vested and the Committee shall determine the extent to which performance conditions are met in accordance with the terms of the 2016 Plan and the applicable award agreement. A change of control of YUM will be treated as a change in control under the 2016 Plan with respect to vesting of EMA Awards held by YUM employees and former employees.

(l) Transferability

Unless otherwise determined by the Committee and expressly provided for in an award agreement, no award or any other benefit under the 2016 Plan shall be assignable or otherwise transferable except by will or the laws of descent and distribution.

(m) Withholding

All distributions under the 2016 Plan are subject to withholding of all applicable taxes, and the Committee may condition the delivery of any shares or other benefits under the 2016 Plan on satisfaction of the applicable withholding obligations. The Committee, in its discretion, and subject to such requirements as the Committee may impose prior to the occurrence of such withholding, may permit such withholding obligations to be satisfied through cash payment by the participant, through the surrender of shares of stock which the participant already owns, or through the surrender of shares of stock to which the participant is otherwise entitled under the 2016 Plan; provided, however,

stock that has been held by the participant or stock to which the participant is entitled under the 2016 Plan may only be used to satisfy the minimum tax withholding required by applicable law (or other rates of withholding that will not have a negative accounting impact).

(n) Participants outside the United States

The Committee may grant awards to eligible persons who are foreign nationals on such terms and conditions different from those specified in the 2016 Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the 2016 Plan. In furtherance of such purposes, the Committee may make such modifications, amendments, procedures and sub-plans as may be necessary or advisable to comply with provisions of laws in other countries or jurisdictions in which we or any of our subsidiaries operates or has employees. The foregoing provisions may not be applied to increase the share limitations of the 2016 Plan or to otherwise change any provision of the 2016 Plan that would otherwise require the approval of our Shareholders.

(o) Misconduct and Recoupment

The Committee, in its discretion, may impose such restrictions on shares of stock acquired pursuant to the 2016 Plan, whether pursuant to the exercise of a stock option or SAR, settlement of a Full Value Award or otherwise, as it determines to be desirable, including, without limitation, restrictions relating to disposition of the shares and forfeiture restrictions based on service, performance, stock ownership by the participant, conformity with our recoupment, compensation recovery, or clawback policies and such other factors as the Committee determines to be appropriate. Unless otherwise specified by the Committee, any awards under the 2016 Plan and any shares of stock issued pursuant to the 2016 Plan shall be subject to our compensation recovery, clawback, and recoupment policies as in effect from time to time.

If the Committee determines that a present or former employee has (i) used for profit or disclosed to unauthorized persons, confidential or trade secrets of us, (ii) breached any contract with or violated any fiduciary obligation to us, or (iii) engaged in any conduct which the Committee determines is injurious to us or our subsidiaries, the Committee may cause that employee to forfeit his or her outstanding awards under the 2016 Plan. This provision does not apply during any period where there is a potential change in control in effect or following a change in control.

(p) Amendment and Termination of the 2016 Plan

The Board may, at any time, amend or terminate the 2016 Plan (and the Committee may amend any award agreement); provided, however, that no amendment or termination of the 2016 Plan or amendment of any award agreement may, in the absence of written consent to the change by the affected participant or beneficiary, if applicable, affect the rights of any participant or beneficiary under any award granted under the 2016 Plan prior to the date of such amendment or termination. Adjustments pursuant to corporate transactions and restructurings are not subject to the foregoing limitations. In addition, amendments to the provisions of the 2016 Plan that prohibit the repricing of stock options and SARs, amendments expanding the group of eligible individuals, or amendments increases in the aggregate number of shares reserved under the 2016 Plan, the shares that may be issued in the form of ISOs, limitations on certain types of Full Value Awards and amendments of the individual limits on awards and the limitations on awards to Outside Directors will not be effective unless approved by our Shareholders.

In addition, no amendment shall be made to the 2016 Plan without the approval of our Shareholders if such approval is required by law or the rules of any stock exchange on which the common stock is listed.

3. Awards Granted under the 2016 Plan

For details of our awards granted under the 2016 Plan, please refer to Note 14 to the Accountants' Report as set out in Appendix I to this prospectus.

4. Share-based Awards Held by Our Directors and Officers

The following table summarizes, the number of Shares of common stock covered by exercisable and unexercisable SARs, RSUs, options and other rights held on December 31, 2019 by our Directors and NEOs, as well as by their affiliates, under our 2016 Plan.

Name	Options/SAR Awards				Stock Awards			
	Grant Date	Number of Securities Underlying Unexercised Options/SARs (exercisable)	Number of Securities Underlying Unexercised Options/SARs (unexercisable) ⁽¹⁾	Exercise Price (US\$)	Expiration Date	Number of Share/Units of Stock that have not Vested ⁽²⁾	Market Value of Shares/Units of Stock that have not Vested (US\$) ⁽³⁾	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested ⁽⁴⁾
Joey WAT	2/6/2015	27,063	—	22.32	2/6/2025	—	—	—
	3/25/2015	32,309	—	23.90	3/25/2025	—	—	—
	2/5/2016	30,987	10,329(i)	21.06	2/5/2026	—	—	—
	11/11/2016	36,634	12,212(ii)	26.98	11/11/2026	—	—	—
	2/10/2017	55,887	55,887(iii)	26.56	2/10/2027	77,163(i)	3,704,613	—
	2/9/2018	46,537	139,614(iv)	40.29	2/9/2028	—	—	59,881(i)
Andy YEUNG	2/7/2019	—	186,100(v)	41.66	2/7/2029	—	—	41,975(ii)
	11/1/2019	—	—	—	—	24,193(ii)	1,161,489	—
								2,874,887
								2,015,220

Name	Options/SAR Awards					Stock Awards			
	Grant Date	Number of Securities Underlying Unexercised Options/SARs (exercisable)	Number of Securities Underlying Unexercised Options/SARs (unexercisable) ⁽¹⁾	Exercise Price (US\$)	Expiration Date	Number of Share/Units of Stock that have not Vested ⁽²⁾	Market Value of Shares/Units of Stock that have not Vested (US\$) ⁽³⁾	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested ⁽⁴⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (US\$) ⁽³⁾
Johnson HUANG	2/8/2012	8,994	—	19.46	2/8/2022	—	—	—	—
	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	10,329	3,443(i)	21.06	2/5/2026	—	—	—	—
	11/11/2016	18,317	6,106(ii)	26.98	11/11/2026	—	—	—	—
	2/10/2017	18,629	18,629(iii)	26.56	2/10/2027	—	—	—	—
	11/1/2017	—	—	—	—	20,702(iii)	993,921	—	—
	2/9/2018	8,135	24,408(iv)	40.29	2/9/2028	11,164(iv)	535,974	—	—
	2/7/2019	—	32,754(v)	41.66	2/7/2029	10,677(v)	512,579	—	—
	2/4/2011	7,033	—	14.88	2/4/2021	—	—	—	—
	2/8/2012	3,679	—	19.46	2/8/2022	—	—	—	—
Danny TAN	2/6/2013	7,556	—	19.00	2/6/2023	—	—	—	—
	2/5/2014	6,797	—	21.30	2/5/2024	—	—	—	—
	2/5/2014	7,681	—	21.30	2/5/2024	—	—	—	—
	2/6/2015	10,149	—	22.32	2/6/2025	—	—	—	—
	2/5/2016	10,329	3,443(i)	21.06	2/5/2026	—	—	—	—
	11/11/2016	18,317	6,106(ii)	26.98	11/11/2026	—	—	—	—
	2/10/2017	18,629	18,629(iii)	26.56	2/10/2027	—	—	—	—
	2/9/2018	7,026	21,079(iv)	40.29	2/9/2028	9,642(iv)	462,898	—	—
	2/7/2019	—	28,288(v)	41.66	2/7/2029	9,221(v)	442,695	—	—

Name	Options/SAR Awards				Stock Awards			
	Grant Date	Number of Securities Underlying Unexercised Options/SARs (exercisable)	Number of Securities Underlying Unexercised Options/SARs (unexercisable) ⁽¹⁾	Exercise Price (US\$)	Expiration Date	Number of Share/Units of Stock that have not Vested ⁽²⁾	Market Value of Shares/Units of Stock that have not Vested (US\$) ⁽³⁾	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested ⁽⁴⁾
Aiken YUEN	2/4/2011	2,713	—	14.88	2/4/2021	—	—	—
	2/8/2012	2,290	—	19.46	2/8/2022	—	—	—
	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	3,460	1,154(i)	21.06	2/5/2026	—	—	—
	2/10/2017	5,682	5,682(iii)	26.56	2/10/2027	—	—	—
	2/9/2018	4,215	12,648(iv)	40.29	2/9/2028	5,785(iv)	277,729	—
	2/7/2019	—	16,973(v)	41.66	2/7/2029	5,532(v)	265,607	—

Notes:

- (1) The actual vesting dates for unexercisable SARs are as follows:
- (i) Remainder of the unexercisable award vested on February 5, 2020.
 - (ii) Remainder of the unexercisable award will vest on November 11, 2020.
 - (iii) One-half of the unexercisable award vested or will vest on each of February 10, 2020 and 2021.
 - (iv) One-third of the unexercisable award vested or will vest on each of February 9, 2020, 2021 and 2022.
 - (v) One-fourth of the unexercisable award vested or will vest on each of February 7, 2020, 2021, 2022 and 2023.
- (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 10, 2021.
 - (ii) One-third of the RSUs will vest on each of November 1, 2020, 2021 and 2022.
 - (iii) The RSUs will vest in full on November 1, 2021.
 - (iv) The RSUs will vest in full on February 9, 2021.
 - (v) The RSUs will vest in full on February 7, 2022.

(3) The market value of each award is calculated by multiplying the number of shares covered by the award by US\$48.01, the closing price of the Company's Share of common stock on the NYSE on December 31, 2019.

(4) The awards reported in this column represent PSU awards with three-year performance periods that are scheduled to be settled in Shares of common stock, subject to the attainment of the relative total shareholder return performance goal over the applicable performance period. In accordance with the SEC executive compensation disclosure rules, the amounts reported for Ms. Wat's PSU awards are based on the target performance level. The actual vesting dates for unvested PSUs are as follows, subject to the attainment of the applicable performance goal:

- (i) The PSUs will vest in full on December 31, 2020.
- (ii) The PSUs will vest in full on December 31, 2021.

E. FURTHER INFORMATION ABOUT OUR WARRANTS GRANTED TO PRIMAVERA AND ANT FINANCIAL

The following table summarizes the particulars of warrants initially granted to Primavera and Ant Financial:

Name	Address	Tranche of Warrants	Date of Issuance	Number of Shares Initially Issuable under Warrants	Initial Exercise Price per Share (US\$)		Expiration Date
Pollos Upside L.P. ("Pollos Upside")	28th Floor	Warrant 1	January 9, 2017	7,309,057 ⁽¹⁾	31.40 ⁽¹⁾	October 31, 2021	
	28 Hennessy Road Hong Kong	Warrant 2	January 9, 2017	7,309,057 ⁽²⁾	39.25 ⁽²⁾	October 31, 2021	
API Investment	Block B, Dragon Times Plaza	Warrant 1	January 9, 2017	891,348 ⁽³⁾	31.40 ⁽³⁾	October 31, 2021	
	18 Wantang Road Xihu District Hang Zhou, China	Warrant 2	January 9, 2017	891,348 ⁽³⁾	39.25 ⁽³⁾	October 31, 2021	

Notes:

- (1) Based on Amendment No. 5 to the Schedule 13D under the U.S. Exchange Act filed with the SEC by Primavera Capital on May 20, 2020, the number of Shares of common stock issuable to Pollos Upside under Warrant 1 was adjusted to 7,511,967.35, and the exercise price per Share of common stock under Warrant 1 was adjusted to US\$30.552.

- (2) As of March 4, 2020, the number of Shares of common stock issuable to Pollos Upside under Warrant 2 was adjusted to 7,511,967.35, and the exercise price per Share of common stock under Warrant 2 was adjusted to US\$38.190. To the best knowledge of the Company, in 2019, Pollos Upside entered into three pre-paid forward sale contracts with several unaffiliated banks, pursuant to which Pollos Upside is obligated to deliver to these unaffiliated banks in aggregate all of the warrants issued to it under Warrant 2, representing 45% of the total warrants issued and 2.0% of the Company's total outstanding Shares of common stock as of the Latest Practicable Date, on the settlement date subject to certain conditions as specified in the relevant pre-paid forward contracts. The warrants under such pre-paid forward sale contracts are transferrable in the secondary market.
- (3) As of March 4, 2020, the number of Shares of common stock issuable to API Investment under each of Warrant 1 and Warrant 2 was adjusted to 916,093.14, and the exercise price per Share of common stock Warrant 1 and Warrant 2 was adjusted to US\$30.552 and US\$38.190, respectively.

F. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

We were not involved in any material legal proceedings as of June 30, 2020. See "Business — Legal Proceedings" for further information.

3. Sponsor

The Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares of common stock in issue, the Shares of common stock to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), and the Shares of common stock to be issued pursuant to the 2016 Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time. All necessary arrangements have been made to enable such Shares of common stock to be admitted into CCASS.

Goldman Sachs (Asia) L.L.C. satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

The fee payable to the Sponsor is US\$500,000 and is payable by our Company.

4. Material Adverse Change

Our Directors confirm that, save as disclosed in the prospectus, as far as they are aware, there has been no material adverse change in our financial, trading position or prospects since June 30, 2020, being the latest date of our consolidated financial statements as set out in "Appendix I — Accountants' Report" of this prospectus, up to the date of this prospectus.

5. Qualification of Experts

The following are the qualifications of the experts (as defined under the Hong Kong Listing Rules and the Companies (WUMP) Ordinance) who have given opinions or advice which are contained in this prospectus:

NAME	QUALIFICATION
Goldman Sachs (Asia) L.L.C.	A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
KPMG	Certified Public Accountants Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Sidley Austin LLP	Legal advisor to Company as to Delaware law
Jingtian & Gongcheng	Legal advisor to Company as to PRC law
Frost & Sullivan International Limited	Independent industry consultant

6. Consents of Experts

Each of the experts above has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

7. Promoter

Our Company has no promoter for the purpose of the Hong Kong Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (WUMP) Ordinance insofar as applicable.

9. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

10. Miscellaneous

- (a) Notwithstanding information otherwise disclosed in this prospectus or waived or exempted from disclosure pursuant to the waivers and exemptions disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) to the best of our knowledge, neither we nor any of our Major Subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any share capital or debentures of our Company or any of our Major Subsidiaries;
 - (iv) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
 - (v) there is no arrangement under which future dividends are waived or agreed to be waived.
- (b) Our branch register of members will be maintained in Hong Kong by our Hong Kong Share Registrar. Unless the directors otherwise agree, all transfer and other documents of title of Shares of common stock must be lodged for registration with and registered by our share register in Hong Kong and may not be lodged in the State of Delaware, the United States. All necessary arrangements have been made to enable the Shares of common stock to be admitted to CCASS.
- (c) Our Directors confirm that, save as disclosed in this prospectus:
 - (i) there has not been any interruption in our business which may have or have had a material adverse effect on our financial position in the 12 months immediately preceding the date of this prospectus; and
 - (ii) we and our Major Subsidiaries have no outstanding debentures or convertible debt securities.
- (d) The English version of this prospectus shall prevail over the Chinese version.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of the **GREEN** Application Form;
- (b) a copy of the material contract referred to in the section headed “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contract”; and
- (c) the written consents referred to in the section headed “Appendix IV — Statutory and General Information — F. Other Information — 6. Consents of Experts.”

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Sidley Austin at 39/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Constitutional Documents;
- (b) our audited consolidated financial statements for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020;
- (c) the Accountants’ Report and the report on the unaudited pro forma financial information of our Group from KPMG, the texts of which are set out in Appendix I and Appendix II, respectively, to this prospectus;
- (d) the legal opinion issued by Jingtian & Gongcheng, our PRC Legal Advisor, in respect of general matters and property interests of our Group in the PRC;
- (e) the industry report prepared by Frost & Sullivan International Limited;
- (f) the material contract referred to in the section entitled “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contract”;
- (g) the written consents referred to in the section entitled “Appendix IV — Statutory and General Information — F. Other Information — 6. Consents of Experts”; and
- (h) the DGCL.



YumChina