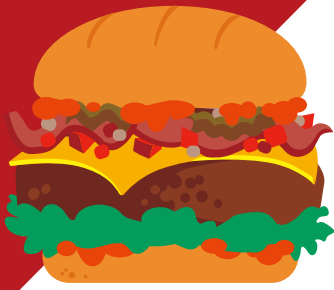


# 2024 INTERIM REPORT

Yum China Holdings, Inc.  
百勝中國控股有限公司

NYSE: YUMC HKEX: 9987



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## FORWARD-LOOKING STATEMENTS

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

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as “may,” “will,” “estimate,” “intend,” “seek,” “expect,” “project,” “anticipate,” “believe,” “plan,” “could,” “target,” “aim,” “commit,” “predict,” “likely,” “should,” “forecast,” “outlook,” “model,” “continue,” “ongoing” or other similar terminology. Forward-looking statements are based on our current expectations, estimates, assumptions or projections concerning future results or events. Forward-looking statements are neither predictions nor guarantees of future events, circumstances or performance and are inherently subject to known and unknown risks, uncertainties and assumptions that could cause our actual results and events to differ materially from those indicated by those forward-looking statements. We cannot assure you that any of our expectations, estimates, assumptions or projections will be achieved. Factors that could cause actual results and events to differ materially from our expectations, estimates, assumptions or projections include (i) the risks and uncertainties described in the Risk Factors section included in the Company’s 2023 annual report and (ii) the factors described in Management’s Discussion and Analysis included in this interim report. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. We disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances, except as required by law.

## LANGUAGE

If there is any inconsistency between the English version and Chinese version of this report, the English version 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 report and their English translations, the Chinese names shall prevail.

## EXPLANATORY NOTES

“U.S. dollars,” “\$” or “US\$” refers to the legal currency of the United States, “RMB” or “Renminbi” refers to the legal currency of the People’s Republic of China (the “PRC” or “China”), and “Hong Kong dollar” or “HK\$” refers to the legal currency of Hong Kong.

The KFC, Pizza Hut, Lavazza, Huang Ji Huang, Little Sheep and Taco Bell brands are collectively referred to as the “brands” or “concepts.” Throughout this report, the terms “brands” and “concepts” are used interchangeably and “restaurants,” “stores” and “units” are used interchangeably.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

References to “Yum China” mean Yum China Holdings, Inc. and references to the “Company,” “we,” “us,” and “our” mean Yum China and its subsidiaries throughout this Management’s Discussion and Analysis (“MD&A”). This MD&A contains forward-looking statements, including statements with respect to the

ongoing transfer pricing audit, the retail tax structure reform, our growth plans, future capital resources to fund our operations and anticipated capital expenditures, share repurchases and dividends, and the impact of new accounting pronouncements not yet adopted.

## Introduction

Yum China Holdings, Inc. is the largest restaurant company in China in terms of 2023 system sales, with 15,423 restaurants covering over 2,100 cities primarily in China as of June 30, 2024. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Lavazza, Huang Ji Huang, Little Sheep and Taco Bell. We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China (excluding Hong Kong, Macau and Taiwan), and own the intellectual property of the Little Sheep and Huang Ji Huang concepts outright. We also established a joint venture with Lavazza Group, the world-renowned family-owned Italian coffee company, to explore and develop the Lavazza coffee concept in China. KFC was the first major global restaurant brand to enter China in 1987. With more than 35 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 2023 system sales. We believe that there are significant opportunities to further expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.

KFC is the leading and the largest quick-service restaurant (“QSR”) brand in China in terms of system sales. As of June 30, 2024, KFC operated 10,931 restaurants in over 2,100 cities across China.

Pizza Hut is the leading and the largest casual dining restaurant (“CDR”) brand in China in terms of system sales and number of restaurants. As of June 30, 2024, Pizza Hut operated 3,504 restaurants in over 770 cities.

## Overview

Our financial information was prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). We intend for this MD&A to provide the reader with information that will assist in understanding our results of operations, including metrics that management uses to assess the Company’s performance. Throughout this MD&A, we discuss the following performance metrics:

- Certain performance metrics and non-GAAP measures are presented 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 and franchise restaurants, except for sales from non-Company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise restaurants typically generate ongoing franchise fees for the Company at an average rate of approximately 6% of system sales. Franchise restaurant sales are not included in Company sales in the Condensed Consolidated Statements of Income; however, the franchise fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.
- Effective January 1, 2018, the Company revised its definition of same-store sales growth to represent the estimated percentage change in sales of food of all restaurants in the Company system that have been open prior to the first day of our prior fiscal year, excluding the period during which stores are temporarily closed. We refer to these as our "base" stores. Previously, same-store sales growth represented the estimated percentage change in sales

of all restaurants in the Company system that have been open for one year or more, including stores temporarily closed, and the base stores changed on a rolling basis from month to month. This revision was made to align with how management measures performance internally and focuses on trends of a more stable base of stores.

- Company sales represent revenues from Company-owned restaurants. Within the analysis of Company sales, Total revenue and Restaurant profit, store portfolio actions represent the net impact from new-unit openings, acquisitions, refranchising and store closures. Net new unit contribution represents net revenue growth primarily from store portfolio actions excluding temporary store closures. Other primarily represents the impact of same-store sales as well as the impact of changes in restaurant operating costs such as inflation/deflation.

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

## Years to Date Ended June 30, 2024 and 2023

### Results of Operations

#### Summary

The Company has two reportable segments: KFC and Pizza Hut. Our non-reportable operating segments, including the operations of Lavazza, Huang Ji Huang, Little Sheep and Taco Bell, our delivery operating

segment and our e-commerce business, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. Additional details on our reportable operating segments are included in Note 13.

	Year to Date Ended		%/ppts Change	
	6/30/2024	6/30/2023	Reported	Ex F/X
System Sales Growth <sup>(a)</sup> (%)	5	24	NM	NM
Same-Store Sales (Decline) Growth <sup>(a)</sup> (%)	(3)	11	NM	NM
Operating Profit	640	673	(5)	—
Adjusted Operating Profit <sup>(b)</sup>	640	678	(6)	(1)
Core Operating Profit <sup>(b)</sup>	671	639	NM	+5
OP Margin <sup>(c)</sup> (%)	11.4	12.1	(0.7)	(0.7)
Core OP Margin <sup>(b)</sup> (%)	11.4	11.5	NM	(0.1)
Net Income	499	486	+3	+7
Adjusted Net Income <sup>(b)</sup>	499	491	+2	+6
Diluted Earnings Per Common Share	1.26	1.15	+10	+14
Adjusted Diluted Earnings Per Common Share <sup>(b)</sup>	1.26	1.16	+9	+13

NM refers to not meaningful.

- (a) System Sales and Same-Store Sales growth percentages as shown in the table exclude the impact of F/X. Effective January 1, 2018, temporary store closures are normalized in the same-store sales calculation by excluding the period during which stores are temporarily closed.
- (b) See “Non-GAAP Measures” below for definitions and reconciliations of the most directly comparable GAAP financial measures to the non-GAAP measures.
- (c) OP margin is defined as Operating Profit divided by Total revenues.

Total revenues for the year to date ended June 30, 2024 increased 1%, or 5% excluding the impact of F/X. The increase in Total revenues for the year to date ended June 30, 2024, excluding the impact of F/X, was driven by 8% net new unit contribution, partially offset by same-store sales decline, resulting from lower ticket average and same-store transaction growth.

Operating profit for the year to date ended June 30, 2024 decreased 5%, or remained flat excluding the impact of F/X. Further excluding the lapping impact from

the temporary relief from landlords and government agencies and VAT deductions received in prior year, the increase of Operating profit for the year to date ended June 30, 2024 was primarily driven by the increase in Total revenues, operational efficiency improvement, favorable commodity prices, lower advertising expenses and lower performance-based compensation costs, offset by increased value-for-money offerings and wage inflation in the low single digits.

The Consolidated Results of Operations for the years to date ended June 30, 2024 and 2023 and other data are presented below:

	Year to Date Ended		% B/(W) <sup>(a)</sup>	
	6/30/2024	6/30/2023	Reported	Ex F/X
Company sales	\$ 5,322	\$ 5,289	1	5
Franchise fees and income	47	46	1	6
Revenues from transactions with franchisees	203	182	11	16
Other revenues	65	54	19	24
<b>Total revenues</b>	<b>\$ 5,637</b>	<b>\$ 5,571</b>	1	5
Company restaurant expenses	\$ 4,438	\$ 4,322	(3)	(7)
<b>Operating Profit</b>	<b>\$ 640</b>	<b>\$ 673</b>	(5)	—
OP Margin (%)	11.4%	12.1%	(0.7) ppts.	(0.7) ppts.
Interest income, net	69	78	(11)	(11)
Investment gain (loss)	16	(28)	NM	NM
Income tax provision	(190)	(196)	3	(1)
Equity in net earnings (losses) from equity method investments	—	—	8	16
Net Income — including noncontrolling interests	535	527	2	6
Net Income — noncontrolling interests	36	41	12	8
<b>Net Income — Yum China Holdings, Inc.</b>	<b>\$ 499</b>	<b>\$ 486</b>	3	7
Diluted Earnings Per Common Share	\$ 1.26	\$ 1.15	10	14
Effective tax rate	26.2%	27.0%		
<b>Supplementary information — Non-GAAP Measures<sup>(b)</sup></b>				
Restaurant profit	\$ 884	\$ 967	(9)	(5)
Restaurant margin %	16.6%	18.3%	(1.7) ppts.	(1.7) ppts.
Adjusted Operating Profit	\$ 640	\$ 678		
Core Operating Profit	\$ 671	\$ 639		
Core OP Margin (%)	11.4%	11.5%		
Adjusted Net Income — Yum China Holdings, Inc.	\$ 499	\$ 491		
Adjusted Diluted Earnings Per Common Share	\$ 1.26	\$ 1.16		
Adjusted Effective Tax Rate	26.2%	26.9%		
Adjusted EBITDA	\$ 894	\$ 927		

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

(b) See “Non-GAAP Measures” below for definitions and reconciliations of the most directly comparable GAAP financial measures to the non-GAAP measures.

**Year to Date Ended  
6/30/2024  
% Change**
**Performance Metrics**

System Sales Growth	1%
System Sales Growth, excluding F/X	5%
Same-Store Sales (Decline)	(3)%

**Unit Count**

	6/30/2024	6/30/2023	% Increase
Company-owned	13,278	11,747	13
Franchisees	2,145	1,855	16
	15,423	13,602	13

**2024 Outlook**

The Company's targets for the 2024 fiscal year remain unchanged:

- Open approximately 1,500 to 1,700 net new stores.
- Make capital expenditures in the range of approximately \$700 million to \$850 million.
- Return a Company record-setting \$1.5 billion to shareholders through quarterly cash dividends and share repurchases.

**Non-GAAP Measures**

In addition to the results provided in accordance with GAAP throughout this MD&A, the Company provides the following non-GAAP measures:

- Measures adjusted for Special Items, which include Adjusted Operating Profit, Adjusted Net Income, Adjusted Earnings Per Common Share ("EPS"), Adjusted Effective Tax Rate and Adjusted EBITDA;
- Company Restaurant Profit ("Restaurant profit") and Restaurant margin;
- Core Operating Profit and Core OP margin, which exclude Special Items, and further adjusted for Items Affecting Comparability and the impact of F/X;

These non-GAAP measures are not intended to replace the presentation of our financial results in accordance

with GAAP. Rather, the Company believes that the presentation of these non-GAAP 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 core operations.

With respect to non-GAAP measures adjusted for Special Items, the Company excludes impact from Special Items for the purpose of evaluating performance internally and uses them as factors in determining compensation for certain employees. Special Items are not included in any of our segment results.

Adjusted EBITDA is defined as net income including noncontrolling interests adjusted for equity in net earnings (losses) from equity method investments, income tax, interest income, net, investment gain or loss, depreciation and amortization, store impairment charges, and Special Items. Store impairment charges included as an adjustment item in Adjusted EBITDA primarily resulted from our semi-annual impairment evaluation of long-lived assets of individual restaurants, and additional impairment evaluation whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If these restaurant-level assets were not impaired, depreciation of the assets would have been recorded and included in EBITDA. Therefore, store impairment charges were a non-cash item similar to depreciation and amortization of our long-lived assets of restaurants. The Company believes that investors and analysts may find it useful in measuring operating performance without regard to such non-cash items.



Restaurant profit is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales, including cost of food and paper, restaurant-level payroll and employee benefits, rent, depreciation and amortization of restaurant-level assets, advertising expenses, and other operating expenses. Company restaurant margin percentage is defined as Restaurant profit divided by Company sales. We also use Restaurant profit and Restaurant margin for the purpose of internally evaluating the performance of our Company-owned restaurants and we believe they provide useful information to investors as to the profitability of our Company-owned restaurants.

Core Operating Profit is defined as Operating Profit adjusted for Special Items, and further excluding Items Affecting Comparability and the impact of F/X. We consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends.

Items such as charges, gains and accounting changes, which are viewed by management as significantly impacting the current period or the comparable period, due to changes in policy or other external factors, or non-cash items pertaining to underlying activities that are different from or unrelated to our core operations, are generally considered "Items Affecting Comparability." Examples of Items Affecting Comparability include, but are not limited to: temporary relief from landlords and government agencies; VAT deductions due to tax policy changes; and amortization of reacquired franchise rights recognized upon acquisitions. We believe presenting Core Operating Profit provides additional information to further enhance comparability of our operating results and we use this measure for purposes of evaluating the performance of our core operations. Core OP margin is defined as Core Operating Profit divided by Total revenues, excluding the impact of F/X.

The following table sets forth the reconciliations of the most directly comparable GAAP financial measures to the non-GAAP financial measures.

<b>Non-GAAP Reconciliations</b>	<b>Year to Date Ended</b>	
	<b>6/30/2024</b>	<b>6/30/2023</b>
<b>Reconciliation of Operating Profit to Adjusted Operating Profit</b>		
Operating Profit	\$ 640	\$ 673
Special Items, Operating Profit	—	(5)
Adjusted Operating Profit	<u>\$ 640</u>	<u>\$ 678</u>
<b>Reconciliation of Net Income to Adjusted Net Income</b>		
Net Income — Yum China Holdings, Inc.	\$ 499	\$ 486
Special Items, Net Income — Yum China Holdings, Inc.	—	(5)
Adjusted Net Income — Yum China Holdings, Inc.	<u>\$ 499</u>	<u>\$ 491</u>
<b>Reconciliation of EPS to Adjusted EPS</b>		
Basic Earnings Per Common Share	\$ 1.27	\$ 1.16
Special Items, Basic Earnings Per Common Share	—	(0.01)
Adjusted Basic Earnings Per Common Share	<u>\$ 1.27</u>	<u>\$ 1.17</u>
Diluted Earnings Per Common Share	\$ 1.26	\$ 1.15
Special Items, Diluted Earnings Per Common Share	—	(0.01)
Adjusted Diluted Earnings Per Common Share	<u>\$ 1.26</u>	<u>\$ 1.16</u>
<b>Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate</b>		
Effective tax rate	26.2%	27.0%
Impact on effective tax rate as a result of Special Items	—%	0.1%
Adjusted effective tax rate	<u>26.2%</u>	<u>26.9%</u>

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

<b>Reconciliation of Net Income to Adjusted EBITDA</b>	<b>Year to Date Ended</b>	
	<b>6/30/2024</b>	<b>6/30/2023</b>
Net Income — Yum China Holdings, Inc.	\$ 499	\$ 486
Net income — noncontrolling interests	36	41
Equity in net (earnings) losses from equity method investments	—	—
Income tax provision	190	196
Interest income, net	(69)	(78)
Investment (gain) loss	(16)	28
Operating Profit	640	673
Special Items, Operating Profit	—	5
Adjusted Operating Profit	640	678
Depreciation and amortization	235	228
Store impairment charges	19	21
Adjusted EBITDA	\$ 894	\$ 927

Details of Special Items are presented below:

	<b>Year to Date Ended</b>	
	<b>6/30/2024</b>	<b>6/30/2023</b>
Share-based compensation expense for Partner PSU Awards <sup>(1)</sup>	\$ —	\$ (5)
Special Items, Operating Profit	—	(5)
Tax effect on Special Items <sup>(2)</sup>	—	—
Special Items, net income — including noncontrolling interests	—	(5)
Special Items, net income — noncontrolling interests	—	—
Special Items, Net Income — Yum China Holdings, Inc.	\$ —	\$ (5)
Weighted-average Diluted Shares Outstanding (in millions)	397	423
Special Items, Diluted Earnings Per Common Share	\$ —	\$ (0.01)

(1) In February 2020, the Company granted Partner PSU Awards to select employees who were deemed critical to the Company's execution of its strategic operating plan. These PSU awards will only vest if threshold performance goals are achieved over a four-year performance period, with the payout ranging from 0% to 200% of the target number of shares subject to the PSU awards. These awards vested as of December 31, 2023 with a payout in the first quarter of 2024. 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.

(2) Tax effect was determined based upon the nature, as well as the jurisdiction, of each Special Item at the applicable tax rate.

## Reconciliation of GAAP Operating Profit to Restaurant Profit

	Year to Date Ended 6/30/2024					
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Elimination	Total
GAAP Operating Profit (Loss)	\$ 636	\$ 87	\$ (8)	\$ (75)	\$ —	\$ 640
Less:						
Franchise fees and income	34	4	9	—	—	47
Revenues from transactions with franchisees	26	2	36	139	—	203
Other revenues	8	12	308	31	(294)	65
Add:						
General and administrative expenses	121	54	20	78	—	273
Franchise expenses	17	2	—	—	—	19
Expenses for transactions with franchisees	23	2	33	138	—	196
Other operating costs and expenses	6	11	304	30	(293)	58
Closures and impairment expenses, net	7	5	2	—	—	14
Other expenses (income), net	—	—	—	(1)	—	(1)
Restaurant profit (loss)	\$ 742	\$ 143	\$ (2)	\$ —	\$ 1	\$ 884
Company sales	4,176	1,117	29	—	—	5,322
Restaurant margin %	17.8%	12.8%	(11.1)%	N/A	N/A	16.6%

	Year to Date Ended 6/30/2023					
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Elimination	Total
GAAP Operating Profit (Loss)	\$ 693	\$ 90	\$ (13)	\$ (97)	\$ —	\$ 673
Less:						
Franchise fees and income	32	4	10	—	—	46
Revenues from transactions with franchisees	21	2	36	123	—	182
Other revenues	9	8	306	20	(289)	54
Add:						
General and administrative expenses	135	59	21	101	—	316
Franchise expenses	16	2	1	—	—	19
Expenses for transactions with franchisees	18	2	33	122	—	175
Other operating costs and expenses	8	7	303	18	(288)	48
Closures and impairment expenses, net	9	5	3	—	—	17
Other expenses (income), net	2	—	—	(1)	—	1
Restaurant profit (loss)	\$ 819	\$ 151	\$ (4)	\$ —	\$ 1	\$ 967
Company sales	4,120	1,137	32	—	—	5,289
Restaurant margin %	19.9%	13.3%	(15.1)%	N/A	N/A	18.3%

## Reconciliation of GAAP Operating Profit to Core Operating Profit

Reconciliation of Operating Profit to Core Operating Profit	Year to Date Ended		% Change B/(W)
	6/30/2024	6/30/2023	
Operating profit	\$ 640	\$ 673	(5)
Special Items, Operating Profit	—	5	
Adjusted Operating Profit	<u>\$ 640</u>	<u>\$ 678</u>	(6)
Items Affecting Comparability			
Temporary relief from landlords <sup>(a)</sup>	—	(10)	
Temporary relief from government agencies <sup>(b)</sup>	—	(3)	
VAT deductions <sup>(c)</sup>	—	(28)	
Amortization of reacquired franchise rights <sup>(d)</sup>	—	2	
F/X impact	31	—	
Core Operating Profit	<u>\$ 671</u>	<u>\$ 639</u>	5
Total revenues	5,637	5,571	1
F/X impact	239	—	
Total revenues, excluding the impact of F/X	<u>\$ 5,876</u>	<u>\$ 5,571</u>	5
Core OP margin	11.4%	11.5%	(0.1) ppts.

Details of Items Affecting Comparability are presented below:

- (a) In relation to the effects of the COVID-19 pandemic, the Company was granted lease concessions from landlords. 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. Such concessions were primarily recognized as a reduction of Occupancy and other operating expenses within Company restaurant expenses included in the Condensed Consolidated Statement of Income in the period the concession was granted. See Note 10 for additional information.
- (b) In relation to the effects of the COVID-19 pandemic, the Company received government subsidies for employee benefits and providing training to employees. The temporary relief was primarily recognized as a reduction to Payroll and employee benefits within Company restaurant expenses included in the Condensed Consolidated Statement of Income.
- (c) Pursuant to the tax policy issued by relevant government authorities, general VAT taxpayers in certain industries that meet certain criteria are allowed to claim an additional 10% or 15% input VAT, which will be used to offset their VAT payables. This VAT policy was further extended to December 31, 2023 but the additional deduction was reduced to 5% or 10% respectively. VAT deductions were primarily recorded as a reduction to Food and paper and Occupancy and other operating expenses within Company restaurant expenses included in the Condensed Consolidated Statements of Income. Such preferential policy was not extended in 2024. See "Significant Known Events, Trends or Uncertainties Expected to Impact Future Results" session within MD&A for additional information on VAT deductions.
- (d) As a result of the acquisition of our previously unconsolidated joint ventures of Hangzhou KFC, Suzhou KFC and Wuxi KFC, \$66 million, \$61 million and \$61 million of the purchase price were allocated to intangible assets related to reacquired franchise rights, respectively, which were amortized over the remaining franchise contract period of 1 year, 2.4 years and 5 years, respectively. The reacquired franchise rights were fully amortized as of March 31, 2023. The amortization was recorded in Other (income) expenses, net included in the Condensed Consolidated Statements of Income.

Reconciliation of GAAP Operating Profit to Core Operating Profit by segment is as follows:

	Year to Date Ended 6/30/2024					
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Elimination	Total
GAAP Operating Profit (Loss)	\$ 636	\$ 87	\$ (8)	\$ (75)	\$ —	\$ 640
Special Items, Operating Profit	—	—	—	—	—	—
Adjusted Operating Profit (Loss)	\$ 636	\$ 87	\$ (8)	\$ (75)	\$ —	\$ 640
F/X impact	29	4	—	(2)	—	31
Core Operating Profit (Loss)	\$ 665	\$ 91	\$ (8)	\$ (77)	\$ —	\$ 671

	Year to Date Ended 6/30/2023					
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Elimination	Total
GAAP Operating Profit (Loss)	\$ 693	\$ 90	\$ (13)	\$ (97)	\$ —	\$ 673
Special Items, Operating Profit	—	—	—	5	—	5
Adjusted Operating Profit (Loss)	\$ 693	\$ 90	\$ (13)	\$ (92)	\$ —	\$ 678
Items Affecting Comparability						
Temporary relief from landlords	(9)	(1)	—	—	—	(10)
Temporary relief from government agencies	(3)	—	—	—	—	(3)
VAT deductions	(24)	(3)	(1)	—	—	(28)
Amortization of reacquired franchise rights	2	—	—	—	—	2
F/X impact	—	—	—	—	—	—
Core Operating Profit (Loss)	\$ 659	\$ 86	\$ (14)	\$ (92)	\$ —	\$ 639

## Segment Results

### KFC

	Year to Date Ended			
	6/30/2024	6/30/2023	Reported	Ex F/X
			% B/(W)	
Company sales	\$ 4,176	\$ 4,120	1	6
Franchise fees and income	34	32	7	11
Revenues from transactions with franchisees	26	21	26	32
Other revenues	8	9	(14)	(10)
Total revenues	\$ 4,244	\$ 4,182	2	6
Company restaurant expenses	\$ 3,434	\$ 3,301	(4)	(8)
G&A expenses	\$ 121	\$ 135	10	7
Franchise expenses	\$ 17	\$ 16	(3)	(8)
Expenses for transactions with franchisees	\$ 23	\$ 18	(22)	(27)
Other operating costs and expenses	\$ 6	\$ 8	18	14
Closures and impairment expenses, net	\$ 7	\$ 9	14	13
Other expenses, net	\$ —	\$ 2	89	88
Operating Profit	\$ 636	\$ 693	(8)	(4)
Restaurant profit	\$ 742	\$ 819	(9)	(5)
Restaurant margin %	17.8%	19.9%	(2.1) ppts.	(2.1) ppts.

**Year to Date Ended  
6/30/2024  
% Change**

System Sales Growth	2%
System Sales Growth, excluding F/X	6%
Same-Store Sales (Decline)	(3)%

**Unit Count**

	6/30/2024	6/30/2023	% Increase
Company-owned	9,740	8,612	13
Franchisees	1,191	950	25
	10,931	9,562	14

**Company Sales and Restaurant Profit**

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

Income (Expense)	Year to Date Ended				
	6/30/2023	Store Portfolio Actions	Other	F/X	6/30/2024
Company sales	\$ 4,120	\$ 311	\$ (79)	\$ (176)	\$ 4,176
Cost of sales	(1,248)	(107)	(20)	55	(1,320)
Cost of labor	(1,010)	(87)	(1)	43	(1,055)
Occupancy and other operating expenses	(1,043)	(77)	17	44	(1,059)
Restaurant profit	\$ 819	\$ 40	\$ (83)	\$ (34)	\$ 742

The increase in Company sales for the year to date ended June 30, 2024, excluding the impact of F/X, was primarily driven by net unit growth, partially offset by same-store sales decline. Restaurant profit decreased for the year to date, excluding the impact of F/X. Further excluding the lapping impact from the temporary relief from landlords and government agencies and VAT deductions received in prior year, Restaurant profit decreased for the year to date, primarily driven by increased value-for-money offerings and wage inflation in the low single digits, offset by the increase in Company sales, favorable commodity prices, operational efficiency improvement and lower advertising expenses.

**Franchise Fees and Income/Revenues from Transactions with Franchisees**

The year to date increase in Franchise fees and income and Revenues from transactions with franchisees, excluding the impact of F/X, was primarily driven by net unit growth.

**G&A Expenses**

The year to date decrease in G&A expenses, excluding the impact of F/X, was primarily driven by lower performance-based compensation costs.

## Operating Profit

The year to date decrease in Operating profit, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit, partially offset by lower G&A expenses.

### *Pizza Hut*

	Year to Date Ended			
			% B/(W)	
	6/30/2024	6/30/2023	Reported	Ex F/X
Company sales	\$ 1,117	\$ 1,137	(2)	2
Franchise fees and income	4	4	2	6
Revenues from transactions with franchisees	2	2	(1)	3
Other revenues	12	8	55	60
<b>Total revenues</b>	<b>\$ 1,135</b>	<b>\$ 1,151</b>	<b>(1)</b>	<b>3</b>
Company restaurant expenses	\$ 974	\$ 986	1	(3)
G&A expenses	\$ 54	\$ 59	8	4
Franchise expenses	\$ 2	\$ 2	(1)	(5)
Expenses for transactions with franchisees	\$ 2	\$ 2	7	3
Other operating costs and expenses	\$ 11	\$ 7	(68)	(74)
Closures and impairment expenses, net	\$ 5	\$ 5	1	(1)
Operating Profit	\$ 87	\$ 90	(4)	1
Restaurant profit	\$ 143	\$ 151	(5)	(1)
Restaurant margin %	12.8%	13.3%	(0.5) ppts.	(0.5) ppts.

	Year to Date Ended	
	6/30/2024	
	% Change	
System Sales (Decline)		(2)%
System Sales Growth, excluding F/X		3%
Same-Store Sales (Decline)		(7)%

Unit Count	6/30/2024	6/30/2023	% Increase
	Company-owned	3,341	2,925
Franchisees	163	147	11
	<b>3,504</b>	<b>3,072</b>	<b>14</b>

## Company Sales and Restaurant Profit

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

Income (Expense)	Year to Date Ended				
	Store Portfolio				6/30/2024
	6/30/2023	Actions	Other	F/X	
Company sales	\$ 1,137	\$ 92	\$ (65)	\$ (47)	\$ 1,117
Cost of sales	(350)	(31)	1	15	(365)
Cost of labor	(329)	(25)	29	13	(312)
Occupancy and other operating expenses	(307)	(23)	20	13	(297)
<b>Restaurant profit</b>	<b>\$ 151</b>	<b>\$ 13</b>	<b>\$ (15)</b>	<b>\$ (6)</b>	<b>\$ 143</b>

The increase in Company sales for the year to date ended June 30, 2024, excluding the impact of F/X, was primarily driven by net unit growth, partially offset by same-store sales decline. Restaurant profit decreased for the year to date, excluding the impact of F/X. Further excluding the lapping impact from the temporary relief from landlords and government agencies and VAT deductions received in prior year, Restaurant profit increased for the year to date, primarily driven by the increase in Company sales, operational efficiency improvement, lower advertising expenses, lower performance-based compensation and favorable commodity prices, offset by increased value-for-money offerings and wage inflation in the low single digits.

Company sales				
Franchise fees and income				
Revenues from transactions with franchisees				
Other revenues				
<b>Total revenues</b>				
Company restaurant expenses				
G&A expenses				
Franchise expenses				
Expenses for transactions with franchisees				
Other operating costs and expenses				
Closures and impairment expenses, net				
<b>Operating Loss</b>				
Restaurant loss				
Restaurant margin %				

## Total Revenues

Excluding the impact of F/X, Total revenues of All other segments increased for the year to date ended June 30, 2024, primarily driven by inter-segment revenue generated by our delivery team for services provided to Company-owned restaurants as a result of increased delivery sales, partially offset by same-store sales decline.

## G&A Expenses

The year to date decrease in G&A expenses, excluding the impact of F/X, was primarily driven by lower performance-based compensation costs.

## Operating Profit

The year to date increase in Operating profit, excluding the impact of F/X, was primarily driven by lower G&A expenses, partially offset by the decrease in Restaurant profit.

## All Other Segments

All Other Segments reflects the results of Lavazza, Huang Ji Huang, Little Sheep and Taco Bell, our delivery operating segment and our e-commerce business.

		Year to Date Ended	
		% B/(W)	
6/30/2024	6/30/2023	Reported	Ex F/X
\$ 29	\$ 32	(11)	(7)
9	10	(16)	(12)
36	36	(1)	3
308	306	1	5
<b>\$ 382</b>	<b>\$ 384</b>	(1)	3
\$ 31	\$ 36	14	10
\$ 20	\$ 21	6	2
\$ —	\$ 1	38	35
\$ 33	\$ 33	—	(4)
\$ 304	\$ 303	—	(4)
\$ 2	\$ 3	49	48
\$ (8)	\$ (13)	34	32
\$ (2)	\$ (4)	34	32
(11.1)%	(15.1)%	4.0 ppts.	4.0 ppts.

## Operating Loss

The year to date decrease in Operating loss, excluding the impact of F/X, was primarily driven by the decrease in Operating loss from certain emerging brands.



## Corporate and Unallocated

	Year to Date Ended			
	% B/(W)			
	6/30/2024	6/30/2023	Reported	Ex F/X
Revenues from transactions with franchisees	\$ 139	\$ 123	13	18
Other revenues	\$ 31	\$ 20	53	60
Expenses for transactions with franchisees	\$ 138	\$ 122	(13)	(18)
Other operating costs and expenses	\$ 30	\$ 18	(64)	(71)
Corporate G&A expenses	\$ 78	\$ 101	23	21
Other unallocated income, net	\$ (1)	\$ (1)	54	63
Interest income, net	\$ 69	\$ 78	(11)	(11)
Investment gain (loss)	\$ 16	\$ (28)	NM	NM
Income tax provision (See Note 12)	\$ (190)	\$ (196)	3	(1)
Equity in net earnings (losses) from equity method investments	\$ —	\$ —	8	16
Effective tax rate (See Note 12)	26.2%	27.0%	0.8 ppts.	0.8 ppts.

### Revenues from Transactions with Franchisees

Revenues from transactions with franchisees primarily include revenues 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. The year to date increase, excluding the impact of F/X, was mainly due to the increase in system sales for franchisees.

### G&A Expenses

The year to date decrease in Corporate G&A expenses, excluding the impact of F/X, was primarily due to lower performance-based compensation costs.

### Investment Gain (Loss)

The investment gain (loss) mainly relates to the change in fair value of our investment in Meituan. See Note 3 for additional information.

### Income Tax Provision

Our income tax provision primarily includes tax on our earnings generally at the Chinese statutory tax rate of 25% with certain Chinese subsidiaries qualified for preferential tax rates, withholding tax on planned or actual repatriation of earnings outside of China, Hong Kong profits tax, and U.S. corporate income tax, if any. The lower effective tax rate for the year to date ended June 30, 2024 was primarily due to the favorable impact from the reduction of certain non-deductible items and the impact from fair value change of our investment in Meituan.

## Discussion of Changes of Certain Key Balance Sheet Items

### Cash and Cash Equivalents

As of June 30, 2024 and December 31, 2023, the Company's cash and cash equivalents were denominated in the following currencies:

	6/30/2024	12/31/2023
RMB	\$ 411	\$ 534
USD	626	590
Hong Kong dollar ("HK\$")	6	4
Total	\$ 1,043	\$ 1,128

For discussion of changes in Cash and Cash Equivalent, see Condensed Consolidated Cash Flows section below.

### Short-term Investments and Long-term Bank Deposits and Notes

As of June 30, 2024, the decrease of short-term investments and long-term bank deposits and notes was primarily due to less purchase of these investments to fund for the accelerated share repurchase activities. See Note 11 for detail.

### Operating Lease Right-of-use ("ROU") Assets and Liabilities

As of June 30, 2024, the decrease of ROU assets was primarily due to the amortization of assets relating to existing leases with fixed lease payments, a higher portion of our new leases with variable lease payments and the impact of foreign currency translation. The decrease of lease liabilities was consistent with the decrease of ROU assets.

### Short-term Borrowings

As of June 30, 2024, the increase of short-term borrowings was primarily due to working capital management at our operating subsidiaries. The outstanding short-term borrowings are RMB denominated and bear a weighted-average interest rate of 1.8%, and are due within one year from their issuance dates. See Note 9 for detail.

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

### Tax Examination on Transfer Pricing

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

### PRC Value-Added Tax ("VAT")

Effective May 1, 2016, a 6% output VAT replaced the 5% business tax ("BT") previously applied to certain restaurant sales. Input VAT would be creditable to the aforementioned 6% output VAT. Our new retail business is generally subject to VAT rates at 9% or 13%. 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 general VAT 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 a VAT 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, in the Condensed Consolidated Balance Sheets. At each balance sheet date, the Company reviews the outstanding balance of any VAT asset for recoverability, giving consideration to the indefinite life of VAT 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, 2024, the Company has not made an allowance for the recoverability of VAT assets, as the balance is expected to be utilized to offset against VAT payables or be refunded in the future.

On June 7, 2022, the Chinese Ministry of Finance (“MOF”) and the STA jointly issued Circular [2022] No. 21, to extend full VAT credit refunds to more sectors and increase the frequency for accepting taxpayers’ applications. Beginning on July 1, 2022, entities engaged in providing catering services in China are allowed to apply for a lump sum refund of VAT assets accumulated prior to March 31, 2019. In addition, VAT assets accumulated after March 31, 2019 can be refunded on a monthly basis.

As of June 30, 2024, VAT assets of \$99 million, VAT assets of \$8 million and net VAT payable of \$13 million were recorded in Prepaid expenses and other current assets, Other assets and Accounts payable and other current liabilities, respectively, in the Condensed Consolidated Balance Sheets.

The Company will continue to review the classification of VAT assets at each balance sheet date, giving consideration to different local implementation practices of refunding VAT assets and the outcome of potential administrative reviews.

Pursuant to Circular [2019] No. 39, Circular [2019] No. 87 and Circular [2022] No. 11 jointly issued by relevant government authorities, including the MOF and the STA, from April 1, 2019 to December 31, 2022, general VAT taxpayers in certain industries that meet certain criteria were allowed to claim an additional 10% or 15% input VAT, which were used to offset their VAT payables. Pursuant to Circular [2023] No. 1 jointly issued by the MOF and the STA in January 2023, such VAT policy was further extended to December 31, 2023 but the additional deduction was reduced to 5% or 10% respectively. Accordingly, we recognized such VAT deductions of \$28 million in the year to date ended June 30, 2023. The VAT deductions were recorded as a reduction to the related expense item, primarily in Company restaurant expenses included in the Condensed Consolidated Statements of Income. Such preferential VAT policy was not extended in 2024.

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, China is in the process of enacting the prevailing VAT regulations into a national VAT law. However, the timetable for enacting the national VAT law 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 period to period.

### ***Foreign Currency Exchange Rate***

The reporting currency of the Company is the US\$. Most of the revenues, costs, assets and liabilities of the Company are denominated in Chinese Renminbi (“RMB”). Any significant change in the exchange

rate between US\$ and RMB may materially affect the Company's business, results of operations, cash flows and financial condition, depending on the weakening or strengthening of RMB against the US\$. See "Quantitative and Qualitative Disclosures About Market Risk" for further discussion.

## Condensed Consolidated Cash Flows

Our cash flows for the years to date ended June 30, 2024 and 2023 were as follows:

**Net cash provided by operating activities** was \$843 million in 2024 as compared to \$924 million in 2023. The decrease was primarily driven by working capital changes.

**Net cash used in investing activities** was \$132 million in 2024 as compared to \$598 million in 2023. The decrease was mainly due to less purchase of short-term investments, and long-term bank deposits and notes.

**Net cash used in financing activities** was \$785 million in 2024 as compared to \$230 million in 2023. The increase was primarily driven by the increase in share repurchases, partially offset by the net proceeds from short-term bank borrowings.

## Liquidity and Capital Resources

Historically we have funded our operations through cash generated from the operation of our Company-owned stores and our franchise operations. Our global offering in September 2020 provided us with \$2.2 billion in net proceeds.

Our ability to fund our future operations and capital needs will primarily depend on our ongoing ability to generate cash from operations. We believe our principal uses of cash in the future will be primarily to fund our operations and capital expenditures for accelerating store network expansion and store remodeling, to step up investments in digitalization, automation and logistics infrastructure, to provide returns to our

stockholders, as well as to explore opportunities for acquisitions or investments that build and support our ecosystem. We believe that our future cash from operations, together with our funds on hand and access to the capital markets, will provide adequate resources to fund these uses of cash, and that our existing cash, net cash from operations and credit facilities will be sufficient to fund our operations and anticipated capital expenditures for the next 12 months. We currently expect our fiscal year 2024 capital expenditures to be in the range of approximately \$700 million to \$850 million.

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

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

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

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

## Share Repurchases and Dividends

On November 2, 2023, our Board of Directors increased the share repurchase authorization by \$1 billion to an aggregate of \$3.4 billion. Yum China may repurchase shares under this program from time to time in the open

market or, subject to applicable regulatory requirements, through privately negotiated transactions, block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. During the years to date ended June 30, 2024 and 2023, the Company repurchased 21.7 million shares of common stock for \$868 million and 2.1 million shares of common stock for \$124 million, respectively, under the repurchase program.

For the years to date ended June 30, 2024 and 2023, the Company paid aggregate cash dividends of approximately \$126 million and \$108 million, respectively, to stockholders through a quarterly dividend payment of \$0.16 and \$0.13 per share, respectively.

On August 5, 2024, the Board of Directors declared a cash dividend of \$0.16 per share, payable on September 17, 2024, to stockholders of record as of the close of business on August 27, 2024. The total estimated cash dividend payable is approximately \$61 million.

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

## ***Borrowing Capacity***

As of June 30, 2024, the Company had credit facilities of RMB8,080 million (approximately \$1,112 million), comprised of onshore credit facilities in the aggregate amount of RMB5,900 million (approximately \$812 million), offshore credit facilities in the aggregate amount of \$100 million and a credit facility of \$200 million that can be used for either onshore or offshore.

The credit facilities had remaining terms ranging from less than one year to three years as of June 30, 2024. Our credit facilities mainly include term loans, overdrafts, letters of credit, banker's acceptance notes and bank guarantees. The credit facilities in general bear interest based on the Loan Prime Rate ("LPR") published by the National Interbank Funding Centre of the PRC, or Secured Overnight Financing Rate ("SOFR") published by the Federal Reserve Bank of New York. 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 agreements. As of June 30, 2024, we had outstanding short-term bank borrowings of RMB3,025 million (approximately \$416 million), mainly to manage working capital at our operating subsidiaries. Such bank borrowings were secured by \$57 million short-term investments, and are due within one year from their issuance dates. As of June 30, 2024, we also had outstanding bank guarantees of RMB239 million (approximately \$33 million) mainly to secure our lease payments to landlords for certain Company-owned restaurants. Our credit facilities were therefore reduced by outstanding short-term bank borrowings, adjusted for unamortized interest and collateral, and outstanding guarantees. As of June 30, 2024, the Company had unused credit facilities of approximately \$719 million.



## Material Cash Requirements

### *Operating and Finance Leases Obligations*

As of June 30, 2024, undiscounted future lease payments amounted to \$2,710 million, including \$278 million in the remainder of 2024. These obligations relate primarily to over 13,000 properties in China for our Company-owned restaurants. See Note 10 for additional information.

### *Purchase Obligations*

As of June 30, 2024, future purchase obligations amounted to \$375 million, which relate primarily to capital expenditure commitment for infrastructure, as well as 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.

### *Transition Tax*

As of June 30, 2024, the Company had transition tax payable of \$15 million which is payable within the next 12 months. This amount represents transition tax payable on the deemed repatriation of accumulated undistributed foreign earnings after utilizing existing qualified foreign tax credits, which is to be paid over a maximum of eight years beginning in 2018.

## Contingent Liabilities

We had no material contingent obligations as of June 30, 2024. Please see Note 14 for further discussion.

## Gearing Ratio

The gearing ratio of the Company, which was calculated by dividing total interest-bearing borrowings by total equity as of the end of the period, was 6.4% and 2.4% as of June 30, 2024 and December 31, 2023, respectively.

## Pledge of Assets

The Company is required to place bank deposits or purchase insurance in order to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements, \$61 million of time deposits in Long-term bank deposits and notes as of June 30, 2024, and \$21 million of time deposits in Short-term investments and \$28 million of time deposits in Long-term bank deposits and notes as of December 31, 2023 were restricted for use. Please see Note 11 for further discussion. As of June 30, 2024 and December 31, 2023, we also had \$57 million and \$79 million short-term deposits pledged to secure the \$416 million and \$168 million outstanding bank borrowing, respectively. Please see Note 9 for further discussion.

## Significant Investments Held

None of our investments held constituted significant investments required to be disclosed pursuant to Appendix D2 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"). Refer to Note 3 for our business acquisitions and equity investments.

## Future Plans for Material Investments and Capital Assets

We currently expect our fiscal year 2024 capital expenditures will be in the range of approximately \$700 million to \$850 million. Please see Liquidity and Capital Resources section for further discussion.

## Material Acquisitions and Disposal of Subsidiaries, Equity Method Investees and Joint Ventures

During the years to date ended June 30, 2024 and 2023, we did not have any material acquisitions and disposals of subsidiaries, equity method investees and joint ventures.

## Employee Remuneration Policy

The Company had approximately 400,000 employees as of June 30, 2024, and substantially all of them are based in China. Given the nature of its operations, approximately 90% of the Company's employees were restaurant crew members. Approximately 70% of crew members worked part-time, approximately 40% of whom attended university at the same time, and were paid on an hourly basis. The working hours of part-time employees varied significantly.

For the year to date ended June 30, 2024, the Company has incurred total staff costs (including salaries, allowances, benefits in kind, performance related bonuses, share-based compensation expense and social benefit contributions) of approximately \$1,325 million.

The Company is committed to equal pay for equal work. We provide employees with fair and competitive compensation and benefits, including through launching of equity incentive schemes, to recognize and reward their contributions, performance and efforts. In line with relevant labor laws and regulations, we provide full-time employees with pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing funds. Part-time employees are covered by employer liability insurance. Employees also enjoy paid leaves in accordance with labor laws. The Company values the growth of employees and continuously nurtures top talent through a systematic training system. We prepare employees not

just for fulfilling current job requirements, but also for more challenging expanded job responsibilities in the future.

## New Accounting Pronouncements

### *Recently Adopted Accounting Pronouncements*

See Note 2 for details of recently adopted accounting pronouncements.

### *New Accounting Pronouncements Not Yet Adopted*

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280) — Improvements to Reportable Segment Disclosures* (“ASU 2023-07”), requiring public business entities to provide disclosures of significant expenses and other segment items. The guidance also requires public entities to provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. ASU 2023-07 is effective for the Company for annual periods from January 1, 2024, and for interim periods from January 1, 2025, with early adoption permitted. We are currently evaluating the impact the adoption of this standard may have on our financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740) — Improvements to Income Tax Disclosures* (“ASU 2023-09”), requiring public business entities to provide additional information in the rate reconciliation and additional disclosures about income taxes paid. ASU 2023-09 is effective for the Company from January 1, 2025, with early adoption permitted. We are currently evaluating the impact the adoption of this standard may have on our financial statements.

## 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 with third parties to purchase certain amount of goods and services sourced overseas and make payments in the corresponding local currencies at predetermined exchange rates when practical, to minimize the related foreign currency exposure with immaterial impact on our financial statements.

As substantially all of the Company's operations are located in China, the Company is exposed to movements in the RMB foreign currency exchange rate. For the year to date ended June 30, 2024, the Company's Operating profit would have decreased by approximately \$60

million, if the RMB weakened 10% relative to the U.S. dollar. This estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

### *Commodity Price Risk*

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

### *Investment Risk*

In September 2018, we invested \$74 million in 8.4 million of Meituan's ordinary shares. The Company sold 4.2 million of its ordinary shares of Meituan in the second quarter of 2020 for proceeds of approximately \$54 million. Equity investment in Meituan is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. See Note 3 for further discussion on our investment in Meituan.



## OTHER INFORMATION

### Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or Any of Its Associated Corporations

As of June 30, 2024, the interests and short positions of the directors and chief executive of the Company in the common stock or ordinary shares, shares underlying other securities, and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions as set out in Appendix C3 to the Hong Kong Listing Rules (the "Model Code") were as follows:

#### (i) Interest in the Shares of the Company

Name of Director	Nature of Interest	Number of Shares <sup>(1)</sup>	Approximate Percentage of Holding <sup>(2)</sup>
Joey Wat	Beneficial owner	897,364 <sup>(3)</sup>	0.23%
	Interest of controlled corporation <sup>(4)</sup>	45,144	0.01%
	Founder of a discretionary trust <sup>(5)</sup>	224,000	0.06%
Robert B. Aiken	Trustee <sup>(6)</sup>	9,088	*
Peter A. Bassi	Trustee <sup>(7)</sup>	55,908	0.01%
Edouard Ettetdgui	Beneficial owner	51,265	0.01%
David Hoffmann	Beneficial owner	14,888	*
Fred Hu	Beneficial owner	62,347	0.02%
	Interest of controlled corporation <sup>(8)</sup>	12,035,635	3.11%
Ruby Lu	Beneficial owner	58,339	0.02%
Zili Shao	Beneficial owner	47,540	0.01%
William Wang	Beneficial owner	49,718	0.01%
Min (Jenny) Zhang	Interest of controlled corporation <sup>(9)</sup>	11,439	*
Christina Xiaojing Zhu	Beneficial owner	10,197	*

Notes:

\* Representing less than 0.01%.

(1) Representing long position.

(2) The calculation is based on the total number of 387,342,467 shares of common stock of the Company ("Shares") in issue as of June 30, 2024.

(3) Includes (i) 274,166 Shares owned by Ms. Joey Wat, (ii) 623,198 Shares issuable (a) upon the exercise of outstanding stock appreciation rights, based on the closing price of the Shares traded on the New York Stock Exchange on June 28, 2024; (b) upon the vesting of restricted stock units and corresponding dividend equivalent units; and (c) upon the vesting of performance stock units and dividend equivalent units, assuming maximum payouts pursuant to their award agreements.

- (4) The Shares were held by Best Ease International Limited, a company incorporated in British Virgin Islands which is wholly owned by Ms. Joey Wat.
- (5) The Shares were held by Darby Settlement Trust, a discretionary trust established by Ms. Joey Wat as the founder.
- (6) The Shares were held by Robert B. Aiken Trust, of which Mr. Robert B. Aiken is the trustee.
- (7) The Shares were held by Bassi Family Trust, of which Mr. Peter A. Bassi is the trustee.
- (8) The Shares were held directly by Pollos Investment L.P. (“Pollos Investment”). The limited partnership interests of Pollos Investment are ultimately owned by a private fund for which an affiliate of Dr. Fred Hu is special limited partner (“Special Limited Partner”). Dr. Fred Hu is a shareholder of the parent company of the general partner of the Special Limited Partner and is therefore deemed to be interested in the Shares.
- (9) The Shares were held by WMJ Investing Limited, a company incorporated in British Virgin Islands which is controlled by Ms. Min (Jenny) Zhang.

The Board appointed Ms. Mikel A. Durham as a director in August 2024. In connection with the appointment, the Board increased its size from 11 directors to 12 directors.

## (ii) Interest in the Shares of Associated Corporations

Name of Director	Name of Associated Corporation	Nature of Interest	Number of Shares <sup>(1)</sup>	Approximate Percentage of Holding <sup>(2)</sup>
Joey Wat	Y&L Coffee Limited (“Y&L”)	Beneficial owner	1,000,000 <sup>(3)</sup>	0.37%

Notes:

- (1) Representing long position.
- (2) The calculation is based on the total number of 267,052,046 shares in issue as of June 30, 2024.
- (3) Representing the number of ordinary shares of Y&L issuable under the performance share awards of Y&L granted to Ms. Joey Wat in February 2022. As previously disclosed, the Company and Lavazza Group established the Lavazza joint venture, Y&L, to explore and develop the Lavazza coffee concept in China. In order to support a founder’s mentality and to incentivize the efforts of employees of the Company, Lavazza Group and the Lavazza joint venture to execute on the Lavazza joint venture’s business plan, the Lavazza joint venture established equity plans in February 2022 allowing for the grant of equity awards with respect to the Lavazza joint venture to key employees of the Lavazza joint venture, Lavazza Group and the Company. The vesting of the performance share awards are subject to both performance-based vesting conditions and the occurrence of a liquidity event, including an initial public offering of Y&L, which must occur within seven years of the grant date.

## Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As of June 30, 2024, so far as was known to the directors or chief executive of the Company, the following persons (other than the directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Nature of Interest	Number of Shares <sup>(1)</sup>	Approximate Percentage of Holding <sup>(2)</sup>
BlackRock, Inc. <sup>(3)</sup>	Interest in controlled corporations	18,869,854	4.87%
		787,582 (S)	0.20% (S)
JPMorgan Chase & Co. <sup>(4)</sup>	Interest in controlled corporations	3,885,098	1.00%
		3,202,183 (S)	0.83% (S)
	Investment manager	17,947,405	4.63%
		4 (S)	* (S)
	Person having a security interest in shares	626,819	0.16%
	Trustee	12,054	*
	Approved lending agent	31,382,493	8.10%

Notes:

\* Representing less than 0.01%.

- (1) Unless otherwise specified, the Shares are long position. (S) denotes short position.
- (2) The calculation is based on the total number of 387,342,467 Shares in issue as of June 30, 2024.
- (3) According to the shareholding disclosures notice regarding the relevant event dated June 28, 2024 submitted by BlackRock, Inc. to the Hong Kong Stock Exchange, an aggregated 18,869,854 Shares (long position) and 787,582 Shares (short position) of the Company are held by BlackRock, Inc. indirectly through its certain subsidiaries. Among them, 76,989 Shares (long position) and 680,564 Shares (short position) are cash settled unlisted derivatives.
- (4) According to the shareholding disclosures notice regarding the relevant event dated June 18, 2024 submitted by JPMorgan Chase & Co. to the Hong Kong Stock Exchange, an aggregated 53,853,869 Shares (long position, including lending pool of 31,382,493 Shares) and 3,202,187 Shares (short position) of the Company are held by JPMorgan Chase & Co. indirectly through its certain subsidiaries. Among them, 119,300 Shares (long position) and 178,800 Shares (short position) are physically settled listed derivatives, 72,511 Shares (short position) are physically settled unlisted derivatives, and 667,022 Shares (long position) and 1,705,240 Shares (short position) are cash settled unlisted derivatives.

## Long Term Incentive Plans and Directors' Rights to Acquire Shares

In connection with the Company's voluntary conversion of its secondary listing status to a primary listing status on The Stock Exchange of Hong Kong Limited (the "Primary Conversion"), the Company's stockholders approved the Yum China Holdings, Inc. 2022 Long Term Incentive Plan (the "2022 Plan"). The 2022 Plan replaced the Yum China Holdings, Inc. Long Term Incentive Plan (the "2016 Plan") and became effective on October 24, 2022. The 2016 Plan, which was adopted at the time of the Company's spin-off from Yum! Brands, Inc. ("YUM"), continued to govern awards granted prior to the effectiveness of the 2022 Plan. The following paragraphs provide a summary of certain terms of, and details of awards granted, under the 2022 Plan and the 2016 Plan.

### (i) 2022 Plan

#### a. Purpose of the 2022 Plan

The purposes of our 2022 Plan are (i) to attract and retain persons eligible to participate in the 2022 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; and (iv) to align the interests of participants with those of our stockholders.

#### b. Types of Awards

Under the 2022 Plan, the Company may grant (i) non-qualified stock options; (ii) incentive stock options ("ISOs") (within the meaning of Section 422 of the Internal Revenue Code); (iii) stock appreciation rights ("SARs"); (iv) "Full Value Awards" (including restricted stock, restricted stock units ("RSUs"), performance shares and performance units ("PSUs")); and (v) cash incentive awards.

#### c. Available Shares under the 2022 Plan

Subject to the capitalization adjustment provisions included in the 2022 Plan, the maximum number of shares of Company common stock authorized for grants under the 2022 Plan is 31,000,000 shares.

The number of shares that may be delivered to participants and their beneficiaries under the 2022 Plan may be increased by our stockholders in a general meeting after three years from the date of their approval of the previous increase (or the date of the adoption of the 2022 Plan). Additional increases within any three-year period must be approved by our independent stockholders in a manner compliant with Chapter 17 of the Hong Kong Listing Rules in force from time to time. Any increase to the share limit under the 2022 Plan may not result in the number of shares of Company common stock that may be delivered to participants and their beneficiaries under the 2022 Plan exceeding 10% of the total number of shares outstanding as of the date our stockholders approve such increase (the "10% Limit").

To the extent shares subject to an award granted under the 2022 Plan were not issued or delivered by reason of (i) lapse of awards due to termination, expiration or forfeiture of such award, (ii) the settlement of such award in cash, or (iii) the withholding of such shares by the Company to satisfy the applicable tax withholding obligation or exercise price (by way of net settlement or net exercise), in each case, then such shares will not reduce the number of shares remaining available for issuance under the 2022 Plan. Only the shares subject to a stock-settled SAR that are issued to a participant upon exercise of such stock-settled SAR will reduce the number of shares remaining available for issuance under the 2022 Plan. In addition, subject to the 10% Limit, (x) shares withheld by the Company after August 24, 2022 to pay the withholding taxes related to an outstanding award granted under the 2016 Plan and (y) shares subject to awards granted under the 2016 Plan between August 24, 2022 and the effectiveness of the 2022 Plan which are not delivered to a participant or beneficiary because they have lapsed in accordance with the terms of the 2016 Plan, including due to forfeiture, termination, or expiration of the award, in each case, are also available for grants under the 2022 Plan.

The 2022 Plan uses a fungible share counting method, such that Full Value Awards reduce the 2022 Plan's share reserve at a ratio of two shares for every share subject to the Full Value Awards and stock options and SARs will reduce the share reserve on a one-for-one basis.

#### d. Eligibility

Participants in the 2022 Plan consist of officers, directors or other employees of the Company, its subsidiaries or its associated companies in which the Company has an equity interest and persons who are expected to become officers, employees or directors of the Company or a subsidiary or an associated company in which the Company has an equity interest, as may be selected by the compensation committee of the Board (the "Compensation Committee").

#### e. Other Share Limits

Under the terms of the 2022 Plan, (i) the number of shares initially available for grants of ISOs under the 2022 Plan equals 31,000,000; (ii) 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 will be 9,000,000; (iii) for Full Value Awards, no more than 3,000,000 shares may be subject to Full Value Awards granted to any one individual during any five-calendar-year period; and (iv) a non-employee director may not be granted during any calendar year an award or awards having a value determined on the grant date in excess of \$1,500,000.

In addition, to the extent any grant of an award to any one individual would result in the shares issued or to be issued in respect of all awards granted to such individual (excluding any awards that have been forfeited or lapsed in accordance with the terms of the 2022 Plan) in the 12-month period up to and including the date of such grant representing in the aggregate more than the limit set out in the Hong Kong Listing Rules (currently 1% of the shares of the Company issued as of such date), then such grant must be separately approved by our stockholders in accordance with the Hong Kong Listing Rules. Pursuant to the Hong Kong Listing Rules, if (i) a

grant of an award (excluding options and SARs) (the "Other Equity Awards") to any one of our directors whose role is executive in nature or our Chief Executive Officer or any of their associates would result in the shares issued and to be issued in respect of all Other Equity Awards granted (excluding the awards lapsed in accordance with the 2022 Plan) in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the total issued shares on the date of such grant, or (ii) a grant of an award (including options, SARs and any other types of share awards) to any one of our independent directors or substantial shareholder of the Company or any of their associates would result in the shares issued and to be issued in respect of all awards (excluding the awards lapsed in accordance with the 2022 Plan) in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the total issued shares on the date of such grant, such further grant exceeding 0.1% limit must be approved by our stockholders.

#### f. No Payment for Applying or Accepting an Award

Except as required by applicable law, participants are not required to pay any amount in order to apply for or accept an award.

#### g. Vesting Period

Notwithstanding any other provision of the 2022 Plan to the contrary, awards granted under the 2022 Plan (other than cash-based awards) will vest no earlier than the first anniversary of the date on which the award is granted; provided, that the following awards granted to directors, officers or other employees of the Company or any of its subsidiaries and persons who are expected to become directors, officers or other employees of the Company or any of its subsidiaries ("Employee Participants") will not be subject to the foregoing minimum vesting requirement: any (i) substitute awards granted in connection with awards that are assumed, converted or substituted pursuant to a merger, acquisition or similar transaction entered into by the Company or any of its subsidiaries, (ii) awards to non-employee directors that vest on the earlier of the one-year anniversary of the date of grant and



the next annual meeting of stockholders which is at least 50 weeks after the immediately preceding year's annual meeting, and (iii) additional awards the Compensation Committee may grant, up to a maximum of five percent (5%) of the available share reserve authorized for issuance under the 2022 Plan (subject to adjustment under the corporate capitalization provisions under the 2022 Plan) in respect of (A) sign-on or make-whole grants to new Employee Participants, (B) grants of awards with performance-based vesting conditions, (C) grants of awards that are made in batches for administrative or compliance reasons, (D) grants of awards that vest evenly over a period of 12 months or more, (E) grants of awards with a total vesting and holding period of more than 12 months and (F) shares subject to a minimum holding period of 12 months which are delivered to an Employee Participant under his or her compensation arrangements with the Company (including shares of Company common stock delivered to non-employee directors in respect of their annual retainers).

The Board and the Compensation Committee believe that the types of awards described in clauses (i) to (iii) in the previous paragraph are appropriate and align with the purposes of the 2022 Plan (i.e., to attract and retain individuals to the Company, motivate performance, provide competitive incentive opportunities and align the interests of participants with those of our stockholders). In clause (i), in the context of an acquisition of a target, the transaction may involve the assumption of equity awards granted to the target's employees. Because the equity awards with respect to the target would represent a contractual arrangement between the target and the participant, the Company would not be able to unilaterally change the terms in a way that would be adverse to the interests of the participant. As such, the Company needs flexibility to grant equity awards with vesting schedules of less than one year to the extent the corresponding award of the target had a vesting schedule of less than one year. In the case of awards described in clause (ii), the Compensation Committee believes that such awards are appropriate and align with the purposes of the 2022 Plan as such grants would coincide with the directors' term in office generally. The exception in clause (ii) would allow the award to vest if the next annual meeting at which directors are elected falls short of the 12-month anniversary of the date of grant, which

happens on occasion. In such instance, any director that does not stand for re-election would still vest in his/her award since they served the full term, provided that the annual meeting occurs at least 50 weeks following the prior annual meeting. Clauses (iii)(A)–(iii)(F) provide the Board and the Compensation Committee with the flexibility to grant awards from a limited pool of shares. Sign-on and make-whole grants assist the Company in attracting key talent; awards with performance-based vesting conditions align the interests of participants with those of our stockholders and provide competitive incentive compensation opportunities; and in the event of equity granted to settle compensation that had already been earned by the participant, to require the Company to include an additional vesting condition of at least 12 months would impair the Company's ability to stock-settle fully earned awards when the circumstances warranted it and would be unfair to the participants who had already earned such retainer or payment. The 12-month minimum vesting requirement does not apply to the Compensation Committee's discretion to provide for accelerated exercisability or vesting of any award in cases of retirement, separation, retention arrangements, death, disability or a change in control, to the extent set forth in the terms of the award agreement or otherwise. The Compensation Committee believes that its ability to provide for the accelerated exercisability or vesting of an award in such cases allows it to attract and retain individuals to provide services to the Company and its subsidiaries, and to provide for succession planning and the effective transition of employee responsibilities.

#### h. Exercise Period and Exercise Price of Stock Options and SARs

The Compensation Committee will determine the conditions to the exercisability of each option and SAR. Each option and SAR will be exercisable for no more than ten (10) years after its date of grant. Except in the case of substitute awards granted in connection with a corporate transaction (subject to approval, waiver, confirmation or otherwise as applicable from the Hong Kong Stock Exchange), the exercise price of an option or SAR will not be less than the higher of (i) the fair market value of a share of Company common stock on the date of grant (which must be a New York Stock Exchange trading day) and (ii) the average fair market

value of a share of Company common stock for the five New York Stock Exchange trading days immediately preceding the date of grant (or, if greater, the par value of a share of Company common stock on such date(s)).

The exercise price of each option or SAR will be established or determined by a method established by the Compensation Committee at the time of grant, subject to the restrictions described above.

#### i. Expiration Date of the 2022 Plan

The 2022 Plan will expire on October 11, 2032 (i.e., the tenth anniversary of its approval by the stockholders of

Yum China), unless the Plan is earlier terminated by the Board. If the Plan is terminated, it will remain in effect as long as any awards under the Plan are outstanding.

At the beginning of the six months ended June 30, 2024 (the “Reporting Period”), 28,763,781 Shares remained available for future issuances under the 2022 Plan in accordance with its terms. At the end of the Reporting Period, 27,211,298 Shares remained available for future issuances under the 2022 Plan in accordance with its terms, which represented 7% of the total issued and outstanding Shares as of the end of the Reporting Period.

During the Reporting Period, details of the movements of the awards granted under the 2022 Plan required to be reported on an individual basis were as follows. Numbers of PSUs and RSUs reported exclude dividend equivalent units.

PSUs <sup>(1)</sup>									
Name of grantee	Date of grant (Month/Date/ Year)	Closing price on the day prior to grant date for awards granted during the Reporting Period <sup>(2)</sup>	Grant date fair value for awards granted during the Reporting Period <sup>(3)</sup>	Unvested as at the beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Unvested as at the end of the Reporting Period	Closing price on the day prior to vesting date during the Reporting Period
Joey Wat (Director and Chief Executive Officer)	2/9/2023 <sup>(4)</sup> 2/8/2024 <sup>(5)</sup>	N/A \$ 40.39	N/A \$ 5,000,057	64,338 —	— 112,300	— —	— —	64,338 112,300	— —
Total				64,338	112,300	—	—	176,638	

- (1) No purchase price is required for accepting the awards granted.
- (2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the PSUs were granted.
- (3) This amount represents aggregate fair value of the PSUs on the date of the grant. The grant date fair value of the PSU awards with performance conditions has been determined based on the closing price of the Shares traded on the New York Stock Exchange on the date of the grant and the number of PSUs granted. The grant date fair value of the PSU awards with market conditions has been determined based on the outcome of a Monte-Carlo simulation model with the following assumptions: risk-free interest rate of 4.1% and expected volatility of 38.8%, and the number of PSUs granted.

- (4) Contingent on continuing service, the PSUs are scheduled to vest if performance goals relating to relative total shareholder return (“rTSR”) against the constituents of the MSCI China Index and select strategic imperatives (i.e. goals relating to commodity cost inflation management, and food waste and energy indirect greenhouse gas emission reductions) are achieved during the performance period from January 1, 2023 to December 31, 2025. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.
- (5) Contingent on continuing service, the PSUs are scheduled to vest if performance goals relating to rTSR against the constituents of the MSCI China Consumer Discretionary Index and S&P 500 Consumer Discretionary Index, system sales, return on invested capital, and ESG goals relating to reducing salt and sugar in our products are achieved during the performance period from January 1, 2024 to December 31, 2026. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.

RSUs<sup>(1)</sup>

Name of grantee	Date of grant (Month/Date/Year)	Closing price on the day prior to grant date for awards granted during the Reporting Period <sup>(2)</sup>	Grant date fair value for awards granted during the Reporting Period <sup>(3)</sup>	Unvested as at the beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/Lapsed during the Reporting Period	Unvested as at the end of the Reporting Period	Closing price on the day prior to vesting date during the Reporting Period <sup>(4)</sup>
Joey Wat (Director and Chief Executive Officer)	2/9/2023 <sup>(5)</sup> 2/8/2024 <sup>(5)</sup>	N/A \$ 40.39	N/A \$ 5,000,024	80,464	— 126,104	26,553 —	— —	53,911 126,104	\$ 39.65 —
Total				80,464	126,104	26,553	—	180,015	

- (1) No purchase price is required for accepting the awards granted.
- (2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the RSUs were granted.
- (3) This amount represents aggregate fair value of the RSUs on the date of the grant. The grant date fair value of the RSUs has been determined based on the closing price of the Shares traded on the New York Stock Exchange on the date of grant and the number of RSUs granted.
- (4) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the RSUs vested.
- (5) Contingent on continuing service, the RSUs are scheduled to vest in equal installments on each of the first three anniversaries of the date of grant.



## Director Retainer

During the Reporting Period, we also granted shares of common stock to non-employee directors under the 2022 Plan as part of their annual retainers.

The Company primarily uses stock-based compensation to attract and retain qualified candidates to serve on the Board. In setting director compensation, the Board considers the significant amount of time that directors expend in fulfilling their duties to the Company as well as the skill level required as members of the Board. The nominating and governance committee of the Board (the “Nominating and Governance Committee”) considers advice from the compensation consultant and reviews and makes recommendations to the Board with respect to the compensation and benefits of directors. The Company’s current director compensation structure was approved by the Board in May 2023 and became effective in June 2023.

Employee directors do not receive additional compensation for serving on the Board. The following summarizes retainers paid to non-employee directors during the Reporting Period.

*Non-Employee Directors Retainer.* Our non-employee directors were each compensated with an annual retainer equal to \$315,000, payable in Company common stock or, if requested by a director, up to one-half in cash. The annual retainers were paid in June 2024 to compensate the directors for their services from June 1, 2024 to May 31, 2025, unless otherwise noted.

*Committee Chair and Member Retainer.* The Chairperson of the Audit Committee (Mr. Bassi) received an additional annual stock retainer of \$35,000, the Chairperson of the Compensation Committee (Ms. Zhang) received an additional annual stock retainer of \$25,000, and the Chairperson of the Food Safety and Sustainability Committee (Mr. Shao) received an additional annual stock retainer of \$20,000. In addition, each member of the Audit Committee (Mr. Shao, Ms. Zhang, and Mr. Hoffmann) received an additional annual stock retainer of \$17,500, each member of the Compensation Committee (Mr. Ettedgui, Mr. Wang and Ms. Lu) received an additional annual stock retainer of \$12,500, each member of the Nominating and Governance Committee (Mr. Ettedgui, Ms. Lu and Ms. Zhang) received an additional annual stock retainer of \$10,000, and each member of the Food Safety and Sustainability Committee (Mr. Aiken, Mr. Bassi, Mr. Ettedgui, and Ms. Zhu) received an additional annual stock retainer of \$10,000.

The table below summarizes stock retainers granted to each non-employee director under the 2022 Plan during the Reporting Period.

Name	Date of grant (Month/Date/Year)	Closing price on the day prior to grant date for awards granted during the		Number of shares of common stock issued <sup>(3)</sup>
		Reporting Period <sup>(1)</sup>	Stock awards (\$) <sup>(2)</sup>	
Robert B. Aiken	6/1/2024	\$	35.76 \$	9,088
Peter A. Bassi				5,662
Edouard Ettedgui				9,717
David Hoffmann				9,298
Fred Hu <sup>(4)</sup>				8,808
Ruby Lu				9,437
Zili Shao				5,453
William Wang				9,158
Min (Jenny) Zhang <sup>(5)</sup>				4,009
Christina Xiaojing Zhu				4,684
Total		\$	2,760,000	75,314

- (1) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the shares of common stock were granted.
- (2) Representing the grant date fair value for annual stock retainer awards granted.
- (3) Each director received Shares determined by dividing the applicable annual retainer by the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date of grant, with any fractional shares paid in cash rather than equity.
- (4) Dr. Fred Hu received additional annual stock retainer of \$225,000 for serving as the chairperson of the Board, and additional annual stock retainer of \$20,000 for serving as the chairperson of the Nominating and Governance Committee in August 2024.
- (5) Number of shares issued net of tax liabilities associated with stock retainer.
- (6) Ms. Mikel A. Durham received her pro-rated annual retainer for serving as a non-employee director in August 2024.

During the Reporting Period, details of the movements of the awards granted under the 2022 Plan not required to be reported on an individual basis were as follows, with grant date fair value for awards granted during the Reporting Period and number of awards reported in thousands. Numbers of PSUs and RSUs reported exclude dividend equivalent units.

Grantees by category	Date of grant (Month/Date/Year)	SARs <sup>(1)</sup>								
		Closing price on the day prior to grant date for awards granted during the Reporting Period <sup>(2)</sup>	Grant date fair value for awards granted during the Reporting Period (\$ in thousands) <sup>(3)</sup>	Exercise price	Outstanding as at the beginning of the Reporting Period (shares in thousands)	Granted during the Reporting Period (shares in thousands)	Exercised during the Reporting Period (shares in thousands)	Cancelled/Lapsed during the Reporting Period (shares in thousands)	Outstanding as at the end of the Reporting Period (shares in thousands)	Closing price on the day prior to exercise date during the Reporting Period
Other employees of the Company	2/9/2023 <sup>(4)</sup> 2/8/2024 <sup>(4)</sup>	N/A \$ 40.39	N/A \$ 6,050	\$ 62.14 \$ 39.65	320 —	— 416	— —	14 7	306 409	— —
<b>Total</b>					<u>320</u>	<u>416</u>	<u>—</u>	<u>21</u>	<u>715</u>	

- (1) Exercise period is 10 years from the date of grant. No purchase price is required for accepting the awards granted.
- (2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the SARs were granted.
- (3) The amounts reported in this column represent the aggregate grant date fair value of the SAR awards, determined in accordance with ASC 718 and the number of SARs granted. The Company estimated the fair value of each SAR award granted to the Company's employees as of the date of grant, using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rate of 4.1%, expected term of 6.5 years, expected volatility of 36.2%, and expected dividend yield of 1.6%.
- (4) Vesting in equal installments of 25%, beginning on the first anniversary of the grant date.

PSUs<sup>(1)</sup>

Grantees by category	Date of grant (Month/Date/Year)	PSUs <sup>(1)</sup>							
		Closing price on the day prior to grant date for awards granted during the Reporting Period <sup>(2)</sup>	Grant date fair value for awards granted during the Reporting Period (\$ in thousands) <sup>(3)</sup>	Unvested as at the beginning of the Reporting Period (shares in thousands)	Granted during the Reporting Period (shares in thousands)	Vested during the Reporting Period (shares in thousands)	Cancelled/Lapsed during the Reporting Period (shares in thousands)	Unvested as at the end of the Reporting Period (shares in thousands)	Closing price on the day prior to vesting date during the Reporting Period
Other employees of the Company	11/3/2022 <sup>(4)</sup>	N/A	N/A	14	—	—	—	14	—
	2/9/2023 <sup>(5)</sup>	N/A	N/A	71	—	—	11	60	—
	9/1/2023 <sup>(6)</sup>	N/A	N/A	52	—	—	5	47	—
	11/1/2023 <sup>(7)</sup>	N/A	N/A	2	—	—	—	2	—
	2/8/2024 <sup>(8)</sup>	\$ 40.39	\$ 4,603	—	103	—	—	103	—
Total				139	103	—	16	226	

- (1) No purchase price is required for accepting the awards granted.
- (2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the PSUs were granted.
- (3) This amount represents aggregate fair value of the PSUs on the date of the grant. The grant date fair value of the PSU awards with performance conditions has been determined based on the closing price of the Shares traded on the New York Stock Exchange on the date of the grant and the number of PSUs granted. The grant date fair value of the PSU awards with market conditions has been determined based on the outcome of a Monte-Carlo simulation model with the following assumptions: risk-free interest rate of 4.1% and expected volatility of 38.8%, and the number of PSUs granted.
- (4) Contingent on continuing service, the PSUs are scheduled to vest if performance goals relating to store count, revenue and operating profit are achieved during the performance period from January 1, 2022 to December 31, 2023, and the performance period from January 1, 2024 to December 31, 2025. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.
- (5) Contingent on continuing service, the PSUs are scheduled to vest if performance goals relating to rTSR against the constituents of the MSCI China Index and select strategic imperatives (i.e. goals relating to commodity cost inflation management, and food waste and energy indirect greenhouse gas emission reductions) are achieved during the performance period from January 1, 2023 to December 31, 2025. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.
- (6) Contingent on continuing service, the PSUs are scheduled to vest if performance goals relating to store count, revenue and operating profit are achieved during the performance period from January 1, 2023 to December 31, 2025. Based on performance, vesting may range from 0% to 200% of the target number of shares subject to the PSUs.
- (7) Contingent on continuing service, the PSUs are scheduled to vest if performance goals relating to select strategic imperative (i.e. a goal relating to commodity cost inflation management) are achieved during the performance period from January 1, 2023 to December 31, 2025. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.

- (8) Contingent on continuing service, the PSUs are scheduled to vest if performance goals relating to rTSR against the constituents of the MSCI China Consumer Discretionary Index and S&P 500 Consumer Discretionary Index, system sales, return on invested capital, and ESG goals relating to reducing salt and sugar in our products are achieved during the performance period from January 1, 2024 to December 31, 2026. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.

Grantees by category	Date of grant (Month/Date/Year)	RSUs <sup>(1)</sup>							
		Closing price on the day prior to grant date for awards granted during the Reporting Period <sup>(2)</sup>	Grant date fair value for awards granted during the Reporting Period (\$ in thousands) <sup>(3)</sup>	Unvested as at the beginning of the Reporting Period (shares in thousands)	Granted during the Reporting Period (shares in thousands)	Vested during the Reporting Period (shares in thousands)	Cancelled/Lapsed during the Reporting Period (shares in thousands)	Unvested as at the end of the Reporting Period (shares in thousands)	Closing price on the day prior to vesting date during the Reporting Period <sup>(4)</sup>
Other employees of the Company	11/3/2022 <sup>(5)</sup>	N/A	N/A	3	—	—	—	3	—
	2/9/2023 <sup>(6)</sup>	N/A	N/A	319	—	69	19	231	\$ 39.51
	2/28/2023 <sup>(7)</sup>	N/A	N/A	48	—	—	3	45	—
	8/31/2023 <sup>(7)</sup>	N/A	N/A	30	—	—	2	28	—
	9/1/2023 <sup>(8)</sup>	N/A	N/A	5	—	—	—	5	—
	2/8/2024 <sup>(9)</sup>	\$ 40.39	\$ 17,042	—	430	—	5	425	—
	5/1/2024 <sup>(8)</sup>	\$ 36.51	\$ 100	—	3	—	—	3	—
Total			\$ 17,142	405	433	69	29	740	

- (1) No purchase price is required for accepting the awards granted.
- (2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the RSUs were granted.
- (3) This amount represents aggregate fair value of the RSUs on the date of the grant. The grant date fair value of the RSUs was determined based on the closing price of the Shares traded on the New York Stock Exchange on the date of grant and the number of RSUs granted.
- (4) The stated price was the weighted average closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the RSUs vested, including pro-rata vesting pursuant to the terms of applicable award agreements.
- (5) Contingent on continuing service, the RSUs are scheduled to vest in equal installments on each of the first three anniversaries of grant date.
- (6) Contingent on continuing service, the RSUs are scheduled to vest in equal installments on each of the first three or four anniversaries of grant date, or 50% on each of the second and third anniversaries of the grant date.
- (7) Contingent on continuing service, the RSUs are scheduled to vest on the third anniversary of the grant date.
- (8) Contingent on continuing service, the RSUs are scheduled to vest in equal installments on each of the first three anniversaries of the grant date.
- (9) Contingent on continuing service, the RSUs are scheduled to vest in equal installments on each of the first three or four anniversaries of grant date, or 50% on each of the second and third anniversaries of the grant date, or vest on the third anniversary of the grant date.

The number of shares that may be issued in respect of awards granted under the 2022 Plan during the Reporting Period, including SARs, RSUs, PSUs and dividend equivalent units associated with unvested RSUs and PSUs, representing 0.3% of the weighted average number of Shares outstanding in the Reporting Period. For this calculation, (1) the number of Shares which may be issued pursuant to the SARs granted during the Reporting Period were based on the New York Stock Exchange closing price as of June 28, 2024; and (2) the number of Shares which may be issued pursuant to the PSUs granted during the Reporting Period assumed maximum payouts pursuant to the relevant award agreements.

## **(ii) 2016 Plan**

### **a. Purpose of the 2016 Plan**

Effective October 31, 2016, the Company adopted the 2016 Plan. The purposes of the 2016 Plan were similar to the 2022 Plan. In addition, the 2016 Plan was also used to issue awards pursuant to and in accordance with the employee matters agreement the Company entered into with YUM in connection with the Company's spin-off.

### **b. Types of Awards**

Similar to the 2022 Plan, awards under the 2016 Plan included stock options, incentive options, SARs, restricted stock, stock units, RSUs, performance shares, performance units, and cash incentive awards.

### **c. Shares Available Under the 2016 Plan**

The Company reserved for issuance under the 2016 Plan 45,000,000 shares of our common stock.

### **d. Eligibility**

After the Company's spin-off from YUM, eligible participants in the 2016 Plan consisted of any officer, director or other employee of the Company or one of our subsidiaries, consultants, independent contractors or agents of us or one of our subsidiaries.

### **e. Other Share Limits**

Under the 2016 Plan, the maximum number of shares that may be covered by stock options, SARs or Full Value Awards granted to any one individual was similar to the 2022 Plan, but without the application of the additional limits set out in the Hong Kong Listing Rules.

### **f. No Payment for Applying or Accepting an Award**

Except as required by applicable law, the participant was not required to pay any amount in order to apply for or accept an award.

### **g. Vesting Period and Conditions**

Subject to the terms of the 2016 Plan, the Compensation Committee determined the vesting provisions of stock options, SARs and Full Value Awards at the time of grant.

### **h. Exercise Period and Exercise Price of Stock Options and SARs**

The vesting period and exercise price of each stock option or SAR granted was established by the Compensation Committee or determined by a method established by the Compensation 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 on the date of grant.

While awards under the 2016 Plan have varying vesting provisions and exercise periods, outstanding awards vest in periods ranging from three to five years. Stock options and SARs would expire 10 years after their grant dates.

### **i. Termination of the 2016 Plan**

Upon the 2022 Plan becoming effective on October 24, 2022, no new awards would be further granted under the 2016 Plan, but the 2016 Plan continues to govern awards previously granted under the 2016 Plan.

**OTHER INFORMATION**

During the Reporting Period, details of the movements of the awards granted under the 2016 Plan required to be reported on an individual basis were as follows. Numbers of PSUs and RSUs reported exclude dividend equivalent units.

Options/SARs <sup>(1)</sup>								
Name of grantee	Date of grant (Month/Date/ Year)	Exercise price	Outstanding as at the beginning of the Reporting Period	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Outstanding as at the end of the Reporting Period	Closing price on the day prior to exercise date during the Reporting Period
Joey Wat (Director and Chief Executive Officer)	2/10/2017	\$ 26.56	80,197	—	—	—	80,197	—
	2/9/2018	\$ 40.29	186,151	—	—	—	186,151	—
	2/7/2019	\$ 41.66	186,100	—	—	—	186,100	—
	2/7/2020	\$ 42.71	187,063	—	—	—	187,063	—
	2/5/2021	\$ 57.39	171,989	—	—	—	171,989	—
	2/10/2022	\$ 50.16	208,969	—	—	—	208,969	—
Total			1,020,469	—	—	—	1,020,469	

- (1) Exercise period is 10 years from the date of grant. No purchase price is required for accepting the awards granted. Vesting in equal installments of 25%, beginning on the first anniversary of the grant date.

PSUs <sup>(1)</sup>							
Name of grantee	Date of grant (Month/Date/ Year)	Unvested as at the beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Unvested as at the end of the Reporting Period	Closing price on the day prior to vesting date during the Reporting Period
Joey Wat (Director and Chief Executive Officer)	2/10/2022 <sup>(2)</sup>	28,597	—	—	—	28,597	—

- (1) No purchase price is required for accepting the awards granted.
- (2) PSU awards are scheduled to vest based on the Company's achievement of the rTSR goal against the constituents of the MSCI China Index over the January 1, 2022 through December 31, 2024 performance period, subject to the grantee's continued employment through the last day of the performance period except as otherwise provided for in the underlying equity award agreement upon a qualifying termination of employment. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.



RSUs<sup>(1)</sup>

Name of grantee	Date of grant (Month/Date/ Year)	Unvested as at the beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Unvested as at the end of the Reporting Period	Closing price
							on the day prior to vesting date during the Reporting Period <sup>(2)</sup>
Joey Wat (Director and Chief Executive Officer)	2/5/2021 <sup>(3)</sup>	43,562	—	43,562	—	—	\$ 35.24
	2/10/2022 <sup>(4)</sup>	19,439	—	6,480	—	12,959	\$ 40.31
Total		63,001	—	50,042	—	12,959	

- (1) No purchase price is required for accepting the awards granted.
- (2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the RSUs vested.
- (3) Fully vested on the third anniversary of the grant date.
- (4) Vesting in equal installments of 25%, beginning on the first anniversary of the grant date.

During the Reporting Period, details of the movements of the awards granted under the 2016 Plan not required to be reported on an individual basis were as follows, with number of awards reported in thousands. Numbers of PSUs and RSUs reported exclude dividend equivalent units.

Options/SARs<sup>(1)</sup>

Grantees by category	Date of grant (Month/Date/ Year)	Exercise price for awards outstanding as at the beginning of the Reporting Period <sup>(2)</sup>	Outstanding as at the beginning of the Reporting Period (shares in thousands)	Granted during the Reporting Period (shares in thousands)	Exercised during the Reporting Period (shares in thousands)	Cancelled/ Lapsed during the Reporting Period (shares in thousands)	Outstanding as at the end of the Reporting Period (shares in thousands)	Closing price
								on the day prior to exercise date <sup>(3)</sup>
Other employees of the Company	From 2/5/2014 to 2/10/2022	\$21.06 to \$57.39	5,929	—	158	209	5,562	\$ 40.64
Employees of YUM	From 2/5/2014 to 10/1/2016	\$21.06 to \$27.41	1,201	—	224	1	976	\$ 36.85
Total			7,130	—	382	210	6,538	

- (1) SAR awards granted to employees of the Company typically have a graded vesting schedule of 25% per year over four years and expire 10 years after grant. Outstanding options/SARs held by employees of YUM were fully vested. No purchase price is required for accepting the awards granted.
- (2) The weighted average exercise price of SARs held by other employees of the Company as at the end of the Reporting Period was \$37.54. The weighted average exercise price of options/SARs held by employees of YUM as at the end of the Reporting Period was \$21.84.

- (3) The stated price was the weighted average closing price of the Shares traded on the New York Stock Exchange on the trading days immediately prior to the dates on which the options/SARs were exercised.

PSUs <sup>(1)</sup>							
Grantees by category	Date of grant (Month/Date/ Year)	Unvested as at the beginning of the Reporting Period (shares in thousands)	Granted during the Reporting Period (shares in thousands)	Vested during the Reporting Period (shares in thousands)	Cancelled/ Lapsed during the Reporting Period (shares in thousands)	Unvested as at the end of the Reporting Period (shares in thousands)	Closing price on the day prior to vesting date during the Reporting Period
Other employees of the Company	2/10/2022	36	—	—	6	30	—

- (1) PSU awards are scheduled to vest based on the Company's achievement of the rTSR goal against the constituents of the MSCI China Index over the January 1, 2022 through December 31, 2024 performance period, subject to the grantee's continued employment through the last day of the performance period except as otherwise provided for in the underlying equity award agreement upon a qualifying termination of employment. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs. No purchase price is required for accepting the awards granted. Number of PSUs reported excludes dividend equivalent units.

RSUs <sup>(1)</sup>							
Grantees by category	Date of grant (Month/Date/ Year)	Unvested as at the beginning of the Reporting Period (shares in thousands)	Granted during the Reporting Period (shares in thousands)	Vested during the Reporting Period (shares in thousands)	Cancelled/ Lapsed during the Reporting Period (shares in thousands)	Unvested as at the end of the Reporting Period (shares in thousands)	Closing price on the day prior to vesting date during the Reporting Period <sup>(2)</sup>
Other employees of the Company	From 2/5/2021 to 9/1/2022	618	—	350	20	248	\$ 39.11

- (1) RSU awards generally vest over three to four years, with either cliff vesting at 100% on the third anniversary of the grant date or graded vesting on anniversary dates. No purchase price is required for accepting the awards granted. Number of RSUs reported excludes dividend equivalent units.
- (2) The stated price was the weighted average closing price of the Shares traded on the New York Stock Exchange on the trading days immediately prior to the dates on which the RSUs vested.



## Compliance with the Corporate Governance Code

The Board believes that good corporate governance is a critical factor in achieving business success and in fulfilling the Board's responsibilities to stockholders. The Board has adopted Corporate Governance Principles which are intended to embody the governance principles and procedures by which the Board functions. These principles are available on the Company's website. Our Corporate Governance Principles and practices are in line with the principles in the corporate governance code as set out in Part 2 of Appendix C1 to the Hong Kong Listing Rules (the "Corporate Governance Code").

During the Reporting Period, we have complied with all the code provisions of the Corporate Governance Code, save for the following.

Code Provisions A.2.1, B.3.1, D.3.3, D.3.7 and E.1.2 of the Corporate Governance Code require the charters of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee (collectively, the "Board Committees") to include at least the terms as set out in such paragraphs. Currently, the charters of the Board Committees do not include certain of such terms. The Company has adopted the charters of the Board Committees in accordance with the New York Stock Exchange listing rules and the rules of the SEC (to the extent applicable), which in all material ways are similar to the terms of reference as required under the Corporate Governance Code despite different language being used. The relevant Board Committees have in practice carried out the relevant responsibilities as required under the Corporate Governance Code.

Code Provisions E.1.2(a), (c) and (d) of the Corporate Governance Code require the remuneration committee to be responsible for directors' remuneration. Currently, the Nominating and Governance Committee is responsible for reviewing and making recommendations to the Board with respect to the compensation and benefits of the directors. Given (i) it is customary for U.S. public companies to delegate this responsibility to either the Nominating and Governance Committee or the Compensation Committee, it is common for U.S. listed companies to have the Nominating and Governance Committee to carry out such responsibility; (ii) the Nominating and Governance Committee has been carrying out such responsibility since the Company's listings on the New York Stock Exchange and the Hong Kong Stock Exchange; and (iii) the composition of the Nominating and Governance Committee also complies with the composition requirement of the remuneration committee as required under Rule 3.25 of the Hong Kong Listing Rules; the Board believes the current arrangement has achieved good corporate governance with respect to directors' remuneration.

## Model Code for Securities Transactions

The Company has adopted its own insider dealing policies on terms no less exacting than those in the Model Code regarding the directors' dealings in the securities of the Company.

Having made specific enquiry of all the directors, all the directors confirmed that they have strictly complied with the required standards set out in the Company's own insider dealing policies during the Reporting Period.

## Disclosure of Updated Director Information

Set out below is the updated Director information disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules since the date of the Company's 2023 annual report:

*Peter A. Bassi* served as Chairman of Yum! Restaurants International from 2003 to 2005 and as its President from 1997 to 2003. Prior to that position, Mr. Bassi spent 25 years in a wide range of financial and general management positions at PepsiCo, Inc., Pepsi-Cola International, Pizza Hut (U.S. and International), Frito-Lay and Taco Bell. Mr. Bassi served on the board of BJ's Restaurants, Inc. (NASDAQ: BJRI) from September 2004 to June 2024. From January 2009 to May 2019, Mr. Bassi held various positions on the board of Potbelly Corporation (NASDAQ: PBPB). From June 2015 to December 2018, Mr. Bassi served on the value optimization board for Mekong Capital Partners, a private equity firm based in Vietnam. He also served on the board of supervisors of AmRest Holdings SE (WSE: EAT) from 2013 to 2015, and served on the board of

the Pep Boys — Manny, Moe & Jack from 2002 to 2009. Mr. Bassi received his master's degree of business administration (MBA) from the University of Rhode Island in 1972. Mr. Bassi 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.

## Purchase, Sale or Redemption of the Company's Listed Securities

During the Reporting Period, the Company repurchased 21.7 million shares of common stock on the New York Stock Exchange and Hong Kong Stock Exchange for an aggregate consideration of \$868 million. Of the shares repurchased for the Reporting Period, 21.2 million Shares were retired and resumed the status of authorized and unissued shares of common stock, and 0.5 million Shares repurchased on the HKEX are expected to be retired subsequent to June 30, 2024. We have used share repurchases as a means of returning cash to stockholders.

Details of the shares repurchased on the NYSE are as follows:

Month of Repurchase	No. of Shares Repurchased* (thousands)	Price paid per share		Aggregate Consideration (US\$ millions)
		Highest US\$	Lowest US\$	
January	1,350	\$ 43.30	\$ 33.59	\$ 50
February	7,272	44.24	34.81	300
March	5,348	44.00	37.44	224
April	1,374	40.79	36.25	53
May	1,413	39.51	34.70	53
June	1,361	36.36	30.79	46
Total	18,118			\$ 726

Details of the shares repurchased on the HKEX are as follows:

Month of Repurchase	No. of Shares Repurchased* (thousands)	Price paid per share		Aggregate Consideration <sup>(a)</sup> (HK\$ millions)	Aggregate Consideration <sup>(a)</sup> (US\$ millions)
		Highest HK\$	Lowest HK\$		
January	346	HK\$ 337.20	HK\$ 260.40	HK\$ 101	\$ 13
February	1,189	347.60	268.40	387	50
March	1,049	345.20	297.60	347	44
April	304	318.00	286.20	91	12
May	339	309.80	268.60	98	12
June	340	282.80	240.60	89	11
Total	3,567			HK\$ 1,113	\$ 142

\*: Shares may not add due to rounding.

- (a) Starting January 2024, the Company also repurchased shares of common stock through open market transactions on the HKEX. Aggregate consideration for shares repurchased on the HKEX have been converted into U.S. dollars at the exchange rate on the date of repurchase.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

## Audit Committee Review of Financial Statements

The Audit Committee has reviewed the Condensed Consolidated Financial Statements and interim results of the Company for the Reporting Period. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with members of senior management and the external auditor of the Company, KPMG.

## Scope of Work of the Company's Auditor

The Condensed Consolidated Financial Statements of the Company and its subsidiary companies for the Reporting Period have been reviewed by the Company's auditor, KPMG, 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 Hong Kong Institute of Certified Public Accountants for the Hong Kong filing.

## Important Events after the Reporting Period

Save as disclosed in Note 15 to the Condensed Consolidated Financial Statements, no important events affecting the Company occurred since June 30, 2024 and up to the date of this report.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



## **Review report to the Board of Directors of Yum China Holdings, Inc.**

*(Incorporated in Delaware, United States of America)*

### **Introduction**

We have reviewed the interim financial information of Yum China Holdings, Inc. and its subsidiaries (“the Company”) set out on pages 44 to 76, which comprises the condensed consolidated balance sheet as at June 30, 2024, the condensed consolidated statement of income, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and condensed consolidated statement of equity for the six-month period then ended and notes to the condensed consolidated financial statements. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and U.S. generally accepted accounting principles. The directors are responsible for the preparation and presentation of the interim financial information in accordance with U.S. generally accepted accounting principles.

Our responsibility is to form a conclusion, based on our review, on the interim financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Scope of 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial information 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.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at June 30, 2024 is not prepared, in all material respects, in accordance with U.S. generally accepted accounting principles.

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

August 9, 2024

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Statements of Income (Unaudited)

Yum China Holdings, Inc.

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

	Year to Date Ended	
	6/30/2024	6/30/2023
<b>Revenues</b>		
Company sales	\$ 5,322	\$ 5,289
Franchise fees and income	47	46
Revenues from transactions with franchisees	203	182
Other revenues	65	54
Total revenues	5,637	5,571
<b>Costs and Expenses, Net</b>		
Company restaurants		
Food and paper	1,693	1,608
Payroll and employee benefits	1,374	1,348
Occupancy and other operating expenses	1,371	1,366
Company restaurant expenses	4,438	4,322
General and administrative expenses	273	316
Franchise expenses	19	19
Expenses for transactions with franchisees	196	175
Other operating costs and expenses	58	48
Closures and impairment expenses, net	14	17
Other (income) expenses, net	(1)	1
Total costs and expenses, net	4,997	4,898
<b>Operating Profit</b>	640	673
Interest income, net	69	78
Investment gain (loss)	16	(28)
<b>Income Before Income Taxes and Equity in</b>		
<b>Net Earnings (Losses) from Equity Method Investments</b>	725	723
Income tax provision	(190)	(196)
Equity in net earnings (losses) from equity method investments	—	—
Net income — including noncontrolling interests	535	527
Net income — noncontrolling interests	36	41
<b>Net Income — Yum China Holdings, Inc.</b>	\$ 499	\$ 486
Weighted-average common shares outstanding (in millions):		
Basic	395	418
Diluted	397	423
<b>Basic Earnings Per Common Share</b>	\$ 1.27	\$ 1.16
<b>Diluted Earnings Per Common Share</b>	\$ 1.26	\$ 1.15

See accompanying Notes to Condensed Consolidated Financial Statements.



## Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Yum China Holdings, Inc.

(in US\$ millions)

	Year to Date Ended	
	6/30/2024	6/30/2023
Net income — including noncontrolling interests	\$ 535	\$ 527
Other comprehensive loss, net of tax of nil:		
Foreign currency translation adjustments	(111)	(245)
Comprehensive income — including noncontrolling interests	424	282
Comprehensive income — noncontrolling interests	22	9
<b>Comprehensive Income — Yum China Holdings, Inc.</b>	<b>\$ 402</b>	<b>\$ 273</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

## Condensed Consolidated Statements of Cash Flows (Unaudited)

Yum China Holdings, Inc.

(in US\$ millions)

	Year to Date Ended	
	6/30/2024	6/30/2023
<b>Cash Flows — Operating Activities</b>		
Net income — including noncontrolling interests	\$ 535	\$ 527
Depreciation and amortization	235	228
Non-cash operating lease cost	203	202
Closures and impairment expenses	14	17
Investment (gain) loss	(16)	28
Equity in net (earnings) losses from equity method investments	—	—
Distributions of income received from equity method investments	7	8
Deferred income taxes	(2)	13
Share-based compensation expense	23	29
Changes in accounts receivable	(5)	2
Changes in inventories	52	1
Changes in prepaid expenses, other current assets and value-added tax assets	(28)	19
Changes in accounts payable and other current liabilities	27	54
Changes in income taxes payable	25	25
Changes in non-current operating lease liabilities	(206)	(193)
Other, net	(21)	(36)
	<u>843</u>	<u>924</u>
<b>Net Cash Provided by Operating Activities</b>		
<b>Cash Flows — Investing Activities</b>		
Capital spending	(358)	(332)
Purchases of short-term investments, long-term bank deposits and notes	(1,479)	(2,172)
Maturities of short-term investments, long-term bank deposits and notes	1,702	1,904
Other, net	3	2
	<u>(132)</u>	<u>(598)</u>
<b>Net Cash Used in Investing Activities</b>		
<b>Cash Flows — Financing Activities</b>		
Proceeds from short-term borrowings	307	—
Repayment of short-term borrowings	(52)	—
Repurchase of shares of common stock	(869)	(122)
Cash dividends paid on common stock	(126)	(108)
Dividends paid to noncontrolling interests	(28)	(28)
Contributions from noncontrolling interests	—	35
Payment of acquisition related holdback	—	(3)
Other, net	(17)	(4)
	<u>(785)</u>	<u>(230)</u>
<b>Net Cash Used in Financing Activities</b>		
<b>Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash</b>	<u>(11)</u>	<u>(37)</u>
<b>Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash</b>	<u>(85)</u>	<u>59</u>
<b>Cash, Cash Equivalents, and Restricted Cash — Beginning of Period</b>	<u>1,128</u>	<u>1,130</u>
<b>Cash, Cash Equivalents, and Restricted Cash — End of Period</b>	<u>\$ 1,043</u>	<u>\$ 1,189</u>
<b>Supplemental Cash Flow Data</b>		
Cash paid for income tax	187	175
Cash paid for interest	4	—
<b>Non-cash Investing and Financing Activities</b>		
Capital expenditures included in accounts payable and other current liabilities	167	153

See accompanying Notes to Condensed Consolidated Financial Statements.

## Condensed Consolidated Balance Sheets

Yum China Holdings, Inc.

(in US\$ millions)

	6/30/2024	12/31/2023
	(Unaudited)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,043	\$ 1,128
Short-term investments	1,434	1,472
Accounts receivable, net	74	68
Inventories, net	362	424
Prepaid expenses and other current assets	368	339
<b>Total Current Assets</b>	<b>3,281</b>	<b>3,431</b>
Property, plant and equipment, net	2,314	2,310
Operating lease right-of-use assets	2,151	2,217
Goodwill	1,888	1,932
Intangible assets, net	146	150
Long-term bank deposits and notes	1,051	1,265
Equity investments	343	332
Deferred income tax assets	132	129
Other assets	262	265
<b>Total Assets</b>	<b>11,568</b>	<b>12,031</b>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities	2,149	2,164
Short-term borrowings	416	168
Income taxes payable	113	90
<b>Total Current Liabilities</b>	<b>2,678</b>	<b>2,422</b>
Non-current operating lease liabilities	1,827	1,899
Non-current finance lease liabilities	46	44
Deferred income tax liabilities	386	390
Other liabilities	149	157
<b>Total Liabilities</b>	<b>5,086</b>	<b>4,912</b>
<b>Redeemable Noncontrolling Interest</b>	<b>13</b>	<b>13</b>
<b>Equity</b>		
Common stock, \$0.01 par value; 1,000 million shares authorized; 387 million shares and 407 million shares issued at June 30, 2024 and December 31, 2023, respectively; 386 million shares and 407 million shares outstanding at June 30, 2024 and December 31, 2023, respectively.	4	4
Treasury stock	(17)	—
Additional paid-in capital	4,103	4,320
Retained earnings	2,048	2,310
Accumulated other comprehensive loss	(326)	(229)
<b>Total Yum China Holdings, Inc. Stockholders' Equity</b>	<b>5,812</b>	<b>6,405</b>
Noncontrolling interests	657	701
<b>Total Equity</b>	<b>6,469</b>	<b>7,106</b>
<b>Total Liabilities, Redeemable Noncontrolling Interest and Equity</b>	<b>\$ 11,568</b>	<b>\$ 12,031</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

## Condensed Consolidated Statements of Equity (Unaudited)

Yum China Holdings, Inc.  
(in US\$ millions)

	Yum China Holdings, Inc.									
	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Noncontrolling	Total	Redeemable
	Shares*	Amount	Paid-in	Earnings	Other	Shares	Amount	Interests	Equity	Noncontrolling
		Capital		Loss						Interest
<b>Balance at December 31, 2023</b>	407	\$ 4	\$ 4,320	\$ 2,310	\$ (229)	—	\$ —	\$ 701	\$ 7,106	\$ 13
Net Income				499				36	535	—
Foreign currency translation adjustments					(97)			(14)	(111)	—
Comprehensive income									424	—
Cash dividends declared (\$0.32 per common share)				(126)					(126)	
Distributions to/contributions from noncontrolling interests								(66)	(66)	
Repurchase and retirement of shares	(21)	—	(225)	(635)		(1)	(17)		(877)	
Exercise and vesting of share-based awards	1	—	(15)						(15)	
Share-based compensation			23					—	23	
<b>Balance at June 30, 2024</b>	387	\$ 4	\$ 4,103	\$ 2,048	\$ (326)	(1)	\$ (17)	\$ 657	\$ 6,469	\$ 13
<b>Balance at December 31, 2022</b>	419	\$ 4	\$ 4,390	\$ 2,191	\$ (103)	—	\$ —	\$ 666	\$ 7,148	\$ 12
Net Income				486				41	527	—
Foreign currency translation adjustments					(213)			(32)	(245)	—
Comprehensive income									282	—
Cash dividends declared (\$0.26 per common share)				(108)					(108)	
Distributions to/contributions from noncontrolling interests								(19)	(19)	
Repurchase and retirement of shares	(2)	—	(21)	(104)		—	—		(125)	
Exercise and vesting of share-based awards	1	—	(2)						(2)	
Share-based compensation			29					—	29	
<b>Balance at June 30, 2023</b>	417	\$ 4	\$ 4,396	\$ 2,465	\$ (316)	—	\$ —	\$ 656	\$ 7,205	\$ 12

\*: Shares may not add due to rounding.

See accompanying Notes to Condensed Consolidated Financial Statements.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

(Tabular amounts in US\$ millions, except as otherwise noted)

### 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, Lavazza, Huang Ji Huang, Little Sheep 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”), a master license agreement was entered into between Yum Restaurants Consulting (Shanghai) Company Limited (“YCCL”), a wholly-owned indirect subsidiary of the Company and YUM, through YRI China Franchising LLC, a subsidiary of YUM, effective from January 1, 2020 and previously through Yum! Restaurants Asia Pte. Ltd., another subsidiary of YUM, from October 31, 2016 to December 31, 2019, for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its subsidiaries for the development and operation of the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the People’s Republic of China (the “PRC” or “China”), excluding Hong Kong, Macau and Taiwan. The term of the license is 50 years from October 31, 2016 for the KFC and Pizza Hut brands and, subject to achieving certain agreed-upon milestones, 50 years from April 15, 2022 for the Taco Bell brand, 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 from both our Company and franchise restaurants. We own the intellectual property of Huang Ji Huang and Little Sheep and pay no license fee related to these concepts.

In 1987, KFC was the first major global restaurant brand to enter China. As of June 30, 2024, there were 10,931 KFC stores in China. We maintain a controlling interest of 58%, 70%, 83%, 92% and approximately 60% in the entities that own and operate the KFCs in and around Shanghai, Beijing, Wuxi, Suzhou and Hangzhou, respectively.

The first Pizza Hut in China opened in 1990. As of June 30, 2024, there were 3,504 Pizza Hut restaurants in China.

In the second quarter of 2020, the Company partnered with Luigi Lavazza S.p.A. (“Lavazza Group”), the world-renowned family-owned Italian coffee company, and established a joint venture (“Lavazza joint venture”), to explore and develop the Lavazza coffee concept in China. Lavazza joint venture operates both the coffee shop business and the retail business. We maintain a controlling interest of 65% equity interest in the Lavazza joint venture.

In 2017, the Company acquired a controlling interest in the holding company of DAOJIA.com.cn (“Daojia”), an online food delivery service provider in China. This business was extended to also include a team managing the delivery services for restaurants, including restaurants in our system, with their results reported under our delivery operating segment.

We operate our own retail brand, Shaofaner, which sells packaged foods through online and offline channels. The operating results of Shaofaner are included in our e-commerce business operating segment.

The Company has two reportable segments: KFC and Pizza Hut. Our non-reportable operating segments, including the operations of Lavazza, Huang Ji Huang, Little Sheep and Taco Bell, our delivery operating segment and our e-commerce business, are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in the aggregate. Additional details on our segment reporting are included in Note 13.

The Company's common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "YUMC." On September 10, 2020, the Company completed a secondary listing of its common stock on the Main Board of the Hong Kong Stock Exchange ("HKEX") under the stock code "9987," in connection with a global offering of 41,910,700 shares of its common stock. Net proceeds raised by the Company from the global offering after deducting underwriting fees and the offering expenses amounted to \$2.2 billion. On October 24, 2022, the Company's voluntary conversion of its secondary listing status to a primary listing status on the HKEX became effective ("Primary Conversion") and the Company became a dual primary listed company on the NYSE and HKEX. On the same day, the Company's shares of common stock traded on the HKEX were included in the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. The Company's common stock listed on the NYSE and HKEX continue to be fully fungible.

## Note 2 – Basis of Presentation

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

We have prepared the Condensed Consolidated Financial Statements in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Condensed Consolidated Financial Statements include all normal and recurring adjustments considered necessary to present fairly our financial position as of June 30, 2024, and our results of operations, comprehensive income, cash flows and statements of equity for the years to date ended June 30, 2024 and 2023. Our results of operations, comprehensive income and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2023 Annual Report on Form 10-K as filed with the SEC and the Company's 2023 Hong Kong Annual Report as filed with the HKEX.

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



### ***Recently Adopted Accounting Pronouncements***

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842) — Common Control Arrangements* (“ASU 2023-01”). It requires all lessees, including public business entities, to amortize leasehold improvements associated with common control leases over their useful life to the common control group and account for them as a transfer of assets between entities under common control through an adjustment to equity when the lessee no longer controls the use of the underlying asset. ASU 2023-01 is effective for the Company from January 1, 2024, with early adoption permitted. We adopted this standard on January 1, 2024, and such adoption did not have a material impact on our financial statements.

## **Note 3 — Business Acquisitions and Equity Investments**

### ***Consolidation of Hangzhou KFC and Equity Investment in Hangzhou Catering***

In the fourth quarter of 2021, the Company completed its investment in a 28% equity interest in Hangzhou Catering for cash consideration of \$255 million. Hangzhou Catering holds a 45% equity interest in Hangzhou KFC, of which the Company previously held a 47% equity interest. Along with the investment, the Company also obtained two additional seats on the board of directors of Hangzhou KFC. Upon completion of the transaction, the Company directly and indirectly holds an approximately 60% equity interest in Hangzhou KFC and has majority representation on the board, and thus obtained control over Hangzhou KFC and started to consolidate its results from the acquisition date.

In addition to its equity interest in Hangzhou KFC, Hangzhou Catering operates approximately 70 Chinese dining restaurants under four time-honored brands and a food processing business. The Company applies the equity method of accounting to the 28% equity interest in Hangzhou Catering excluding the Hangzhou KFC business and recorded this investment in Equity investments based on its then fair value. The Company elected to report its share of Hangzhou Catering’s financial results with a one-quarter lag because its results are not available in time for the Company to record them in the concurrent period. The Company’s equity earnings (losses) from Hangzhou Catering, net of taxes, were immaterial for both years to date ended June 30, 2024 and 2023, and included in Equity in net earnings (losses) from equity method investments in our Condensed Consolidated Statement of Income. As of June 30, 2024 and December 31, 2023, the carrying amount of the Company’s equity method investment in Hangzhou Catering was \$44 million and \$41 million, respectively, exceeding the Company’s interest in Hangzhou Catering’s underlying net assets by \$23 million and \$24 million, respectively. Substantially all of this difference was attributable to its self-owned properties and impact of related deferred tax liabilities determined upon acquisition, which is being depreciated over a weighted-average remaining useful life of 20 years.

The purchase amount from Hangzhou Catering was immaterial for both years to date ended June 30, 2024 and 2023. The Company’s accounts payable and other current liabilities due to Hangzhou Catering were immaterial as of both June 30, 2024 and December 31, 2023.

### ***Fujian Sunner Development Co., Ltd. (“Sunner”) Investment***

In the first quarter of 2021, the Company acquired a 5% equity interest in Sunner, a Shenzhen Stock Exchange-listed company. Sunner is China’s largest white-feathered chicken producer and the Company’s largest poultry supplier.

In May 2021, a senior executive of the Company was nominated and appointed to Sunner’s board of directors upon Sunner’s shareholder approval. Through this representation, the Company participates in Sunner’s policy making process. The representation on the board, along with the Company being one of Sunner’s significant shareholders, provides the Company with the ability to exercise significant influence over the operating and financial policies of Sunner. As a result, the Company started to apply the equity method of accounting to the investment in May 2021 based on its then fair value. The Company elected to report its share of Sunner’s financial results with a one-quarter lag because Sunner’s results are not available in time for the Company to record them in the concurrent period. In the years to date ended June 30, 2024 and 2023, the Company’s equity income (losses) from Sunner, net of taxes, was immaterial and was included in Equity in net earnings (losses) from equity method investments in our Condensed Consolidated Statement of Income.

The Company purchased inventories of \$247 million and \$256 million for the years to date ended June 30, 2024 and 2023, respectively. The Company’s accounts payable and other current liabilities due to Sunner were \$52 million and \$51 million as of June 30, 2024 and December 31, 2023, respectively.

As of June 30, 2024 and December 31, 2023, the carrying amount of the Company’s investment in Sunner was \$216 million and \$225 million, respectively, exceeding the Company’s interest in Sunner’s underlying net assets by \$148 million and \$152 million, respectively. As of June 30, 2024 and December 31, 2023, \$15 million and \$16 million of these basis differences were related to finite-lived intangible assets determined upon acquisition, respectively, which are being amortized over the estimated useful life of 20 years. The remaining differences were related to goodwill and indefinite-lived intangible assets, which are not subject to amortization, as well as deferred tax liabilities impact. As of June 30, 2024 and December 31, 2023, the market value of the Company’s investment in Sunner was \$117 million and \$151 million based on its quoted closing price, respectively.

### ***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, a delivery aggregator in China, for a total consideration of approximately \$74 million, when it launched its initial public offering on the HKEX in September 2018. In the second quarter of 2020, the Company sold 4.2 million of the ordinary shares of Meituan.

The Company accounts for the equity securities at fair value with subsequent fair value changes recorded in our Condensed Consolidated Statements of Income. The fair value of the investment in Meituan is determined based on the closing market price for the shares at the end of each reporting period. The fair value change, to the extent the closing market price of shares of Meituan as of the end of reporting period is higher than our cost, is subject to U.S. tax.

A summary of pre-tax gains or losses on investment in equity securities of Meituan recognized, which were included in Investment gain (loss) in our Condensed Consolidated Statements of Income, is as follows:

	<b><u>Year to Date Ended</u></b>	
	<b><u>6/30/2024</u></b>	<b><u>6/30/2023</u></b>
Unrealized gain (loss) recorded on equity securities still held as of the end of the period	\$ 16	\$ (29)

## Note 4 – Revenue Recognition

The Company's revenues include Company sales, Franchise fees and income, Revenues from transactions with franchisees, and Other revenues.

### *Company Sales*

Revenues from Company-owned restaurants are recognized when a customer takes possession of the food and tenders payment, which is when our obligation to perform is satisfied. The Company presents sales net of sales-related taxes. We also offer our customers delivery through both our own mobile applications and third-party aggregators' platforms. We primarily use our dedicated riders to deliver orders, and also use platform riders at select locations. When orders are fulfilled by our dedicated riders or platform 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.

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 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 privilege membership programs offering members a mix of distinct benefits, including a welcome gift and assorted discount coupons with pre-defined quantities, consideration collected is allocated to the benefits provided based on their relative standalone selling price and revenue is recognized when food or services are delivered or the benefits expire. In determining the relative standalone selling price of the benefits, the Company considers likelihood of future redemption based on historical redemption pattern and reviews such estimates periodically based upon the latest available information regarding redemption and expiration patterns.

### *Franchise Fees and Income*

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

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

The Company centrally purchases substantially all food and paper products from suppliers for substantially all of our restaurants, including franchisees, and then sells and delivers them to the restaurants. In addition, the Company owns seasoning facilities for its Chinese dining business unit, which manufacture and sell seasoning products to Huang Ji Huang and Little Sheep franchisees. The Company also provides delivery services to franchisees. The performance obligation arising from such transactions is considered distinct from the franchise agreement as it is not highly dependent on the franchise agreement and the customer can benefit from such services 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. Revenue is recognized upon transfer of control over ordered items or services, generally upon delivery to the franchisees.

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. Other services provided to franchisees 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.

### ***Other Revenues***

Other revenues primarily include i) sales of products to customers through e-commerce channels, sales of Lavazza coffee retail products beyond Lavazza coffee shops, and sales of our seasoning products to distributors, and ii) revenues from logistics and warehousing services provided to third parties through our supply chain network. Our segment disclosures also include revenues relating to delivery services that were provided to our Company-owned restaurants and, therefore, were eliminated for consolidation purposes.

Other revenues are recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services.

### ***Loyalty Programs***

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

historical redemption patterns and reviews such estimates periodically based upon the latest available information regarding redemption and expiration patterns.

### Disaggregation of Revenue

The following tables present revenue disaggregated by types of arrangements and segments:

Revenues	Year to Date Ended 6/30/2024						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	\$ 4,176	\$ 1,117	\$ 29	\$ —	\$ 5,322	\$ —	\$ 5,322
Franchise fees and income	34	4	9	—	47	—	47
Revenues from transactions with franchisees	26	2	36	139	203	—	203
Other revenues	8	12	308	31	359	(294)	65
<b>Total revenues</b>	<b>\$ 4,244</b>	<b>\$ 1,135</b>	<b>\$ 382</b>	<b>\$ 170</b>	<b>\$ 5,931</b>	<b>\$ (294)</b>	<b>\$ 5,637</b>

Revenues	Year to Date Ended 6/30/2023						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	\$ 4,120	\$ 1,137	\$ 32	\$ —	\$ 5,289	\$ —	\$ 5,289
Franchise fees and income	32	4	10	—	46	—	46
Revenues from transactions with franchisees	21	2	36	123	182	—	182
Other revenues	9	8	306	20	343	(289)	54
<b>Total revenues</b>	<b>\$ 4,182</b>	<b>\$ 1,151</b>	<b>\$ 384</b>	<b>\$ 143</b>	<b>\$ 5,860</b>	<b>\$ (289)</b>	<b>\$ 5,571</b>

### Accounts Receivable

Accounts receivable primarily consist of trade receivables and royalties from franchisees, and are generally due within 30 days of the period in which the corresponding sales occur. Our provision of credit losses for accounts receivable is based upon the current expected credit losses (“CECL”) model. The CECL model requires an estimate of the credit losses expected over the life of accounts receivable since initial recognition, and accounts receivable with similar risk characteristics are grouped together when estimating CECL. In assessing the CECL, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical credit loss experience, adjusted for relevant factors impacting collectability and forward-looking information indicative of external market conditions. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Accounts receivable that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. As of June 30, 2024 and December 31, 2023, the ending balances of provision for accounts receivable were \$2 million and \$1 million, respectively, and amounts of accounts receivable past due were immaterial.

## 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, 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 Condensed Consolidated Balance Sheets and are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. Subsequent to the separation, we are no longer required to pay YUM initial or renewal fees that we receive from franchisees. 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 \$6 million at both June 30, 2024 and December 31, 2023.

## Contract Liabilities

Contract liabilities at June 30, 2024 and December 31, 2023 were as follows:

<b>Contract liabilities</b>	<b>6/30/2024</b>	<b>12/31/2023</b>
– Deferred revenue related to prepaid stored-value products	\$ 160	\$ 142
– Deferred revenue related to upfront franchise fees	38	37
– Deferred revenue related to customer loyalty programs	24	24
– Deferred revenue related to privilege membership programs	28	24
– Others	—	1
Total	<u>\$ 250</u>	<u>\$ 228</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 Condensed Consolidated Balance Sheets. Deferred revenue related to upfront franchise fees that we expect to recognize as revenue in the next 12 months is included in Accounts payable and other current liabilities, and the remaining balance is included in Other liabilities in the Condensed Consolidated Balance Sheets. Revenue recognized that was included in the contract liability balance at the beginning of each period amounted to \$78 million and \$81 million for the years to date ended June 30, 2024 and 2023, respectively. Changes in contract liability balances were not materially impacted by business acquisition, change in estimate of transaction price or any other factors during any of the periods presented.

The Company has elected, as a practical expedient, not to disclose the value of remaining performance obligations associated with sales-based royalty promised to franchisees in exchange for 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 based on a certain percentage of sales, as those sales occur.



## Note 5 – Earnings Per Common Share (“EPS”)

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

	Year to Date Ended	
	6/30/2024	6/30/2023
Net Income — Yum China Holdings, Inc.	\$ 499	\$ 486
Weighted-average common shares outstanding (for basic calculation) <sup>(a)</sup>	395	418
Effect of dilutive share-based awards <sup>(a)</sup>	2	5
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation) <sup>(a)</sup>	397	423
Basic Earnings Per Common Share	\$ 1.27	\$ 1.16
Diluted Earnings Per Common Share	\$ 1.26	\$ 1.15
Share-based awards excluded from the diluted EPS computation <sup>(b)</sup>	6	2

- (a) As a result of the separation, shares of Yum China common stock were distributed to YUM’s shareholders of record as of October 19, 2016 and were included in the calculated weighted-average common shares outstanding. Holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards of either YUM or Yum China in their entirety. Any subsequent exercise of these awards, whether held by the Company’s employees or YUM’s employees, would increase the number of common shares outstanding. The incremental shares arising from outstanding equity awards are included in the computation of diluted EPS, if there is dilutive effect.
- (b) These outstanding stock appreciation rights (“SARs”), restricted stock units (“RSUs”) and performance stock units (“PSUs”) were excluded from the computation of diluted EPS because to do so would have been antidilutive for the 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, 2024 and 2023.

## Note 6 – Equity

### Share Repurchase and Retirement

Our Board of Directors has authorized an aggregate of \$3.4 billion for our share repurchase program. During the years to date ended June 30, 2024 and 2023, the Company repurchased 21.7 million shares of common stock for \$868 million, and 2.1 million shares of common stock for \$124 million, respectively, under the repurchase program. The total repurchase cost included \$3 million and \$2 million settled subsequent to June 30, 2024 and 2023, for shares repurchased with trade dates on and prior to June 30, 2024 and 2023, respectively. As of June 30, 2024, approximately \$666 million remained available for future share repurchases under the authorization.

Of the shares repurchased for the year to date ended June 30, 2024, 21.2 million shares were retired and resumed the status of authorized and unissued shares of common stock, and 0.5 million shares repurchased on the HKEX are expected to be retired subsequent to June 30, 2024 and included in Treasury stock in the Condensed Consolidated Financial Statement.

The Inflation Reduction Act of 2022 (“IRA”), which is discussed further in Note 12, imposes an excise tax of 1% on net share repurchases that occur after December 31, 2022. Estimated excise tax on net share repurchases, which was recognized as part of the cost of the shares repurchased, amounted to \$8 million and \$1 million for the years to date ended June 30, 2024 and 2023, respectively.

## Note 7 – Supplemental Balance Sheet Information

<b>Accounts Receivable, net</b>	<b>6/30/2024</b>	<b>12/31/2023</b>
Accounts receivable, gross	\$ 76	\$ 69
Allowance for doubtful accounts	(2)	(1)
Accounts receivable, net	<u>\$ 74</u>	<u>\$ 68</u>

The Company generally allows a credit period within 30 days of the period in which the corresponding sales occur to its customers. An aging analysis of accounts receivable as of June 30, 2024 and December 31, 2023, based on the date of delivering goods and services, is as follows:

	<b>6/30/2024</b>	<b>12/31/2023</b>
Within 30 days	\$ 60	\$ 56
31–90 days	13	11
Over 91 days	3	2
Total	<u>\$ 76</u>	<u>\$ 69</u>

<b>Prepaid Expenses and Other Current Assets</b>	<b>6/30/2024</b>	<b>12/31/2023</b>
Value-added tax (“VAT”) assets	\$ 99	\$ 91
Receivables from payment processors and aggregators	80	78
Interest receivables	64	46
Deposits, primarily lease deposits	23	25
Other prepaid expenses and current assets	102	99
Prepaid expenses and other current assets	<u>\$ 368</u>	<u>\$ 339</u>

<b>Property, Plant and Equipment (“PP&amp;E”)</b>	<b>6/30/2024</b>	<b>12/31/2023</b>
Buildings and improvements, and construction in progress	\$ 3,081	\$ 3,073
Finance leases, primarily buildings	73	68
Machinery and equipment	1,791	1,742
PP&E, gross	4,945	4,883
Accumulated depreciation	(2,631)	(2,573)
PP&E, net	<u>\$ 2,314</u>	<u>\$ 2,310</u>

<b>Equity Investments</b>	<b>6/30/2024</b>	<b>12/31/2023</b>
Investment in equity method investees	\$ 282	\$ 287
Investment in equity securities	61	45
Equity investments	<u>\$ 343</u>	<u>\$ 332</u>

<b>Other Assets</b>	<b>6/30/2024</b>	<b>12/31/2023</b>
Land use right	\$ 110	\$ 115
Long-term deposits, primarily lease deposits	96	94
Prepayment for acquisition of PP&E	30	28
VAT assets	8	6
Costs to obtain contracts	6	6
Others	12	16
Other assets	<u>\$ 262</u>	<u>\$ 265</u>

<b>Accounts Payable and Other Current Liabilities</b>	<b>6/30/2024</b>	<b>12/31/2023</b>
Accounts payable	\$ 819	\$ 786
Operating lease liabilities	418	426
Contract liabilities	217	196
Accrued compensation and benefits	213	299
Accrued capital expenditures	167	226
Dividends payable	91	40
Accrued marketing expenses	56	51
Other current liabilities	168	140
Accounts payable and other current liabilities	<u>\$ 2,149</u>	<u>\$ 2,164</u>

An aging analysis of the accounts payable as of June 30, 2024 and December 31, 2023 is as follows:

	<b>6/30/2024</b>	<b>12/31/2023</b>
Within 60 days	\$ 818	\$ 783
Over 60 days	1	3
Total	<u>\$ 819</u>	<u>\$ 786</u>

The accounts payable consist of invoiced and certain accrued balances, and are generally repaid within one to two months depending on payment term and the invoice date. Accrued accounts payable reflect payable of goods and services that have not yet been invoiced to the Company, and will be reclassified to invoiced accounts payable when invoices are received. Aging analysis of invoiced accounts payable has been presented based on invoice date and the amounts of accrued accounts payable were categorized as within 60 days.

<b>Other Liabilities</b>	<b>6/30/2024</b>	<b>12/31/2023</b>
Contract liabilities	\$ 33	\$ 32
Accrued income tax payable	20	39
Other non-current liabilities	96	86
Other liabilities	<u>\$ 149</u>	<u>\$ 157</u>

## 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, 2023				
Goodwill, gross	\$ 2,323	\$ 1,840	\$ 18	\$ 465
Accumulated impairment losses <sup>(a)</sup>	(391)	—	—	(391)
Goodwill, net	1,932	1,840	18	74
Effect of currency translation adjustments	(44)	(42)	—	(2)
Balance as of June 30, 2024				
Goodwill, gross	2,279	1,798	18	463
Accumulated impairment losses <sup>(a)</sup>	(391)	—	—	(391)
Goodwill, net	\$ 1,888	\$ 1,798	\$ 18	\$ 72

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

Intangible assets, net as of June 30, 2024 and December 31, 2023 are as follows:

	6/30/2024				12/31/2023			
	Gross Carrying Amount <sup>(a)</sup>	Accumulated Amortization <sup>(a)</sup>	Accumulated Impairment Losses <sup>(b)</sup>	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Losses <sup>(b)</sup>	Net Carrying Amount
Finite-lived intangible assets								
Reacquired franchise rights	\$ 262	\$ (259)	\$ —	\$ 3	\$ 268	\$ (265)	\$ —	\$ 3
Huang Ji Huang franchise related assets	21	(5)	—	16	21	(4)	—	17
Daojia platform	16	(4)	(12)	—	16	(4)	(12)	—
Customer-related assets	12	(10)	(2)	—	12	(10)	(2)	—
Others	8	(5)	—	3	9	(6)	—	3
	\$ 319	\$ (283)	\$ (14)	\$ 22	\$ 326	\$ (289)	\$ (14)	\$ 23
Indefinite-lived intangible assets								
Little Sheep trademark	\$ 50	\$ —	\$ —	\$ 50	\$ 51	\$ —	\$ —	\$ 51
Huang Ji Huang trademark	74	—	—	74	76	—	—	76
	\$ 124	\$ —	\$ —	\$ 124	\$ 127	\$ —	\$ —	\$ 127
<b>Total intangible assets</b>	<b>\$ 443</b>	<b>\$ (283)</b>	<b>\$ (14)</b>	<b>\$ 146</b>	<b>\$ 453</b>	<b>\$ (289)</b>	<b>\$ (14)</b>	<b>\$ 150</b>

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

Amortization expense for finite-lived intangible assets was \$1 million and \$3 million for the years to date ended June 30, 2024 and 2023, respectively. As of June 30, 2024, expected amortization expense for the unamortized finite-lived intangible assets was \$1 million for the remainder of 2024 and \$2 million in each of 2025, 2026, 2027 and 2028.

## Note 9 – Short-term Borrowings

As of June 30, 2024 and December 31, 2023, we had outstanding short-term bank borrowings of \$416 million and \$168 million, respectively, mainly to manage working capital at our operating subsidiaries, which were secured by short-term investments of \$57 million and \$79 million, respectively. The bank borrowings are RMB denominated, bear a weighted-average interest rate of 1.8%, and are due within one year from their issuance dates.

## Note 10 – Leases

As of June 30, 2024, we leased over 13,000 properties in China for our Company-owned restaurants. We generally enter into lease agreements for our restaurants with initial terms of 10 to 20 years. Most of our lease agreements contain termination options that permit us to terminate the lease agreement early if the restaurant profit 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 revenues, respectively, within our Condensed Consolidated Statements of Income.

Supplemental Balance Sheet	6/30/2024	12/31/2023	Account Classification
<b>Assets</b>			
Operating lease right-of-use assets	\$ 2,151	\$ 2,217	Operating lease right-of-use assets
Finance lease right-of-use assets	43	41	PP&E, net
<b>Total leased assets<sup>(a)</sup></b>	<b>\$ 2,194</b>	<b>\$ 2,258</b>	
<b>Liabilities</b>			
Current			
Operating lease liabilities	\$ 418	\$ 426	Accounts payable and other current liabilities
Finance lease liabilities	5	5	Accounts payable and other current liabilities
Non-current			
Operating lease liabilities	1,827	1,899	Non-current operating lease liabilities
Finance lease liabilities	46	44	Non-current finance lease liabilities
<b>Total lease liabilities<sup>(a)</sup></b>	<b>\$ 2,296</b>	<b>\$ 2,374</b>	

Summary of Lease Cost	Year to Date Ended		Account Classification
	6/30/2024	6/30/2023	
Operating lease cost	\$ 258	\$ 261	Occupancy and other operating expenses, G&A or Franchise expenses
Finance lease cost			
Amortization of leased assets	3	2	Occupancy and other operating expenses
Interest on lease liabilities	1	1	Interest income, net
Variable lease cost <sup>(b)</sup>	212	201	Occupancy and other operating expenses or Franchise expenses
Short-term lease cost	6	8	Occupancy and other operating expenses or G&A
Sub-lease income	(10)	(11)	Franchise fees and income or Other revenues
<b>Total lease cost</b>	<b>\$ 470</b>	<b>\$ 462</b>	

- (a) As of June 30, 2024, the decrease of right-of-use (“ROU”) assets was primarily due to the amortization of assets relating to existing leases with fixed lease payments, a higher portion of our new leases with variable lease payments and the impact of foreign currency translation. The decrease of lease liabilities was consistent with the decrease of ROU assets.
- (b) During the year to date ended June 30, 2023, the Company was granted \$10 million in lease concessions from landlords related to the effects of the COVID-19 pandemic. The lease concessions were primarily in the form of rent reduction over the period of time when the Company’s restaurant business was adversely impacted. The Company applied the interpretive guidance in a FASB staff question-and-answer 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. The Company was no longer granted such lease concession beginning in 2024.

Supplemental Cash Flow Information	Year to Date Ended	
	6/30/2024	6/30/2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 259	\$ 275
Operating cash flows from finance leases	1	1
Financing cash flows from finance leases	2	2
Right-of-use assets obtained in exchange for lease liabilities <sup>(c)</sup> :		
Operating leases	\$ 177	\$ 153
Finance leases	5	3

- (c) This supplemental non-cash disclosure for ROU assets obtained in exchange for lease liabilities includes an increase in lease liabilities associated with obtaining new ROU assets of \$180 million and \$171 million for the years to date ended June 30, 2024 and 2023, respectively, as well as adjustments to lease liabilities or ROU assets due to modification or other reassessment events, which resulted in a \$2 million increase and \$15 million decrease in lease liabilities for the years to date ended June 30, 2024 and 2023, respectively.

Lease Term and Discount Rate	6/30/2024	6/30/2023
Weighted-average remaining lease term (years)		
Operating leases	6.9	7.1
Finance leases	10.8	11.2
Weighted-average discount rate		
Operating leases	4.8%	5.0%
Finance leases	4.9%	5.1%

## Summary of Future Lease Payments and Lease Liabilities

Maturities of lease liabilities as of June 30, 2024 were as follows:

	Amount of Operating Leases	Amount of Finance Leases	Total
Remainder of 2024	\$ 274	\$ 4	\$ 278
2025	463	7	470
2026	416	7	423
2027	362	6	368
2028	297	6	303
Thereafter	832	36	868
Total undiscounted lease payment	2,644	66	2,710
Less: imputed interest <sup>(d)</sup>	399	15	414
Present value of lease liabilities	\$ 2,245	\$ 51	\$ 2,296

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

As of June 30, 2024, we have additional lease agreements that have been signed but not yet commenced, with total undiscounted minimum lease payments of \$131 million. These leases will commence between the third quarter of 2024 and 2026 with lease terms of 1 year to 20 years.

## Note 11 – Fair Value Measurements and Disclosures

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

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

The following table is a summary of our financial assets measured on a recurring basis or disclosed at fair value and the level within the fair value hierarchy in which the measurement falls. The Company classifies its cash equivalents, short-term investments, long-term bank deposits and notes, and investment in equity securities within Level 1 or Level 2 in the fair value hierarchy because it uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value, respectively. No transfers among the levels within the fair value hierarchy occurred during the years to date ended June 30, 2024 and 2023.



	Balance at June 30, 2024	Fair Value Measurement or Disclosure at June 30, 2024		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	\$ 300		\$ 300	
Fixed income debt securities <sup>(a)</sup>	183		183	
Money market funds	18	18		
Total cash equivalents	501	18	483	—
Short-term investments:				
Time deposits	986		986	
Structured deposits	381		381	
Variable return investments	67	67		
Total short-term investments	1,434	67	1,367	—
Long-term bank deposits and notes:				
Time deposits	580		580	
Fixed income bank notes <sup>(a)</sup>	471		471	
Total long-term bank deposits and notes	1,051	—	1,051	—
Equity investments:				
Investment in equity securities	61	61		
Total	\$ 3,047	\$ 146	\$ 2,901	\$ —

	Balance at December 31, 2023	Fair Value Measurement or Disclosure at December 31, 2023		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	\$ 293		\$ 293	
Fixed income debt securities <sup>(a)</sup>	14	14		
Money market funds	11	11		
Total cash equivalents	318	25	293	—
Short-term investments:				
Time deposits	1,113		1,113	
Fixed income debt securities <sup>(a)</sup>	200		200	
Structured deposits	138		138	
Variable return investments	21	21		
Total short-term investments	1,472	21	1,451	—
Long-term bank deposits and notes:				
Time deposits	903		903	
Fixed income bank notes <sup>(a)</sup>	362		362	
Total long-term bank deposits and notes	1,265	—	1,265	—
Equity investments:				
Investment in equity securities	45	45		
Total	\$ 3,100	\$ 91	\$ 3,009	\$ —

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

The Company is required to place bank deposits or purchase insurance to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements. \$61 million of time deposits in Long-term bank deposits and notes were restricted for use as of June 30, 2024, and \$21 million of time deposits in Short-term investments and \$28 million of time deposits in Long-term bank deposits and notes were restricted for use as of December 31, 2023.

## Non-Recurring Fair Value Measurements

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

In determining the fair value of restaurant-level assets, the Company considered the highest and best use of the assets from a market participants' perspective, which is represented by the higher of the forecasted discounted cash flows from operating restaurants and the price market participants would pay to sub-lease the ROU assets and acquire the 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. In situations where the highest and best use of restaurant-level assets are represented by sub-leasing the operating lease ROU assets and acquiring the remaining restaurant assets, the Company continues to use these assets in operating its restaurant business, which is consistent with its long-term strategy of growing revenue through operating restaurant concepts.

As of each relevant measurement date, the fair value of restaurant-level assets, if determined to be impaired, is primarily represented by a price market participant would pay to sub-lease the operating lease ROU assets and acquire the remaining restaurant 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 a sub-lease of each of the properties in its existing state with vacant possession. By making reference to lease transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for any 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 to date ended June 30, 2024 and 2023. These amounts exclude fair value measurements made for restaurants that were subsequently closed or refranchised prior to those respective period-end dates.

	Year to Date Ended		Account Classification
	6/30/2024	6/30/2023	
Restaurant-level impairment <sup>(a)</sup>	\$ 7	\$ 14	Closure and impairment expenses, net

- (a) Restaurant-level impairment charges are recorded in Closures and impairment expenses, net and resulted mainly 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. After considering the impairment charges recorded during the corresponding periods, the fair value of such assets as of June 30, 2024 and 2023 was \$22 million and \$55 million, respectively.

## Note 12 – Income Taxes

	Year to Date Ended	
	6/30/2024	6/30/2023
Income tax provision	\$ 190	\$ 196
Effective tax rate	26.2%	27.0%

The lower effective tax rate for the year to date ended June 30, 2024 was primarily due to the favorable impact from the reduction of certain non-deductible items and the impact from fair value change of our investment in Meituan.

In December 2017, the U.S. enacted the Tax Cuts and Jobs Act (the “Tax Act”), which included a broad range of tax reforms. The Tax Act requires a U.S. shareholder to be subject to tax on Global Intangible Low Taxed Income (“GILTI”) earned by certain foreign subsidiaries. We have elected the option to account for current year GILTI tax as a period cost as incurred, and therefore included it in estimating the annual effective tax rate.

In August 2022, the IRA was signed into law in the U.S., which contains certain tax measures, including a Corporate Alternative Minimum Tax (“CAMT”) of 15% on certain large corporations. On December 27, 2022, the U.S. Treasury Department and the Internal Revenue Services (the “IRS”) released Notice 2023-7, announcing their intention to issue proposed regulations addressing the application of the new CAMT. In 2023, additional notices were released to continue to provide interim guidance regarding certain CAMT issues before proposed regulations are published. The Company will monitor the regulatory developments and continue to evaluate the impact on our financial statements, if any.

In December 2022, a refined Foreign Sourced Income Exemption (“FSIE”) regime was published in Hong Kong and took effect from January 1, 2023. Under the new FSIE regime, certain foreign sourced income would be deemed as being sourced from Hong Kong and chargeable to Hong Kong Profits Tax, if the recipient entity fails to meet the prescribed exception requirements. Certain dividends, interests and disposal gains, if any, received by us and our Hong Kong subsidiaries may be subject to the new tax regime. Based on our preliminary analysis, this legislation did not have a material impact on our financial statements. The Company will monitor the developments and continue to evaluate the impact, if any.

The Organization for Economic Cooperation and Development (the “OECD”), the European Union and other jurisdictions (including jurisdictions in which we have operations or presence) have committed to enacting substantial changes to numerous long-standing tax principles impacting how large multinational enterprises are taxed. In particular, the OECD’s Pillar Two initiative introduced a 15% global minimum tax applied on a jurisdiction-by-jurisdiction basis and for which many jurisdictions have now committed to an effective enactment date starting January 1, 2024. The Company will monitor the regulatory developments and continue to evaluate the impact, if any.

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS and other tax authorities with respect to income and non-income based taxes. Since 2016, we have been under a national audit on transfer pricing by the Chinese State Taxation Administration (the “STA”) in China regarding our related party transactions for the period from 2006 to 2015. The information and views currently exchanged with the tax authorities focus on our franchise arrangement with YUM. We continue to provide information requested by the tax authorities to the extent it is available to the Company. It is reasonably possible that there could be significant developments, including expert review and assessment by the STA, within the next 12 months. The ultimate assessment and decision of the STA will depend upon further review of the information provided, as well as ongoing technical and other discussions with the

STA and in-charge local tax authorities, and therefore, it is not possible to reasonably estimate the potential impact at this time. We will continue to defend our transfer pricing position. However, if the STA prevails in the assessment of additional tax due based on its ruling, the assessed tax, interest and penalties, if any, could have a material adverse impact on our financial position, results of operations and cash flows.

## Note 13 – Segment Reporting

We have two reportable segments: KFC and Pizza Hut. Our non-reportable operating segments, including the operations of Lavazza, Huang Ji Huang, Little Sheep and Taco Bell, our delivery operating segment 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.

Revenues	Year to Date Ended 6/30/2024						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated <sup>(a)</sup>	Combined	Elimination	Consolidated
Revenue from external customers	\$ 4,244	\$ 1,135	\$ 88	\$ 170	\$ 5,637	\$ —	\$ 5,637
Inter-segment revenue	—	—	294	—	294	(294)	—
Total	\$ 4,244	\$ 1,135	\$ 382	\$ 170	\$ 5,931	\$ (294)	\$ 5,637

Revenues	Year to Date Ended 6/30/2023						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated <sup>(a)</sup>	Combined	Elimination	Consolidated
Revenue from external customers	\$ 4,182	\$ 1,151	\$ 95	\$ 143	\$ 5,571	\$ —	\$ 5,571
Inter-segment revenue	—	—	289	—	289	(289)	—
Total	\$ 4,182	\$ 1,151	\$ 384	\$ 143	\$ 5,860	\$ (289)	\$ 5,571

Operating Profit (Loss)	Year to Date Ended	
	6/30/2024	6/30/2023
KFC	\$ 636	\$ 693
Pizza Hut	87	90
All Other Segments	(8)	(13)
Unallocated revenues from transactions with franchisees <sup>(b)</sup>	139	123
Unallocated other revenues	31	20
Unallocated expenses for transactions with franchisees <sup>(b)</sup>	(138)	(122)
Unallocated other operating costs and expenses	(30)	(18)
Unallocated and corporate G&A expenses	(78)	(101)
Unallocated other income, net	1	1
Operating Profit	\$ 640	\$ 673
Interest income, net <sup>(a)</sup>	69	78
Investment gain (loss) <sup>(a)</sup>	16	(28)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	\$ 725	\$ 723

**Impairment Charges**

	Year to Date Ended	
	6/30/2024	6/30/2023
KFC <sup>(c)</sup>	\$ 10	\$ 12
Pizza Hut <sup>(c)</sup>	6	5
All Other Segments <sup>(c)</sup>	3	4
	<u>\$ 19</u>	<u>\$ 21</u>

	Total Assets	
	6/30/2024	12/31/2023
KFC	\$ 5,262	\$ 5,371
Pizza Hut	889	904
All Other Segments	325	347
Corporate and Unallocated <sup>(d)</sup>	5,092	5,409
	<u>\$ 11,568</u>	<u>\$ 12,031</u>

- (a) Amounts have not been allocated to any segment for performance reporting purposes.
- (b) Primarily includes revenues and associated expenses of transactions with franchisees derived from the Company’s central procurement model whereby the Company centrally purchases substantially all food and paper products from suppliers then sells and delivers to KFC and Pizza Hut restaurants, including franchisees. 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.
- (c) Primarily includes store closure impairment charges and restaurant-level impairment charges resulting from our semi-annual impairment evaluation.
- (d) Primarily includes cash and cash equivalents, short-term investments, long-term bank deposits and notes, equity investments, and inventories that are centrally managed and PP&E that are not specifically identifiable within each segment.

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 14 – Contingencies**

***Indemnification of China Tax on Indirect Transfers of Assets***

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

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

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

### ***Legal Proceedings***

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

## **Note 15 – Subsequent Events**

### ***Cash Dividend***

On August 5, 2024, the Company announced that the Board of Directors declared a cash dividend of \$0.16 per share on Yum China's common stock, payable on September 17, 2024, to stockholders of record as of the close of business on August 27, 2024. Total estimated cash dividend payable is approximately \$61 million.

## Note 16 — Reconciliation between U.S. GAAP and International Financial Reporting Standards

The Company's Condensed Consolidated Financial Statements are prepared in accordance with U.S. GAAP, which differ in certain respects from International Financial Reporting Standards ("IFRS"). The effects of material differences between U.S. GAAP and IFRS are as follows:

### (i) Reconciliation of Condensed Consolidated Statements of Income:

	For the year to date ended June 30, 2024						Amounts under IFRS
	Amounts as reported under U.S. GAAP	IFRS adjustments					
	Lease <sup>(a)</sup>	Share-based compensation <sup>(b)</sup>	Deferred taxes on share-based compensation <sup>(c)</sup>	Long-lived assets impairment <sup>(d)</sup>	Direct Marketing Costs <sup>(f)</sup>		
<b>Revenues</b>							
Franchise fees and income	\$ 47	\$ (2)					\$ 45
Revenues from transactions with franchisees	203				(1)		202
Total revenues	5,637	(2)	—	—	(1)		5,634
<b>Costs and Expenses, Net</b>							
Company restaurants							
Occupancy and other operating expenses	1,371	(40)			(2)	(6)	1,323
Company restaurant expenses	4,438	(40)	—	—	(2)	(6)	4,390
General and administrative expenses	273	(2)	(1)				270
Franchise expenses	19	(2)					17
Expenses for transactions with franchisees	196					(1)	195
Other operating costs and expenses	58	(1)					57
Closures and impairment expenses, net	14	(1)			1		14
Total costs and expenses, net	4,997	(46)	(1)	—	(1)	(7)	4,942
<b>Operating Profit</b>	640	44	1	—	1	6	692
Interest income (expense), net	69	(55)					14
<b>Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments</b>	725	(11)	1	—	1	6	722
Income tax provision	(190)	3		(3)	—	(2)	(192)
Net income — including noncontrolling interests	535	(8)	1	(3)	1	4	530
Net income — noncontrolling interests	36	(1)	—		—	—	35
<b>Net Income — Yum China Holdings, Inc.</b>	\$ 499	\$ (7)	\$ 1	\$ (3)	\$ 1	\$ 4	\$ 495



For the year to date ended June 30, 2023

	Amounts as reported under U.S. GAAP	IFRS adjustments				Amounts under IFRS
		Lease <sup>(a)</sup>	Share-based compensation <sup>(b)</sup>	Deferred taxes on share-based compensation <sup>(c)</sup>	Long-lived assets impairment <sup>(d)</sup>	
<b>Revenues</b>						
Franchise fees and income	\$ 46	\$ (2)				\$ 44
Revenues from transactions with franchisees	182				(1)	181
Total revenues	5,571	(2)	—	—	(1)	5,568
<b>Costs and Expenses, Net</b>						
Company restaurants						
Occupancy and other operating expenses	1,366	(36)			(23)	1,305
Company restaurant expenses	4,322	(36)	—	—	(23)	4,261
General and administrative expenses	316	(2)	1			315
Franchise expenses	19	(2)				17
Expenses for transactions with franchisees	175				(1)	174
Closures and impairment expenses, net	17	1			1	19
Total costs and expenses, net	4,898	(39)	1	—	(24)	4,835
<b>Operating Profit</b>	673	37	(1)	—	23	733
Interest income (expense), net	78	(57)				21
<b>Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments</b>	723	(20)	(1)	—	23	726
Income tax provision	(196)	5		(3)	(5)	(199)
Net income — including noncontrolling interests	527	(15)	(1)	(3)	18	527
Net income — noncontrolling interests	41	(1)	—		—	40
<b>Net Income — Yum China Holdings, Inc.</b>	\$ 486	\$ (14)	\$ (1)	\$ (3)	\$ 18	\$ 487

**(ii) Reconciliation of Condensed Consolidated Balance Sheets**

	As of June 30, 2024							Amounts under IFRS
	Amounts as reported under U.S. GAAP	IFRS adjustments						
		Lease <sup>(a)</sup>	Share-based compensation <sup>(b)</sup>	Deferred taxes on share-based compensation <sup>(c)</sup>	Long-lived assets impairment <sup>(d)</sup>	Redeemable noncontrolling interest <sup>(e)</sup>	Direct Marketing Costs <sup>(f)</sup>	
<b>Current Assets</b>								
Accounts receivable, net	\$ 74	\$ 4						\$ 78
<b>Total Current Assets</b>	3,281	4	—	—	—	—	—	3,285
Property, plant and equipment, net	2,314	(10)			(8)			2,296
Operating lease right-of-use assets	2,151	(92)						2,059
Deferred income tax assets	132			1	2			135
Other assets	262	8						270
<b>Total Assets</b>	<b>11,568</b>	<b>(90)</b>	<b>—</b>	<b>1</b>	<b>(6)</b>	<b>—</b>	<b>—</b>	<b>11,473</b>
<b>Current Liabilities</b>								
Accounts payable and other current liabilities	2,149	1					(6)	2,144
<b>Total Current Liabilities</b>	2,678	1	—	—	—	—	(6)	2,673
Non-current operating and finance lease liabilities	1,873	1						1,874
Deferred income tax liabilities	386	(22)					2	366
Other liabilities	149					13		162
<b>Total Liabilities</b>	<b>5,086</b>	<b>(20)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13</b>	<b>(4)</b>	<b>5,075</b>
<b>Redeemable Noncontrolling Interest</b>	13					(13)		—
<b>Equity</b>								
Additional paid-in capital	4,103		5	15	—			4,123
Retained earnings	2,048	(57)	(5)	(14)	(6)		4	1,970
Accumulated other comprehensive loss	(326)	1			—			(325)
<b>Total Yum China Holdings, Inc. Stockholders' Equity</b>	<b>5,812</b>	<b>(56)</b>	<b>—</b>	<b>1</b>	<b>(6)</b>	<b>—</b>	<b>4</b>	<b>5,755</b>
Noncontrolling interests	657	(14)			—			643
<b>Total Equity</b>	<b>6,469</b>	<b>(70)</b>	<b>—</b>	<b>1</b>	<b>(6)</b>	<b>—</b>	<b>4</b>	<b>6,398</b>
<b>Total Liabilities, Redeemable Noncontrolling Interest and Equity</b>	<b>\$ 11,568</b>	<b>\$ (90)</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ (6)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 11,473</b>

As of December 31, 2023

	Amounts as reported under U.S. GAAP	IFRS adjustments				Redeemable noncontrolling interest <sup>(e)</sup>	Amounts under IFRS
		Lease <sup>(a)</sup>	Share-based compensation <sup>(b)</sup>	Deferred taxes on share-based compensation <sup>(c)</sup>	Long-lived assets impairment <sup>(d)</sup>		
<b>Current Assets</b>							
Accounts receivable, net	\$ 68	\$ 5					\$ 73
<b>Total Current Assets</b>	<b>3,431</b>	<b>5</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,436</b>
Property, plant and equipment, net	2,310	(10)			(9)		2,291
Operating lease right-of-use assets	2,217	(85)					2,132
Deferred income tax assets	129			1	2		132
Other assets	265	10					275
<b>Total Assets</b>	<b>12,031</b>	<b>(80)</b>	<b>—</b>	<b>1</b>	<b>(7)</b>	<b>—</b>	<b>11,945</b>
<b>Current Liabilities</b>							
Accounts payable and other current liabilities	2,164	1					2,165
<b>Total Current Liabilities</b>	<b>2,422</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,423</b>
Non-current operating and finance lease liabilities	1,943	2					1,945
Deferred income tax liabilities	390	(19)					371
Other liabilities	157					13	170
<b>Total Liabilities</b>	<b>4,912</b>	<b>(16)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13</b>	<b>4,909</b>
<b>Redeemable Noncontrolling Interest</b>	<b>13</b>					<b>(13)</b>	<b>—</b>
<b>Equity</b>							
Additional paid-in capital	4,320		6	12			4,338
Retained earnings	2,310	(50)	(6)	(11)	(7)		2,236
Accumulated other comprehensive loss	(229)	—			—		(229)
<b>Total Yum China Holdings, Inc. Stockholders' Equity</b>	<b>6,405</b>	<b>(50)</b>	<b>—</b>	<b>1</b>	<b>(7)</b>	<b>—</b>	<b>6,349</b>
Noncontrolling interests	701	(14)			—		687
<b>Total Equity</b>	<b>7,106</b>	<b>(64)</b>	<b>—</b>	<b>1</b>	<b>(7)</b>	<b>—</b>	<b>7,036</b>
<b>Total Liabilities, Redeemable Noncontrolling Interest and Equity</b>	<b>\$ 12,031</b>	<b>\$ (80)</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ (7)</b>	<b>\$ —</b>	<b>\$ 11,945</b>

**Notes:****(a) Lease****Lease Amortization**

Under U.S. GAAP, there is a dual-classification lease accounting model for lessees: finance leases and operating leases. For operating leases, unless the right-of-use asset has been impaired, the amortization of right-of-use assets and the interest expense of lease liabilities are recorded together as a single lease cost on a straight-line basis over the remaining lease term.

Under IFRS, all leases are classified as finance leases, where right-of-use assets are amortized on a straight-line basis and recorded in Costs and Expenses, Net above Operating profit, while interest expense of lease liabilities are recorded in Interest income (expense), net, under the effective interest method, which results in higher expenses at the beginning of the lease term and lower expenses near the end of the lease term.

**Sublease classification**

Under U.S. GAAP, an intermediate lessor classifies a sub-lease as a finance lease or as an operating lease by reference to the underlying asset. Under IFRS sub-lease classification is determined by reference to the right-of-use asset arising from the head lease, which may more frequently result in finance lease classification under IFRS.

An intermediate lessor in an operating lease continues to amortize the underlying right-of-use asset, and records lease income on a straight-line basis over the lease term. An intermediate lessor in a finance lease derecognizes the leased asset and records a net investment in the lease at lease commencement, in addition to any selling profit or loss. The lessor records lease income on its net investment in lease under the effective interest method.

## *(b) Share-based compensation*

### **Share-based compensation with graded vesting feature**

Under U.S. GAAP, the Company has elected to recognize compensation expense over the service period on a straight-line basis for all employee equity awards with a graded vesting schedule. Under IFRS, share-based compensation with graded vesting feature is recognized based on each tranche, which results in an accelerated expense recognition.

### **Share-based compensation with IPO condition**

The Company's Lavazza joint venture granted equity awards to key employees vested and exercisable upon the consummation of a qualified successful IPO. Under U.S. GAAP, a performance condition that may be met after the requisite service period is a vesting condition and compensation cost is recognized only if IPO becomes probable of being achieved. Under IFRS, performance condition that may be met after the requisite service period is a non-vesting condition and reflected in the measurement of the grant date fair value of an award, which may result in earlier expense recognition.

## *(c) Deferred taxes on share-based compensation*

Under U.S. GAAP, deferred taxes are calculated based on the cumulative share-based compensation expense recognized in the financial statements, and it required all excess tax benefits and tax deficiencies to be recorded in the Condensed Consolidated Statement of Income in the period in which tax deduction arises.

Under IFRS, deferred tax asset is recorded based on estimate of the future tax deduction in accordance with the stock price at the end of each reporting period. If the estimated future tax deduction exceeds cumulative compensation cost for an individual award, deferred tax based on the excess is credited to shareholders' equity. If the estimated future tax deduction is less than or equal to cumulative compensation cost for an individual award, deferred taxes are recorded in Condensed Consolidated Statement of Income.

***(d) Long-lived assets impairment***

Under U.S. GAAP, two-step approach is used in the measurement and recognition of impairment loss of long-lived assets of our restaurants (primarily PP&E and ROU). During step one recoverability test, the carrying amount is first compared with the undiscounted cash flows, using entity specific assumptions. During step two measurement test, if the carrying amount is higher than the undiscounted cash flows, an impairment loss is measured as the difference between the carrying value and fair value.

Under IFRS, only one-step approach is used in impairment testing. The carrying amount is compared with the recoverable amount, which is the higher of fair value less costs of disposal or the asset's value in use based on the net present value of future cash flows. Therefore, the difference in impairment assessment results in differences in impairment loss under IFRS. In addition, the lease accounting difference leads to difference in ROU carrying amounts and thus results in difference in impairment loss, which is included in Note (a) together with all other lease related GAAP differences.

***(e) Redeemable non-controlling interest***

Under U.S. GAAP, when the noncontrolling interest is redeemable at the option of the noncontrolling shareholder, or contingently redeemable upon the occurrence of a conditional event that is not solely within the control of the Company, the noncontrolling interest is separately classified as mezzanine equity which is neither liability nor equity. The redeemable non-controlling interest is initially recorded at fair value and subsequently measured at the higher of initial fair value, increased or decreased for the non-controlling interest's share of net income or loss, or the redemption value of the non-controlling interest.

Under IFRS, redeemable noncontrolling interest is presented as liability, as the Company does not have the unconditional right to avoid delivering cash or another financial asset. Redeemable non-controlling interest is measured at fair value subsequently.

***(f) Direct Marketing Costs***

Under U.S. GAAP, for interim reporting purpose, the Company has elected to recognize direct marketing costs ratably in relation to revenue over the year in which incurred, such that a constant percentage of direct marketing costs to sales is recorded for each interim period. Direct marketing costs are adjusted to reflect expenses actually incurred at year end.

Under IFRS, direct marketing costs are expensed when they are incurred for both interim period and year-end reporting.

